

**THE IMPACT OF INTERNATIONAL ECONOMIC INTEGRATION ON
POLITICAL LIBERALIZATION: THE ARAB GULF *BAKSHISH* STATES**

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ABSTRACT

In the last two decades, the six member states of the Gulf Cooperation Council, namely Saudi Arabia, Bahrain, Qatar, Oman, Kuwait and the United Arab Emirates, undertook surprising reforms meant to increase state's participatory nature. Challenging the assumptions of the rentier state theory, which argue that due to external financial resources and the lack of their citizens' contribution to the financial wealth, the authorities are not willing to embark on democratization's path, this thesis aims at looking at the extent to which the external factors, more specifically the foreign direct investment inflows and outflows, determine these states to become subjects to political liberalization reforms. By underlining the weakness of domestic civil society, the army or business community when it comes to asking for increased level of participation and the foreign direct investments' importance, the explanation resulting is that the ruling class is more accountable to the latter in order to attract more foreign capital, to be accepted as investors on the international financial markets, to integrate in the global economy and to be able to decrease their dependency on oil by developing alternative wealth resources.

Keywords: Gulf Cooperation Council, political liberalization, electoral processes, international economic integration, foreign direct investment, Sovereign Wealth Funds, Arab Gulf civil society.

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“O, ye who believe! Obey God, and obey the Apostle, and those charged with authority among you. If ye differ in anything among yourselves, refer it to God and His Apostle, if ye do believe in God and the Last Day: that is best, and most suitable for final determination.” – *Sura IV:59*¹

“...There are three things that Arab societies need in varying degrees. To some, these things appear to be a kind of superficial luxury because they are values and not material things. In reality, the need for these things has become urgent... For, no developed society has achieved material advancement without the prevalence of values, institutions and systems which facilitate such advancement on a solid foundation. These three internal challenges....Arabs must attain...are democracy, rationality, and legitimacy.” – Ahmad Baha’u al-Din²

¹ *The Holy Qur’an*, edited and translated by Abdullah Yusuf Ali, (Beirut: Dar al-Arabia), 1995:198

² Ahmad Baha’u al-Din, *Shar’iyyatu’l-sultah fi’l-‘alami’l-‘arabi (Legitimacy of Political Power in the Arab World)* (Cairo:Dar Al-Shuruq, 1984) :6-7 quoted in Larbi Sadiki, *The Search for Arab Democracy: Discourses and Counter-Discourses*, (New York: Columbia University Press, 2004): 1

THE MAP OF THE GULF COOPERATION COUNCIL



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INTRODUCTION

Talking about citizens' participation in the process of governing a country is not a taboo topic for the various Middle Eastern leaderships as one might think. Actually, *democracy, freedom or rights* were some of the most recurrent words that I could notice, in the mid 2000, on the street billboards in Tripoli, Libya, for example, in which the Leader of the '69 Libyan revolution was literally pointing at slogans such as *lā dimuqratiyya bidūn mu'atamarāt* (There is no democracy without congresses)³, or when listening to discourses or interviews of different Arab leaders.

The debate on citizens' involvement in the affairs of the state and the institutionalization of their civil and political freedoms intensified due to electoral processes in Lebanon, Kuwait, Egypt or Tunisia, women gaining access and becoming more visible concerning the domestic policy making process or even setting political dissidents free or encouraging the return home of regime opposing groups as happened in Libya in 2007, to name just an example. Moreover, the discussion on the Middle East democratization process came under scrutiny one more time thus drawing awareness on the issues that this region has to face in order to move towards democracy in the context of the 2010 electoral processes in Iraq and, more recently, in Sudan.

Despite the above mentioned public display or actual measures taken by the Arab governments, the leaderships of these countries have been frequently criticised both in the West and at home for the lack of steady and constant efforts towards the democratization of their countries. The problematique of democracy in the Arab Middle East seems to indicate a

³ My translation.

type of *exclusionary politics*, as Sadiki points out,⁴ where policy-making evolves around the concept of *singularity* as in *one man* or *one party show*: revolutionary one-man (Colonel Qadhdhafi in Libya), one party rule (the Syrian National Progressive Front), traditional clan-based ruling (the Arab Gulf states), pseudo-liberal regimes (Egypt and Tunisia) or so-called constitutional monarchy (Jordan or Morocco).

In the context where steps towards democratization have been undertaken and while at the same time there is a strong dispute over the quality, strength and durability of these demarches, several questions are heavily debated in the academic community, among policy makers or other domestic and international actors concerning the Middle East region. Why has democracy not been successfully implemented in the Arab world? How come incipient democratic reforms that have been undertaken in the region were sooner or later overshadowed by despotic and authoritarian actions? Who are the actors that have to intervene in order to boost democratization in the region? How come democratization was successful in other authoritarian states, namely Eastern Europe, and not in the Middle East? What are the elements that impede democratic reforms? How important are the international and the domestic actors in promoting democratization in the area?

Considering that *demokratia* is a Greek word linking *demos* (people) with *kratia* (from the verb *kratien*, to rule) thus inspiring the ideal type of democracy based on the ‘rule by the people’ concept, this thesis will deal with the institutionalization of citizens’ involvement in policy – making in the context of the Arab Middle East. More precisely, considering democracy as the final stop of a long-term process⁵ and the realities that characterize the Middle East and North African region⁶ (MENA), my thesis emphasizes the

⁴ Sadiki, 2004: 5

⁵ Bahgat Korany and Paul Noble, “Introduction: Arab Liberalization and Democratization – the Dialectics of the General and the Specific”, in Bahgat Korany, Rex Brynen and Paul Noble (eds.) *Political Liberalization & Democratization in the Arab World – Comparative Perspective*, (London, Lynne Rienner Publishers, 1998): 1

⁶ In the context of this paper, when referring to the Middle East and the North African region Israel is not included.

factors that determine an earlier stage of this process dealing with the political liberalization which occurred in the six member states of the Gulf Cooperation Council: Saudi Arabia, Kuwait, Qatar, the United Arab Emirates, Oman and Bahrain.⁷ It will focus on the reforms that have been undertaken by their governments in order to establish domestic institutions, both at national or municipal levels, whose members are directly elected following national polls. The intriguing fact about these countries is that despite being considered reluctant to carry on democratization due to their lack of accountability towards the citizens who do not contribute to the state's finances⁸, the Gulf states undertook political liberalization reforms. In this context, the thesis aims at looking at the extent to which the external factors, more specifically the foreign direct investment (FDI) inflows and outflows, determines whether these countries become subjects to political liberalization reforms.

The hypothesis is that these highly rentier and authoritarian states have positively reacted to the demands and conditions determined by the inflows and outflows of FDI which played an important role in the authorities' decision to undertake political reforms. My argument is that the ruling class complied with the external requirements in order to attract more foreign capital, on the one hand, and to be accepted as investors on the international financial markets, on the other. Their positive reaction to this influence is determined by their interest to open their markets and to subscribe to the international economic integration process, a game whose rules they have to play. In this respect, the elements that form civil society, the army and business community are less influential than factors that are imposed

⁷ In article 4 of the GCC Charter it is stated that "the Cooperation Council shall be formed of the six states that participated in the Foreign Ministers' meeting held in Riyadh on 4 February 1981", namely Saudi Arabia, the United Arab Emirates, Oman, Bahrain, Qatar and Kuwait; from the Gulf Cooperation Council, <http://www.gccsg.org/eng/index.php?action=Sec-Show&ID=1>, accessed on April 20, 2010

⁸ Rex Brynen, Bahgat Korany and Paul Noble, "Introduction: Theoretical Perspectives on Arab Liberalization and Democratization", in Rex Brynen, Bahgat Korany and Paul Noble (eds.) *Political liberalization and Democratization in the Arab World: Theoretical Perspectives*, (London, Lynne Rienner Publishers, 1995): 15

by political economy which is determined by both domestic and international goals and aspirations.

For my research I used data (statistics, reports) provided by different international bodies such as the International Monetary Fund, the Arab Monetary Fund, the United Nations Conference on Trade and Development, institutions monitoring democratization in the Middle East such as the World Bank or Freedom House. Moreover, I took into consideration speeches and interviews of political leaders and key figures at domestic level, articles published in newspapers, both in the Arab world and abroad related to the developments concerning the electoral processes in the GCC countries.

Beside my personal interest in the Gulf region, choosing this particular area as the case study for my thesis was determined by the growing importance that these states play at regional and international levels. The Gulf region has been subject to extremely important changes starting from impressive economic development up to damaging wars, therefore an attentive look at these dynamics might help comprehend the rationale that governs the politics of the national leaderships regarding both domestic issues and their actions at international level.

In terms of this thesis' contribution, several goals are pursued. Firstly, democratization has become a major topic in Middle East studies only on the eve of the '90s,⁹ while most of the attention was paid to several countries from the Maghreb, namely Morocco and Tunisia, and the Mashreq, such as Egypt, Lebanon or Jordan.¹⁰ Up to that moment, during the late '80s, the US based Woodrow Wilson International Center for Scholars issued a four volume study¹¹ focusing on the transitions from authoritarian rule dealing exclusively

⁹ Tim Niblock, "Democratization: A theoretical and Practical Debate", *British Journal of Middle Eastern Studies*, vol. 15 (2), (Nov. 1998): 221

¹⁰ The same situation appears in Abdo Baaklini, Guilain Denoeux and Robert Springborg, *Legislative Politics in the Arab World* (London, Lynne Rienner Publishers, 1999)

¹¹ Guillermo O'Donnell, Philippe C. Schmitter, and Laurence Whitehead, (eds.) *Transitions From Authoritarian Rule: Comparative Perspectives* (vol. 1); *Transitions From Authoritarian Rule: Latin America* (vol. 2);

with Latin America and Southern Europe, neglecting the Middle Eastern perspective. As later discussed in the literature review chapter, when the topic of democratization was approached in the Middle East studies comprehensive works like the one edited by Bahgat Korany, Rex Brynen and Paul Noble in 1995¹² and continued in 1998¹³ neglected the Gulf region, paying attention only to Kuwait, the most obvious example of political liberalization reforms. By looking at all the GCC countries, this thesis proposes a comprehensive picture of the democratization process that occurs in the Gulf area, offering an insightful view of the current situation.

Secondly, by addressing the issue of political liberalization in the context of highly rentier countries, such as those from the GCC area, this thesis challenges Mahdavi's '70s rentier state theory¹⁴ which was further developed by Beblawi¹⁵ and Luciani.¹⁶ This theory's main assumption is that since the ruling classes are not dependent on the citizens' contribution to the state's finances, but on exogenous resources, they are unwilling to make any political reforms that might endanger their position. In this case the social contract is based on the concept "no taxation, no representation", unlike the West where taxation entitles the population to ask for their rights to representation as in the slogan "no taxation without representation."¹⁷ The perspective proposed tests this concept and aims to show that under the pressure of achieving international economic integration, the leaderships accept and allow, to a certain degree, the participation of citizens in policy making.

Transitions From Authoritarian Rule: Southern Europe (vol. 3); Transitions From Authoritarian Rule: Tentative Conclusions About Uncertain Democracies (vol. 4); (Baltimore : Johns Hopkins University, 1986)

¹² Brynen *et. al.*, 1995

¹³ Korany *et. al.* 1998

¹⁴ Hossein Mahdavi, 'The Pattern and Problems of Economic Development in Rentier States: The Case of Iran', in Michael Cook (ed.) *Studies in the Economic History of the Middle East*, (London: Oxford University Press, 1970): 428-468

¹⁵ Hazem Beblawi "The Rentier State in the Arab World" in Hazem Beblawi and Giacomo Luciani (eds.) *The Rentier State*, (London: Croom Helm [and] Istituto Affari Internazionali, 1987): 49-62

¹⁶ Giacomo Luciani, "Allocation vs. Production State: A Theoretical Framework", in Beblawi and Luciani (eds.) *op. cit.* 63-62

¹⁷ Brynen *et. al.*, 1995: 15

Thirdly, addressing international and domestic elements, the FDI inflows and outflows represented by the GCC based Sovereign Wealth Funds' financial implications in the international arena, it looks at the relations between all the actors. In this respect, it does not subscribe to what I consider a biased one way approach encouraged in the study of Middle Eastern international relations, in general, which deals with the policy orientation of foreign actors towards this region to the detriment of analyzing the domestic dynamics and “the interplay between national, regional and international variables.”¹⁸

Fourthly, by bringing into the discussion the influence of FDI inflows and outflows on political liberalization it goes beyond what several scholars consider *timeless convention topics*,¹⁹ such as the compatibility between Western type of democracy and the particularities of the Arab world, which type of democracy best suits the Arab world or whether the reforms undertaken are successfully implemented or shamefully fail to attain their goals. Despite the importance of these aspects, in this context it is considered that a strict focus on the openness of the GCC states to political liberalization reforms is essential and offers additional instruments to a more holistic understanding of democratization in the area. The main consideration for this approach is that in order to gain a clear insight view of the political liberalization process, one has to start from the causes and later on consider the effects, their durability and impact on the society, for example.

Finally, by focusing on these six case studies, the dissertation emphasizes the singularity of the GCC area. It does not follow the holistic approach which implies the unitary character of the whole Arab region based on similar linguistic, cultural, historical and social features,²⁰ a characteristic perceived as “a fictitious impression.”²¹ In this context, I

¹⁸ Fawas A. Gerges, “The Study of Middle East International Relations: A Critique”, *British Journal of Middle Eastern Studies*, vol. 18(2), 1991: 211

¹⁹ Ibid, 217

²⁰ For more on the Middle East perceived as a whole see Fawas A. Gerges, 1991: 208-220

²¹ Nikki R. Keddie, “Is there a Middle East?”, *International Journal of Middle East Studies*, vol. 4 (3), (July: 1973): 269

have to underline that my dissertation does not intend to propose a general model for the entire MENA region or other highly rent-seeking, authoritarian states from elsewhere since it acknowledges the particularity of the GCC states.

Regarding its structure my thesis proceeds in the following manner. Firstly, it brings into discussion the literature on democratization and political liberalization referring to the Middle East, in general, and the Gulf states, in particular. Also it approaches the theoretical assumptions of the rentier state concept as developed by the concerned literature thus establishing the theoretical framework to be applied to the case studies. Furthermore, by looking at the reforms carried out by the governments of the six GCC countries, the second chapter aims to show that a look at the political liberalization process is feasible. In the same section, the specific reforms undertaken locally by the ruling elites meant to increase the citizens' participation in policy-making by means of national polls in order to establish domestic institutions whose members are directly elected following the national voting process will be addressed. In this chapter a section that analyzes the level of FDI inflows and outflows in the GCC arena is included. Thus having clarified the existence of political liberalization and the level of FDI and its importance, the third chapter looks at the possible factors that can determine political liberalization (exogenous and endogenous like civil society, the army, business community and international political actors) examining how FDI inflows and outflows set the domestic agenda of the ruling class regarding the political reforms, thus overshadowing other potential sources of influence.

CHAPTER 1

THEORIZING POLITICAL LIBERALIZATION IN THE ARAB WORLD AND THE GAME OF THE RENTIER STATE

A. Porous or Impermeable to Political Liberalization? - Literature Review

Despite that for concepts regarding the emancipation of a modern nation, like *liberation* or *freedom*, the Arabic language has found appropriate translations without using neologisms rooted in Western languages, when it comes to *democracy* the extremely rich language of Islam has stumbled. It borrowed a Western word and arabised it thus enriching both the language and people's minds with a new concept, *al-dimuqrāṭiyyah*. This straight calque from the French *démocratie* and the English *democracy*, dating back from the 19th century,²² entered the region in the colonial context of the Arab renaissance, *an-nahda*, and during the creation of the independent Arab states.

Regardless of this relatively recent introduction of democracy's problematique in Arab Middle Eastern domestic affairs, the topic of Arab democratization was neglected by researchers without any explanations for this matter.²³ In the late '80s, the US based Woodrow Wilson International Center for Scholars issued a four volume study focusing on the transitions from authoritarian rule and dealing exclusively with Latin America and

²²Sadiki, 2004: 43

²³ Bahgat Korany, "Arab Democratization: a Poor Cousin?", *Political Science and Politics*, vol. 27 (3), (Sept., 1994): 511

Southern Europe, while MENA was only mentioned a couple of times.²⁴ In his 25 year overview of democratization studies of the Middle East, Niblock acknowledges that the interest for this field started in the early '90s being set "by the global trend towards democracy", namely the disintegration of the USSR and economic factors.²⁵ Also this attention increased due to initiation of political openness identified in the region (Yemen, Sudan, Egypt or Algeria) or consolidation of previous reforms (Lebanon or Kuwait) in the early '90s.²⁶ While Sadiki labels the recent interest for Arab democracy as a *discovery*, thus underlining its novelty in the academic environment,²⁷ Bellin considers that attention to this topic in the Arab context is the result of a "third wave contagion" referring to the democratization that began in the Latin American continent during the '70s.²⁸ Additionally, one can easily notice the early uneven attention received by the GCC area in comparison to the Maghreb and the Mashreq, where developments in Morocco, Tunisia, Egypt, Lebanon or Jordan were attentively followed and studied.²⁹ Yet, recently the domestic developments from the GCC region attracted more interest and several studies focused on these countries' internal dynamics towards democracy.³⁰

Since this scant attention, the question that comes to one's mind refers to the elements that determined this lack of interest. The first factor would be the inconsistency and/or the absence of democracy in the region, yet MENA "is in no way unique for its poor endowment

²⁴ O'Donnell *et. al.*, *op. cit.*, 1986

²⁵ Niblock, 1998: 222

²⁶ Brynen *et. al.*, 1995: 6

²⁷ Sadiki, 2004: 3

²⁸ Eva Bellin, "Coercive Institutions and Coercive Leaders", in Marsha Pripstein Posusney and Michele Penner Angrist (eds.) *Authoritarianism in the Middle East: Regimes and Resistance*, (London, Lynne Rienner Publishers, 2005: 21

²⁹ To name just a few works that were published in the '90s: Baaklini *et. al.*, (1999); Iliya Harik and Denis J. Sullivan (eds.) *Privatization and Liberalization in the Middle East*, (Indiana: Indiana University Press, 1992); and the already mentioned two volume comprehensive study edited by Brynen *et. al.*

³⁰ One of the most recent studies that paid exclusive attention to the Gulf region is Joshua Teitelbaum (ed.), *Political Liberalization in the Persian Gulf* (Columbia: Columbia University Press, 2009), or Tom Pierre Najem and Martin Hetherington (eds.), *Good Governance in the Middle East Oil Monarchies* (London/New York: Routledge, 2003)

with the requisite of democracy,”³¹ and these characteristics did not stop an in-depth analysis of Latin America or Eastern Europe. According to Brynen *et al*, the main reasons for which this topic was somehow excluded from the interests of scholarship lie in the fact that several other region-related issues attracted the preoccupation of the public, especially the Arab – Israeli conflict, or the situation was the result of “the general analytical weakness of Middle East studies.”³² The former reason brings into discussion the concept of *reductionism* characterizing the study of the Arab world and which emphasizes and promotes obsessive, “immutable essences and conventional stereotypes”³³ such as the Arab – Israeli conflict, as mentioned above, or Islamic related issues. Additionally, Sadiki identifies other factors like Orientalism’s approach that considers democracy irrelevant to the Arab world or the *policy orientation* of area studies which focused mainly on political elites’ behavior.³⁴

Starting from the ‘90s, this interest in the Arab democratization led to the creation of a body of literature which has approached highly varied issues and topics proposing different perspectives based on domestic realities, regional and international dynamics. Reviewing it, the main observation that I found worth underlining before going into further details is that, in most of the cases, both democracy and democratization are seen as a unitary phase without taking into consideration the possible stages that a nation-state has to undertake in order to be fully democratized. This might also explain the frequent complaints about the lack of improvement in democracy’s state of affairs in the region. Several studies make a clear distinction between *political liberalization* and *democracy*, the former being perceived as “the expansion of the public place through the recognition and protection of civil and political liberties,”³⁵ while the latter as a more developed stage where the actual participation of the

³¹ Bellin, 2005: 23

³² Brynen *et. al.*, 1995: 5

³³ Gerges, 1991: 217

³⁴ Sadiki, 2004: 3

³⁵ Brynen *et. al.*, 1995: 2

citizens takes place.³⁶ Others go even further and clearly underline that political liberalization and democracy are not synonymous since the first one “involves the institutionalization of civil and political freedoms”³⁷ while the second is not just the participation *per se*, but it also deals with the degree of citizens’ involvement and “the accountability and turnover of governing elites.”³⁸

For some authors, the concept of political liberalization is closely linked to *modernization* and *the political development* of a state which does not mean only gaining control over the environment, as Bill and Springborg define modernization,³⁹ but also the capacity of a system “to initiate, absorb and sustain continuous transformation.”⁴⁰ As seen in the case studies chosen for this thesis, the high level of modernity concerning IT, technology, architecture, financial system, construction innovations etc. shows that the citizens managed to conquer the physical environment, yet the reality proves that personal equality, political participation or social justice “are usually the last issues to be confronted.”⁴¹ Bill and Springborg consider that political participation which is strengthened by formal institutions, such as political parties and parliaments,⁴² affects in a direct manner the national power and authority structure of that society while the instruments available for attaining this purpose could be either system supportive or system challenging.⁴³

Thus using two different definitions, distinct scales of measurement and dissimilar expectations concerning democracy and political liberalization, engaging in the study of the latter in the MENA context no longer seems so hopeless. Such a study would tackle incipient signs of change that eventually, under the influence of domestic, regional and global actors,

³⁶ Ibid

³⁷ Korany and Noble, 1998: 1

³⁸ Ibid

³⁹ James A Bill and Robert Springborg, *Politics in the Middle East*, (Harper Collins College Publishers, 1994), 4th edition: 3

⁴⁰ Ibid, 7

⁴¹ Ibid, 8

⁴² Ibid, 20

⁴³ Ibid, 21

would entitle academics, policy makers and, last but not least, the general public, to reconsider the democratization of the Arab world, despite the acknowledgement of its length and costs.⁴⁴

Regarding the academic interest in the Middle Eastern democratization, one major preoccupations, a field to which this thesis also subscribes, was to identify the reasons that hinder this process, on the one hand, or make it effective, on the other. In the first case, the difficulty that characterizes the emergence and implementation of any reform that would eventually led MENA, in general, and the GCC area, in particular, closer to democracy was heavily debated. The lack of *porousness*, to use Katzenstein's concept,⁴⁵ is explained by using the cultural argument⁴⁶ on which Huntington elaborated in the early '90s. In his opinion, Islamic values are unable to accommodate the fundamental principles of democracy.⁴⁷ Under the same *cultural thesis* umbrella, it is necessary to include the perception that liberal democracy fails to attain its goals in the region due to its association to Western modes of thinking and behavior.⁴⁸

Another explanation for the Arab authoritarian regimes' robustness is the structural relationship existing between state and society.⁴⁹ In her study on Middle Eastern authoritarianism, Bellin considers that the failure of democratization is perpetuated by fragile civil society, an *empty shell* where labor union, NGOs or other associations are inefficient in championing democracy.⁵⁰ Luciani, while focusing on the Gulf bourgeoisie, argues that the middle class, generally perceived as a "key support of democracy", in this rentier setting is more likely to oppose any transformation since it has a lot to lose due to its financial

⁴⁴ Korany, 1994: 511

⁴⁵ Peter Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*, (Ithaca & London: Cornell University Press, 2005)

⁴⁶ Niblock, 1998: 223

⁴⁷ Samuel P. Huntington, "Democracy' Third Wave", *Journal of Democracy*, 2 (Spring 1991): 24

⁴⁸ Gudrum Kramer, "Liberalization and Democracy in the Arab World", *Middle East Report*, 174 (Jan-Febr: 1992): 23

⁴⁹ Niblock, 1998: 223

⁵⁰ Bellin, 2005: 22

dependence on the state.⁵¹ Consequently, this state-society relationship should be seen as a *corporatist arrangement* due to patronage, clientelism or welfare measures that characterize the Arab environment.⁵² Additionally, the strength of the Arab clan kinship, tribal relationship and sectarian loyalties are considered to justify the late “Middle Eastern democratic spring,”⁵³ since they inhibit a sense of common citizenship and emphasize the lack of “tradition for liberal tolerance of pluralism and dissent.”⁵⁴

Furthermore, the regional and international environments are also considered responsible for the Middle Eastern late democratization. The pattern of international influence, in Whitehead’s opinion, should have a positive impact on a country’s democratization since the peripheral societies’ aspiration is to *catch up with* or *fully belong to* those stable and prosperous communities representing the core of the system.⁵⁵ Yet, according to Brownlee or Bellin,⁵⁶ when it comes to the Arab Middle East the Western policy intentionally encouraged the maintenance of authoritarian regimes. For example, one should analyze the close relations that the US have with the Saudi authorities or the European Union’s soft tone towards the Tunisian or Egyptian ruling regimes despite the frequent accusations of human rights violations. Khalidi shares this opinion arguing that external intervention, either peaceful or violent, is “far from being the ideal recipe of the introduction of democracy in the Middle East.”⁵⁷

⁵¹ Giacomo Luciani, “Linking Economic and Political Reform in the Middle East: the Role of Bourgeoisie”, in Oliver Schlumberger (ed.) *Debating Arab Authoritarianism: Dynamics and Durability in Nondemocratic Regimes*, (Stanford: Stanford University Press, 2007), 166

⁵² Nicola Pratt, *Democracy and Authoritarianism in the Arab World*, (London, Lynne Rienner Publishers, 2007), 6

⁵³ Marsha Pripstein Posusney, “The Middle East’s Democracy Deficit in Comparative Perspective”, in Pripstein Posusney and Penner Angrist (eds.), *op. cit.*, 2005: 1

⁵⁴ Brynen *et. al.*, 1995: 7

⁵⁵ Laurence Whitehead, “International Aspects of Democratization”, in O'Donnell, Philippe C. Schmitter and Laurence Whitehead (eds.), *Transitions From Authoritarian Rule: Comparative Perspectives*, (Baltimore: Johns Hopkins University, 1986): 9

⁵⁶ Jason Brownlee, “Political Crisis and Restabilization: Iraq, Libya, Syria, and Tunisia”, in Pripstein Posusney and Penner Angrist (eds.), *op. cit.*, 2005: 43-62, and Bellin, 2005: 21-42

⁵⁷ Rashid Khalidi, *Resurrecting Empire: Western Footprints and America’s Perilous Path in the Middle East*, (Boston: Beacon Press, 2005): 55

Gausse identifies three regional disincentives: the prevalence of interstate conflict, the importance of transnational ideologies and the availability of exogenous rents.⁵⁸ The economic argument – which has a particular relevance for this thesis – seems to become the linchpin of several studies arguing that external rent “contributed to the aggrandizement of the state and its political oligarchic patrons,”⁵⁹ thus offering the elite the possibility *to buy out* the groups that might articulate any demands for change.⁶⁰ The idea that economic development, both through reforms and liberalization, is in close connection with political liberalization is widely accepted, as Luciani acknowledges.⁶¹ Yet, he mentions that the validity of this concept in the Middle East setting is questionable since the rentier *bakshish state*⁶² uses its distributive role in order to consolidate its legitimacy.⁶³

Despite these numerous motives used to explain the authoritarian robustness of the Arab political environment, the fact that several democratization reforms have been implemented indicates the need to reconsider the concerned literature. Although explaining the implementation of political liberalization is not as developed as the literature focusing on disincentives, it leads to several important factors. One is the lack of exogenous rents, as in the case of Morocco.⁶⁴ Its weak dependency on external financial sources determines increased state accountability to the citizens since they represent an important source of revenues. Moreover, Rustow’s background condition for cementing the road to democracy, namely national identity,⁶⁵ is taken into consideration when it comes to Kuwaiti political liberalization since the government was reassured that “opening up the political process

⁵⁸ F. Gregory Gausse III, “Regional Influences on Experiments in Political Liberalization in the Arab world”, in Brynen *et. al.*, *op. cit.*, 1995: 293

⁵⁹ Larbi Sadiki, “Towards Arab Liberal Governance: From the Democracy of Bread to the Democracy of the Vote”, *Third World Quarterly*, vol. 18 (1) (March, 1997): 133

⁶⁰ Jill Crystal and Abdullah al-Shayej, “The Pro-democratic Agenda in Kuwait: Structures and Context”, in Korany *et. al.*, *op. cit.*, 1995: 108

⁶¹ Luciani, 2007: 161

⁶² Korany, 1994: 511

⁶³ Luciani, 2007: 161

⁶⁴ Gausse III, 1995: 296

⁶⁵ Dankwart Rustow, “Transitions to Democracy: Towards a Dynamic Model”, *Comparative politics*, vol. 2 (3), (April, 1970), 350

would not call into question the existence of the state or the existing political system.”⁶⁶ Furthermore, the emergency and development of civil society in the region is also seen as an important factor that leads to distinct moves on the path towards political liberalization.⁶⁷

Democratization’s complexity in the region is shown once more by identifying similar factors for both encouraging and emasculating political liberalization. In this context, using the rentier state model and emphasizing the role of exogenous financial resources in order to explain the political reforms in the GCC area should not be a surprise.

B. The Rentier State Theory – Still a Viable Framework?

Considering that in the last decade the oil rich Gulf monarchies aimed at developing other sectors that might financially contribute to their welfare, one might argue that the rentier state theory, developed in the ‘70s by Mahdavi in the context of the pre-revolutionary Pahlavi Iran,⁶⁸ might be out of fashion or an inappropriate instrument to address the current realities characterizing these states. Yet, in my opinion, based on the figures published by the GCC Secretariat General regarding the total revenues and oil revenues in the member states, the use of this theory is still an appropriate tool to analyze the dynamics of the region since the authorities’ efforts to develop new sectors still draw upon oil revenues which surpass 70% in most of the GCC countries (see **table 1** below).⁶⁹

⁶⁶ Gausse III, 1995: 297

⁶⁷ Kramer, 1992: 23

⁶⁸ Mahdavi, 1970: 428-467

⁶⁹ The Secretariat General of The Gulf Cooperation Council, *Statistic Bulletin: Volume Seventeen*, (Riyadh: The Gulf Cooperation Council, 2008), 192

Table 1. Total public revenues and oil revenues (based on the GCC Secretariat General information)⁷⁰

COUNTRY		2007	2006	2005	2004
UAE	Total revenues	-----	54594.95	43744	25818
	Oil revenues	-----	43975.49	30348	19979
	Percentage	-----	81%	70%	77%
BAHRAIN	Total revenues	5416.4	4892.2	4445.21	3458.5
	Oil revenues	4336.3	3767.5	3365.15	2510.15
	Percentage	80%	77%	76%	73%
SAUDI ARABIA	Total revenues	171413.3	179648.5	150489.3	104610.9
	Oil revenues	149916.3	161192	134544	88000
	Percentage	87.5%	90%	89.5%	84%
OMAN	Total revenues	15398.2	12951.63	11851.5	10565.41
	Oil revenues	11675.2	9985.44	9367.75	8265.28
	Percentage	76%	77%	79%	78%
QATAR	Total revenues	32360	23644	18045	15127
	Oil revenues	19436	15227	12742	9978
	Percentage	60%	65%	71%	66%
KUWAIT	Total revenues	-----	60458	51367	34869.1
	Oil revenues	-----	48665	40273	26015.1
	Percentage	-----	80.5%	78.4%	74.6%

Mahdavi's concept of *rentier state* was used and consequently developed as a framework for many approaches mainly regarding the Arab world even if it "is not quite limited to the Middle East, though most countries of the region happen to belong to this category."⁷¹ According to his original work, rentier states are those that "receive on a regular basis substantial amounts of external rents."⁷² As one of the promoters of the Arab rentier model, Luciani argues that the oil rent represents the key element to understand Arab realities⁷³ and "a common tool in the interpretation of the political dynamics of oil producing countries."⁷⁴ The category of external rents include, besides oil, any rentals paid by foreign individuals, governments, concerns to similar entities such as payments for ships' passage, fees paid to transit a country, salaries of nationals living abroad, payments for foreign

⁷⁰ Ibid

⁷¹ Mahdavi, 1970: 428

⁷² Ibid

⁷³ Giacomo Luciani, "Resources, Revenues, and Authoritarianism in the Arab World: Beyond the Rentier State?", in Brynen *et. al.*, *op. cit.*, 1995: 211

⁷⁴ Giacomo Luciani, "Oil and Political Economy in the International Relations of the Middle East", in Louise Fawcett (ed.) *International Relations of the Middle East*, (Oxford: Oxford University Press, 2005), 90

military basis etc.⁷⁵ In more general terms, rent is defined as any income that originates from non-productive activities of the concerned emit.⁷⁶

The attention paid in academia to the impact of external rents on the domestic dynamics and the different types of rentals determined a clear division between *rentier states*, where the revenues are very substantial and accrue directly to the states as in the case studies of this thesis, and the *rentier economies* where the percentage of external rentals is lower and do not go directly to the central authorities, as in the case of Jordan.⁷⁷ In Beblawi and Luciani's understanding, this latter case emphasizes the importance of the economy, since the state,⁷⁸ defined in Mahdavi's article, implies the entire social structure.⁷⁹

Working on MENA and looking at the percentage that exogenous sources represent for state revenues, Glasser identifies three types of states: *minimally rentier* such as Morocco with less than 20% external revenues, *semi-rentier* like Egypt which accumulates around 45% from external sources and finally the *highly rentier* Gulf region where at least 75% is represented by out-side finances.⁸⁰

As highly rentier states, the Gulf oil monarchies have particular specificities concerning the political class whose behavior is strongly linked and determined by the external rentals generated by oil and gas. The Gulf elites tend to concentrate in their hands the entire economic wealth of the state,⁸¹ which results in the capacity of those *sultanistic regimes*⁸² to develop a particular type of leverage on the lower classes based on what I would

⁷⁵ Mahdavi, 1970: 428 and Laurie A. Brand, "Economic and Political Liberalization in a Rentier Economy: the Case of the Hashemite Kingdom of Jordan", in Harik and Sullivan (eds.), *op. cit.*, 1992: 168

⁷⁶ Michel Chatelus and Yves Schemeil, "Towards a New Political Economy of State Industrialization in the Arab Middle East", *International Journal of Middle East Studies*, vol. 16 (2), (May, 1984), 255

⁷⁷ Brand, 1992: 168

⁷⁸ Hazem Beblawi and Giacomo Luciani, "Introduction" in Beblawi and Luciani (eds.), *op. cit.*, 1987: 11

⁷⁹ Douglas A. Yates, *The Rentier State in Africa: Oil Rent Dependency and Neocolonialism in the Republic of Gabon*, (Trenton NJ: Africa World Press, 1996), 13

⁸⁰ Bradley Louis Glasser, *Economic Development and Political Reform: the Impact of External Capital on the Middle East*, (Cheltenham: Edward Elgar Publishing Limited, 2001), 12-13

⁸¹ Yates, 1996: 33

⁸² Andrew Rathmell and Kirsten Schulze, "Political reform in the Gulf: the case of Qatar", *Middle Eastern Studies*, vol. 36 (4), (Oct., 2000), 48

call *‘alāqāt al-khubz* (bread liaison), to paraphrase Sadiki’s concept of *dimiqratiyyat al-khubz* (bread democracy).⁸³ This *bread liaison* underlines the silent pact between the elites and the lower classes during which the state, in order to reign untroubled and uncontested and to be provided with political loyalty, refrains from applying any coercive or brutal measures but is willing to offer different socio-economic incentives to the population financed by the external rents.

In this context, since the natural resources, either gas or oil, support the state through the revenues accruing from abroad, the ruling class becomes independent of its citizens.⁸⁴ Going even further and considering that no more than 3% of the available domestic work force actively contribute to the production and distribution of the oil wealth,⁸⁵ I would argue that in these cases the citizens of these states are a *non-participative entity* since their contribution (taxes) to the country’s financial situation is extremely low or even absent. Therefore, the state responds to the pressure of the external market which provides the source of its wealth and not to the citizens thus transforming the Western capitalist slogan, “no taxation without representation” into “no taxation, no representation.”⁸⁶ The state’s access to exogenous financial resources imposes a special social contract that cuts any potential leverage of the population over the government. The ruling class “embarks on large public expenditure programs,”⁸⁷ or provides for a large amount of subsidies starting from fuel to sugar and bread creating “the most envied social welfare systems.”⁸⁸

In this case, since the population has no leverage over the state, the domestic leadership is not accountable thus developing an apparatus which continues to be in power without seeking legitimacy by means of democratic representation. All these elements

⁸³ Sadiki, 1997: 135

⁸⁴ Pripstein Posusney, 2005: 6

⁸⁵ Brand, 1992: 168

⁸⁶ Brynen *et. al.*, 1995: 15

⁸⁷ Mahdavi, 1970: 432

⁸⁸ Korany, 1994: 511

converge towards the development of an authoritarian regime where “the state is viewed as the property of the ruler and the distributive function which is played in order to maintain a desired balance in the segmented society is understood as the essential function of the government.”⁸⁹ Concerning Gulf authoritarianism two main features might be attributed to it, namely *stubbornness*⁹⁰ and *robustness*.⁹¹ The obstinacy and strength of the ruling class are conditioned by the precarious fiscal health of the state, the availability of international support, the level of institutionalization, the degree of popular mobilization or the choices made by the political elites within the authoritarian regimes, and the availability of exogenous rents for financing state budgets.⁹²

Considering the elements presented so far two early conclusions could be reached based on rentier state theory. Firstly, the rents generated by oil and gas strengthen the position of the state and its apparatus. Since they do not depend on collecting financial resources from the population the widely accepted conclusion is that “the distribution of wealth has disguised the absence of political participation and has cushioned popular discontent,”⁹³ or more strongly underlined by Luciani who argues that the ruling class of the oil exporting countries establish their legitimacy “on their distributive role and do not need democratic legitimation.”⁹⁴

Secondly, the rentier state theory underlines the importance of external factors, both financial and political since decision makers “are much less constrained by the interests of domestic actors.”⁹⁵ This fact contradicts Smith’s opinion that the power of southern affairs is

⁸⁹ Luciani, 2005: 92

⁹⁰ Pripstein Posusney, 2005: 3 and Gausse III, 1995: 293

⁹¹ Bellin, 2005: 27

⁹² See Pripstein Posusney, 2005: 2-5, and Bellin, 2005: 27-28

⁹³ Bill and Springborg, 1994: 28

⁹⁴ Luciani, 2007: 161

⁹⁵ Brynen *et. al.*, 1995: 15

underestimated when it comes to facing the international system⁹⁶ while it builds upon Stallings' argument that international factors, in this case external revenues, "are crucial in explaining broad shifts in policy."⁹⁷ Despite the fact that she draws upon an important body of dependency literature, I consider that the three international factors she identifies as capable of pressuring the domestic setting (international markets, the linkage between the domestic and international groups, both economic and political, and finally the leverage or the power relations existing between the external actors and the state' officials) could be considered also in the case of political liberalization in the rentier Gulf setting.⁹⁸

Following the introduction of the main approaches concerning the literature on Arab Middle Eastern democratization and rentier state theory, the next chapter will look into the reforms undertaken by the GCC governments and the FDI inflows and outflows in relation with the Gulf states.

⁹⁶ Tony Smith, "The Underdevelopment of Development Literature: the Case of Dependency Literature", in Kohli A. (ed.) *The State and Development in the Third World*, (Princeton: Princeton University Press, 1991), 271

⁹⁷ Barbara Stallings, "International Influence on Economic Policy: Debt, Stabilization and Structural Reform", in S. Haggard and R. R. Kaufman (eds.) *The politics of Economic Adjustment: International Constrains, Distributive Conflicts and the State*, (Princeton: Princeton University Press, 1992): 43

⁹⁸ Ibid, 48

CHAPTER 2

HOW FAR THE GCC MEMBER STATES WENT: POLITICAL LIBERALIZATION REFORMS AND FDI

Having established the theoretical framework and the perspectives from which the process of political liberalization in the GCC member states has been approached, firstly this chapter looks into the development of these countries' participatory character while secondly it deals with the growth of FDI (inflows/outflows) in order to understand the relation between those two elements and determine the degree of influence of the latter over the former.

A. *Kalam fadi*⁹⁹ or signs of political liberalization?

As shown in the previous chapter, the oil revenues indicate that the GCC states fulfill Gausser's conditions to fit in the category of *highly rentier* states,¹⁰⁰ despite their search for alternative sources to maintain or increase their current wealth. This rentier feature was repeatedly used as an argument against their capability to foster any reforms¹⁰¹ leading towards political liberalization and, eventually, to advance in the democratization process

⁹⁹ Empty words (arabic)

¹⁰⁰ Glasser, 2001: 12-13

¹⁰¹ Brynen *et. al.*, 1995: 15; Luciani, 2007: 161; Pripstein Posusney, 2005: 6

since “by establishing a distributive type of economy, they are less in favor of the requests for democracy.”¹⁰²

Yet, the last two decades witnessed incipient changes, though very important, in the way these states pursued their policies and encouraged citizens’ participation. These developments inspired hope both at domestic and international levels, determining the *New York Times* to consider the 2005 municipal elections held in Saudi Arabia, for example, an exercise that “may end up being more than symbolic.”¹⁰³ To understand the dynamics of these rentier states, this chapter uses as a starting point the analysis provided by different institutions, such as the *World Bank* or *Freedom House*, and looks into the measures taken by the GCC ruling regimes to institutionalize the participatory nature of their states.

From the ‘90s, these states managed to show their democratic aspirations, some more actively than others, thus being regarded as “the only region in which some progress has been made.”¹⁰⁴ This positive trend was acknowledged by *Freedom House* which, focusing on political rights and civil liberties, granted the status of *partially free* to Bahrain and Kuwait, two of the 6 MENA countries receiving this qualification, in its 2009 report.¹⁰⁵ Moreover, based on subjective information reflecting the opinion of a large pool of stakeholders, which include interviews with thousands of families, firm survey respondents, analysis from private sector experts, NGOs or agencies working in the public sector, the yearly *World Bank* report on governance indicators shows that the Gulf region has been the subject to a generally

¹⁰² Ghassan Salamé, “Sur la Causalité d’un Manque: Pourquoi le Monde Arabe N’est-il Donc Pas Démocratique?” (Regarding the Cause of an Absence” Why the Arab World Is Not Democratic?”, *Revue Française de Science Politique*, vol. 41 (3), 1991: 323 (*my own translation*)

¹⁰³ Neil MacFarquahar, “Asterisk Aside, First National Vote for Saudis”, *the New York Times*, February 10, 2005, http://www.nytimes.com/2005/02/10/international/middleeast/10saudi.html?_r=1, latest accessed May 6, 2010

¹⁰⁴ Teitelbaum, 2009: 4

¹⁰⁵ Freedom House, *Freedom in the World* 2009, <http://www.freedomhouse.org/template.cfm?page=478&year=2009>, last access on May 14, 2010

positive trend.¹⁰⁶ Starting from 1996 up to 2008, the six indicators of governance¹⁰⁷ identified by this institution, namely *voice and accountability*, *political stability and absence of violence/terrorism*, *government effectiveness*, *regulatory quality*, *rule of law*, and *control of corruption*, estimate a steady improvement in all the GCC countries (see **table 2** below).

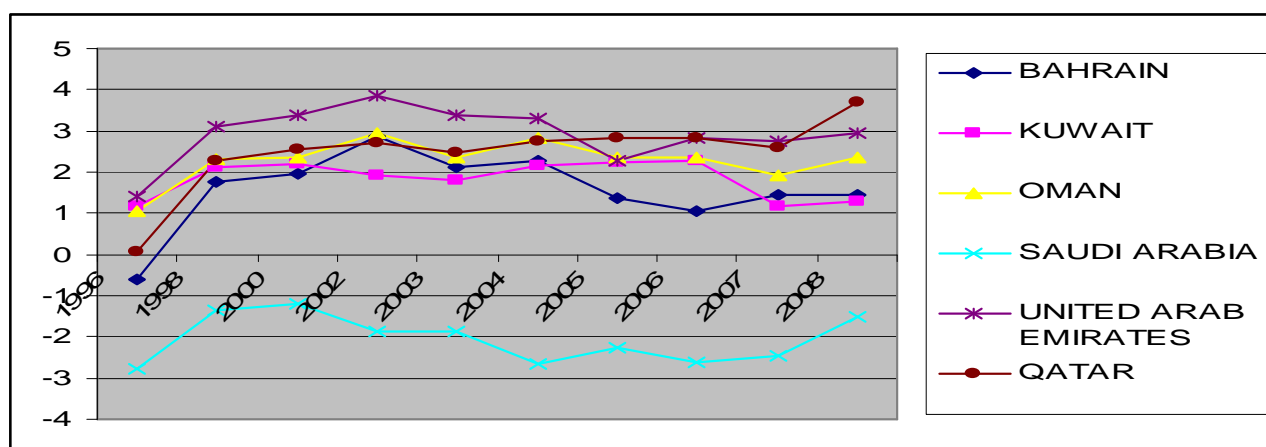
In Saudi Arabia, for example, despite the fact that it scores below zero, in recent years the governance indicators show a slight improvement, a timid, yet constant, tendency to reach the zero line, from -2.77 in 1996 to -1.51 twelve years later. In Qatar, except the years 2003 and 2007 when the indicators show a slight depreciation in terms of governance, the overall situation is positive. It is worth mentioning that this state has the most significant improvement: from 0.08 in 1996 up to 3.68 in 2008. Regarding Kuwait, in recent years, its situation has been negatively affected by political instability, leading to a backlash in terms of governance. Yet, the overall situation is positive since in 1996 Kuwait scored 1.10 while in 2008 it reached 1.47. Furthermore, the overall positive trend can be confirmed once more when looking at each indicator separately. The *voice and accountability* indicator improved from -6.25 in 1996 up to -4.17 in 2005, while the *effectiveness* of these governments reached 2.51 in 2008 from an initial 1.61 in 1996. The highest improvement could be noticed regarding the *political stability* indicator which reached 2.59 in 2008 from 0.69 in 1996. Another way to underline the positive trend in the GCC area is by looking at the situation in other highly rentier countries such as Venezuela. Based on the same indicators, for the period 1996 and 2008 there is no sign of positive improvement since the indicators fall from -3 down to -6.86.¹⁰⁸

¹⁰⁶ Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, "Governance Matters VIII, Aggregate and Individual Governance Indicators, 1996–2008", *Policy Research Working Paper 4978*, World Bank, June 2009, <http://info.worldbank.org/governance/wgi/index.asp>, last accessed February 20, 2010

¹⁰⁷ The choice of these indicators is motivated by the fact that they focus both on the elites and the way they rule the country and the regular citizen

¹⁰⁸ Kaufmann *et. al.*, June 2009

Table 2: Positive governance trends in the GCC area (based on the World Bank Indicators)¹⁰⁹



Looking at these data, it is worth mentioning that none of the six GCC countries experienced severe drawbacks and each of them managed to never return to the 1996 situation. Despite this obvious and encouraging conclusion, the governance indicators decrease in the last years is due either to regional and domestic factors such as terrorist threats that pushed for more drastic measures in terms of security witnessed in Saudi Arabia, Bin Laden's country of origin, the conflict in Yemen, Iran's support for the *Shia*' minorities in these *Sunni* led countries, or the very recent political instability in Kuwait which determined the government's resignation. Moreover, since those countries are so interconnected economically, financially and in socio-cultural terms and also due to their belonging to the same organization, the Gulf Cooperation Council, any internal distress is easily exported to the neighboring states having the effects of a snowball.

Having this background and general perspective, by looking at the particular measures undertaken by the GCC regimes will provide a more comprehensive picture of the domestic and regional dynamics concerning the institutionalization of citizen's participation in the political process. Firstly, it is worth mentioning that the concept of political participation is

¹⁰⁹ Ibid

not new in the GCC area, despite being considered a new means to politically reform the state. Regardless of the fact that, along with the UAE, Saudi Arabia is considered an absolutist monarchy,¹¹⁰ interest in citizens' political participation dates back to the Kingdom's founder, Abdul-Aziz al-Saud, who introduced elections for the *Majlis ash-Shura* (Consultative Council) and the municipal councils, to be abolished under King Faisal during the 1950s.¹¹¹ Since the Saudi experience was unable to start a tradition of political participation, Kuwait is portrayed as the only country among the GCC group that experienced participatory democracy before the 1980s¹¹² and held its first legislative elections in January 1963.

Furthermore, the strategy adopted by the GCC ruling classes was to establish the necessary political institutions as in the case of Bahrain, Saudi Arabia or Oman. In Bahrain, the top-down reform process, significantly promoted since King Hamad's accession in 1999,¹¹³ started with the 2001 National Action Charter. Paving the way for the 2002 Constitution, the Charter divided the legislature body into *Majlis an-Nuwwab* (Chamber of Deputies) and the 1993 already established *Majlis ash-Shura* (Consultative Council). *Majlis an-Nuwwab*, according to article 56 of the 2002 Constitution, "comprises forty members elected by direct, secret general ballot in accordance with the provisions of the law," while *Majlis ash-Shura* is made of 40 members appointed by the king.¹¹⁴ Moreover, in the context of the 1990 Kuwaiti crisis and liberals' pressure, the Saudi king launched a set of reforms¹¹⁵ establishing the first modern national consultative body, *Majlis ash-Shura*, in August 1993.

¹¹⁰ Michael Herb, "Princes, Parliaments and the Prospects for Democracy in the Gulf", in Pripstein Posusney and Penner Angrist (eds.), *op. cit.*, 2005: 171

¹¹¹ Anoushiravan Ehteshami and Steven Wright, "Political Change in the Arab Oil Monarchies; From Liberalization to Enfranchisement", *International Affairs*, vol. 83 (5), 2007: 928

¹¹² Khaldoun Al-Naqeeb, "How Likely is Democracy in the Gulf?", in John W. Fox, Nada Mourtada – Sabbah and Muhammed al-Mutawa (eds.) *Globalization and the Gulf*, (London/New York: Routledge, 2006), 132

¹¹³ J.E. Peterson, "Bahrain: Reform – Promise and Reality", in Teitelbaum (ed.) *op. cit.*, 2009: 169

¹¹⁴ Constitution of the Kingdom of Bahrain, http://www.servat.unibe.ch/law/icl/ba00000_.html, last access on May 10, 2010

¹¹⁵ Pascal Ménoret, "The Municipal Elections in Saudi Arabia 2005: First Steps on a Democratic Path", *Arab Reform Brief*, Arab Reform Initiative, 27 December 2005, <http://arab-reform.net/spip.php?article1>, last access on May, 11, 2010

Although “a reform-oriented forum which ... will serve as the ideal sounding board for the testing of future reform plans, and possibly acting as the ideal vessel for their introduction as well,”¹¹⁶ its members are currently appointed by the King from a national list of candidates from all strata of society. Furthermore, in Oman, considered in need of substantial forms “to reach the point where Kuwait is today,”¹¹⁷ two bodies with limited powers were created in 1991. *Majlis al-Dawla* (the Upper Chamber) consists of 71 members appointed by the monarch, while *Majlis al-Shura* (the Lower Chamber or Consultative Council) is made of 84 members elected by popular vote.

In the case of Qatar, the strategy was different and led to reforming the already existing institutions. Article 77 of the 2005 Qatari constitution¹¹⁸ stipulates that *Majlis ash-Shura* (Consultative Council) will consist of forty-five members, thirty of whom will be elected by direct, general secret ballot, while the Emir will appoint the remaining fifteen members from amongst the ministers.¹¹⁹

Particular attention should be paid to Kuwait where, despite the difficulties that it had to face following Saddam’s invasion in 1990, the ruling family did not suspend the already institutionalized electoral process and *Majlis al-Umma* (National Assembly). Regardless of the increased powers that *Majlis al-Umma* can exercise over the government and its composition,¹²⁰ which in numerous cases led to long-term political crisis, the Al-Sabah family did not manage to impose its intention to limit its authority and in October 1990 even restored the 1962 constitution. In contrast, one can situate the UAE whose 40 seat National Federal Council has undergone very few changes. The current President, Sheikh Khalifa,

¹¹⁶ Anoushiravan Ehteshami, “The Politics of Participation in the Oil Monarchies”, in Najem and Hetherington (eds.) *op. cit.*, 2003: 76

¹¹⁷ Ibid, 80

¹¹⁸ CIA The World Factbook, *Qatar*, <https://www.cia.gov/library/publications/the-world-factbook/geos/qa.html>, accessed on April 3, 2010

¹¹⁹ The Permanent Constitution of the State of Qatar, <http://www.diwan.gov.qa/english/qatar/constitution.htm#6-4-3>, accessed on April 3, 2010

¹²⁰ Herb, 2005: 176

decided that the members of the Council would be elected by a reduced Electoral College system.

Thus having established the framework and the institutions subject to democratic reforms and also object of citizens' political participation, the ruling regimes moved forward and organized elections, either concerning municipal or national bodies. In Bahrain the process of "expanding the margins for formal and informal political participation"¹²¹ took place for the first time since 1957 during the 2002 municipal elections. The voters were called again the same year for parliamentary elections¹²² which attracted for the first round 53% of voters, a tendency which increased in 2006 up to 72%.¹²³ In Saudi Arabia the first modern elections were held for half of the municipal councils in February and April 2005,¹²⁴ following the 2003 Council of Ministers' decision which stated that the aim is to "broaden the participation of citizens in administrating local affairs by means of elections and to revitalize Saudi Arabia's municipal councils."¹²⁵ The slowness of these developments determined Prince Talal to declare to the *Financial Times* that "the majority in Saudi Arabia prefers gradual steps towards a democratic life."¹²⁶

Similar developments can be noticed in the UAE which, since it is portrayed as the "pioneer of post-oil, sustainable development strategies,"¹²⁷ it focuses firstly on economy and only secondly on politics. The 6.689 members of the Electoral College, less than 3% of those eligible to vote, were nominated by the rulers of the seven emirates to vote in the December

¹²¹ Katja Niethammer, "Voices in Parliament, Debates in Majlis, and Banners on Streets: Avenues of Political Participation in Bahrain", *EUI Working Papers*, no 27, (Florence: European University Institute, 2006): 2 www.eui.eu/RSCAS/WP-Texts/06_27.pdf, last accessed March 22, 2010

¹²² The next elections will be held in 2010

¹²³ Ehteshami and Wright, 2007: 920

¹²⁴ Ibid, 928

¹²⁵ Ménoret, 2005

¹²⁶ Roula Khalaf, "A Wind of Change Must Rise in Riyadh, Says Prince Talal", *Financial Times*, 30 January 2002

¹²⁷ Christopher M. Davidson, "The United Arab Emirates: Economy First, Politics Second", in Teitelbaum (ed.), *op. cit.*, 2009: 223

2006 elections for half of the National Federal Council seats.¹²⁸ The rest of the members are appointed by the rulers of all seven emirates. In Qatar, the high level of overall wealth¹²⁹ is considered to be a barrier for any political change since its citizens are ‘notoriously politically apathetic given the comfortable economic position they enjoy.’¹³⁰ Yet, preparations are currently underway for a separate election law since article 78 of the Constitution stipulates that “the system of election shall be determined by law in which the conditions and procedure of nomination and election are specified.”¹³¹ However, the first electoral experience took place in March 1999 and was organized for the 1997 created Central Municipal Council following the Amir’s decision.¹³² Elections were held again four years later, according to the law, thus determining critics to consider this unprecedented *fair* and *honest* event as a “significant step towards democracy.”¹³³

In Oman, despite the highly criticized state control over local institutions, the regional events such as the early ‘90s Gulf War, the events in Central and Eastern Europe, the economic goals, the rise of Islamist opposition and the international pressure, opened the authorities towards political reforms.¹³⁴ The first partial elections for *Majlis al-Shura* took place in 1997 and 2000, and by 2003 the right to vote was extended to all adult nationals.¹³⁵ Furthermore, following the Qatari example where women were allowed to stand for elections and vote since 1999,¹³⁶ female participation was encouraged and two women out of 32 that stood for the 2003 elections were elected to this body.¹³⁷

¹²⁸ CIA The World Factbook, *The United Arab Emirates*, <https://www.cia.gov/library/publications/the-world-factbook/geos/ae.html>, accessed on April 4, 2010

¹²⁹ According to the CIA World Factbook, Qatar’s real growth rate was estimated to reach 9,20% in 2009. <https://www.cia.gov/library/publications/the-world-factbook/geos/qa.html>, accessed on April 3, 2010

¹³⁰ Ehteshami and Wright, 2007: 921

¹³¹ The Permanent Constitution of the State of Qatar

¹³² Ehteshami and Wright, 2007: 921-922

¹³³ Elisheva Rosman-Stollman, “Qatar: Liberalization as Foreign Policy”, in Teitelbaum (ed.), *op. cit.*, 2009: 192

¹³⁴ Abdullah Juma Al-Haj, “The Politics of Participation in the Gulf Cooperation Council States: The Omani Consultative Council”, *Middle East Journal*, vol. 50 (4), (Autumn, 1996), 560

¹³⁵ Uzi Rabi, “Oman: Say Yes to Oman, Say No to the Tribel”, in Teitelbaum (ed.), *op. cit.*, 2009: 213

¹³⁶ Davidson, 2009: 199

¹³⁷ Ehteshami and Wright, 2007: 925

As the most experienced Gulf country regarding its participatory nature, Kuwait continued its political liberalization process after the defeat of the Iraqi army by the Western led forces as promised by the Emir¹³⁸ and elections took place in 1992. Ever since its first legislative elections in January 1963, consensus over the importance of this process and the institutions envisaged was reached both by the population, whose participation to the electoral process increased from 66% in 1967 to 83% in 1996, and the political class which constantly defended the participatory character of Kuwaiti politics.¹³⁹

The institutionalization of the electoral process increased also due to the fact that it was recognized both by the state and citizens as the beginning of a reformist period.¹⁴⁰ In Oman the institutionalized participatory nature of politics is reflected by a switch in the way the electoral process is referred to from *nominations and choice (tarsheeh wa ikhriyar)* to *intikhab* (elections).¹⁴¹ Moreover, the commitment to increase citizens' participation in Qatar, Kuwait or Bahrain where the regimes respected the election schedules and did not cancel the processes despite internal or regional difficulties paved the way for the political liberalization's strengthening.

B. Foreign Direct Investment – A Two Way Street

The interest in MENA FDI (inflows/outflows) lagged behind due to the Arab states' poor performance in this sector, especially in terms of financial and equity markets.¹⁴² This situation is partially true if the main focus is on FDI inflows, yet it differs when it comes to FDI outflows.

¹³⁸ Ibid, 923

¹³⁹ Crystal and al-Shayehji, 1998: 101-126

¹⁴⁰ Ménoret, 2005

¹⁴¹ Ehteshami and Wright, 2007: 925

¹⁴² Hossein Askari, *Middle East Oil Exporters: What Happened to Economic Development?*, (Edward Elgar Publishing Limited, 2006), 205; Ayça Tekin-Koru, "Unexplained Differences in the FDI Receipts of MENA", in Serdar Sayan (ed.) *Economic Performance in the Middle East and North Africa: Institutions, Corruption and Reform*, (London/New York: Routledge, 2009), 120-135

On the one hand, despite the global growth of FDI inflow by 600% during the ‘90s,¹⁴³ from which 44% reached the developing countries,¹⁴⁴ MENA witnessed less interaction with foreign investors. Perceived both as financial actors and channels for “transfer of technology and management skills, upgrading to international best practices, improved market access and the like,”¹⁴⁵ the foreign investors focused more on the GCC countries, the only *star performers*¹⁴⁶ in this field, since most FDI inflows went to the oil and gas sector. This trend was conformed by the data provided both by UNCTAD¹⁴⁷ (see **table 3** below) or the Arab Monetary Fund¹⁴⁸ (see **table 4** below). As shown in both tables the annual average of FDI inflows from gross fixed capital formation increased considerably in the last years, 2006-2008, compared to the ‘90s. The only exception is Kuwait which witnessed a lack of interest from foreign investors probably due to its internal political instability.

Table 3. Contribution of annual average of FDI inflows to gross fixed capital formation¹⁴⁹ (based on UNCTAD data)

Country	The ‘90s	2006-2008
Bahrain	44%	50%
Kuwait	1.4%	0.5%
Oman	4%	61.3%
Qatar	7%	23%
Saudi Arabia	0.9%	36%
UAE	0.2%	34%

¹⁴³ Askari, 2006: 197

¹⁴⁴ Tekin-Koru, 2009: 120

¹⁴⁵ Askari, 2006: 197

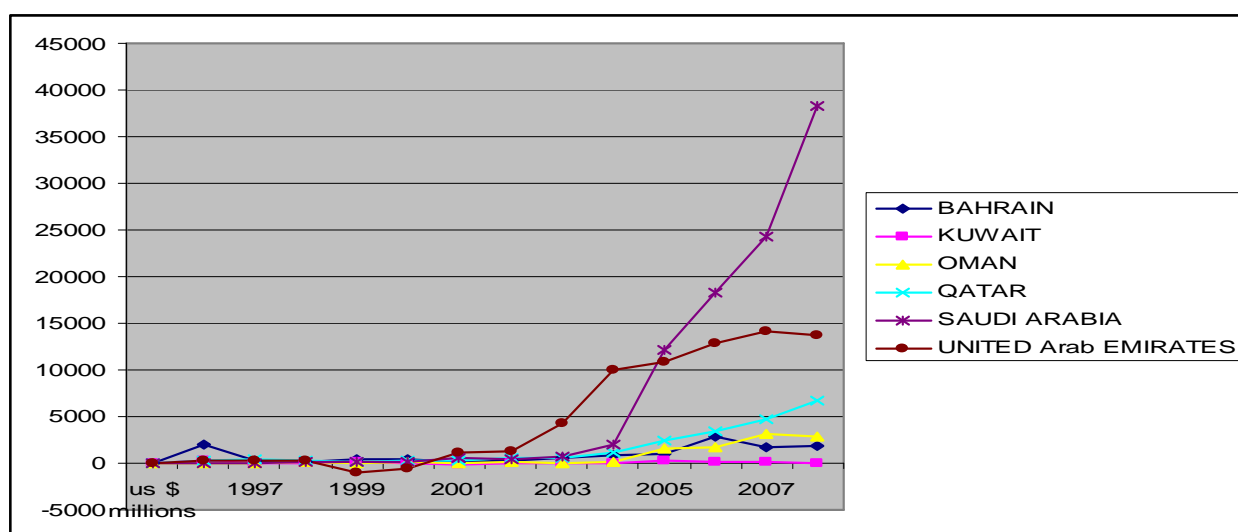
¹⁴⁶ Ibid, 201

¹⁴⁷ The United Nations Conference on Trade and Development, <http://www.unctad.org/Templates/Page.asp?intItemID=3198&lang=1>, latest accessed May 2, 2010

¹⁴⁸ Arab Monetary Fund, <http://www.amf.org.ae/statistics>, last accessed April 25, 2010

¹⁴⁹ The figures used represent the result of personal calculation based on the data provided by UNCTAD

Table 4. Evolution of FDI inflows (source Arab Monetary Fund)



On the other hand, when it comes to FDI outflows the attention paid to the investments coming from the rich Gulf monarchies recently increased due to the aggressive and expanding Gulf based SWFs' activity, especially in the West.¹⁵⁰ The SWFs are defined as *government-owned investment entities*¹⁵¹ or *vehicles*,¹⁵² whose establishment was due to budget surpluses or foreign exchange reserves generated by increasing trade activity, rising oil and gas prices, exports of commodities etc.¹⁵³ They are meant to create future resources through investment, protect the country from commodity price fluctuations or foster an

¹⁵⁰ According to the *Sovereign Wealth Funds Institute* and other academic papers already mentioned above, among the most important Gulf based SWFs are: *Kuwait Investment Authority* which announced in 2007 that its two funds had assets with a total value of US\$ 213 billion which include a 7.1 % stake in Daimler AG, 3.3 % in BP, US\$ 720 million in the Industrial and Commercial Bank of China, US\$ 3 billion in Citigroup, US\$ 2 billion in Merrill Lynch and US\$ 1 billion in Dow Chemical; *Abu Dhabi Investment Authority* whose assets are estimated between US\$ 500 billion and US\$ 875 billion; the UAE based *Mubadala* which purchased 5% of Ferrari in 2005, 35% of leading aerospace company Piaggio Aero, 8.3% of Guinea Alumina Corporation, US\$ 3 billion worth value share in General Electric in July 2008, signed a multi-faceted supplier agreement with European Aerospace group, EADS, launched a joint venture with Rolls Royce; *Saudi Arabian Monetary Agency* (US\$ 433.0 billion as of November 2008), *Oman Investment Fund* (with assets in India, Australia, Ireland etc), *Bahrain Mumtalakat Holding Company* (investments in UK) or *Qatar Investment Authority* which focused its activity on UK, the US or Switzerland. The statistics are available at <http://www.swfinstitute.org/>, latest accessed on May 2, 2010

¹⁵¹ Gawdat Bahgat. "Sovereign Wealth Funds: Dangers and Opportunities", *International Affairs*, vol. 84 (6), 2008: 1189

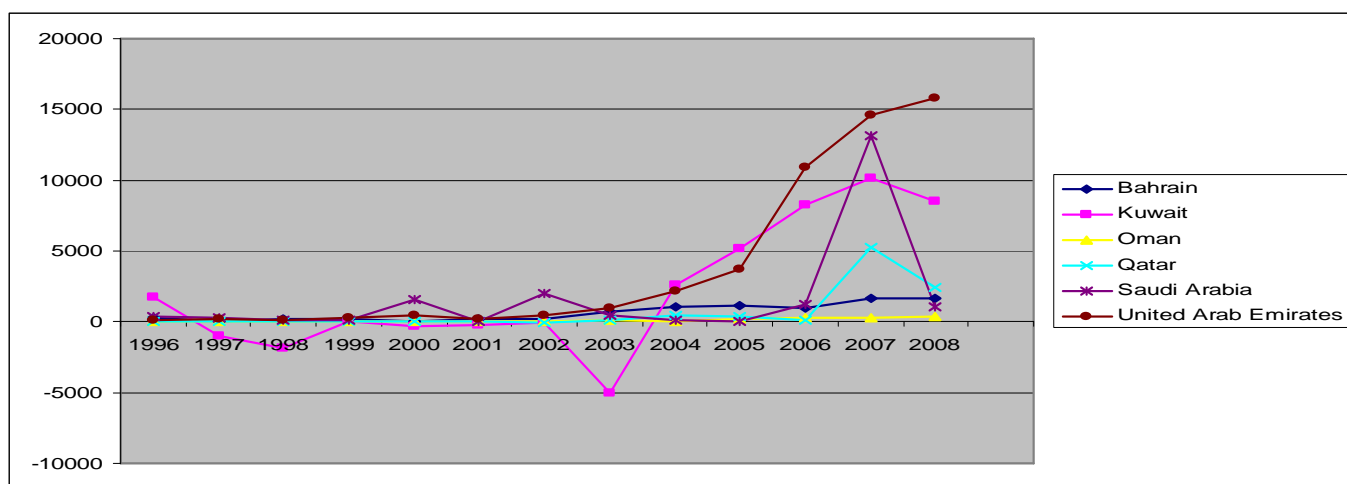
¹⁵² Shams Butt, Anil Shivdasani, Carsten Stendevad and Ann Wymann, "Sovereign Wealth Funds: Growing Global Force in Corporate Finance", *Journal of Applied Corporate Finance*, vol. 20 (1), (Winter, 2008), 73

¹⁵³ Dilip K. Das. "Sovereign – Wealth Funds: the Institutional Dimension", *International Review of Economy*, vol. 56, 2009: 87

environment proper for a financial center.¹⁵⁴ Moreover, Das describes them as “semi-autonomous, self-directed entities, dedicated to professional portfolio management.”¹⁵⁵

As shown in **table 5**, the investment activities of the Gulf SWFs, whose wealth was estimated in 2008 at over US\$1 trillion,¹⁵⁶ increased dramatically in recent years, yet the regional events negatively affected their dynamics, especially in the case of Kuwait heavily influenced by the 2003 war in Iraq or internal political instability.

Table 5. Evolution of Gulf based SWFs (Arab Monetary Fund data)¹⁵⁷



The 2007 financial crunch brought into the spotlight the activity of the SWFs – the hottest topic at the 2008 Davos forum,¹⁵⁸ generating panics in the West which was afraid of the Gulf SWFs domination. Consequently, the OECD, in accordance with the IMF, got involved in the debate and, in February 2009, came up with *OECD Guidance to Recipient Countries*, meant to regulate the SWFs activities.¹⁵⁹ Additionally, several institutions were

¹⁵⁴Tao Sun and Heiko Hesse. “Sovereign Wealth Funds and Financial Stability—An Event Study Analysis”, *IMF Working Paper*, (October 2009), 19, <https://www.imf.org/external/pubs/ft/wp/2009/wp09239.pdf>, accessed on December 1, 2009

¹⁵⁵ Das, 2008: 3

¹⁵⁶ Sven Behrendt, “When Money Talks: Arab Sovereign Wealth Funds in the Global Public Policy Discourse”, *Carnegie Endowment for International Peace Papers*, 12, (Carnegie Middle East Centre, 12 October 2008), 4

¹⁵⁷ Arab Monetary Fund, <http://www.amf.org.ae/statistics>, last accessed April 25, 2010

¹⁵⁸Staley Reed, “Sovereign Wealth Funds Top Davos Talk”, *Business Week*, http://www.businessweek.com/magazine/content/08_04/b4068000159055.htm, accessed on November 30, 2009

¹⁵⁹ Sven Behrendt, “Gulf Arab Sovereign Wealth Funds – Managing Wealth in Turbulent Times”, *Carnegie Policy Outlook*, (Carnegie Middle East Centre, 2009), 3

established such as *the International Forum of Sovereign Wealth Funds* or *the Sovereign Wealth Funds Institute*. In October 2007, the G7 ministers of finance called for the establishment of a code of best practice for government-owned investment funds “to make sure their investment strategies are clear and conform to sound business standards.”¹⁶⁰ The following year, in September, the *International Working Group of Sovereign Wealth Funds* presented the generally accepted *Santiago Principles*, meant to be implemented on a voluntary basis by the member states, including the GCC countries, and subject to home country laws.¹⁶¹

At national level, in the US, *the Foreign Investment and National Security Act of 2007*¹⁶² became effective in 2007, while the European Union (EU) Commission called for a common EU approach to address the concerns regarding the SWFs, especially issues like good governance practice, predictability, accountability and transparency.¹⁶³

Looking at the current development that characterizes the Gulf states in terms of institutionalizing political participation and the dynamics of foreign direct investment, several tentative conclusions are proposed in order to better understand the following chapter which analyzes the elements that led to such changes. Firstly, despite the allocative character of the Gulf states, clear political reforms have been implemented improving citizens’ opportunities to participate in the decision making process. Furthermore, the Gulf states managed to constantly increase the imports of foreign capital which became an important contributor to the economy, and improved technical capabilities, management skills or education strategy. Finally, a similar contribution to the development of the society could be attributed to the FDI

¹⁶⁰ Steven R. Weisman. “Rules Urged to Govern Investing by Nations”, *New York Times*, (October 20. 2007), http://www.nytimes.com/2007/10/20/business/worldbusiness/20finance.html?_r=1, latest accessed on October 30, 2009

¹⁶¹ *International Working Group of Sovereign Wealth Funds*. Generally Accepted Principles and Practices (GAPP)—Santiago Principles. <http://www.iwg-swf.org/pubs/gapplist.htm>, accessed on November 2, 2009

¹⁶² Govtrack.us, <http://www.govtrack.us/congress/bill.xpd?bill=h110-556>, accessed on March 24, 2010

¹⁶³ Europa.eu, *Sovereign Wealth Funds - Frequently Asked Questions*, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/126&format=HTML&aged=0&lang>, latest accessed on November 10, 2009

outflows since their activity could be considered in shaping the external influence on the domestic arena.

The next chapter, based on the theoretical framework and the examples of both political participation and FDI (inflows/outflows) developments, will look into the factors that might determine the ruling class interest in increasing the participatory feature of their states. Bringing into discussion domestic and external factors, the chapter seeks to explore the role of FDI in political liberalization.

CHAPTER 3

HOW IMPORTANT IS THE MOST IMPORTANT? THE IMPACT OF INTERNATIONAL ECONOMIC INTEGRATION ON POLITICAL LIBERALIZATION

The *exceptionalism*¹⁶⁴ of the Arab world, in general, and of the Gulf region, in particular, has been frequently brought into discussion when debating these countries' incapacity to foster democratic reforms. The Lebanese historian, George Corm, sees no further hope since he argues that the Arab Peninsula was influenced only by two major events: the birth, in the 6th century, of the last monotheist Prophet and the discovery of huge reservoirs of non-renewable resources fourteen centuries later.¹⁶⁵

Despite this pessimistic attitude, the democratization reforms discussed in the previous chapter call for rethinking the elements that impacted the Gulf region undeniably opening the door for political liberalization. Consequently, in order to understand FDI contribution to political liberalization reforms undertaken by the authoritarian Gulf regimes, this chapter will be structured in order to answer two questions: who the actors involved were (what the elements were) and why political liberalization (a degree of democratization) was implemented in the Gulf states. Moreover, by analyzing both domestic and external elements, I argue that, concerning political liberalization, the GCC regimes are more willing to react to FDI input than to the demands of a weak civil society, for example, since they are interested

¹⁶⁴ The concept of MENA's *exceptionalism* is developed by Eva Bellin (2005:26) and Eva Bellin, "The Robustness of Authoritarianism in the Middle East: Exceptionalism in Comparative Perspective", *Comparative Politics*, vol. 36 (2), (Jan, 2004), 139-157 where she refers to regime's will and capacity to emasculate any democratic initiative. In the context of this thesis, I define *exceptionalism* as a broader notion thus underlining the fact that despite the existence of similar conditions in Africa, Asia or South America where democratization has been promoted for a longer time, in MENA it is either inhibited or not enough promoted.

¹⁶⁵ George Corm, *Le Proche – Orient éclaté 1956-2007*, (Paris: Gallimard, 2007), 323

in acquiring a more important role in the global economy or diversify their financial resources other than oil or gas.

A. Who were the actors involved (what were the elements)?

As Hawthorne mentioned, everybody – regardless of their origin or geographical location – was caught up in the debate concerning the democratization of the Gulf states,¹⁶⁶ dealing with both the incipient reforms considered here as political liberalization or democracy, *the end product*.¹⁶⁷ During his 2008 opening speech of the *Doha 8th Forum for Democracy, and Free Trade*, Hamad bin Khalifa Al-Thani, Qatar's ruler, admitted that there was still a long way to go despite all the achievements reached so far,¹⁶⁸ while the 2004 US *Greater Middle East Initiative* focused mainly on encouraging the expenditure of political rights and political participation in the Muslim world in order to put a stop to Islamist extremism.¹⁶⁹

Based on the literature dealing with the democratization process in the GCC area several social, political and economic actors emerge, each of them with different leverage over the others and distinct impact on the region: authoritarian regimes, civil society, the army, business community and external factors. Firstly, the ruling regimes are defined by the robustness of their authoritarianism.¹⁷⁰ Since their access to resources is unlimited and unrestricted, as shown in the theoretical chapter, they have the financial capacity to build the

¹⁶⁶ Amy Hawthorne, "The New Reform Ferment", in Thomas Carothers and Marina Ottaway (eds.) *Uncharted Journey: Promoting Democracy in the Middle East*, (Washington: Carnegie Endowment For International Peace, 2005), 57.

¹⁶⁷ Korany and Noble, 1998: 3

¹⁶⁸ Hamad bin Khalifa Al-Thani, *Speech Doha 8th Forum for Democracy, and Free Trade*, May 13, 2008, http://www.diwan.gov.qa/english/the_amir/the_amir_speeches_81.htm, last accessed on May 13, 2010

¹⁶⁹ Tamara Cofman Wittes, "The New U.S. Proposal for a Greater Middle East Initiative: An Evaluation", *Middle East Memo*, no. 2, (Saban Center for Middle East Policy at the Brookings Institution, May 10, 2004), http://www.brookings.edu/papers/2004/0510middleeast_wittes.aspx, last accessed May 13, 2010

¹⁷⁰ Bellin, 2004: 139-157

necessary apparatus and walk the ways meant to enhance and expand their influence and set on the desired track the developments whose subject is the state. Their lack of accountability to citizens and the latter group's dependence on the financial incentives and the oil revenues distributed by the ruling elites are translated into the creation of a new type of modern patriarchic state concentrated around one single person, namely the ruler, or a dynasty.¹⁷¹ The GCC states' *neopatrimonial*¹⁷² nature is an instrument meant to emasculate any potential forms of opposition and, equally important, a means to establishing and developing a solid and loyal base "through selective favoritism and discretionary patronage."¹⁷³ Moreover, the Arab Gulf neopatrimonialism is stressed by the royal blood related clique or members of different tribes loyal to the head of state and his family and who are appointed in key political, administrative and economic positions. For example in Kuwait, the prime ministers and his two deputies are members of Al-Sabah family.¹⁷⁴ The situation becomes more complicated in the UAE where all the members of the federal government are descendants of each of the seven royal families.

The wealth provided by oil and gas rents is not used only for public expenditure programs, as Mahdavi predicts,¹⁷⁵ like infrastructure, health care systems, education and so on, but also offers the elites the capacity to staff the bureaucratic apparatus where an important percentage of the middle class is employed and therefore dependent on the state.¹⁷⁶ While in general the middle class is seen as the milieu where the call for democratization emerges,¹⁷⁷ in the particular case of the GCC countries its bargaining power is not used since any change in the political structure would lead to their loss.

¹⁷¹ Hisham Sharabi, *Neopatriarchy: A Theory of Distorted Change in Arab Society*, (Oxford: Oxford University Press, 1988), 17

¹⁷² Ibid

¹⁷³ Bellin, 2004: 145

¹⁷⁴ CIA World Factbook, *Kuwait*, <https://www.cia.gov/library/publications/the-world-factbook/geos/ku.html>, last access on May 12, 2010

¹⁷⁵ Mahdavi, 1970: 432

¹⁷⁶ Teitelbaum, 2009: 15

¹⁷⁷ Luciani, 2007: 164

The state's influence also reaches the business community, whether private or public. In the latter case, the expansion of the public sector or *étatisme*¹⁷⁸ transforms the state into a dominant factor not only in the administration or socio-political life, but also in the economic sector. For example, the regimes' representatives are dominant on the board of directors managing different public companies. In the oil rich Abu Dhabi emirate, 6 out of 10 members of the Abu Dhabi Investment Authority (ADIA) are part of the royal family, al-Nahyan, while the others of loyal tribes such as al-Suwaidi.¹⁷⁹ Even the private business sector is portrayed as *parasitical* since its wealth fully reflects the distributive character of the rentier oil rich state.¹⁸⁰ The *alliance for profits*¹⁸¹ is the core element that brings the private business stratum closer to the regimes and contradicts Crystal's argument that the business community "will temper or even end political support for rulers who ignore their economic needs"¹⁸² and will support alternative groups considering that the state apparatus has the power to block any emerging form of opposition. In my opinion based on my familiarity with the reality of the GCC member states, the business community is willing to side with the ruling class in order to guarantee its unconditional access to the financial resources provided by the state and to ensure the political and economic stability necessary to expand its wealth.

Despite society's dependency on the state, rooted in the financial incentives provided by oil rents, the authoritarian regimes have developed very elaborated, widespread and coercive intelligence and trained armies. The creation of a *mukhabarat state*,¹⁸³ pouring important amounts of money into the military service and increasing the leverage of the ruling elites over political life, public (administration, finances and economy) and private

¹⁷⁸ Mahdavi, 1970: 432

¹⁷⁹ Abu Dhabi Investment Authority, *Board of Directors*, http://www.adia.ae/En/People/Board_Of_Directors.aspx, last access on May 18, 2010

¹⁸⁰ Luciani, 2007: 162

¹⁸¹ Teitelbaum, 2009: 15

¹⁸² Jill Crystal, "Economic and Political Liberalization: Views from the Business Community", Teitelbaum (ed.), *op. cit.*, 2009: 44

¹⁸³ Secret service, intelligence apparatus (Arabic)

sectors strengthen the exclusive vertical relation between the ruler and the ruled.¹⁸⁴ Generally speaking, the corporatist setting existing in the intelligence service or military systems makes room for the emergence of a broader perspective over the national interests when it comes to the security /military elites¹⁸⁵ that might determine a deviation from the path promoted by the elites. Yet, in my view, in the GCC countries, with no history of military coups or army regimes, this kind of behavior is limited if not impossible since the army branches are transformed into family affairs.¹⁸⁶ Moreover, regarding the GCC countries one has to consider that if the *mukhabarat* service consists of dependent nationals, the army employs mainly foreigners who empower them to “bring the regimes back in.”¹⁸⁷

Since “authoritarianism is not the product of certain types of regimes, but rather emerges from the nature of the states over which these regimes rule,”¹⁸⁸ one should look at another element, namely civil society. The generator of forums where citizens, groups or institutions are able and encouraged to debate and to put into practice different political, social or spiritual interests in a free, collective and peaceful manner,¹⁸⁹ civil society is perceived as distinct from the state and “essential for formation of a space to work toward democracy and eventually challenge the state and bring about positive political change.”¹⁹⁰ In the GCC area the expectations are similar, yet the only issues to figure out are the status and the development of this *civil space*, as Sharabi labels it.¹⁹¹ An analysis of GCC civil society should focus on three aspects: organizational, civility and quality of state-society dimensions.¹⁹² Firstly, the organizational aspect and the quality of state-society relations are dominated by the Father’s (Patriarch) figure, defined as “the center around which the national

¹⁸⁴ Sharabi, 1988: 20

¹⁸⁵ Bellin, 2004: 145

¹⁸⁶ Ibid, 149

¹⁸⁷ Philippe Droz-Vincent, “From Political to Economic Actors: The Changing Role of Middle Eastern Armies”, in Oliver Schlumberger (ed.) *op. cit.*, 2007: 206

¹⁸⁸ Pratt, 2007: 5

¹⁸⁹ Amy Hawthorne, “Is Civil Society the Answer?”, in Carothers and Ottaway (eds.), *op. cit.*, 2005: 83

¹⁹⁰ Teitelbaum, 2009: 6

¹⁹¹ Sharabi, 1988: 7

¹⁹² Brynen *et. al.*, 1995: 10

as well as the natural family are organized.”¹⁹³ The vertical relation between the ruler and the ruled, state and family, bears the sign of coercion determined by the necessity to apply absolute will.¹⁹⁴ Arguably, the *father figure* syndrome present at political level is transferred in all the aspects of citizens’ life and becomes part of the national identity. The fact that the male monarchic figures are a constant presence starting from airports, shops or street billboards, induces a state of psychological dependency on the ruling class which impacts the development of any independent “shelter from naked power.”¹⁹⁵ Secondly, the civility dimension shows the limited degree of GCC societies’ independence and the way initiative is fostered and carried out. Here, I would actually consider the actions of establishing NGOs, professional or trade unions, political societies or parties.¹⁹⁶ When it comes to political entities, the GCC regimes either outlawed them as in the case of Oman,¹⁹⁷ Saudi Arabia, Qatar and the UAE,¹⁹⁸ or despite the lack of such laws, in practice they are considered illegal (Kuwait).¹⁹⁹ The only GCC country where political entities, known as *societies*, are allowed based on a 2005 law, is Bahrain where 14 such organizations are active.²⁰⁰ NGOs, professional unions, social clubs and associations are of a recent date in the GCC setting, yet their number increased rapidly while their field of interest varies from human rights, women’s rights, medical and charitable matters, up to labor unions.²⁰¹

¹⁹³ Sharabi, 1988: 7

¹⁹⁴ Ibid

¹⁹⁵ Ibid, 8

¹⁹⁶ For more on why including NGOs and political parties under the umbrella of civil society is more useful in the Arab context see Vickie Langohr, “Too Much Civil Society, Too Little Politics”, Pripstein Posusney and Penner Angrist (eds.), *op. cit.*, 2005: 193-220

¹⁹⁷ Rabi, 2009: 220

¹⁹⁸ For update information on political groups, parties or societies in the six GCC member states, see CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/>, last access on May 19, 2010

¹⁹⁹ CIA World Factbook, *Kuwait*, <https://www.cia.gov/library/publications/the-world-factbook/geos/ku.html>, last access on May 19, 2010

²⁰⁰ Munira A. Fakhro, “Civil Society and Democracy in the Gulf region”, paper presented for the *11th Mediterranean Dialogue Seminar: Security and Development in the Gulf Region*, NATO Parliamentary Assembly, Doha, Qatar, 26-28 November, 2005: 2, www.nato-qatar.com/pdf/english1.pdf, last accessed on May 19, 2010

²⁰¹ Ibid, 2-4

Despite this fact, their role in democratization is very limited due to several reasons. Firstly, considering that the state is the major financial support of labor, the trade unions are “empty shells”²⁰² with no real impact on the society. Even the private sector, as already discussed, is dependent on the ruling regimes due to the focus on its *alliance for profit*²⁰³ with the state, thus transforming the emergent trade unions or business communities into “incorporated and closely supervised”²⁰⁴ entities which lack credible autonomy.²⁰⁵ Secondly, other institutions of civil society, such as NGOs, have a strong socio-religious character.²⁰⁶ Looking at the existent NGOs based in Bahrain, out of 151 organizations 79 could be included in the above mentioned category. A similar situation is encountered in the UAE where 103 were registered at the beginning of 2000 at the Ministry of Labor and Social Affairs out of which 22 are socio-religious focused and 49 deal with the promotion of theater or folklore.²⁰⁷ Consequently, their commitment to democratization or political liberalization is very low since it is not perceived as a value, “but simply as the best way to seize power.”²⁰⁸ Additionally, the deep rooted religious character of the state should be considered, especially concerning Saudi Arabia, whose king is the Custodian of the Two Mosques, Mecca and Medina, and exercises leverage over religious figures. The autonomy that religion brings to NGOs is limited since they are dependent, mostly financially on state charity. Furthermore, supposedly contributors to the counter voice against the state, they are not allowed to access financial resources from foreign institutions,²⁰⁹ regardless of their origin and reputation, being in a position to delegate all their financial matters to the authorities. Their capacity to emerge as real vectors of change and promote reforms is very limited. Additionally, one

²⁰² Bellin, 2005: 22

²⁰³ Teitelbaum, 2009: 15

²⁰⁴ Kramer, 1992: 23

²⁰⁵ Bellin, 2005: 22

²⁰⁶ Fakhro, 2005: 6

²⁰⁷ Ibid. 11-12. For both countries the information is provided by official bodies, namely the Ministry of Labor and Social Affairs.

²⁰⁸ Teitelbaum, 2009: 6

²⁰⁹ Fakhro, 2005: 7

cannot deny the importance of the political societies which act as meeting spaces where different issues ranging from social, economic or political everyday aspects are brought into the spotlight. The most active setting in terms of political activity is the Kuwaiti *diwaniyya*, gatherings that happen on a regular basis in private homes²¹⁰ and are used as an institutionalized platform to discuss politics.²¹¹ Despite the popularity enjoyed by such meetings and the publication of the topics debated in the local newspapers, the intervention of the ruling regimes is clear since members of the royal family started hosting their own *diwaniyyas*.²¹²

One of the prerequisites to establishing the participatory nature of the state is the existence of a certain level of intention and willingness on behalf of civil society to get involved in the process. Bellin underlines two elements that explain the low level of political mobilization in the Arab world: poverty and illiteracy.²¹³ Despite the high GDP per capita registered in the GCC area,²¹⁴ the fact that “the commanding height of the economy remains largely in state hands”²¹⁵ underlines the significant inequality existing among different social strata and the uneven distribution of wealth.²¹⁶ The concept of *backsish state*²¹⁷ shows that the ruling class is willing to buy off the citizens by offering extremely developed social welfare systems, paid education both within the country or abroad, financial incentives for those willing to start their own small and medium businesses without asking for any taxes or percentages from their profits.²¹⁸ In exchange citizens are not expected to demand and to be

²¹⁰ Mary Ann Tétreault, “Kuwait: Slouching Towards Democracy?” in Teitelbaum (ed.), *op. cit.*, 2009: 125

²¹¹ Crystal and al-Shayej, 1998: 101

²¹² Tétreault, 2009: 124

²¹³ Bellin, 2004: 150

²¹⁴ According to the International Monetary Fund’s latest *World Economic Outlook Database* released in April 2010, Qatar has the highest GDP per capita in the world (\$ 83,841), Kuwait \$ 38,304; UAE \$ 36,537; Bahrain \$ 27,068; Oman \$ 25,110; Saudi Arabia \$ 23,221; <http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/index.aspx>, last access on May 19, 2010

²¹⁵ Bellin, 2004: 139

²¹⁶ More on the uneven distribution of wealth and the lack of correlation between quantitative measures and qualitative effects of wealth in Bill and Springborg, 1994: 15

²¹⁷ Korany, 1994: 511

²¹⁸ Beblawi, 1987: 53

interested in a higher degree of participation, thus answering in a positive manner to the state's strategy to weaken any participatory request or to cushion popular discontent.²¹⁹ The bargaining power of the middle class and, I would add, lower stratum is very weak due to their *privileged income* since a large number of citizens are state employees with salaries above those characteristic for a very competitive setting in the private sector at home or elsewhere.²²⁰ Regarding literacy, this has been one of the primary concerns of the GCC states, commitment unequaled by any other Arab state. According to the 2009 Arab Human Development Report, the GCC countries are considered in the category of *high human development* based on their level of public expenditure on education reaching even 27.6% in Saudi Arabia in 2002-2005.²²¹ The most important outcome was the increase of the literacy rate which reaches an average of 87% at adult level, and goes above 95% at youth level in all the GCC states.²²² Regarding education, one should also consider the perspectives available to the labor force such as graduate students, practitioners etc. The state involvement in all socioeconomic spheres²²³ touches upon the issue of employment as well. Offering higher salaries than in other sectors and secured positions, the bureaucratic apparatus or public service system established by the state attracts and absorbs most of the available national labor force, as a Qatari official admits.²²⁴ The fact that "the lion's share of employment is in the government sector"²²⁵ is confirmed by the 2007 Gulf Investment Corporation's report²²⁶ according to which the percentage employed in the public sector outnumbers greatly those incorporated in the private sector (see **table 6** below). As in the case of poverty, citizens'

²¹⁹ Bill and Springborg, 1994: 28

²²⁰ Luciani, 2007: 166

²²¹ The United Nation Development Program, Arab Human Development Report 2009, 2009:238, <http://www.arab-hdr.org/publications/other/ahdr/ahdr2009e.pdf>, last access on May 20, 2010

²²² Ibid, 239. The average is the result of my own calculation.

²²³ Sadiki, 1997: 134

²²⁴ Faisal Mohamed Al-Imadi, "Labor Market Situation in the GCC: Qatari Perspective", *Middle East Online*, March 3, 2010, <http://www.middle-east-online.com/english/?id=37612>, last access on May 20, 2010

²²⁵ Askari, 2006: 187

²²⁶ The Gulf Investment Corporation, *2006 GCC Economic Statistics 6th Edition*, February 10, 2007, <http://www.gic.com.kw/economicReports.jsp;jsessionid=da30ab7635a04b24424c>, last accessed on May 20, 2010. The table is based on the data provided and it does not exist in this form within the report.

bargaining power is low or even absent since they are dependent on the state's wealth, despite its active contribution to the process of acquiring knowledge.

Table 6. Nationals employed in the GCC area in 2005 (data from the Gulf Investment Corporation) ('000)

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Total of national employees	106	319	208	39	1336	300 ²²⁷
Nationals of total labor force (%)	31%	18%	32%	42%	22%	10%
Nationals employed in the private sector	72	43	99	4	623	-----
Nationals employed in the public sector	34	276	109	35	713	-----

The final element of the GCC democratization equation points to external factors: social, political and economic. The acceptance of foreigners' input varies from one sector to another showing lack of coherence in the officials' discourse. As mentioned above, NGOs are not allowed to accept financial aid from abroad, but on the other hand the external labor force, regardless of its origin, is highly welcomed. Moreover, according to domestic laws, foreign companies are not granted permission to operate in the GCC countries unless they hire a certain number of nationals,²²⁸ while simultaneously foreign investments increased in the last years and the Gulf based investment funds are searching for external opportunities. Despite these conflicting attitudes towards external elements, no one can deny their existence in the GCC countries and their influence.

Probably the most striking element regarding foreign impact is the overwhelming expatriate labor force representing in some cases the vast majority of the population,²²⁹

²²⁷ No data was available for UAE.

²²⁸ Luciani, 2007: 167

²²⁹ Onn Winckler, "Labor and Liberalization: the Decline of the GCC Rentier System", in Teitelbaum (ed.), *op. cit.*, 2009: 59-86

starting from 59% in Qatar up to 90% in the UAE.²³⁰ As Winckler observes, at GCC level the interest is to import cheap workers,²³¹ mostly from India, Sri Lanka, Bangladesh, Indonesia, the Philippines or Pakistan, to be employed for household help or small businesses (selling, cleaning in shops etc.).²³² Despite their overwhelming presence, these expatriates are left outside the political framework²³³ and their presence is regulated by certain laws according to which each guest worker needs a local sponsor (*kafil*).²³⁴ Their dependency on nationals²³⁵ imposes cautious behavior and makes them unwilling to get involved in political debates or promote reformist ideas. If the cheap labor source countries have no influence due to the conditions imposed by the host states and the way these expatriates are treated, the West should be more influential especially when it comes to politics. The leading role in the GCC democratization has been attributed to the US, the active promoter of reforms both before and after 9/11. The *freedom agenda* for the Middle East of the American administration²³⁶ is seen mostly as a way to offer financial assistance for democracy, a perspective which should be very appealing for any state.²³⁷ Yet, considering the oil rich Gulf states, foreign aid does not represent an important channel of influence since there is an easier way to gain money: by selling oil and gas. Moreover, unsuccessful attempts to determine the GCC area's political liberalization have been experienced by the European Union (EU) as well. The 20 year negotiations of the EU – GCC Free Trade Agreement have been frequently interrupted due to the European demands for democratization. As a result, the negotiations are still in process and there are no signs that the GCC partners will accept the EU recommendations regarding

²³⁰ The Gulf Investment Corporation, February 10, 2007. Similar trends are presented by Winckler, 2009: 68-69.

²³¹ Ibid, 2009: 56

²³² Omar Hasan, "Asian Maids in Gulf Face Maltreatment", *Middle East Online*, October 18, 2004, <http://www.middle-east-online.com/english/Default.pl?id=11601>, last access on May 20, 2010. According to article out of 33 million people leaving in the GCC area 10 million are guest workers and their families.

²³³ Crystal, 2009: 48

²³⁴ Winckler, 2009: 65

²³⁵ More on how nationals have financial profit by offering their services as sponsors in Onn Winckler, 2009: 65

²³⁶ Nathan J. Brown and Amy Hawthorne, "New Wine in Old Bottles? American Efforts to Promote Democracy in the Arab World", in Nathan J. Brown and Emad El-Din Shahin (eds.) *The Struggle over Democracy in the Middle East: Regional Politics and External Policies*, (London: /New York: Routledge) 2010: 22

²³⁷ Ibid, 2010: 20

human rights, for example.²³⁸ Additionally, numerous scholars consider that the West,²³⁹ despite their *freedom agenda*, encourages the domestic authorities to stick to their strategies by offering diplomatic support, military aid etc.²⁴⁰ The failure of the Western community to democratize the GCC could be noticed in the reports issued by *Freedom House* or the *World Bank*. Comparing the developments discussed in the previous chapter, including the country ratings, with the active implication of the West, one can only notice the latter's lack of impact. In Sayyid's opinion, the success of foreign demarches is determined by the existence of powerful "domestic pro-democracy groups" which would echo these external incentives and call for change.²⁴¹ In my case, the authorities transformed any potential democracy promoters into entities dependent on state finances thus eliminating any threat.

Another element which I consider very important when analyzing the factors that determined the GCC regimes to increase their participatory nature is FDI, closely related to the external environment. If these regimes are autonomous in relation to their population due to their dependence on external oil revenues, they rely on external finance and/or other markets either through foreign companies' investments or state owned SWFs. These foreign financial actors and markets have an impact not only at the level of economic development, but they also bring new concepts in terms of management skills, increased technology awareness, help upgrading to international best practices or facilitate better access to international markets.²⁴²

²³⁸ Following the last EU-GCC summit in Muscat (April 29, 2009), the joint communiqué stated, one more time, that concerning the human rights issue both parties "exchanged views and reiterated their previous positions", Council of the European Union, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/107449.pdf, last accessed on May 20, 2010

²³⁹ Brynen *et. al.*, 1995: 19

²⁴⁰ Pripstein Posusney, 2005: 15

²⁴¹ Mustapha K. Sayyid, "International Dimensions of Middle Eastern Authoritarianism: the G8 and Extern Efforts at Political Reform", in Oliver Schlumberger (ed.), *op cit.*, 2007: 216

²⁴² Askari, 2006: 197

B. Why political liberalization (and a degree of democratization) was implemented in the Gulf states?

This question implies looking both at the reforms undertaken by the GCC regimes and the actors or elements that might influence their demarches. In each state the level of citizens' participation has increased, elections being organized at different levels (municipal and national). Moreover, the participatory nature was institutionalized by law and practice, elections being run according to the schedule. Furthermore, these changes were recognized by international organizations which recorded all the developments and, in some cases, improved the country's status as in the case of Bahrain and Kuwait which are considered by *Freedom House* as *partly free*²⁴³ or noticed the positive trends in terms of accountability or political stability as stated in the latest *World Bank* report.²⁴⁴

From the analysis of the actors and elements that might impact the process of political liberalization several features come into the spotlight. Firstly, political liberalization reforms are a top-down process inaugurated by the rulers. Since the authoritarian nature of these rentier regimes is seen as their fundamental feature and considering their full and unconditioned access to wealth, expectations to see other factors determining or initiating reforms are very weak. The control exercised by the state affects NGOs, political societies and the expatriates' community, hence their capacity to call for reforms is conditioned mostly by financial matters. By allowing the number of citizens participating in the decision making process to increase, the state will have to change its policy and shift from its zero accountability towards the population towards more evident and real responsibility in front of the voters.

²⁴³ Freedom House, 2009

²⁴⁴ Kaufmann *et. al.*, June 2009

Secondly, since civil society is weak, “an inefficient champion of democracy” as Bellin concludes²⁴⁵ and despite the literature’s main focus on internal factors,²⁴⁶ one should consider the external factors, mainly the economic and financial ones since politics, as shown earlier, lacks the strength and leverage over these regimes. In the case of the GCC area the rentier character of these states underlines the importance of the external financial resources representing more than 70% of total revenues,²⁴⁷ therefore both foreign actors and settings have the capacity to determine to a certain degree the policy formation and its direction. As shown in the previous chapter the period which witnessed the rise of foreign investments in the region (starting from the ’90s) corresponds to the implementation of political liberalization reforms. In this situation, foreign investors brought inside the region not only money and technology, but also changed mentalities and strategies necessary to develop the business field.²⁴⁸ If at the beginning the Gulf regimes showed increased opposition towards any foreign imported concepts,²⁴⁹ the need to access foreign markets and integrate into the global economy determined them to accept certain prerequisites such as transparency, accountability, stable political environment or meritocracy even in the context of a strong patriarchic environment. These states’ dependency on foreign financial resources makes them more vulnerable and therefore receptive to external actors and markets’ demands. In this context, the regimes are doing their best to show that they left behind any archaic form of government and that they are not against pro-democratic and pro-liberalization politics. By embarking on this path the oil monarchies consolidate also their position at domestic level and eliminate any potential tension that might occur among the citizens thus disturbing the local stability, an important condition to attract foreign investors.

²⁴⁵ Bellin, 2005: 22

²⁴⁶ Thomas Richter, “The Political Economy of Regime Maintenance in Egypt: Linking External Resources and Domestic Legitimation”, in Oliver Schlumberger (ed.), *op. cit.*, 2007: 177

²⁴⁷ The Secretariat General of The Gulf Cooperation Council, 2008: 192

²⁴⁸ Askari, 2006: 197

²⁴⁹ More on the Gulf regimes’ previous reaction towards foreigners and foreign inputs, in Sandra Mackey, *The Saudis: Inside the Desert Kingdom*, (New York: W. W. Norton & Company, 2002)

Similar reactions can be found when it comes to the Gulf based SWFs, which are extremely present and dynamic in the international arena, especially in the West. Due to the increased Western worries concerning the activity of these investment institutions, the Arab Gulf countries had to comply with several sets of regulations established both by international institutions and domestic governments to have access to foreign markets, one of the most important requests being a higher level of transparency both at domestic and international level.²⁵⁰ Considering that the West saw the GCC state owned SWFs as a threat “to the economic competitiveness and national security interest of recipient economies,”²⁵¹ the Gulf regimes had to change this perception. By becoming more opened and clear about their strategies and creating a stabile domestic environment based on accountability towards the citizen and receptiveness concerning the demands of civil society or business community, both domestic and international, the oil monarchies aimed at changing the idea that their intention abroad are not just economic and that SWFs are used as instruments to “influence decision-making and put pressure on companies that they own a piece of,”²⁵² as the New York Senator Chuck Schumer argued.

Moreover, the GCC countries’ receptiveness to foreign incentives towards democratization, including political liberalization, is determined by their interest in shifting from the energy sector towards other wealth generating resources such as finance or luxury tourism (Dubai and Doha being the main and most successful examples up to this moment). Promoters of strategies and plans to establish free market economies,²⁵³ these authoritarian regimes had to accommodate prerequisites for the well functioning of such environments

²⁵⁰ In 2007, the G7 ministers of finance called for the establishment of a code of best practice for government-owned investment funds. In 2008, the *International Working Group of Sovereign Wealth Funds* presented the *Santiago Principles* and the OECD issued the 2009 *OECD Guidance to Recipient Countries* meant to regulate the SWFs activities. In the United States, the *Foreign Investment and National Security Act of 2007* became effective in 2007, while the EU Commission asked for a common EU approach concerning this matter.

²⁵¹ Sven Behrendt. 2009: 4

²⁵² Maria Bartiromo. “Chuck Schumer on the Rise of Sovereign Wealth Funds”, *Business Week*, http://www.businessweek.com/magazine/content/08_11/b4075021424117.htm, accessed on November 24, 2009

²⁵³ Samih K. Farsoun and Christina Zacharia, “Class, Economic Change, and Political Liberalization in the Arab World”, in Brynen *et. al.*, *op. cit.*, 1995: 261

(transparency, stability etc.) and therefore seek for democratization reforms. Furthermore, one should not neglect the financial difficulties faced by these countries due to the decrease in the oil price,²⁵⁴ conflicts in the region (Iraq-Iran war, the invasion of Kuwait or the 2003 Iraq war) which affected their oil extraction, transportation and selling capabilities. In this context, the external financial input, either through foreign investors in the region or SWFs, represented a feasible and reliable resource necessary to continue all the domestic projects.

To sum up, in the absence of strong civil society or external political factors capable of conditioning their relations with the Arab Gulf states, the domestic regimes are willing to take into account the input coming from foreign financial actors or business environments. Under Gulf authorities' coordination and strict supervision, the top-down democratization process makes its way and manages to start and develop certain reforms especially regarding the level of citizens' participation in decision making. The rentier authoritarian regimes become more accountable towards foreign actors, providers of FDI (inflows and outflows), than they are before their own population. Since in the latter case the concept *no taxation, no representation* prevailed,²⁵⁵ in the former one a paraphrase of the Western slogan (*no taxation without representation*)²⁵⁶ is more appropriate, namely: *no FDI without political liberalization*.

²⁵⁴ According to the Organization of the Petroleum Exporting Countries' Basket Price, up to early 2000 the price of oil decreased reaching even 12.28\$/baril in 1998. Starting from 2000, the oil price slowly increased. http://www.opec.org/opec_web/en/data_graphs/40.htm, last accessed on May 27, 2010

²⁵⁵ Brynen *et. al.*, 1995: 15

²⁵⁶ Ibid

FINAL CONSIDERATIONS

Despite their autocratic character, the *tribes with flags*, as Ambassador Clovis Maksoud labeled the GCC member states,²⁵⁷ managed to leave behind the tribal legacy concerning the patriarchic typology of their societies and started encouraging the participatory character of their states. Using as a starting point the highly rentier states' features, my dissertation looked at the extent to which FDI (inflows/outflows) is capable of determining a shift in the ruling regimes' policies resulting in increasing the citizens' participatory nature in political decision making. The argument behind this assumption is that in the context of high level dependency on external financial resources, these regimes are more accountable towards external financial actors and settings in order to have increased access to investment opportunities abroad, to attract investors in domestic projects, to integrate in the global economic environment or to replace their dependency on oil rents with other financial resources.

Based on a close look at the political liberalization reforms undertaken by the six GCC states and the level of FDI entering the area or being exported through state owned SWFs, four key elements should be underlined. Firstly, the top-down process shows the lack of synergy between ruling class and middle or lower strata since the regimes are in possession of all the financial levers. Moreover, I would argue that the domestic actors like civil society institutions (NGOs, labor or professional unions), the army or business sector have no leverage over the ruling elites since they are just receivers of the latter's charity and have no contribution to the financial wealth. In this context, they can only show their support towards the elites and avoid any form of challenge.

²⁵⁷ Clovis Maksoud, *Reflections on the Arab World in a Global Context: Past, Present and Future*, lecture held at Central European University, Budapest, Hungary, May 10, 2010

Secondly, in the context of less influential domestic actors, one would expect that the incentives of foreign diplomatic actors, like the US freedom plan concerning MENA, might use the *carrots and sticks* strategy to determine the alignment of the GCC authoritarian regimes to the global wave of democratization. As discussed in this thesis, the foreign political actors are considered as potential contributors to the slow developments of Arab Gulf democratization, in general, and political liberalization, in particular. Despite the public discourse of Western officials or institutions, their two way approach applied to the GCC regimes show that the public discourse is parallel to what is happening in reality and that the interest in the Gulf energy and financial resources is dominant.

Thirdly, the GCC regimes' interest in being integrated in the global economy, having full access to external market and investment opportunities and attracting foreign investments for domestic development represents the key element explaining the political liberalization reforms undertaken in the area. Of equal importance is the attention paid to cutting off the Arab Gulf dependency on oil rents in order to develop other fields (finance, luxury tourism) meant to contribute to the financial wealth of these monarchic states. In this context, the authorities are more opened to the demands for democratization coming from foreign investment actors and settings than those of domestic factors which are conditioned by the financial support they receive from the state. Additionally, it is worth mentioning that FDI represents not only a transmission channel for new technology or the latest developments in industry, but also a way to bring inside the region Western concepts, best practice criteria, new mentalities and so on. All these elements combined reinforce the perception that FDI is a very important determinant of the democratization process in the GCC area.

Fourthly, concerning its contribution, this thesis brought into discussion the dynamics of the GCC states – an area currently understudied – regarding their political liberalization. Additionally, it challenged Mahdavi's rentier state theory by aiming at explaining the reasons

and the elements that led to the democratic reforms undertaken by these states, exponents of the rentier state paradigm. Furthermore, it analyzed the relations between the authoritarian regimes, civil society and external factors and settings thus focusing on the domestic dynamics to the detriment of what is considered a trend in the Middle East international relations, namely the policy orientation of foreign actors towards the region.

As a concluding remark, I would like to add that despite the fact that currently FDI, both inflows and outflows, seems to have a stronger input over the GCC regimes decision making when it comes to democratization, in the future this situation might change. If the current reforms and the process of institutionalization of the state participatory nature continue we can witness a shift in the GCC regimes' approach. They will pay more attention to those that are voting, despite their lack of contribution to the financial resources of the state, and becoming capable of really influencing the decision making.

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