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 21st 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 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.

<u>The conundra of analyzing business-state relations in the Gulf states</u>

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 by 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 in 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.

<u>Suggested questions</u>

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 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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Paper Presenter Abstracts:

Industrial Policy in GCC Countries

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Abstract:

This study analyzes the characteristics and principles of Gulf industrial policy and the extent to which such policy influences state-business relations in the GCC countries. It argues that GCC industrial policy focuses primarily on protecting traditional resource-based industries with comparative advantage to the region and calls upon shifting towards modern industrial policy that deals with sustainable development issues, digitalizing the economy and preparing GCC countries to catch up with new industrial revolution. Analysis reveals that industrial policy has succeeded in creating and sustaining large, efficient public sector enterprises in capital-intensive and energy-intensive industries such as petrochemicals, fertilizers, steel, aluminum and aviation at the expense of the private sector that remains small and lacks financial and technical support. Although national visions and economic development strategies stress the need for economic diversification, industrialization and liberalization, GCC countries have yet to formulate well-articulated industrial

policy that could support private sector-led economic development. The study employs a combination of qualitative and quantitative data extracted from the GOIC, Industrial Market Intelligence database and other reliable sources to analyze three core components of GCC industrial policy. The first is finance and investment policy and capacity of the state to supply sufficient capital flows to the business sector constantly and at short pace of time. The second is intersecting with labor policy to address major structural weaknesses and segmentation in Gulf labor market. The third is the capacity of the state to develop national innovation system that could bring about technological transformation and guide GCC economy through the new industrial revolution. The paper concludes by placing these policy measures in the broader industrial strategy adopted by most GCC countries.

Mandatory Reforms in State-Business Relations in Iran and Saudi Arabia: Market, Education and Good Governance

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Abstract:

Iran and Saudi Arabia, the two largest economies on each side of the Persian Gulf, share various social, economic and political challenges. Hydrocarbon reserves in both countries are ranked amongst the largest in the world. Saudi Arabia holds 18 per cent of the world's oil proven reserves and it is the largest petroleum exporter of the Organisation for Petroleum Exporting Countries (OPEC). Iran's gas reserves rank as second, and Iran's oil rank as fourth in the world. Prior to the recent return of the United States (US) unilateral economic sanctions and oil embargo on Iran, the country was exporting over 2 million barrel of crude oil per day. Heavy reliance on hydrocarbon export income have linked the economic activities in both countries to the global energy market. Also, government revenues of both countries to a large extent depend on oil revenues and therefore are exposed to the risk of volatilities in the global market. In both countries, the government's presence in the economy is noticeable. The governments in both countries have been dominating manufacturing and financial services. As a result, the governments in both countries have remained the main employer; while the private sector has remained under-developed and indeed out-performed by the public sector.

Both the Iranian and the Saudi domestic markets are heavily influenced and often manipulated by the respective government. Price subsidies and price control, monopolising import, production and distribution through particular licenses and privileges. Economic activities in both countries, particularly those of the industrial sector, rely on subsidised energy prices. Diversification has been on the list of

government policies for the past few decades. However, the process of diversifying to non-oil industries have not been successful. The diversification policies in both countries are driven by state-owned companies and the private sector has not been integrated into any of the policies.

Privatisation is not genuinely handing over control of the public entities to the local private sectors. The labour force and employment laws, although significantly different in Iran and Saudi Arabia, are need for major reforms to tackle issues such as: unemployment, particularly female unemployment, and labour efficiency. In both countries, unemployment has reached historically high levels. In Iran, unemployment in 27-36 years age group stands at 50 percent. By 2018, unemployment in Saudi Arabia reached to nearly 13 percent that is, at least in part, attributed to the large outflow of migrant labour from the country. Being one of the largest employers of foreign labour globally, Saudi Arabia is exposed with a specific set of challenges. More than 80 percent of the private sector workforce in Saudi Arabia is supplied by foreign workers. Despite the government efforts for nationalising the labour force, Saudi labour force fails to meet the private sector employment requirements.

Such challenges are indeed, directly or indirectly, caused by the role of the government in the economy. Considering the government is the single most power economic player in both countries, the relationship between the state and the businesses is one of the most significant factors in shaping the economic structures of Iran and Saudi Arabia. This paper will examine certain aspects of this relationship. The existing data and literature indicate that in the absence of good governance, transparency of information and independent private sector, widespread corruption have become widespread and significantly affected the relationship between the state and business in both countries. Moreover, long delayed education sector reform in both countries has affected the labour force employability and efficiency that ultimately has contributed to shaping of such relationship.

The paper will start with providing a comparative economic overview of both countries. It will then examine the structure of the private sector and education sector in Iran and Saudi Arabia. The paper will move on to reviewing the issue of nepotism and lack of financial transparency in both countries and will end with a conclusion. The research for this chapter has heavily relied on interviews with various stakeholders in both countries. While the changes to the political environment in Saudi Arabia has made the process of information gathering, through primary local sources in the Kingdom, slightly more difficult than the previous years, Iranian sources have been outspoken and open to share their views. More than 20 interviews were held with former foreign diplomats, employees from international corporation with various business interests in the two countries, local small and medium enterprise (SMEs) owners, young entrepreneurs, academics as well as local public and private sector employees. In order to maintain the reliability of the information the identity of the sources will remain protected throughout this paper.

Manpower and Private Firms in Saudi Arabia: Litmus Test of Nitaqat and other Legislations

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Abstract:

One of the key objectives of modern economics is to establish factors that influence the economic development and sustainability of the country. In one way or other many nations have recognised the need for a systematic approach to the problems posed by an inadequate supply of skilled manpower either native or non- native. Saudi Arabia is such a country despite sincere efforts to curb immigrant workers not only in the public sector but also in private sector jobs, still heavily dependent upon expatriate manpower.

Saudi Arabia is not being able to shrink the size of the job market to the level supported by local labour force but efforts being started in the country as early as in 1993 with the name of Saudization. When many Arab countries were facing the music of Arab Uprising and the revolt of the local population for their share in the resources of respective countries, that was the time when Saudi Arabia introduced 'Nitaqat' in June 2011 to solve the problem of continuously increasing unemployment among young nationals. On one side the country has a sizable low share of native males in the total workforce on the other substantially low native women participation is also a matter of concern.

An important aspect of the Saudi labour market is very low women participation in both private and public sectors, that also needs a critical evaluation from an angle of sustainable private sector development, so that workforce of Saudi Arabia can be comprised of the more native population rather of expatriates. Saudi labour market includes issues and magnitude of the share of the native and expatriate population in private sector jobs; human capital development; and challenges to the sustainability of the private sector economy.

In the process of implementation of 'Nitaqat' both in Public and private sector jobs, the private sector firms/business badly affected as they were ordered to implement ratified polices immediately or with a relief of a very short period of time, in such a

country where private firms are mainly running on expatriate labour, rather reforms should have been gradual to minimise their negative impact on private firms for the economic sustainability. Therefore, a Strang situation has emerged in Saudi Arabia.

Present work is an attempt to discuss and analyse the role of Saudization, Nitaqat and recently announced policies on private sector firms/ business. Present work will not merely discuss the role of labour policies of Saudi Arabia but also enquire and critically evaluate the success of bringing more natives into the job market without compromising the sustainability of the economy. While taking the above as the context, the paper shall look at two main angles- first, on the causes for which Nitaqat was implemented like unemployment among Saudi youth and to increase the share of Saudis (both male and female) into private sector jobs; second to explore effect of policies and methods of execution of Nitaqat on private firms.

The role of Bahrain Chamber of Commerce and Industry in labour market policy process in Bahrain between 2002 and 2016

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Abstract:

This paper discusses the role of Bahrain Chamber of Commerce and Industry (BCCI) during the discussion and implementation of labour market reform process (LMRP) in the Kingdom of Bahrain between 2002 and 2016. The article is based on a field work study conducted in 2016 to study the labour market policy-making process and the role of different interest groups in influencing policy outcomes. Collected data covers personal interviews with actors from different government, semi government organisations and different interest groups. Several documents were used such as parliamentary and Shura council's (consultative council) minutes, media articles, policy paper and documents received from interest groups during field work.

To understand the relationship between business and state in the Kingdom of Bahrain, the paper trace back the interactions between BCCI with the Economic Development Board (EDB) which is a semi-governmental institution, and the communication of the BCCI with the cabinet during the LMRP. The paper follows back the discussions over raising the cost of employing non-Bahraini labour, and the policy instruments to replace foreign labour with a Bahraini labour or what is known as Bahrainisation policies (workforce nationalisation). By following the changes within these two policies, the researcher tries to answer how and why businessmen affect policy decisions, and what that tells us in regard to the relationship between private sector and the state.

The finding challenges some of the arguments provided by recent literature regard business/ state relationship in Bahrain. For instance, the capacity of business sector to influence the policy outcome is analysed as dependent on the division of power between the royal family . This paper will challenge such argument. The division of power between royal family members is a partial explanation to the policy outcomes and the changes that occurred to it during and after the LMRP. The policy process shows that the Business sector was able to influence the policy outcomes through different channels. First, their historical established relationship with the cabinet as an informal consultative partner . Second, the need for the private sector to implement the reforms enabled the BCCI to strike a deal with the EDB. The deal stated that what is taken from business sector must be spent on services provided to firms. Third, BCCI lobbying efforts and communications with different stakeholders.

Private Sector Wage Dynamics in the Kingdom Of Saudi Arabia

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Abstract:

Long has Saudi Arabia operated a dual labour market, where Saudis flock to the high job security, high wage public sector, while the low wage private sector is dominated by non-Saudis – particularly South Asians working in service jobs. A key goal of Vision 2030 is to increase Saudi employment in the private sector, and this has mainly been attempted thus far by bursts of Saudization – legally enforced quotas of Saudi employees in various targeted professions. As Saudis expect higher wages and (unlike expats) benefit from minimum wage laws, Saudization - as well as other labour market interventions - have the potential to have a profound effect on wages in the private sector.

This study looks at the effect of competing labour market policies on private sector wages in Saudi Arabia. In the first part, simple theoretical models will be formulated taking into account the various restrictions (including minimum wage laws, Saudization requirements, expat levies) as well as other opportunities – such as public sector wages – that exert pressure on wages in the private sector. Wage data from the Saudi Labour Force Survey is used to illustrate the effect of these policies on the ground. The study analyses interesting, and often unintended, consequences of government policies on the private sector, leading to greater understanding of the effect of labour market interventions in Saudi Arabia.

Open Collaboration in the Renewable Energy Sector: The Case of Oman and UAE

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Abstract:

Since the 1980s, open innovation paradigm had paved ways for globalization of research technology, development of communication technology, and growth of venture capital markets. These drivers resulted in huge leaps for collaboration and helped companies to integrate with external knowledge and discover new ways of innovating for their manufacturing processes. 22 international countries have committed to increase their R&D investments under the global initiative Mission Innovation (MI) which aims to dramatically accelerate global clean energy innovations for UAE. Oman's Authority for Electricity Regulations is identifying sources of renewable energy in Oman and studying potential to produce 11 percent of its total electricity requirement from renewable energy source by the year 2023.

The survey is suggesting using open innovation as a tool in exploiting the relatively fresh fields of renewable energy in the establishment of local green industry in Oman and UAE; by verifying the current scenario and suggest avenues for advancing the deployment of renewable energy/green industries within Oman and UAE.

The survey enlightened on the situation in Oman and UAE. From the survey, as an example Company A operates natural gas fields and their associated production systems on behalf of the Government of Oman. The company operates on established technical, administrative and management principles. The company’s vision for future is to encourage start-ups incubation and partnerships through its own In-Country Value Initiatives for long-term business positioning by moving the way of open innovation in encouraging its staff to practice internal idea challenges.

In the analysis, The Company A is compared to another small Omani company, which due to their natures of businesses showed different results. Even though both currently seems to exhibit limited level of open innovation, the relatively small HTC exhibits positive vision of emulating Company A in areas of intrapreneurship and partnerships with start-ups. Already HTC has embarked on internal ideas challenges that is moving towards embracing open innovation.

Company A clearly exhibit the shifting by deploying open innovation within its organization and capitalizing on external factors to its benefits as indicated by the three drivers. Even though Company A is a contractor to the Government of Oman, the survey results indicated that through open innovation it should have the flexibility to become contractor to other regional and global companies abroad especially on the specialized areas of horizontal drilling.

Toward a Sustainable Power System in Kuwait

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Abstract:

In the State of Kuwait, the government dominates most sectors of the economy. Recently there have been efforts to increase private sector involvement in the economy. The electric power sector is just beginning to witness more inclusion from the private sector. For example, Az-Zour North Power Station is a public-private-partnership (PPP) project that resulted in the commissioning of Kuwait's first independent water and power project (IWPP). More recently, the first phase of Shagaya Renewable Energy Complex was inaugurated in February 2019 and is also a PPP project with Spain's TSK. Renewables are a budding industry in Kuwait, which has a target to meet 15% of its electricity demand from renewables by 2030. While Kuwait has a vast potential for exploiting renewables, it has been slow to adopt them. These sustainable resources remain largely untapped. Kuwait could leverage renewables to boost the private sector's involvement in the power sector, leading to a more sustainable energy future. However, the private sector has several government institutions to deal with in power sector of Kuwait, including the Ministry of Electricity and Water (MEW), Kuwait Institute for Scientific Research (KISR), Kuwait Foundation for the Advancement of Sciences (KFAS), and Kuwait Authority for Partnership Projects (KAPP). Each of these institutions participate at varying levels. Furthermore, these institutions exhibit a lack of coordination, which is one reason why private sector involvement is low and adoption of renewables in the country is largely untapped.

Energy Contest in the Gulf: The Role of the State in East Asian-Gulf Energy Transactions in post-ISIS Iraq

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Abstract:

This article investigates the decision-making patterns of engagement in oil liquefaction projects by East Asian export economies – China, Japan, and South Korea – in Iraq. Asian consumption of Gulf Oil has drastically changed the dynamics of the global oil trade into the 2000s. After the defeat of ISIS, Iraq has been increasing its oil production and has been actively participating in the global energy market in order to speed up on economic recovery, while also ameliorating its relations with neighboring Gulf states of Kuwait, Saudi Arabia and Iran. In the aftermath of U.S. shale gas revolution, Asian consumers are taking over Gulf oil production, particularly that of Iraq, each via a different decision-making process. As much as the Middle East now competes with Russia and the U.S. as energy exporters, Iraq's positioning within the Gulf and its relations with Asian consumers have become vital to its future. Against this backdrop, this article sets out to compare and contrast East Asian country strategies of oil projects in Iraq, assessing its successes and failures. Empirically, the article unravels the energy mix transitions, price changes, and the degree of oil market liberalization in each country. It finds that the domestic patterns of consumption are outcomes of varying degrees of state involvement, and further argues that the varying forms and degrees of statedriven investment and strategic thinking (policy direction) are factors that explain for the varied actions taken by the three countries vis-à-vis Iraqi oil consumption.

Invisible Barriers for GCC Market Integration in Light of the Political Economy of the Region

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Abstract:

This paper is a multi-dimensional study, offering a historical approach to the understanding of the Gulf Cooperation Council's (GCC) poor regional trade. Despite the GCC's free trade area being established in 1983, many studies have found that the intensity of regional trade is insignificant, reflecting weak economic

interdependence. This paper argues that regional trade is embedded in networks of dependency hence, weak regional trade is a consequence of the historical transformation of its ties, caused by attempts by the states to reconstruct the mercantile community. Seen from this perspective, it was people, not commodities, that were the main building blocks of the Gulf's trade activities and their interpersonal dependency are the underlying force of regional trade.

In this paper I will be looking at the Gulf's mercantile community and ask how the networks of dependency has changed during the 20th and early 21st centuries. What lies behind this transformation? What explains the nature of this transformation? More specifically, the networks of dependency have constituted interpersonal ties between chain-links of actors who have for a long time managed the land and maritime routes for transporting goods from Gulf ports to local markets. Without these well-managed ties, the region would break up into isolated cliques. It can be argued that comprehending regional trade begins with understanding the historical forces responsible for reconstructing the state-business relations that fall within these networks of dependency.

By exploring transformations of this nature, this dissertation aims to contribute to the development of a critical framework – one that aspires to understand regional trade practices. Specifically, this dissertation has two broad objectives: firstly, to contribute to the broad theoretical debate of new regionalism by concentrating on the role of state-business dependency and; secondly, to enrich the literature about the GCC's regional trade by providing an intensive study of the historical transformation of its commercial networks.

The Political Economy of Timid Capital: Business and State Relations in Oman

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Abstract:

Responding to mounting public pressure on March 7th 2011, Sultan Qaboos issued royal decree No38/2011 dissolving the Ministry of National Economy, sacking its longtime minister, Ahmed Makki and redistributing its functions to other governmental bodies. This along with other legislative actions came as a response to Oman's Arab Spring, where demonstrators were protesting against the corruption of longtime ministers, for substantial political reforms, higher wages, the reduction of foreign labor, and for more jobs. For many, the former Minister of National Economy embodied the widespread public perception of an "out of touch" Omani elite eager to defend their privileges and wealth, the source of Oman's economic

problems, and a class willing to subordinate Oman's national interests for private gain. These measures were designed to mollify a public desire for substantial internal political and economic reform signaling that Sultan Qaboos and the government is "listening" to the complaints of the people. However, the system that people were protesting against remains firmly in place despite largely cosmetic changes. Indeed, many of the men, the Sultan's steady hands for decades although out of office maintain influence through their positions as "informal" advisors to the Sultan or from controlling great swaths of the Omani economy.

This paper examines business/state relations through the effects of "connections" or wasta that circulate in the Omani social landscape a reflection of Oman's particular political economic structure. It argues it is the product of and made possible through a particular set of capitalist relations that emerged with the creation of a new patrimonial state under Sultan Qaboos in 1970 following the British supported coup d'etat that overthrew his father. With British and Omani advisors, he swiftly formed a new government that incorporated prominent members of the local merchant elite and their interests into the new government within the framework of an open market economy. From the very beginning this blurred the boundaries between public and private interests (the binary distinction so central to neoliberal ideology). In this paper, corruption is understood not as a moral failing, but as a complex form of exchange that unites the Omani ruling class ("comfortable capitalists" or timid capital) with state personnel, who are often one and the same , with complex and contradictory effects on Omani society. The state in this account is not "relatively autonomous" from society, as portrayed in rentier state literature. Following Adam Hanieh, I see the state as a dynamic set of social relations the contradiction "between universal and particular interests." I use two vignettes from different sites in Oman to illustrate how ethnographic data can tell us something about business state relations in the country. The fieldwork took place amidst the backdrop of low oil prices, top-down promotion entrepreneurship, and new proposals for substantial economic reform. The first site is the Tanfeedh showroom, when during its open days, visually chartered a new economic path for the country to the cynical skepticism of many. The second is a WeWorks style coworking space whose young members when not developing innovative ideas and products can be found critiquing Omani social aspirations. Collectively, these narratives illustrate that wasta emerges in the nexus between the state and capital. Wasta in Oman creates a comfortable space for timid capital. Moreover, it considerably slows down the formation of entrepreneurial culture and economic dynamism in Oman.

How to manage change creatively: unravelling the conundrum of business-state relations

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Abstract:

Numerous vulnerabilities have been noted in the current structures of the Gulf economies, including dependency on hydrocarbon exports, the need for fiscal reforms and alternative sources of state revenue, as well as limited incentives in the status-quo for initiative and productive activities. However, diversification, business development and transition away from hydrocarbon dependency require the capacity to make informed and strategic long-term choices, based on not only on existing strengths and competitive advantages within the current global landscape, but taking into account foreseeable needs and future developments. These include both regional or domestic developments and the likelihood of major shocks in global economic landscapes. It has been observed that major restructuring of economies was made possible historically through state intervention (Wade, 2004). States clearly have a privileged position for enabling change, since they can provide necessary infrastructure and create a stable climate that supports investment, allowing businesses to operate with a minimum of risk. Clear and credible visions for the future are a vital condition for long term investments in the domestic economies, while excessive regulations, clientelism and the fear of political upheavals can act as deterrents. In the case of the Gulf states, the question is thus how to develop wise policies and mechanisms, by identifying critical points of leverage rather than using blanket measures.To avoid defensive reactions or flight of capital and capacity, visions for domestic development need to generate confidence and trust, giving sufficient attention to mechanisms of enabling change that simultaneously permit a smooth phasing out of dysfunctional structures. Major challenges observed today include the demographic profile of the countries, expectations as well as the mismatch between existing skills of the labour force and the capacity needed for restructuring the economies. Maintaining a social contract will therefore continue to depend on measures of distribution and ensuring employment for young people in the region, while at the same time orienting the economy towards new types of production.The paper will consider possible pathways towards economic sustainability in the Gulf states drawing on systems and transition theory (Geels, 2005; Twomey & Gaziulusoy, 2014). In the context of the Gulf, it has been argued that conventional distinctions between private and public sectors can be misleading, to the extent that public actors can be stakeholders in the economy. In the analysis, emphasis will therefore be on implications of policy choices for the real economy and future capacity, rather than on public versus private ownership. The analysis will further outline the heterogeneity of the economic fabric and discuss both synergies and conflicts of interest between different sectors and industries.

The Role of the Private Sector in Economic Diversification in UAE

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Abstract:

The UAE has often been recognized as a success case in the GCC region for implementing policies that spurred growth and development with a market-friendly approach. This study aims to investigate the relationship between economic diversification and private sector development. For this, we employed an ARDL co-integration method to check both the long run and the short run relationship between variables. We found that the domestic credit to private sector has a positive relationship with diversification index and that DCPS has both short and long run relationship with economic diversification index. The results indicate that the domestic credit to private sector will promote the economic diversification in both the short and long runs. Moreover, the government infrastructure will also promote economic diversification in the long run but not in the short run. The trade openness has a negative impact on economic diversification in the long run, but it has a positive impact in the short run.

A Rentier State's Great Chaotic Transformation

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Abstract:

Recent years have been challenging for oil producing countries in the MENA region. Several reasons are the cause for a perceived looming instability: The oil price plummet of 2014-2017 showed that price volatility can affect the sustainability of political and economic systems that rely on resource rents. Climate ambitions hint at a new era of a lower demand for oil. And the Arab Spring and political instability between Shia and Sunni factions in the MENA region have aggravated geopolitical tensions. The combination of these factors has created a situation of uncertainty, prompting many debates about domestic reforms in the Gulf's oil producing states.

In a first section, I elaborate on the core components of a rentier state. Even though these are well known, I consider a summary essential to discuss the continuum of economic sustainability of rentier states. In the Gulf, some rentier states are

economically sustainable for the foreseeable time, while others are more at risk. For the former, there is not yet a need to be very serious about structural adjustments to transform the rentier state model into a more productive economy. For the latter, however, the clock is ticking much faster. This distinction is crucial in discussing 'reforms', as the pace and complexity of reforms will differ.

In a second, third and fourth section, I discuss some of the key reforms that are needed to gradually transform from a rentier state toward a more productive economy. I focus on subsidy reforms, labor market reforms and taxation reforms. I explain the problems associated to each, and the clashing of households, businesses and governments with respective reform measures. To illuminate the painful process in moving from one end of the continuum (a rentier state) to the other (a productive economy), I use Karl Polanyi's magnum opus on the perils of the market society. I aim at showing how households and businesses compete for governmental support in an era of diminishing fiscal capacity.

In a fifth and final section, I explain how the government's goal of fiscal differentiation relies on its ability to balance relations with households and businesses and, most notably, on connecting the two. While the latter may go at the expense of some of the ruling elite's authoritative power, more interdependence between households and firms is needed to build a non-rentier social contract. As a result, however, governments will likely need to accept more interest group participation in politics, including from the public. I again use Karl Polanyi's market society to discuss elements of political philosophy needed to sustain this transformation, i.e. measures that can be used to ease the pain of the public while delegating economic functions to firms.

Business-State relations and the Transition Towards a 'post-rentier state' in Kuwait

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Abstract:

Kuwait has been characterised in the academic literature as a 'rentier state' par excellence, as its economy is to a large extent depended on external rent derived from its significant oil reserves. According to figures of the World Bank released in 2018, oil rents attributed to 44.03% of total GDP in 2016, the highest percentage in the world. Few are engaged in the generation of the rent as the oil sector is automated and primarily manned by expatriate workers. A large part of the national population is primarily involved in the distribution or consumption of wealth, with about 80% of employed nationals having a position in the government sector. They have been

attracted to the public sector as a result of the shorter working hours, less demanding work and more public holidays in comparison to the private sector.

The dependency on hydrocarbon resources has made the Kuwaiti economy vulnerable to the fluctuation of global crude oil prices, as exemplified by the economic contraction that has taken place in the country following the decline of oil prices from mid-2014 onwards. Furthermore, despite Kuwait being able to sustain its current crude oil production rates for almost 92 years because of its significant oil reserves, the long-term sustainability of the current economic model is questionable with the potential global shift towards renewable energy sources over the next decades.

The need to diversify the Kuwaiti economy from a single finite resource which is highly vulnerable to price fluctuations has been recognised for a considerable time at a state level. While Gray relates the development of late rentier strategies by the GCC states that necessitated GCC states to develop a 'more nuanced, engaged and complex approach to society and to policymaking' to the 1990s and 2000s, some of these strategies outlined by Gray were already initiated at an early stage in Kuwait. The Kuwaiti government established a Kuwait Investment Board in 1953 in order to invest surplus oil revenues abroad to reduce its dependence on a single and finite resource and stave off some of the inflationary pressures caused by the influx of massive oil revenues. Energy-driven policies were initiated in the late 1960s, when a refinery was taken in operation at Shu'aibah in order to exploit flare gas and refine crude oil and profit from the country's comparative advantage in downstream operations given its cheap access to energy.

These early steps towards economic diversification have been mixed in terms of success. The successful investment of oil revenues abroad has provided a cushion to the Kuwaiti government to reduce the vulnerability of public expenditure to the fluctuation of crude oil prices, with investment income in the 1980s in some years exceeding oil revenues making the country less vulnerable to the decline in crude oil prices in the mid-1980s. However, the efforts towards industrialisation through the establishment of a petrochemical industry have been less successful, due to the limited number of Kuwaiti nationals that are employed in the industry and the heavy competition Kuwait faces in this sector from other Gulf monarchies.

At the moment, Kuwait is far removed from transitioning to a 'post-rentier' economy, in which the state is funded through domestic taxes and in which the private sector is the main provider of employment for nationals. The Kuwaiti economy is highly depended on state expenditure, as domestic taxes play a small role in the state revenue and a majority of working Kuwaiti nationals are employed in the public sector.

In the academic literature, the failure of Kuwait to diversify its economy has been mainly attributed to the limited autonomy of the ruling family from domestic pressures in comparison to other GCC states. This can be explained by the establishment of a National Assembly in 1962 which has a relatively high degree of influence in comparison to those in other Gulf monarchies. Explanations for the origins of this limited autonomy differ, with Crystal arguing that the existence of a powerful and organised merchant class is central to this, while Herb highlights the external threat posed by Iraq which has heightened the need for legitimacy for the ruler. This has in turn encouraged the ruling family to allow for a relatively high level of political participation to enhance its popularity.

As argued by Hertog, the transition towards a post-rentier state requires the further growth of the private sector in order to provide employment to nationals and make it subject to domestic taxes in order to diversify the government revenues away from the income of crude oil. Crystal and Herb propose two different explanations that inhibited the private sector in Kuwait from fulfilling a more prominent role in reducing the reliance of Kuwait on the single and finite resource of oil. According to Crystal, the private sector is still largely depended on rentier dynamics, because of the need of the ruling family to co-opt the powerful merchants through the provision of economic privileges in the form of government contracts and allowance for preferential monopolies. In the view of Herb, the influence of the National Assembly over economic policy is a major obstacle for the development of the private sector, as ‘citizens outside the capitalist class’ do have ‘little stake in adopting policies that promote the private sector, especially when those policies impose social and cultural costs on citizens.’

In this paper, state-business relations in Kuwait will be examined in order to determine if and to which extent key actors within the private sector have encouraged or inhibited economic diversification over the years and to what extent the business sector could play in help in reducing the countries dependence on oil revenues. The paper will start with a discussion of the concept of state-business relations. Subsequently, state-business relations in Kuwait will be examined identifying the key actors within it, followed by an outline of the economic diversification strategy of the Kuwaiti government and an assessment of the role key actors within the private sector have played in achieving the objectives outlined in the strategies. Drawing on policy documents, statistics, academic literature on Kuwait’s political economy, newspaper articles and country reports of the IMF and World Bank it will be argued that key actors within Kuwait’s private sector have paid lip-service to the plans of the government for diversification in order to accrue new rents. Despite this, they are an inhibiting factor in Kuwait’s future transition to a post-rentier state given their reluctance to give up their existing economic privileges and refusal to nationalise their workforce.