



**Gulf Research Centre Cambridge**  
Knowledge for All

## Workshop 3

# **Business-State Relations in the Gulf**

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### **Abstract**

The relationship between business and government is commonly regarded as a key determinant of economic growth and development. It has a critical bearing on the outcomes of policy reform and the performance of practically every area of the economic life of any country—from investment, trade, and productivity to regulation, competition, and entrepreneurship. It might also be a principal explanatory factor behind variations in economic growth and performance among countries. The Gulf states—defined herein as countries of the Gulf Cooperation Council, Iran, and Iraq—have been undergoing major economic reforms to cope with serious economic and political challenges stemming from the decline in petroleum prices and popular demands for economic sustainability and growth. In these efforts, on the one hand, the role of the private sector is becoming ever more important to the success of any reform. On the other hand, many of the proposed reforms represent not only change in the “social contract” that has existed throughout the petroleum age, but also in the state-business relations and citizens’ relations with both the public and the private sectors. Nonetheless, relative to the voluminous scholarship on business-state relations in other regions, especially East Asia and Latin America, the

subject has been understudied in research on the political economy of the Middle East and the Gulf countries. This workshop will be devoted to an intensive, rigorous, and theoretically informed quantitative and qualitative examination of the interface and interactions between the private and public sectors of the Gulf states, with a focus on a core set of policy areas. It will aim at advancing a more illuminating perspective on the dynamics and evolution of this relationship in light of key economic and political changes, and on its effects on economic reforms and the economies of these countries.

## **Description and Rationale**

The second decade of the 21<sup>st</sup> century could very well go down in history as the decade when the realities of economic reliance on petroleum—an inherently volatile and exhaustible resource—and fears of persistent low petroleum revenue brought into question the viability and sustainability of the existing social contract and made economic reform imperative. Some states even declared the reliance of state-driven development through reliance on petroleum rents as unsustainable, justifying various reforms. The primary economic triggers for this rethinking is the collapse of the petroleum price since mid-2014 and the ensuing government revenue declines, inflationary pressures, and alarming budget deficits. Gulf economies have faced yet other challenges, including limited progress in economic diversification plans, technological advancement, and national competitiveness. Added to these problems are lagging labor productivity, limited innovation, fears of potentially high unemployment amid young, rapidly growing populations, and bloated public sectors. In the case of the GCC states, dependence on foreign labor in the private sector has been considered an economic challenge in their official economic development plans.

Accompanying these economic changes and hurdles were heightened political pressures in an already vulnerable political environment due to existing political and geopolitical tensions, including the turmoil sparked by the “Arab Spring” and violent conflicts in Iraq, Syria, and Yemen. Besides pressures to address economic sustainability and diversification requirements, governments across the Gulf have confronted mounting citizen demands, fueled by social media, for employment, equality, economic opportunity, and an end to corruption. Economic and political changes have brought about an unprecedented awareness on the part of the business community and policymakers alike that the status quo is on the brink of change. Gulf states have responded by announcing a wide range of economic and fiscal reforms aimed at cutting budgets and achieving diversifications, with varying degrees of implementation.

Of more immediate concern to this workshop is another government response: adopting plans to increase the role of the private sector in the economy. In the GCC states, for example, governments have declared, more emphatically than ever before, their intention to turn to the private sector as the generator of growth in employment and investment and as the provider of income and services. Although they differ in substance, the “vision” statements—economic blueprints cum wish-lists—that have proliferated in the GCC all give pride of place to the private sector as the engine of growth and development.

Private enterprise and private capital, including foreign direct investment, have been heralded as the means to drive economic diversification. Toward that end, governments have placed heavier emphasis on, among other measures, privatizations and public-private partnerships in a broad range of sectors, including power, transportation, healthcare, and the environment.

Of course, declamations by Gulf countries about commitments to transitioning to private sector-driven economies are hardly new. Privatization and boosting the share of the private sector in GDP have existed in economic development plans for decades, with results that are far from stellar. Every one of Saudi Arabia's five-year development plans, for example, includes a paean to the private sector. The professed emphasis on private business and private enterprise could well turn out to be another of the periodic oscillations between the public and private domains that Albert Hirschman charted in *Shifting Involvements: Private Interest and Public Action*. Over the past decade, however, the overwhelming rhetoric on the imperative of reducing government dominance of economic activity, coupled with the adoption of ambitious economic blueprints and the introduction of a raft of reform initiatives, suggests that the emphasis on the private sector is more than ephemeral. These developments mark the beginning of a serious effort to change the status quo and the social contract, one that has profound implications for state-business relations and the political economies of the Gulf countries. As such, these developments make this workshop especially timely and relevant.

Business-state relations are bound to be a determinant of the success (or lack thereof) of economic and policy reforms and long-term development plans. Business elites exercise a major influence on the orientation and outcomes of socio-economic policies in the Gulf countries. The scope of their impact spans the labor market, diversification, privatization, regulation, and other policies. Government policies, in turn, affect the operations, composition, and economic/political power of business elites.

Private agents are already playing a greater role in many sectors of national economies, including manufacturing, telecommunications, transportation, and tourism. Therefore, it behooves us to explore the implications of the current wave of economic reforms for a reconfiguration of the public-private sectors relationship as well as the implications of the existing business-state relationship for the success of economic reforms and changes in socio-economic structures. Such an assessment must proceed from an examination of the nature of that relationship in countries of the Gulf, how it has evolved over time, the track record of attempts to restructure it in specific policy arenas, and its effect on economic growth and development.

Existing scholarship on the Gulf offers little purchase on this task. Works on the private sector in Gulf countries as well as in-depth analyses of the *relationship* between the private and public sectors are limited. There are relevant works in the context of other regions, such as Melanie Cammet's volume on Morocco and Tunisia (*Globalization and Business Politics in Arab North Africa*), Ayşe Bugra's on Turkey (*State and Business in Modern Turkey*), Peter Evans' on Korea (*Embedded Autonomy: States and Industrial Transformation*), and Mahrukh Doctor's on Brazil (*Business-State Relations in Brazil*).

The literature on business-government relations in the Gulf countries, however, remains limited. Studies on recent economic reforms and their challenges in the Gulf are far from plentiful in the economics and politics literature. Moreover, in the context of the Gulf countries, there is a dearth of quantitative analyses of business-state relations and their contribution to economic growth and development. The proposed workshop thus aims to fill a void in this vital area.

### The conundra of analyzing business-state relations in the Gulf states

A discussion of the nexus between business and government requires clearing some of the conceptual underbrush. The essence of this nexus consists of interactions between the private and public sectors at both the macro and micro levels. These interactions can be formal or informal. They can be underpinned by mechanisms and processes that over time become routinized and institutionalized, or they can remain fluid, ad hoc, and variable, depending on the issues and actors involved. Business-state interactions can be adversarial or cooperative or, more likely, include both adversarial and cooperative elements. They can be collusive, even predatory, or, albeit much less likely, conducted at arms-length by organizations (both business and governmental) that are, by and large, autonomous from each other. Business-state interactions can also be underpinned by channels, associations, and networks that have widely different levels of strength and coherence, with different consequences for economic performance.

However, untangling the complex linkages between business and government is far from straightforward. The boundaries between the private and public sectors are often blurred; in fact, the two cannot be said to be entirely distinct in any country of the Gulf, although they are often treated so analytically. There are intimate ties between business leaders and ruling families throughout the GCC: royal rulers and government officials—both of whom constitute state actors—are involved in business ventures with otherwise private firms across broad swathes of the economy. What passes as “economic elites” includes networks of individuals from both the nominally private sector as well as the public sector. The same goes for rent-seekers and rent-dispensers. Neither business nor the state is a homogenous entity; rather, each consists of a multitude of individuals, networks, and organizations with diverse resources and capabilities and divergent interests and strategies. As Giacomo Luciani has noted, the private sector includes not only entrepreneurs and financiers, but also “pure rentiers”—to which we might add a variety of other actors, such as foreign creditors and investors.

One challenge for workshop participants, who will be dealing with the complexities and ambiguities of the rubrics of “business” and “the state,” is to disaggregate and specify in detail the actors they are examining.

### **Major Themes and Issues**

The workshop welcomes quantitative and qualitative papers addressing relevant themes on business-government relations in the fields of economics, political science, political economy, and public policy. The scope of business-government relations is immense:

there are hardly any economic issues that do not involve some connections between the private and public sectors. For thematic coherence, it is necessary, therefore, to concentrate on a limited range of issues relevant to business-state relations in the Gulf. The ones we propose as the focus of the workshop are the following:

- taxes and subsidy reform
- privatization and PPPs
- renewable energy
- regulation
- employment and labor policies
- industrial policy
- trade liberalization
- corruption

Most, if not all, these issues have risen to the forefront of the policy agenda in the Gulf countries. All offer promising avenues of research on whether and how the boundaries between government and business are being remapped. Together with the upcoming sets of questions, they indicate the range and scope of contributions apposite to the workshop.

### Suggested questions

Workshop participants who tackle any of the relevant questions will be asked to do so in the context of *specific issues in specific policy arenas*. The foregoing themes and issues can be addressed by a wide range of relevant questions, including the ones that follow. The list below is not comprehensive, so we welcome other questions within the larger themes and policy arenas. We encourage quantitative analyses where possible.

- What are the historical and institutional foundations of relations between government and business in the Gulf states? To what extent have these foundations had path-dependent effects that continue to shape relations?
- Who are the relevant actors and what is their capacity and leverage vis-a-vis each other? What are the strengths and weaknesses of each? Who is dependent on whom, for what, and to what effect? What have been the channels and modes of interaction between business and government and how have they evolved over time?
- To what extent have ties between business and government influenced the economic agenda and policy priorities? Do business leaders have a role in shaping the formulation and execution of economic policy? Are they more than just policy-takers?
- How is the business community organized? What are its instruments of communal engagement and governance? How successful have businesses been in coping with collective action and moral hazard problems that arise in collaboration with each other or in communications and negotiations with the government? What is business's capacity for self-regulation?
- How are the boundaries between business and government being redrawn in various domains of national economies? What are the consequences of a change in the role of the state in economic activities?
- In dealing with each other, what means have business and the state used in pursuit of their interests? In what ways, if any, have the positions and strategies of business and government changed as a result of their exchanges with each other? What are the areas of conflict and collaboration? What are the elements of contestability in these areas?

- What has been the impact of the business-government nexus on policy reform?
- What is the effect of state-business relations on the goal of increasing foreign direct investments to encourage diversification and development?
- How can state–business relations within the Gulf countries be measured?
- Have state–business relations contributed in the past to economic development? Are existing business-government linkages obstacles to economic development? What are the barriers, institutional and otherwise, to the emergence of more effective relations between business and government?
- To what extent is there a deficit of trust and credibility, two norms that have been singled out by both economists (e.g., Kenneth Arrow and Dani Rodrik) and political scientists (e.g., Francis Fukuyama and Robert Putnam) as critical in economic performance? What are the causes and effects of these deficits and how can they be overcome?

## **Anticipated Participants**

To reiterate, this workshop will concentrate on a core set of policy areas where business and government intersect in order to examine the dynamics of their connections and to gauge their impact on economic performance and policy outcomes, as well as how they are impacted by economic reforms in turn. The workshop will aim at making a contribution to the study of the under-researched subject of business-state relations in the Gulf, one that is relevant to several fields, including political economy, economics, political science, and public policy. We also hope to place research on this subject in a comparative framework.

As business-state relations is a subject tailor-made for multi-disciplinary research, we welcome quantitative and qualitative contributions from scholars not only in the above-mentioned fields, but also in anthropology, sociology, business, and law.

Considering that relations between government and business vary over time both within and among countries, participants may offer a diachronic perspective on these relations in a single country or they may examine them in the context of issues in countries across the Gulf or beyond the Gulf. We encourage investigations using panel or time series data and quantitative analyses. Comparative investigations that can elucidate intra- as well as inter-regional variations are welcome. Although most of the references in the description above have been to GCC countries, we welcome contributions on the other two Gulf countries, namely Iran and Iraq.

Papers can be qualitative or quantitative, or a combination thereof. In either case, the workshop would be enriched if arguments pay some attention to the theoretical literature on business-government relations (see below).

Prospective contributors should include in their proposals a concise account of the research that will be undertaken, a statement about the paper's theoretical and conceptual framework, and, where relevant, a delineation of the methodologies that will be used.

## Workshop Director Profiles

**Dr. Don Babai** is a lecturer in international political economy at Harvard University and a research associate at its Center for Middle Eastern Studies. His publications include works on international economic institutions, including the International Monetary Fund, the World Bank, and the World Trade Organization. He has also published articles on topics such as business ethics in the Middle East and the evolution of thinking about development as reflected in “Washington Consensus.” He is currently working on two projects: a book under contract with Edward Elgar, titled *Business and the State in Saudi Arabia: Beyond Patriarchy?*, and a *festschrift*, consisting of twelve essays on business history, in honor of Roger Owen, dean of economic historians of the Middle East. He has also served as editor of *Harvard Middle Eastern and Islamic Review*, Harvard’s principal journal dealing with the Middle East and the world of Islam. He has done consulting work for several organizations, including the World Bank and the Japan Economic Research Institute. Besides Harvard, he has taught at Boston University, the University of Maryland, College Park, the University of California, Davis, and the University of California, Berkeley. He has a doctorate in international relations from the University of California, Berkeley.

**Dr. Manal Shehabi** is a Research Fellow at the Oxford Institute for Energy Studies (OIES). Before that, she was an OIES Visiting Research Fellow and a researcher at the University of Western Australia, where she also taught introductory and advanced undergraduate courses in economics. Her research encompasses development, applied macroeconomics, energy, political economy, and resource-dependent economies focusing on the Middle East. Her doctoral research focused on petrostates’ economic policy and performance, focusing on contemporary Kuwait. It had important contributions to the analysis of economic adjustments to the recent declines in oil prices, offering a unique and powerful mathematical model of Kuwait’s economy and earning her invitations to join key policy debates. Her publications address expatriate labor and Kuwaitization dynamics, and impacts of subsidy and competition reform on Kuwait’s economy. Besides academia, she has professional experience as an economic consultant, advising multinationals including Fortune 500 and energy companies on transfer pricing arrangements and audits, and modeling costs allocation mechanisms and intangible property valuation. She also successfully launched and managed a business public policy project and researched investments in West Asian hydrocarbons at the UNCTAD. She holds a doctorate in economics from the University of Western Australia, an MIA-Economics from Texas A&M University, and a BA (Honors) *magna cum laude* in economics and international relations from Ursinus College. A polyglot, her language capabilities include Arabic, English, French, Spanish, and Mandarin Chinese.

## Selected Readings

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