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1 Summers of discontent: business–state politics in the Middle East

August is not a pleasant month in Kuwait City. In the noonday heat, a cigarette lighter left in a car can burst into flames. Sandstorms arrive without warning, making immediate shelter vital. Understandably, August is a time many Kuwaitis choose not to remain in the country, giving the impression that politics is almost suspended during the summer months. How ironic, then, that two of Kuwait's most damaging political events, a massive fiscal collapse and invasion by Iraq's army, occurred in the month of August. These events were not unrelated. The crash of an extra-legal stock market, the Souq al-Manakh, in 1982 initiated a string of economic difficulties that would contribute to the Iraqi invasion nearly a decade later.[1] To cope with the fiscal and political fallout from each, the Kuwaiti state turned to its private sector. The public–private struggle to respond to these events would require enduring many more Augusts.

Kuwait, however, was not alone. Across the Middle East, declines in external sources of capital were testing state capacities to respond. Of all the Arab states, no other was tied to Kuwait's travails quite like the Hashemite Kingdom of Jordan. In addition to foreign aid from the West, Jordan was a major recipient of development aid from Kuwait. Hundreds of thousands of Jordanian professionals have worked in the public and private sectors in Kuwait since the 1950s. The same fiscal crisis that jolted Kuwait carried through to Jordan; and in the aftermath of Kuwait's liberation, those Jordanian workers were forced to return to Jordan. To deal with these crises, the Jordanian state also turned to its private sector. Decades of fiscal crisis and political struggle, therefore, have inexorably bound these two Arab countries. Moreover, the remedy each sought was oddly reminiscent of what the developmental economist Albert Hirschman argued long ago, "what lacks in late-late developers is not the capital to invest, but the will of entrepreneurs to invest."[2] Central

[1] Kuwait's insistence that loans to Iraq in the 1980s be repaid was one of the Iraqi regime's grievances against Kuwait.
[2] Albert O. Hirschman, *The Strategy of Economic Development* (New Haven: Yale University Press, 1958), pp. 34–36.

to this will is the status of relations between domestic business and the state. This book is about that relationship before, during, and after prolonged economic crisis. It seeks to explain variation in business–state relations and chart the political and economic effects that follow from such divergences.

Kuwait's and Jordan's political-economic crises have been quite similar to those of other developing countries throughout the 1980s and 1990s. In contrast to the common perception that developing countries are only now opening to globalization, Jordan and Kuwait, like many states in the Middle East, have long been supine in the face of the dangers and fortunes of regional and international shifts. Following the optimism of independence and the soft budget constraints of the 1960s and 1970s, many states witnessed economic near-reversal in the 1980s and 1990s. In Africa and the Middle East, declines in exogenous revenue and persistent low economic growth rates have strained fiscal systems and induced chronic debt. Few Latin American countries escaped similar fiscal shocks, and even the Asian Tigers experienced crisis by the late 1990s. In tandem with global market shifts, demographic pressures in every developing country have made acute the need for more productive growth; that is, not merely greater economic expansion (higher output) but longer-term investment and developmentally nutritious private-sector expansion. The policy responses to and political effects of these pressures have not been uniform. Some states have pursued successful reform, some have retrenched, some have undergone regime change, and others continue to struggle with reform implementation. However, in almost every case, state officials have attempted to balance the need for increased domestic revenue with the desire to entice more private-sector investment and employment.

In the Arab Middle East, similar economic dilemmas are set against varied political and social backgrounds. Compared with much of the developing world, the Arab states have weathered the economic crisis of the 1980s and 1990s with few of the expected political ramifications and virtually no meaningful democratization. Among the Arab states, however, variation in the extent of economic adjustment has been evident, albeit with no "Arab Tigers." Given that oil is a finite resource, the dawn of a new millennium may bring a rise in oil prices and perhaps some economic relief for debt-burdened Arab governments. However, if we are to understand and speculate on the region's economic future, we must first account for political-economic change during the crisis decades. By unpacking and examining change in business–state relations across two cases, this book's aim is to address a set of questions that explore a crucial element of state–society relations during economic crisis. How do business–state relations affect reform outcomes? Why do organized business representatives of some countries gain more voice in policy while others fail to gain influence? What effect does this specific state–society relationship have on broader political outcomes such as productive economic adjustment and political liberalization?

These questions are not in the abstract. In the post-colonial Arab world, business elites have at times played prominent roles in demanding greater political representation, creating domestic economies, and resisting the consolidation of authoritarian rule.[3] During those same years, however, private enterprises were sequestered in many countries, business elites were coopted through state patronage, and organized business representation was either bypassed or swallowed by an expanding public sector. Since the 1980s, the Arab private sector has made an institutional comeback as Arab states faced chronic fiscal crisis and persistent economic downturn. Why has this been the case? Because coping with these pressures requires states to craft economic reform policy, mediate domestic political influences, balance external pressures, and implement and monitor policy changes. The last two decades have clearly demonstrated that the Arab state cannot do all of this. The result, in nearly every Arab country, has been an increased role for private-sector actors at each of these stages. Almost everywhere associations of business representation have been resuscitated. In countries where business was either fully coopted or partially replaced (Syria, Egypt, Qatar, and Saudi Arabia), a combination of state-initiated openings and business reorganization has generated a louder voice for business and increased public–private coordination. In countries with a more historically resilient private sector (Kuwait, Yemen, Tunisia, and Morocco), business associations have come to play genuine roles in the formulation and implementation of economic policy. As some countries have gradually opened their political systems to wider participation, business has sought greater political representation and expression.

Collectively these trends have encouraged a reappraisal of the Arab private sector. International lending agencies and consultants now call for deeper domestic reforms to "unleash the private sector."[4] Popular

[3] Steve Heydemann, *Authoritarianism in Syria* (Ithaca: Cornell University Press, 1999); Jill Crystal, *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar* (Cambridge: Cambridge University Press, 1995); Robert L. Tignor, *Capitalism and Nationalism at the End of Empire: State and Business in Decolonizing Egypt, Nigeria, and Kenya, 1945–1963* (Princeton: Princeton University Press, 1998).

[4] See, for example, World Bank, *Claiming the Future: Choosing Prosperity in the Middle East and North Africa* (Washington, DC: World Bank, 1995); and Bernard Hoekman and Patrick Messerlin, *Harnessing Trade for Development and Growth in the Middle East* (New York: Council on Foreign Relations, 2002).

journalistic accounts regularly tout Arab business as a natural counterweight to political Islam and a natural ally of Western ideals.[5] Government officials in Washington have also jumped on the bandwagon and overtly tie increased private-sector activity with peace in the region. The trend is to join a revived private sector, market reform, Arab–Israeli peace, and the defeat of terrorism into one causal chain.[6] Despite this advocacy and the growing comparative evidence that some form of public–private coordination is required for successful economic reform, the ability of Arab states and their private sectors to coordinate in their efforts toward reform has not been uniform.

Peter Gourevitch best summed up the vexing logic present in such business–state engagement during crisis: “State action is frequently corporatistic, in that state and groups borrow from each other the authority to do what they cannot do alone.”[7] Political factors determine how the dilemma is addressed: in some cases business elites and state officials borrow enough to achieve sustained private–public coordination, while in other cases coordination remains elusive. The cases of Jordan and Kuwait exemplify these typical yet contrasting outcomes. Despite enduring decades of exogenously triggered fiscal crises, business–state coordination in reform attempts and business’s ability to shape policy under fiscal crisis generally succeed in Kuwait, yet fail in Jordan. One can add to this divergence the counterintuitive theoretical aspect of such outcomes. Comparative political-economy literature privileging structural constraints and a country’s revenue base posit that highly revenue-autonomous and sectorally dependent states, such as Kuwait, should experience either policy deadlock or policy drift as a result of resistant domestic business. Less dependent states, such as Jordan, should benefit from greater autonomy from business and an ability to implement unpopular reform.

This book’s explanation of divergence in the Jordanian and Kuwaiti cases seeks to build upon structural and incentive-based models of business–state relations. The sectoral nature and revenue characteristics of the modern Arab state are important first factors to study in assessing how business and state interact and under what conditions coordinated relations evolve; however, they are not sufficient. Shifts in a

[5] Thomas Friedman, *The Lexus and the Olive Tree* (New York: Farrar, Straus, Giroux, 1999).

[6] See Pete W. Moore and Andrew Shrank, “Commerce and Conflict: How the US Effort to Counter Terrorism with Trade May Backfire,” *Middle East Policy*, 10, 3 (September 2003), pp. 112–120.

[7] Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca: Cornell University Press, 1986), p. 230.

Table 1.1 *Per capita GNP: constant US dollars*

	1972–1976	1976–1980	1980–1984	1984–1988	1988–1993
Jordan	470	996	1,642	1,842	1,396
Kuwait	7,854	17,104	20,392	15,366	14,053

Source: World Bank, *World Tables 1987* (Baltimore: Johns Hopkins University Press, 1987); World Bank, *World Tables 1996* (Baltimore: Johns Hopkins University Press, 1996).

country's revenue or sectoral profile (declines or increases in oil and aid, for instance) herald domestic political change, but the direction and type are not givens. For example, David Waldner argues that "the [rentier] thesis fails to distinguish between constraining conditions and permissive conditions; the presence of externally derived wealth makes certain arrangements possible but it does not dictate their establishment."[8] The argument of this book proposes patterns of business–state relations as one set of constraining conditions on the ebb and flow of external revenue, an approach that requires attention above and below the level of the state. Divergence in the organizational nature of business representation (whether elite cohesion or breakdown) shaped the capacities of business elites to coordinate with public authorities during the exogenously driven crisis decades of the 1980s and 1990s. The pace and political terrain (i.e., the strength of the political opposition) during crisis determined state incentives toward coordination. Consequently, the task of my empirical analysis is to take account of how each country's business community evolved before and after European rule, how institutions of business representation changed over time, and how state actions vis-à-vis important social actors, such as business and political Islam, shaped the type and strength of political opposition during crisis. It is these factors that distinguish business–state relations in the region and ultimately shape future economic development and reform.

Comparing cases and subjects

At first glance, comparing Jordan, a lower-middle-income country, with Kuwait, one of the world's richest countries, seems a mismatch (see table 1.1). The differences are not trivial, but as candidates for comparing business–state relations Kuwait and Jordan exhibit key similarities: their

[8] David Waldner, *State Building and Late Development* (Ithaca: Cornell University Press, 1999), p. 107.

histories as post-colonial Arab states, the presence of large, functionally similar business organizations, and the timing of economic growth and crisis.

First, both are important Arab countries given their strategic locations, and each has been a regional leader in experimenting with political liberalization. Jordan and Kuwait both experienced British rule, which recognized and strengthened the local monarchies, and nurtured a new form of external dependence. The al-Sabahs in Kuwait and the Hashemites in Jordan have traditionally retained near-absolute political authority while hesitantly granting greater participation in formal politics over time. Jordan and Kuwait are small states, located in an insecure regional environment, and thus both monarchies relied on British and later American support (financial and military) to retain their power. Surrounded by large, aggressive neighbors, Jordan and Kuwait are equally sensitive to regional shifts and external threats. The two have exhibited similar ascriptive divisions and conflicting national identifications. In Kuwait, the distinctions run from the religious (Shi'a, Sunni), to citizenship status, to tribal affiliations and history. In Jordan, distinctions involve principally origin (West Bank or East Bank) but also include time of immigration to Jordan, tribal affiliation, and religious identification (Christian or Muslim). As well as these ascriptive similarities, Jordan and Kuwait also share a history of elected parliaments, constitutionalism, and self-identification as democratic states. In the context of Middle East domestic politics, the political leaderships in Kuwait and Jordan have historically cited their democratic nature in a bid for more external political legitimacy; and, by regional standards, political debate in these Arab countries is robust. In this way, Jordan and Kuwait are at the leading edge of political experimentation in the region and have much to offer as models for other regional liberalizers such as Bahrain, Yemen, Egypt, Morocco, Tunisia, and Oman.

Second, since policy outcome – the degree to which the private sector and the state coordinate on policy reform – is a dependent variable, this book also examines how each business community represented private-sector interests to the state. The role of business associations in each case provides a generalizable comparative base. In each case, and indeed throughout the Arab world, business was the alpha wolf of societal organizers. Chambers of commerce were established long before state independence, and by the 1970s these institutions were the largest (as measured by membership) domestic social organizations in the region. Both the Jordanian and Kuwaiti chambers were founded on the Anglo-American interest-group model, as opposed to the more corporatist continental model; however, these demarcations between public and private have never been absolute. Neither association was founded as a reaction to a rival labor organization. Both have held free elections for leadership every four years since their founding, and each is financially autonomous from direct state authority. On these points, a key difference is apparent with business associations in Egypt, Saudi Arabia, and Syria, where state sponsorship and management have been prevalent since political independence. However, as liberalization and greater private-sector initiative are pursued throughout the Arab world, it is the Kuwaiti and Jordanian business associations that are sought out as models to emulate.[9] A question remains, however: why focus on formal institutions when informal business–state clientelism may prevail?

While it is true that business lobbying in the developing world is often assumed to take the form of individual rent-seeking, increasingly state officials prefer an aggregated voice. Dealing with an official representative not only provides legitimacy; it also saves the cost of canvassing individual firms and sectors. Surviving fiscal shocks and pursuing reform require flexibility and responsiveness, capabilities an institutional actor can provide. Especially in countries where state capacities are underdeveloped, "how the state and other coordinating mechanisms (e.g., markets, networks, associations) coalesce and are related to particular social systems of production are important determinants of economic performance."[10] In the modern Middle East, business–state coordination is one of those mechanisms. Increasingly, in circumstances of protracted market uncertainty and fiscal volatility, institutional interaction is the preference. Moreover, as countries of the Middle East face rapidly shifting pressures from market globalization, what Philippe Schmitter terms the "continuous representation" of business associations can provide state officials with timely, clear signals on private-sector interests.[11] Certainly, clientelism has not lost its uses and business representation has hardly come to dominate the reform agenda in every country; however, greater

[9] The Egyptian Businessman's Association was modeled after the Jordanian version. In Syria, it is no secret that businessmen would like to freely elect the executive board of their main chamber in Damascus. The success of Syrian merchants in Jordan's chamber is not lost on the Damascene merchants. In the late 1990s, Syrian merchants made some progress in persuading state officials to elect at least a portion of the executive board. Consequently, in 1997 a vocal critic of government economic policies became president of the Damascus Chamber of Commerce.

[10] J. Roger Hollingsworth, "New Perspectives on the Spatial Dimensions of Economic Coordination: Tensions Between Globalization and Social Systems of Production," *Review of International Political Economy*, 5, 3 (September 1998), p. 487.

[11] Philippe C. Schmitter and Wolfgang Streeck, "The Organization of Business Interests: Studying the Associative Action of Business in Advanced Industrial Societies," Max-Planck-Institut für Gesellschaftsforschung, Discussion Paper 99/1 (March 1999); see also Richard F. Doner and Ben Ross Schneider, "The New Institutional Economics, Business Associations, and Development," International Institute of Labor Studies, Discussion Paper Series N 110 (2000), p. 19.

analysis is required of the changing dynamics of all aspects of public–private interaction.

Finally, in a broader political sense, Arab business associations, by virtue of their comparative autonomy and long history of intra-electoral competition, have at times played the role of proxy political party. In Latin America, for instance, "the social classes that formed the historic base for parties have fragmented into specialized sectoral and professional clienteles that have sought new forms of collective expression."[12] In most Middle Eastern countries, strong political parties were not institutional precursors to social organizations; rather, weak or non-existent party systems existed alongside the more established and more capable professional associations (*al-Niqabat al-Mihaniyya*), especially business associations. Thus, a focus on organized business grants insight into broader questions of changing patterns of state–society relations and the role interest associations may play in future political transitions.

An additional issue of concern is the treatment of business (or any social actor) as monolithic rather than disaggregating its interests and actions.[13] This study does not assume business as a monolith, nor is its purpose to address the business–state nexus from every vantage. A focus on the associational representation of business over time provides but one window into how a business community changes, how elites evolve, and why interests translate into action the way they do. Jeffry Frieden has termed this the "demand-side" approach to business politics. When interpreted together with the supply side, "This synthesis accepts that private interests are crucial inputs into policy-making and that the institutional context within which these interests are processed also has a substantial impact on outcomes."[14] For this study, then, the terms "organized business" and "association" refer to the respective peak chambers of commerce. The terms "business community" and "business elites" will be explained in context to refer either to the rank and file of the chamber or to the leadership. Finally, this study does not focus upon small merchants or the large informal economies of the Middle East.[15]

[12] Philippe C. Schmitter, "Transitology: The Science of the Art of Democratization?," in Joseph Tulchin (ed.), *The Consolidation of Democracy in Latin America* (Boulder: Lynne Rienner, 1995), p. 24.

[13] See Robert Vitalis, *When Capitalists Collide: Business Conflict and the End of Empire in Egypt* (Berkeley: University of California Press, 1995).

[14] Jeffry A. Frieden, "A Pax on Both Their Houses: State, Society, and Social Science," *Contention*, 3, 3 (Spring 1994), p. 180.

[15] For the political roles small business plays in widely differing contexts, see Kenneth C. Shadlen, "Orphaned by Democracy: Small Business in Mexico," *Comparative Politics* (October 2002), pp. 43–62; and Luiz Martinez, *The Algerian Civil War, 1990–1998* (New York: Columbia University Press, 2000).

Third, the timeframe of comparison hinges on similar boom-and-bust patterns. A number of Middle East comparativists[16] have successfully utilized this two-country approach, and this book attempts to follow in that tradition. Clearly, there are uses and limits to this or any comparative method;[17] however, by juxtaposing the crisis period with the earlier periods of state-building and commodity boom, the elements of similarity and difference in business–state relations rise to the top. While the countries of the Middle East may provide little variation for those pursuing questions of democratization and regime change, focused and historically informed comparisons of economic development and state–society relations reveal rich variation among the Middle Eastern cases. Economically, both countries are late-late developers that have depended to a great extent upon inflows of capital. Kuwait cashed in on its resource endowment, while Jordan cashed in on its geostrategic position and expatriate labor. Some of the massive oil revenues received by the Kuwaiti state were channeled back to Jordan through remittance income and development aid. Tremendous inflows of capital fueled economic boom in the 1960s and 1970s. This aspect of the analysis bears a resemblance to Kiren Chaudhry's comparison of Saudi Arabia (oil rents) and Yemen (aid and remittance income). For Chaudhry, the different types of rent flows lead to different institutional arrangements between business and state and ultimately to contrasting forms of state autonomy in each case.[18] Through a more sustained focus on the evolution of business in Jordan and Kuwait, the purpose of this study is to highlight the role played in the evolution of business–state relations in the periphery by other political and, particularly, institutional factors: specifically, the organization of business representation, the cohesion of business elites, and the challenge of political rivals.

What became known as the bust period, the 1980s and 1990s, is the pivotal point of the comparison. It is in the period after the boom that

[16] See, for example, Crystal, *Oil and Politics*; and Kiren Aziz Chaudhry, *The Price of Wealth: Economies and Institutions in the Middle East* (Ithaca: Cornell University Press, 1997).

[17] James Mahoney, "Strategies of Causal Inference in Small-*N* Analysis," *Sociological Methods & Research*, 28, 4 (May 2000), pp. 387–424. For Middle East comparativists, see Robert Vitalis's review of Kiren Chaudhry, *The Price of Wealth*, in *International Journal of Middle East Studies*, 31 (1999), pp. 659–661. Mahmood Mamdani also provides an account of the positives and negatives of the comparative political-economy approach; see "Beyond Settler and Native as Political Identities: Overcoming the Political Legacy of Colonialism," *Comparative Studies of Society and History*, 43, 4 (October 2001), pp. 651–664.

[18] Chaudhry, *The Price of Wealth*, pp. 23–30. Also, Chaudhry's case selection derives, in part, from Yemen's and Saudi Arabia's "extreme" natures as cases of dependency. The current study presents cases with characteristics more in common with lower- to middle-income developing countries (i.e., Jordan) and with upper-income oil exporters (Kuwait).

the divergent patterns of business–state relations become most evident. For the comparativist, times of financial crisis provide excellent opportunities to see what really matters in a country's politics, since it is in such periods that political responses are clearest.[19] Obviously the assumption is that the crises in the 1980s and 1990s are similar for both Jordan and Kuwait. Table 1.1 demonstrates the income aspect of the crises in terms of declining per capita GDP in the 1980s. While analysis will detail important contextual differences in the crises, pressure on each state to reform economically and court greater private-sector participation was comparable. Moreover, it was clear that the two states attempted to react similarly to the crisis but that each was institutionally unprepared to resolve the crisis. Both countries pursued political liberalization and economic reforms during the 1980s and 1990s. Declines in exogenous rents to each state brought depressed economic growth; thus both states have had to juggle the necessity of liberalizing economically and politically while maintaining centralized political control. Bracketing the business role in economic policy debate from its impact on political liberalization is clearly not possible. Therefore, using fiscal crisis as the comparative focus for Kuwait and Jordan broadens investigation into how business–state interaction on policy generates political externalities. The explanation for the comparative success of institutionally based business–state coordination in Kuwait in advancing economic reform and addressing chronic debt by the mid-1990s, in contrast to Jordan, also provides some insight into the stagnation and reversal of political liberalization in the same years. One conclusion from this study is that the changing relations between business and the state reflect the broader evolution of authoritarianism in the region.

Consequently, while this book compares two countries, it does so at the level of state–society relations: specifically, patterns and change in the institutional mediation between business and state over time. Social science theories focusing on business–state relations are well developed and have keenly shaped how we view state–society relations in the developing world. Comparative scholarship of the countries of the Middle East provides material to test and correct these theories.

A single logic, two approaches

A goal of this study is to provide theoretically informed insight into business–state relations in the Arab world and generate correctives to some of the prevailing approaches to business–state politics in the developing world in general. Two interpretations that derive from a common

[19] Gourevitch, *Politics in Hard Times*, p. 221.

intellectual heritage can be identified: theories arguing that business–state relations are shaped by dynamics at the state level and higher (termed structural/statist), and those that focus on the collective action of business from the bottom up (termed new institutional economics). Though structural approaches have succeeded in generating comparative work on Middle Eastern countries and the focus on institutions has broadened economic inquiry, both clusters of literature generalize about important aspects of the business–state relationship within a framework of neoclassical economics. Each approach relies on the assumption that the reaction of domestic business can be explained by reference to structured incentives. For structural/statist theorists those incentives are ultimately economic. For the more actor-centered, collective-action theorists, those incentives overlap with an organizational logic, yet are nevertheless grounded in material interests. In other words, each is an extension of the foundations of neoclassical economics into political analysis. One critique offered by this study is that, in approaching the subject from different directions but operating from the same assumptions, the micro and macro arguments commit the same original sin.

This book seeks to advance the institutional revisions of political economy by arguing that assumptions about incentive and choice in business–state relations need to be relaxed and that systematic analysis is needed of the historical-institutional legacy of those relations and the political context of social actors. This is not a retreat into contextually driven arguments or the culturally constructed nature of social relations, but is driven by the conviction that responses to structural incentives are shaped by previous political struggles over regime coalitions, historical junctures, and institutional capacities during crisis. Consequently, this analysis of business representation and business–state relations in late-late developers takes as its start Karl Polanyi's famous claim that "man's economy, as a rule, is submerged in his social relationships."[20] Long before the advent of market capitalism, the Arab historian Ibn Khaldun struck a similar note in writing about the importance of rank among merchants:

> The person who has no rank whatever, even though he may have property, acquires a fortune only in proportion to the property he owns in accordance with the efforts he himself makes. Most merchants are in this position. Therefore [merchants] who have rank are far better off [than other merchants].[21]

[20] Karl Polanyi, *The Great Transformation* (New York: Reinhart & Co., 1944), p. 46. See also Simon A. Herbert, "Organizations and Markets," *Journal of Economic Perspectives*, 5 (Spring 1991), pp. 25–44; Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995); and Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology*, 91, 3 (November 1985), pp. 481–510.

[21] Ibn Khaldun, *The Muqaddimah: An Introduction to History*, trans. by Franz Rosenthal, 2 vols. (New York: Pantheon Books, 1958), vol. II, p. 327.

Echoing Khaldun's logic, I aim not to dispense with the logics that underpin macro- and micro-structural approaches but rather to augment each. Insofar as an explanation of divergent crisis outcomes in Kuwait and Jordan requires systematic attention to each actor, business and state, and to both levels, structural approaches offer a degree of insight. What comes into focus at the macro end of the equation are states shaped by similar exogenous economic forces and administrative capacities that are similarly limited in their ability to enact reform during fiscal crisis. At the micro level, we see comparable private-sector elites working through (and around) functionally similar organizational representatives to shape state policy. At this point, what is left is form but no content. The key to variance can be found at the meso level. Here what comes into focus is a different political terrain facing business and state, and respective business representations with different capacities to coordinate with state officials. This book will trace these differences to the political legacies of state formation and to the trajectories of institutional evolution on the part of business representation. The historical narrative will seek, as much as possible, to recount struggles between (and among) business leaders and state officials and identify crucial turning points all within the larger political and economic dynamics that define late development in the Arab world.

The path-dependent flavor of this argument follows other comparative work on sectorally dependent states.[22] A common theme is the diversity of political outcomes and alignments despite the presence of similar external economic incentives. This study extends this analysis in a new direction by seeking comparative evidence of what drives business–state relations over time and how institutions of business representation evolved in tandem. Key shifts in those relations and in the capacities of business to participate in policy negotiation are prominent factors explaining crisis outcomes. What has been amply demonstrated in the earlier literature is that sectorally dependent African and Middle Eastern states exhibit similar administrative weaknesses in the face of persistent economic crisis. What has been absent is the societal side of this problem, that is, how states attempt to overcome administrative weaknesses by encouraging (and managing) policy involvement by the private sector, and how, in

[22] See Crystal, *Oil and Politics*; Chaudhry, *The Price of Wealth*; Dirk Vandewalle, *Libya Since Independence: Oil and State-Building* (Ithaca: Cornell University Press, 1998); Gregory F. Gause, *Oil Monarchies: Domestic and Security Challenges in the Arab Gulf States* (New York: Council on Foreign Relations, 1994); Mary Ann Tétreault, *Stories of Democracy: Politics and Society in Contemporary Kuwait* (New York: Columbia University Press, 2000); and Michael Herb, *All in the Family: Absolutism, Revolution, and Democracy in the Middle Eastern Monarchies* (Albany: SUNY Press, 1999).

turn, the private sector attempts to gain more voice during periods of crisis. The next section expands upon these claims by reviewing flaws of the structural/statist and the institutional-actor approaches to business–state relations in the developing world.

Rents and sectors in the Middle East

The rentier approach in the field of Middle East politics and what is known as the sectoral approach[23] in comparative politics best exemplify the top-down macro perspective on business–state relations in the developing world. This cluster of literature has been influential in shaping not just academic but also policy perspectives of what business is in the developing world and how it interacts with state officials. Since rentier and sectoral outlooks derive from the neoclassical tradition in the field of political economy, both approaches share similar assumptions about what drives private- and public-sector actions – economic incentives – and what should result. Also crucial to this literature is the idea that developing states are positioned as intervening variables and are thus constrained by exogenous factors. In other words, external economic shifts determine state capacities and interests that in turn shape the politics and position of business. Hence, the term "structural/statist" best describes this cluster of literature. Given the fact that most Arab states, including Jordan and Kuwait, are highly dependent upon external revenue, structural/statist accounts are central to many analyses of domestic politics in the region.[24] Reviewing three crucial questions of the structural/statist argument demonstrates how these basic assumptions are expressed and ultimately why they fall short. First, what are sectors and rents and how do they shape state capacities and interests? Second, what does this dynamic mean for social actors, particularly business and its relations with political

[23] This study will focus on the works of Michael Shafer (*Winners and Losers: How Sectors Shape the Developmental Prospects of States* [Ithaca: Cornell University Press, 1994]) and Terry Lynn Karl (*The Paradox of Plenty: Oil Booms and Petro-States* [Berkeley: University of California Press, 1997]). For the broader literature, which does not explicitly address the Middle East, see Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton: Princeton University Press, 1989); Jeffry Frieden, *Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965–1985* (Princeton: Princeton University Press, 1991); and Jeffry Frieden and Ronald Rogowski, "The Impact of the International Economy on National Policies: An Analytic Overview," in Robert Keohane and Helen Milner (eds.), *Internationalization and Domestic Politics* (Cambridge, UK: Cambridge University Press, 1996), pp. 25–47.

[24] This dependence is reflected typically in the level of external revenue in government budgets, but it is also expressed in the dependence on commodity exports. In 1999, for instance, all Middle Eastern and North African countries, save Israel and Turkey, had on average nearly half of their exports in the form of commodity export: Hoekman and Messerlin, *Harnessing Trade*, p. 45.

authority? Third, what do structural/statist approaches suggest should be the outcome of fiscal and economic crisis?

Rent's modern definition is commonly attributed to Adam Smith,who distinguished between rents and profit:

> Rent, it is to be observed, therefore, enters into the composition of the price of commodities in a different way from wages and profit. High or low wages and profit, are the causes of high or low price; high or low rent is the effect of it. It is because high or low wages and profit must be paid, in order to bring a particular commodity to market, that its price is high or low. But it is because its price is high or low; a great deal more, or very little more, or no more, than what is sufficient to pay those wages and profit, that it affords a high rent, or a low rent, or no rent at all.[25]

The importance of rents to modern political life in the Middle East comes into play when the fiscal resources of the state and society are considered. For a state, typical rents are derived from oil revenues, mining, transit fees, customs duties, and so on. For economic actors, rents comprise exclusive access to markets, production subsidies, or participation in trade protocol regimes (such as the old Iraqi–Jordanian oil/trade agreement). Therefore, the basic tenet of rentier-state theory – one that I argue is incomplete – holds that the character of resources available to a state or society fundamentally shapes politics in that country.[26]

Joseph Schumpeter argued that the nature of a state's resources should be a focal point for social and political analysis. "Public finances are one of the best starting points for an investigation of society, especially though not exclusively of its political life."[27] In considering state revenues, the key distinction is between revenues generated from the domestic economy versus revenue received from external sources. Revenue extracted internally refers of course to various forms of taxation (though most specifically direct taxation over indirect), and the progress of taxation has been closely linked to the development of the democratic state in the West.[28] External rents include foreign aid, oil, and various types of transit fees (in the case

[25] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, edited by Edwin Cannan (Methuen & Co., 1904; Library of Economics and Liberty, 1 March 2002, http://www.econlib.org/library/Smith/smWN5.html).

[26] Giacomo Luciani, "Allocative vs. Production States: A Theoretical Framework," in Luciani (ed.), *The Arab State* (Berkeley: University of California Press, 1990), pp. 65–84.

[27] Joseph Schumpeter, "The Crisis of the Tax State," in Alan T. Peacock (ed.), *International Economic Papers*, No. 4 (London: Macmillan, 1954), p. 7.

[28] Charles Tilly, "War Making and State Making as Organized Crime," in Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol (eds.), *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985), pp. 169–191; Margaret Levi, *Of Revenue and Rule* (Berkeley: University of California Press, 1988); and Robert Bates and Da-Hsiang Donald Lien, "A Note on Taxation, Development and Representative Government," *Politics & Society*, 14, 1 (1985), pp. 53–70.

of the Suez canal, for instance). When a state derives most of its revenue from such external sources, it is termed a rentier state. Luciani offers two measures that distinguish between rentier and non-rentier states: state revenue in the form of rents above or below a 40 percent level, and whether or not state expenditure comprises a significant proportion of the gross domestic product (GDP).[29]

The first measure determines whether a state is primarily "exoteric," that is, deriving most of its revenue from outside its state borders, while the second determines whether a state is "allocative," that is, a state whose domestic fiscal activity primarily comprises distribution. Most of the pure rentiers (with percentages above 80 percent of state revenue in the form of rents) are found in the Gulf; Kuwait is a prime example. Other states outside the region, however, have been considered rentiers. At times, Venezuela, Nigeria, Norway, and some African countries dependent on foreign aid and commodity export can be considered good examples. When rent levels are significant, but do not form the majority of revenue (around the 40 percent revenue mark), the effect on the state is equally important, and these have been termed "semi-rentier" states.[30] Jordan is a prime example in this category, as are Egypt, Syria, Yemen, and other developing world states in periods of heavy reliance on foreign grants. So, Kuwait is properly defined as a rentier state and Jordan as a semi-rentier, though both are clearly allocative states, with usually over 50 percent of GDP composed of state expenditure.

Rents in the form of worker remittances flow to a country's society instead of directly into state coffers. Technically, this is not unearned income, as is the case with oil, but the effects of remittances on the domestic economy and polities are similar. In the Middle East, remittances have traditionally taken the form of Jordanian, Egyptian, Syrian, and other Arab nationals working in the Gulf states and sending their earnings back home. Thus, Jordan and Kuwait have historically shared more than just regional location; they have been dependent upon one another. Though remittance income does not go to the state directly (there may be forms of transfer taxation, but most transfers are informal and not well tracked), some of the effects of remittances follow closely those of state rents. Similar to state distribution, external worker finances flood the local economy, boosting internal consumption. Consequently, there is more money chasing fewer domestic investment opportunities.

[29] Luciani, "Allocative vs. Production States." It should be noted that Luciani offers no general reason for these thresholds in his definitions.

[30] Rex Brynen, "Economic Crisis and Post-Rentier Democratization in the Arab World: The Case of Jordan," *Canadian Journal of Political Science*, 25, 1 (March 1992); Hazem Beblawi, "The Rentier State in the Arab World," in Luciani, *The Arab State*, pp. 85–98.

Table 1.2 *Comparative government revenues: oil, remittances, and foreign grants*

	Jordan		Kuwait
	Remittances (million US$)	Aid (% total revenue)	Oil (% total revenue)
1963			92
1964			93
1965			92
1966			84
1967			91
1968			91
1969			87
1970	n.a.	48	92
1971	n.a.	39	92
1972	n.a.	44	93
1973	44.7	40	97
1974	74.8	39	97
1975	166.7	47	96
1976	390.4	32	95
1977	443.7	36	93
1978	469.6	24	97
1979	540.6	45	95
1980	714.6	40	92
1981	929.4	33	90
1982	975.5	30	92
1983	1,110.0	28	91
1984	1,237.0	16	89
1985	1,021.0	22	86
1986	1,184.0	16	88
1987	939.0	15	86
1988	894.0	16	91
1989	623.0	24	90
1990	500.0	14	77
1991	450.0	16	88
1992	800.0	8	84
1993	n.a.	14	85
1994	n.a.	13	86
1995	n.a.	12	85
1996	n.a.	14	97
1997	n.a.	14	95
1998	n.a.	11	97
1999	n.a.	11	90
2000	n.a.	14	n.a.

Sources: Central Bank of Jordan, *Yearly Statistical Series* (*1964–1993*) (Amman: Central Bank of Jordan, 1994); Kuwait, Ministry of Planning, *Statistical Abstract in 25 Years* (Kuwait City: Central Statistical Office, 1990); *Central Bank of Kuwait*, *Quarterly Statistical Bulletin* (April–June 1995); International Monetary Fund, *International Financial Statistics Yearbook* (various years); World Bank, *World Tables 1995* (Baltimore: Johns Hopkins University Press, 1995).

Outside the study of the Middle East, economically based arguments for development and political reform, commonly termed sectoral approaches, follow a similar path. According to Chaudhry, these approaches amount to an extension of "neoclassical trade theory."[31] Two recent works by Michael Shafer and Terry Lynn Karl, while not based on Middle East cases, nonetheless make explicit arguments aimed at the region by focusing on the political effects of a country's dominant economic sector. Both scholars closely follow Schumpeter's emphasis on a state's fiscal sociology. Karl put it this way: "Simply stated, the revenues a state collects, how it collects them, and the uses to which it puts them define its nature."[32] However, the sectoral approach goes beyond solely the state-revenue focus to theorize about the political effects of an entire economy's revenue source.

Michael Shafer, in his book *Winners and Losers: How Sectors Shape the Developmental Prospects of States*, develops an argument about the effect sectoral makeup has on a state's ability to launch economic restructuring. Sectors are defined as "a type of economic activity (mining, industrial, plantation crop production, peasant cash crop production, or light manufacturing) that constitutes an enduring, coherent whole defined by a distinctive combination of four variables – capital intensity, economies of scale, production flexibility, and asset/factor flexibility."[33] The attributes of the leading sectors, and how they are tied to the international economy, determine a state's developmental trajectory. Two ideal-type political economies, low/low and high/high, are given. High/high types exhibit high capital intensity, high economies of scale, high production inflexibility, and high asset/factor inflexibility, while low/low exhibit the opposite. The oil states of the Middle East are, for Shafer, "the best available approximation of the high/high ideal type," that is high in the sense of capital intensity, economies of scale, and production inflexibility.[34] Indeed, the sectoral profile of most Arab states tends toward the high/high ideal-type. In contrast to these political economies, low/low political economies have higher degrees of flexibility and hence are able to restructure better (in the face of international shifts) than inflexible high/high types. The result is a forceful argument echoing a near-structural determinism:

[31] Kiren Chaudhry, "Prices, Politics, Institutions: Oil Exporters in the International Economy," *Business and Politics*, 1, 3 (1999), pp. 317–342.
[32] Karl, *The Paradox of Plenty*, p. 13.
[33] Shafer, *Winners and Losers*, p. 10. "Production flexibility is the ability to meet short-term market shifts by varying output levels or product mix. Asset/factor flexibility refers to the sector-specificity of facilities, supporting infrastructure, and workforce skills" (*ibid.*).
[34] *Ibid.*, p. 233.

sectors have an optimal, or at least typical, *economic* organization and pose distinct economic challenges to all producers and states, and . . . states with similar sectoral bases face similar *political* constraints when they address these challenges, do so from similar institutional positions, and arrive at similar policy outcomes.[35]

Terry Lynn Karl's "structured-contingency" approach, though less deterministic in tone, still views excessive sectoral reliance as "pre-structuring" a state's decisionmaking and implementation capacities. Like Shafer, Karl expects incentives found in every petro-state to yield similar political economies. Consequently, the sectoral and rentier approaches agree that state interests and structures are conditioned by macroeconomic variables. Evidence for these approaches can be drawn from the boom era of Arab economic development.

The jump in oil prices and other forms of external revenue in the 1960s and 1970s resulted in a dramatic growth of state ministries throughout the Middle East. The old mercantilist Spanish quip, "why make what you can buy,"[36] became translated in the Arab experience into "why work, when you can work for the state?" Ministries not only proliferated to embrace every conceivable policy area, but they also added countless numbers of civil servants beyond any reasonable bureaucratic need.[37] Economic planning lost any genuine application and most policymaking gravitated toward the Ministry of Finance, the primary rent collector. The state as the locus of economic activity through public employment became the primary distributor of capital in the economy.[38] Rates of direct taxation were negligible. Through a number of transfer schemes, the primary functions of state ministries became distribution over extraction or regulation.[39] What we are left with, then, is a weighted institutional structure where "'state interests' are uniquely identified with perpetuating the state's traditional fiscal base by advancing the existing development model and fostering social interests that will support state policy."[40]

In much the same way that state structure conforms to sectoral and revenue needs, social forces – particularly business – are expected to

[35] *Ibid.*, p. 22.
[36] David S. Landes, *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor* (New York: W. W. Norton, 1998).
[37] This should not imply a discount of the social benefits of public-sector expansion which included the employment of women and the reduction of income gaps in the region.
[38] Jacques Delacroix, "The Distributive State in the World System," *Studies in Comparative International Development*, 15 (1980), pp. 3–22.
[39] A virtue of this aspect of the structural/statist argument is its clear isolation of a connection between revenue/sectoral reliance and neo-patrimonialism, above a cultural or tribal explanation.
[40] Karl, *The Paradox of Plenty*, p. 224.

follow suit. The rentier literature is quite developed in this respect. As the rentier state becomes the locus of economic activity through public employment, it also becomes the primary distributor of capital in the economy. Large-scale real estate purchases, public investments in private corporations, robust subsidy programs, and other welfare projects are common among rentiers. Jacques Delacroix terms this the "distributive state."[41] In turn, the society of a rentier state is shaped by the availability of persistent state rents.

Interaction with state ministries becomes very intense within a rentier society. Whether people are working for the state, receiving some form of payment from the state, or bargaining for state permissions, political authority becomes inordinately a central target of much activity in society. These features of interaction contribute to what Hazem Beblawi terms the "rentier mentality" of societies in many Arab states. Citizenship is no longer built on reciprocal interaction with political authority but on rewards from state managers, severing the link between production and reward. Over 400 years before Smith's famous distinction between rents and profit, Ibn Khaldun chastised "weak-minded persons" who seek to "discover property under the surface of the earth and make some profit from it." While Ibn Khaldun was literally writing of treasure-hunting, the link between reward and non-productivity was clear in the intentions he ascribed to such endeavors: "When such a person cannot earn enough in a natural way, his only way out is to wish that at one stroke, without any effort, he might find sufficient money to pay for the (luxury) habits in which he has become caught."[42]

Since social actors are at the receiving end of state distribution, second-order rents often permeate economic relations in society.[43] A good deal of private-sector activity is geared toward securing a piece of state largesse in the form of subsidies, state contracts, or tax exemption. A number of businessmen become what Samuel Popkin terms "easy riders." They compete with one another, but it is a competition aimed at further political access that does not result in more efficient production or increased quality.[44] In the modern Arab economy these businessmen are termed *al-kafil*, sponsors or agents for foreign imports in which the agent receives a percentage of profits essentially for signing his name to various documents.[45]

41 Delacroix, "The Distributive State in the World System."
42 Ibn Khaldun, *The Muqaddimah*, vol. II, pp. 319–321.
43 Beblawi, "The Rentier State in the Arab World," pp. 89–91.
44 Samuel L. Popkin, "Public Choice and Peasant Organization," in Robert H. Bates (ed.), *Toward a Political Economy of Development: A Rational Choice Perspective* (Berkeley: University of California Press, 1988), p. 268.
45 Beblawi, "The Rentier State in the Arab World," p. 92.

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Consequently, the economic profile of rentier states is seen to privilege short-term, highly liquid investments such as real estate and stock markets over longer-term, fixed assets such as private infrastructure or industry, the so-called Dutch Disease. The implications for business and its representation are clear. Institutional autonomy is sacrificed for pursuit of state largesse. Given that much state distribution to business is exclusive (real estate, public contracts, and the like), incentives for the pursuit of individual rent-seeking should trump collective action.[46] Those business associations or representations that do exist are considered hollow. The sectoral approach modifies this rather negative portrayal in an interesting way.

The sectoral approach argues not that state revenue interests shape social actors but rather that sectoral makeup shapes the organization and interests of business directly. In countries where business is overwhelmingly tied to a few inflexible sectors (such as services and the public sector throughout the Arab world), distinct patterns of collective action will emerge.[47] Shafer and Karl argue that this compels formation of uniquely organized interest groups for two reasons. First, a smaller business community clustered around one or two dominant sectors brings into play Mancur Olson's idea that the existence of fewer firms makes collective action easier.[48] Second, when these sectors are booming and the pie is enlarging, the reduction of zero-sum social conflict streamlines access and lobbying strategies. Viewed in this light, business representation is deemed to be neither autonomous nor in possession of varied institutional capacities.[49] It is in all respects simply an extension of dominant sectoral interests in much the same way that rentier theorists see society as reflection of the state bureaucracy.[50] In sum, though the sectoral and rentier approaches arrive by slightly different routes, their portrait of business in the Middle East, and indeed most of the developing world, is rather negative and uniform from the perspective of the structural/statist approach. Beyond making "cries for help that are unanimous, loud, and anguished,"[51] domestic business is hardly autonomous and is afflicted

[46] The conception of a rentier state being a "flabby state," large but lacking in capabilities, it is often argued, extends to its society as well.

[47] Shafer, *Winners and Losers*, pp. 2–3.

[48] Cited *ibid.*, pp. 39–42.

[49] Revisions of this characterization still tend to paint a rather two-dimensional portrait of business. Chaudhry's comparative findings, for instance, cast business in the Arabian peninsula as either fully resistant (and successful in the case of Saudi Arabia) to government policy or fully supine and ineffective (as in the case of Yemen). In comparing approaches to democracy, Eva Bellin finds Arab business either resistant or agnostic: Eva Bellin, "Contingent Democrats, Industrialists, Labor, and Democratization in Late-Developing Countries," *World Politics*, 52, 2 (January 2000), pp. 175–205.

[50] Karl, *The Paradox of Plenty*, pp. 54–57.

[51] Shafer, *Winners and Losers*, p. 33.

with a rentier psychology. The private sector is, in the final analysis, a state client. Where formal representative associations do exist, they are deemed to be shells designed to pursue state largesse. The final element in the rentier/sectoral argument extends this argument to predict what political ramifications (specific to business–state relations) should emerge once the revenue base of the state changes. Or, in other words, what should happen once rents and exogenous resources decline, as was the case in the 1980s and 1990s?

Scholars advancing the rentier-state approach in the 1980s and early 1990s converged toward a clear view of what should occur once rents declined. Under fiscal pressure, the once-aloof rentier state must turn to domestic extraction to avoid crippling debt and austerity. Having developed little extractive capacity and fearful of social backlash, the post-rentier state is hard pressed to respond. In parallel, the drop in rents means a drop in payoffs to social groups. Issues of distribution, taxation, and representation are intertwined. Adherents to rentier theory expressed the rational in terms Albert Hirschman laid out in *Exit, Voice, and Loyalty*. When faced with a revenue-seeking state, an economic agent can either exercise "exit" (capital becomes mobile) or "give voice" (demand representation). A state wishing to minimize the number of exits will inevitably entertain more voice, thus expanding representation.[52] The post-rentier state displays conditions ripe for democratization and reform;[53] or, as Luciani put it, "a strong current in favor of democracy inevitably arises."[54] Lisa Anderson was more direct: "a clear trend was discernible, particularly in countries whose access to reliable sources of external funding was declining. With great trepidation, governments were being forced to face the unpleasant prospect of holding themselves accountable to taxpayers."[55]

If one compares relative contributions to GDP, the intuitive nature of the argument can be quantified to some extent. Thomas Stauffer offers a method of calculating the non-oil, non-aid component of a country's GDP.[56] The idea is to strip contributions from oil and aid out of the revenue and expenditure components. Stauffer argues that this gives a more accurate picture of an economy's productive growth (income that is reproducible) versus simply the expansion of an economy (which is generally

[52] Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge, MA: Harvard University Press, 1970).
[53] Brynen, "Economic Crisis and Post-Rentier Democratization."
[54] Luciani, "Allocative vs. Production States," p. 75.
[55] Lisa Anderson, "Remaking the Middle East: The Prospects for Democracy and Stability," *Ethics and International Affairs*, 6 (1992), p. 171.
[56] Thomas Stauffer, "The Dynamics of Petroleum Dependency: Growth in an Oil Rentier State," *Finance and Industry*, 2 (1981).

Table 1.3 *Adjusted GDP: non-oil/aid GDP*

	Total GDP		Adjusted GDP (% actual)	
	Jordan (million Jordanian dinars)	Kuwait (million Kuwaiti dinars)	Jordan	Kuwait
1970	212	1,026	137.80 (65)	393.14 (38)
1975	379	3,485	192.19 (51)	n.a.
1980	1,151	7,755	736.88 (64)	3015.66 (39)
1985	2,020	6,450	1,676.50 (83)	2,319.88 (36)
1990	2,668	5,328	2,363.87 (89)	133.59 (3)
1995	4,191	7,214	3,833.44 (91)	n.a.

Sources: International Monetary Fund, *International Financial Statistics Yearbook*, various years; Central Bank of Jordan, *Yearly Statistical Series (1964–1993)* (Amman: Central Bank of Jordan, October 1994); Kuwait, Ministry of Planning, *Statistical Abstract in 25 Years* (Kuwait City: Central Statistical Office, 1990).

Calculation:
CONVENTIONAL GDP
minus tax and royalty income from oil or foreign aid grants
minus oil/aid-financed domestic government expenditures
equals
NON-OIL/AID GDP

not productive). Table 1.3 provides these calculations and comparisons for Kuwait and Jordan over time.

The results, while only rough approximations, provide a picture of the relative importance of the private sector to overall economic activity in each country. That Jordan's private sector contributes far more than its Kuwaiti counterpart supports the conventional conclusion that business is more "important" in Jordan and predictably is in a better structural position to resist or drive policy. Certainly, it could be expected that as private contributions increase, the democratization logic might come into force. Since political outcomes have not reflected what the numbers predict, rentier theory has much to answer for.[57]

While Shafer and Karl's sectoral approach avoids the democratization issue, it nevertheless concludes that dependent states should display

[57] Criticism has also latched on to the failed connection between democratization and taxation. For instance, John Waterbury has argued that taxation has increased among the Middle Eastern states, yet democratization has not: Waterbury, "Democracy Without Democrats? The Potential for Political Liberalization in the Middle East," in Ghassan Salamé (ed.), *Democracy Without Democrats? The Renewal of Politics in the Muslim World* (London: I. B. Tauris, 1994), pp. 29–30. The question then becomes whether the distinction between direct and indirect taxation has an effect. At another level, the debate is clouded by the fact that some economic information (especially government revenue and expenditure) is highly uneven and simply suspect.

similar pathologies and regime pressures. Their judgement is that the structural legacies of oil export and rent reliance make it nearly impossible for the state to alter its development trajectory away from external sources. Given the size of oil reserves and the continuing strategic importance of the region, this prediction is rather mild. On the one hand, much variation – short of macro developmental shifts – remains, and requires explanation. Some states respond more effectively to crisis than others, setting the stage for divergent political patterns of winners and losers. On the other hand, recalling Shafer's claim that similar state institutional designs yield "similar policy outcomes," there seems little room for deviation.[58] Crisis policy outcomes are, therefore, overdetermined: inflexible institutions are unable (and unwilling) to effect policy change while oil-dependent social actors effectively resist any nascent moves for reform. Crisis begets stagnation. Karl goes further by suggesting that such stagnation leads to regime decay and decline. "Only prolonged fiscal crisis is likely to provoke change, and adjustment, when it comes, will be especially abrupt and severe." For the oil exporters of the Middle East, the expectation is a "deleterious combination of economic deterioration and political decay."[59]

In sum, the rentier and sectoral approaches essentially view fiscal crisis politics as an unfolding logic of increased business autonomy and policy leverage. Connecting the dots from revenue/sectoral dependency to state structure to business interests, one sees a clear model but little accuracy. A recent volume on business–state relations in the developing world concludes that, with these structural approaches, "If the political interaction between state and private actors is modeled at all, it tends to take a spare, game-theoretic form."[60] For instance, outcomes in the Middle East have hardly been so neat over the last two decades of fiscal crisis. In Kuwait, one of the world's most sectorally dependent states, the past decades have witnessed not democratization or regime instability but the evolution of intense business–state coordination aiming at economic reform and a blocking of deeper political liberalization. Working from structural/statist assumptions, one should expect, if anything, a more dependent business community that is of little assistance to the state. At a minimum, we should expect divided business resistance to reform. In contrast, consider the counterintuitive outcome in Jordan. With a less sectorally and rent-dependent state, we should expect greater business–state coordination on reform than in Kuwait. In addition, the comparative weakness of

58 Shafer, *Winners and Losers*, p. 22. 59 Karl, *The Paradox of Plenty*, p. 241.

60 Stephan Haggard, Sylvia Maxfield, and Ben Ross Schneider, "Theories of Business and Business–State Relations," in Maxfield and Schneider (eds.), *Business and the State in Developing Countries* (Ithaca: Cornell University Press, 1997), p. 37.

business advocacy in Jordan violates the assumptions that support structural/statist logics. External shocks, such as exogenous price shifts, do not axiomatically translate into set political action among domestic groups. For the issue of business–state relations, the task is to chart – *pre-crisis* – how those relations were constructed during state formation, what past political struggles entailed, how business elites came to represent their interests, and what institutional capacities evolved.

The micro approach: collective action by business

Since the claim against structural/statist approaches calls, in part, for a closer examination of how business evolves and how it represents its interests to the state, a treatment of theories concerned with associational action is needed. What is known as the new institutional economics (NIE) has generated an influential field of social science inquiry into how institutions discipline markets. Like sectoral and rentier approaches, the NIE has been termed a form of "expanded neoclassical economics."[61] Collectively, while this scholarship privileges analysis of choice in the marketplace, of how prices shape behavior, and of how interests determine institutions, it has contributed to a reform of the classical paradigm by shifting investigation toward the importance of transaction costs, principal/agent relations, and collective action.[62] Consequently, as this body of literature examines organized business and business–state relations, it comes to share some of the same key assumptions of the macro approach.

The economists Douglass North and Mancur Olson are perhaps the most influential representatives of the institutional turn in economics. To simplify greatly, their core contribution has been that institutions and institutional arrangements fundamentally shape choice in the marketplace through their influence on transaction costs, principal/agent relations, and collective action. Consequently, institutions are created to solve concrete problems, regulate exchange, provide more information, set guidelines, or ensure contract enforcement. How institutions do this and where they come from have become the focus of much follow-on research. Institutions in this case are defined as rules or norms governing

[61] Christopher Clague, "The Institutional Economics and Economic Development," in Clague (ed.), *Institutions and Economic Development: Growth and Governance in Less-Developed and Post-Socialist Countries* (Baltimore: Johns Hopkins University Press, 1997), p. 16.

[62] Doner and Schneider, "The New Institutional Economics, Business Associations, and Development," p. 6.

behavior.[63] This definition is crucial because it avoids consideration of other structures, associations, and parties, for instance, as constituting institutions.[64] To the extent that organized interests involve themselves in decisions about market governance, this is seen to lead to suboptimal outcomes and economic distortion. As a consequence, professional and business associations have come to be viewed in a negative light by many new institutional economists, political scientists, and World Bank officials. Moreover, this perspective downplays how institutions and associations might form and develop in response to more than simply market problems.

In attempting to build a grand theory to explain the rise and fall of national economies, Olson develops the hypothesis that, to the extent that distributional coalitions proliferate in a national economy, productive investment and growth will be gradually reduced and market failure will result. Foremost among these cartels for Olson are organized representatives of business. Drawing on his original thesis explaining collective action, Olson argues that business will come together to act collectively if selective benefits result from group membership. These incentives could be information, political access, payoffs, and the like, but they share the character of being particular to the member. Translated into structural/ statist reasoning, material interest drives collective action. To reintroduce the sectorally dependent state, one sees that Olson's bottom-up approach to business–state relations rests on the same abstract logic of material incentives evolving into political action. Business will organize to pursue rent from the sectorally dependent state. Following Shafer and Karl, once these resources decline, such distributive coalitions should provide obstacles to reform as particularist demands mount. In subsequent extensions of this logic, Olson did envision a way out. How associations are structured may alter the way business and state interact. Not all incentives for collective action are the same; hence, different types of associations may form, embodying different types of interaction with the state. Olson envisions two types: encompassing and non-encompassing. Olson advanced

[63] According to Lin and Nugent, institutions are defined as "a set of humanly devised behavioral rules that govern and shape the interactions of human beings, in part by helping them to form expectations of what other people will do": Justin Yifu Lin and Jeffrey B. Nugent, "Institutions and Economic Development," in J. Behrman and T. N. Srinivasan (eds.), *Handbook of Economic Development*, vol. IIIA (Amsterdam: North-Holland, 1995).

[64] Oliver Williamson, "The Institutions and Governance of Economic Development and Reform," in Williamson, *The Mechanisms of Governance* (New York: Oxford University Press, 1996), pp. 322–343. I am indebted to Richard F. Doner for discussions on the importance of this definitional distinction.

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a tradeoff logic by arguing that "an encompassing association" (one representing all or most of the economy) would espouse a better policy view (benefiting the entire economy) than a more narrowly based association, but that the encompassing association would lack lobbying strength:

> *Peak associations*, frequently, lack the unity needed to have any great influence on public policy, or even coherent and specific policies. Nonetheless, peak associations should on average take a somewhat less parochial view than the narrow associations of which they are composed.[65]

How associations are constructed thus provides the micro complement to the macro view. The micro approach fits neatly with the same assumptions and same conclusions generated by structural/statist arguments. The two approaches also run aground upon the same empirical shoreline. Just as structural logics fail to capture the variety of outcomes during crisis, Olson's logics have succumbed to a number of empirical problems since their elaboration. To quote Ronald Rogowski at length:

> Since even narrow coalitions can act to achieve greater efficiency – productively rather than distributionally – Olson's theory must be modified. The evil consequences he predicts indeed ensue when distributional coalitions proliferate; but since Olson is wrong in relating distributional orientation only to size and proliferation only to age, we must try anew to analyze why coalitions will grow and why some others will pursue productivity, others only a bigger share.[66]

The same historical-institutional variables that correct structural/statist positions apply to the lower level as well. In Jordan and Kuwait, two functionally similar business representatives evolve. Gradually, however, the Jordanian association has become more encompassing than the Kuwaiti association; however, the way each interacted with the state during crisis inverts Olson's expectations. The more exclusive (in membership and internal representation) Kuwaiti association espoused the more catholic reform policies and interacted more smoothly with state officials, whereas in Jordan, the broader-based association consistently advanced particularist policy initiatives, failing to coordinate with state officials. By charting the political struggles that accompanied state formation in Kuwait and Jordan and by including consideration of organizational variables beyond simply encompassingness, the apparently counterintuitive outcomes make sense. As the economy is embedded in society, so too are associations of business representation.

[65] Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982), p. 50 (emphasis in original).
[66] Ronald Rogowski, "Structure, Growth, and Power: Three Rationalist Accounts," in Bates, *Toward a Political Economy of Development*, p. 317.

One might be rightly suspicious of bringing Olson and North to the Middle East when their original arguments were based upon Western cases. Indeed, part of the critique here is that context and timing cannot be ignored. The influence of Olson's ideas regarding associations has spread far past the developed democracies to inform policy among developmental economists and practitioners. Before his death in 1998, Olson established the Center on Institutional Reform and the Informal Sector (CIRIS). With support from the United States Agency for International Development, CIRIS undertook a number of consulting projects in developing countries. Therefore, developing a systematic empirical grasp of where Olson's ideas fit and where they require adjustment affects our general knowledge of these institutions and specific policies in the developing world.

Contributions and framework

Only recently has it come to light that some of the most successful structural/statist theories about developing nations first emerged among Middle East specialists with the idea of the rentier state.[67] Since then, political scientists more concerned with generalization (Frieden, Rogowski, Shafer, and Karl) have elaborated cleaner models, with little attention to any of the Middle East cases that accompanied the initial scholarly interest. Accumulated comparative research has revealed evidence demonstrating significant variance among states ostensibly with similar sectoral and rent dependencies. Comparatively examining business–state relations is one means of expanding these debates and proposing new avenues for research.

Chapters 2 and 3 narrate the creation of business–state relations in Kuwait and Jordan before the crises of the 1980s and 1990s. How elites constructed their associations of representation, what domestic political struggles shaped the evolution of domestic business, and the strategies state officials adopted vis-à-vis organized business all condition crisis outcomes. Thus in chapter 4 I examine how, once the crisis took hold in the early 1980s, two variables arising from pre-crisis politics became most important in explaining divergent outcomes in Kuwait and Jordan: the

[67] For example, compare Hussein Mahdavy, "The Patterns and Problems of Economic Development in Rentier States," in M. A. Cook (ed.), *Studies in Economic History of the Middle East* (London: Oxford University Press, 1970), pp. 428–467, with Michael L. Ross, "Does Resource Wealth Cause Authoritarian Rule?," *World Politics*, 53 (April 2001), pp. 325–361. For how the Gulf cases figured into the founding of American political economy, see Robert Vitalis, "Black Gold, White Crude: An Essay on American Exceptionalism, Hierarchy, and Hegemony in the Gulf," *Diplomatic History*, 26, 2 (Spring 2002), p. 188.

institutional capacities and organization of business representation and the political calculus facing state elites during crisis. In each case, the important political calculus hinges on the relative strength of other social rivals for business privilege and state power, namely political Islam. Seen from this more empirically grounded vantage, we can then come to understand why similarly dependent states chart different crisis outcomes and why Olson's organizational logic is turned on its head. In addition, chapter 4 seeks to answer a looming question among studies of business–state relations in the developing world: what makes for productive coordination between business and state in some countries and not others?

In recent years the debate between scholars wedded to either state or market has, thankfully, matured. Each side recognizes neither force is sufficient, on its own, to deliver long-term productive growth. The recent work of Peter Evans has been perhaps the most influential in this regard. In an effort to explain the long-term success of the East Asian industrializers (South Korea, Singapore, and Taiwan), Evans has argued that a degree of state autonomy from leading social actors, such as business, is necessary at the onset of economic liberalization and restructuring. However, at the later stages of policy negotiation and implementation, a degree of "embeddedness" is required, that is, connections with social actors.[68] Evans terms this balance between connectedness and aloofness "embedded autonomy." What conditions allow this unique situation to prevail? According to Evans, the answer is found within the state. What he terms the Weberian characteristics of the typical Asian industrializer (non-political bureaucracy and extensive administrative and information capacities) allow these states both to maintain distance from business (thus avoiding an Olsonian world of collusion) and to fashion links with business when information, feedback, and implementation assistance are required. However, attempts to export these lessons outside East Asia have proven disheartening. Such "rational-legal" states are extremely rare in Africa and the Middle East. How then do we account for emerging patterns of business–state coordination and disjuncture in these circumstances? Because this study reverses the standard question of state autonomy by focusing on how business representation is formed and what its capacities are, the question of embedded autonomy can be approached from a new direction. Findings here stress the importance of capable business representation to the nature and success of the embeddedness project. It shows how structures of associational representation

[68] Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in Stephan Haggard and Robert R. Kaufman (eds.), *The Politics of Economic Adjustment: International Constraints, Distributive Politics, and the State* (Princeton: Princeton University Press, 1992), pp. 63–87.

shape institutional trajectory and capacities. Unlike Olson's organizational logic, however, associational capacities are not wholly the product of incentive structures but rather are artifacts of broader political and social struggles waged over time.

Building upon the historical patterns and what happens once rents decline, chapter 5 concludes by first revisiting rival accounts for these outcomes. In particular, the discussion engages a return to structural variables as well as more particular, contingent factors applicable in each case. The remainder of the concluding chapter branches out from these cases to assess why political liberalization has retreated while economic liberalization remains a priority. The answers proposed are tentative, as many of these processes are ongoing, not just in Kuwait and Jordan, but throughout the region. Nevertheless, it is clear that much of the policy optimism surrounding the return of Arab business is unwarranted. Neither in Kuwait nor in Jordan does business emerge as a force for greater political liberalization. Instead, efforts to refashion business–state interaction have figured into the evolving nature of authoritarianism in the Arab world. Certainly this is not the only ingredient in the mix,[69] but mounting evidence from the experience of other "liberalizing" countries suggests business–state patterns similar to those in Kuwait and Jordan.[70] Thus, it is not enough to conclude that with a change in external prices will come political change. What kind of change and in which direction cannot be answered from a vantage that asserts a connection between material interest, institutional formation, and political action. Accounting for crisis outcomes in the 1980s and 1990s requires a focus on the previous decades of state formation, institution-building, and regime consolidation. Likewise, the actual political struggles and lessons from these decades should form the foundation from which we speculate on the next phase.

[69] Jill Crystal, "Authoritarianism and Its Adversaries in the Arab World," *World Politics*, 46 (January 1994), pp. 262–289.

[70] For the case of Egypt, see Eberhard Kienle, *A Grand Delusion: Democracy and Economic Reform in Egypt* (London: I. B. Tauris, 2001).