CAPITALISM AND CLASS IN THE GULF ARAB STATES

ADAM HANIEH

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Preface

This book has its genesis outside of the Gulf. From 1997 to 2003 I had the privilege of living and working in the Palestinian West Bank. During this time, I was struck by the immense influence that the Gulf region had on the Palestinian political economy. Gulf-based companies owned large stakes in major Palestinian companies and financial institutions, Gulf governments played an influential role in Palestinian politics, and many friends and relatives spoke of time they had spent as workers in the oil and other industries in the Gulf. It was clear that Palestine (like the rest of the Middle East) was profoundly affected by this connection. Yet, paradoxically, there had been little written on the political economy of these regional links and their relationship to the nature of capitalism in the Gulf—the Gulf was the core of Middle East capitalism but the dominant perspective seemed to downplay the regional scale and treat the Middle East as a simple agglomeration of distinct nation-states.

What this book aims to do is to contribute some essential first steps in thinking through these problems of the region's development. In order to appreciate how the Gulf is penetrating the broader Middle East, we first need to grasp the processes at work within the political economy of Gulf capitalism. This means taking seriously the Gulf states as *capitalist*—not simply monarchies that sit atop an oil spigot—and incorporating the process of Gulf regional integration into our analysis. From this starting point, we can hopefully begin to better understand how Gulf capitalism helps to form the broader hierarchies of the Middle East.

There are very many people who contributed to bringing this book to completion and in stimulating my ideas and thoughts on the region. I would particularly like to thank Gilbert Achcar, Greg Albo, Sam Gindin, Eberhard Kienle, Jerome Klassen, Thomas Marois, David McNally, Ananya Mukherjee-Reed, Sabah Al Nasseri, Leo Panitch, Alfredo Saad-Filho, Omar Al-Shehabi, Ahmad Shokr, Abdel Takriti, Issam Al Yamani, Anna Zalik, and Rafeef Ziadah who all read drafts or excerpts of this book. I greatly appreciate the extensive time these individuals gave to seriously engage and offer criticisms and comments. I would also like to thank Robyn Curtis at Palgrave Macmillan, who was a pleasure to work with throughout the entire writing process.

Many of the ideas in this book originate in my PhD dissertation, completed in 2009 in the political science department at York University, Toronto. I thank all the faculty and administrative staff that made my time at York such a pleasure and an exciting learning experience. There are very few academic institutions that truly encourage critical thought in a contemporary university setting—the York political science department is one of these and it was a privilege to work alongside an exceptional group of faculty and graduate students. In particular, I would like to thank Greg Albo, my dissertation supervisor. Greg remains a wonderful intellectual mentor and friend who taught me an enormous amount about understanding the world and working to change it. This book would not have been possible without him.

While writing this book I spent 18 months in the Gulf carrying out research and teaching at Zayed University, Dubai. Faculty and staff at ZU were generous with their time and friendship. I learnt a great deal from this experience, particularly from the opportunity to engage with many of the wonderful students at ZU. I appreciate the critical and thoughtful insights that these students often brought to our discussions on Gulf politics and the Middle East more generally—and I hope some of this is reflected in the pages that follow.

There are many other friends in Toronto, Montreal, Ramallah, London, and Adelaide that made the last few years of research and writing possible and from whom I continue to draw inspiration. In particular, I would like to thank deeply Rafeef Ziadah. She has been there from day one, both at an intellectual level to discuss many of the ideas contained in this book and as a dear friend and emotional pillar. I hope one day to repay the debt. My family has also always been there for me—perhaps slightly puzzled by my interest in the Gulf—but nevertheless a wonderful source of love and support. Finally, this book is dedicated to my father, Ahmad Hanieh, who passed away as it was being written.

CHAPTER 1

Approaching Class Formation in the Gulf Arab States

An oft-used representation of recent changes in the Gulf Arab states is a pair of photographs comparing a 20-year old snapshot of the main thoroughfare of Dubai, Sheikh Zayed Road, to the same stretch of road today. In the space of just two short decades, the pictures reveal a remarkable transformation. The older shot shows a few solitary buildings, surrounded by vast expanses of desert and a dusty road. The more recent picture portrays a stunning panorama of glittering lights and towering skyscrapers. Science fiction analogies are often used to describe this sight—the world's tallest buildings defy architectural logic as they jostle and twist in the skyline. Up until the puncturing of Dubai's construction boom in the wake of the 2008 global financial crisis, a widely quoted (although probably exaggerated) rumor put the number of cranes at work in the city at one-quarter of the world's entire stock.

Dubai's prodigious development boom is paralleled across the Gulf. All the states of the Gulf Cooperation Council (GCC), a regional bloc of the six oil-rich Arab monarchies—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE)—have been transformed over the past decade into a tangle of highways, skyscrapers, and fanciful projects. For much of the 2000s, the GCC was the world's largest market of "megaprojects"—huge construction and industrial schemes that attracted the leading engineering companies across the globe. The world's tallest building, biggest shopping mall, and largest aluminum, plastic, ceramics, and petrochemical complexes are all located or under construction in the GCC. With the arguable exception of coastal China, there is no other region on the planet that has seen such a remarkable transformation in so short a period of time.

What lies behind this dramatic development of the Gulf? The obvious answer is, of course, the judicious use of oil revenues—particularly in the wake of the large rise in the price of oil from 2000 to 2008. At the peak of this price rise, the GCC's nominal Gross Domestic Product (GDP) climbed to over $1 trillion, just under 2 percent of the world's total of around $61 trillion. In 2008, the GCC was the fourteenth-largest economy in the world (with a size about the same as Australia) and registered a per capita GDP three times the world average. Yet while hydrocarbon wealth is clearly key to the economic transformation of the recent decades, this book describes a different side to the GCC's development. It argues that—much like its desert cousin, the mirage—what visitors actually see in the region's oil-fueled boom is not the full picture. The concrete and steel are physical embodiments of a much deeper shift—a fundamental transformation in the political economy of the Gulf. The GCC has become a major node of world capitalism, a position that has precipitated changes in the socioeconomic relations that typified the region for many decades. This evolution of Gulf capitalism—its linkages with the world market and the development of the domestic political economy—is the analytical focus of the chapters that follow.

The key contention of this book is that in order to fully comprehend these changes it is necessary to understand and map the process of capitalist class formation in the Gulf. The Gulf capitalist class has emerged rapidly and in "hothouse" fashion—from state-supported and family-based trading groups in the 1960s and 1970s to the domination of a few massive conglomerates in the contemporary period. Most significant—and the key characteristic of the region's political economy examined in this book—is the pronounced *internationalization* of Gulf capitalism over the past decade. Large Gulf conglomerates now conceive their profit-making activities across the entire GCC rather than solely within its individual member-states. They own stakes in a wide variety of industrial, financial, and retail firms located throughout the region. The patterns of accumulation crystallizing in the GCC embody a new set of internationalized social relations and thereby represent a process of class formation—described henceforth as *Khaleeji Capital*. The Arabic word *khaleej* is literally translated as "Gulf" but goes beyond a geographic meaning to convey a common pan-Gulf Arab identity that sets the people of the region apart from the rest of the Middle East. Throughout this book, Khaleeji Capital is used to describe those capitalists whose accumulation is most thoroughly and consistently grounded in the internationalization of capital across the GCC space. Khaleeji Capital in no way means a loss of "national" identity, but rather an orientation and perspective toward accumulation at the pan-GCC scale. As this book shows, Khaleeji Capital is hierarchical-structured around a Saudi-UAE axis, with other capital connected in a subordinate fashion to this core. It represents the development of an emerging space that reflects a shift in the social relations underpinning accumulation in the Gulf—a process of class formation located within, and occurring through, the internationalization of capital. This process of class formation is intimately linked to the rapid development of the Gulf economies and the physical transformation of the Gulf cities. It is the real untold story of the Gulf—the reality behind the image—and holds immense importance to an understanding of the contemporary Middle East and the world market as a whole.

Colonialism and the Origins of the Gulf States

With close to one-fifth of the world's total conventional oil reserves, Saudi Arabia dominates the GCC. The country holds around two-thirds of the GCC's total population and makes up over 80 percent of its landmass. It also contributes nearly half of the region's GDP, although its growth rates have lagged behind Qatar, Kuwait, and the UAE whose smaller populations mean that their GDP per capita is much higher. These aggregate figures should be interpreted with some caution, however, as a low-paid migrant workforce constitutes the majority of the labor force in all GCC states and the polarization of wealth between citizen and noncitizen residents is extremely high.

The political structures of the six GCC states bear strong similarities. The power of the ruler is effectively hereditary, concentrated in a family that controls the state apparatus and large tracts of the economy. Although limited political contestation exists in elected legislatures in two GCC states—Bahrain (*majlis al-nuwab*) and Kuwait (*majlis al-umma*)—voting rights are restricted to a small proportion of the resident population and the rulers in both states have the power to dissolve parliament. The other GCC states have even more limited "consultative councils" with little effective power to challenge the ruler. Political repression—ranging from tight control over media through to imprisonment and exile of opposition figures—has been commonplace in all the GCC states.

The significance and recent trajectory of these political and economic characteristics will be further explored in the pages that follow. But in order to set the framework for this discussion of capitalism and class formation in the GCC it is useful to have a broad appreciation of the historical origins of these six states. Much of the later developments bear the imprint of the particular configuration of class and state forged in the colonial era. What follows is a necessarily abbreviated description of the region from around the 1900s, at a time of direct colonial domination. Many of these themes that accompanied the region's emergence from colonialism will be revisited in later chapters (particularly Chapter 3).

Table 1.1 Basic characteristics of the GCC states

	Population (million, 2008)	*Land size (Thousand Sq. Km.)*	*GDP (current, billion US$, 2008)*	*Real GDP Growth % (1992–2001 average)*	*Real GDP Growth % (2008)*	*GDP/ capita (2008, '000 US$)*	*Crude oil and gas as % of GDP (2007)*	*Migrant % of labor force (2008)*
Saudi Arabia	24.807	2,000	475	1.9	4.2	19.15	48	51
UAE	4.5	83.6	261	4.3	5.1	58.27	35.9	92 (2006)
Kuwait	2.7	17.8	148	8.9	5.5	54.26	54.5	84
Qatar	1.3	11.6	71 (2007)	7.9	25.4	62.45 (2006)	56.6	94
Oman	2.8	309.5	60	4.4	12.8	21.65	45.2	68
Bahrain	1.1	0.7	21	4.9	6.3	19.8	13.6	74
GCC Total	36.88	2,423	1,037	–	–	28.28	–	69

Source: World Bank Statistics, GCC Secretariat General, http://www.gcc-sg.org, Accessed 10 October 2009.

At the end of the nineteenth century the region that was to become the GCC was firmly embedded in Britain's colonial empire (with the exception of the areas known as Najd and Hijaz—the future Saudi Arabia—and some recalcitrant Arab and Iranian tribes along the coastal areas). Throughout the region, Britain encouraged the concentration of power within the hands of individual rulers who were connected to a wider ruling family, and could trace their origins back to one of the Arabian Peninsula tribes. With their rule sanctioned and supported by the British, the ruler drew wealth from taxes on pearling, trade, as well as some agricultural activities (in particular, date farming and fishing). Britain's major concern was the exclusion of other colonial and regional powers from the Gulf region, and the continued profitable engagement with pearling and other trade. These interests in the Gulf were subordinate to a broader colonial framework centered upon enduring control over India.

As a result of this economic subordination to British-controlled trade, the ruling *shuyoukh* (pl. Sheikh) along the Gulf's coast were largely dependent on British support for their survival. The British were fully cognizant of this fact, and pursued a clearly articulated policy of divide-and-rule within the region—breaking the territory into many small sheikhdoms that would be reliant on an external power for their survival—and embodied in a treaty between the ruler and the British. The numerous border disputes that persist to this day within the Gulf—between Kuwait and Iraq, Iran and the UAE, Saudi Arabia and emirate of Abu Dhabi, Qatar and Bahrain, the emirate of Ras Al Khaimeh and Oman, and so forth—are partly a legacy of this British policy (accentuated in the modern day, of course, by the potential oil and gas reserves that lie within these borders). It is important to emphasize that through much of the Gulf the notion of territorial demarcation was a foreign import—borders were artificially imposed from the outside and the region's large nomadic population viewed geography through ever-shifting tribal influence rather than fixed boundaries.

Within this general framework, however, there was significant internal differentiation between the states that eventually came to form the GCC. Most notable was the exception of the Najd and Hijaz areas, which had a much greater degree of independence from Britain than the Gulf coastal areas. Except for a brief 12-year period from 1915 to 1927, neither Najd nor Hijaz held a treaty with Britain and their status alternated between a somewhat loose Ottoman suzerainty and the claims of rival tribes originating from within the Najd interior.[1] The dynasty that eventually emerged victorious in the struggle to control the Najd and Hijaz, the al-Saud, drew its wealth from a structure more akin to feudal tribute from nomadic tribes rather than the tax on merchant activities that was common along the coastal areas.[2] Towns, however, played a critical role in providing the key nodes of control for the al-Saud—as points of centralized power, wealth, and dominationover other tribes—and supplemented through the proceeds of warfare (Sharara 1981, p. 58). This perpetual drive to war was ideologically justified through the militant doctrine upheld by the Islamic sect, the *muwahiddun,* which sanctioned conquest in the name of religious zealotry. The religious-military symbiosis at the core of al-Saud rule gave the embryonic state a powerful expansionary character. Weaker neighbors—Kuwait, Qatar, Bahrain, Oman, and Abu Dhabi—were thus further compelled to draw closer to Britain in the face of this predatory power.

Kuwait, in particular, was precariously sandwiched between the forces of an expanding al-Saud, the Ottoman Empire, and British colonialism. It had a relatively prosperous merchant class, based largely on settled families originally hailing from Najd. By virtue of its location at the apex of the Gulf, where it formed a crossroads to the overland trade through Iraq, the merchant class prospered through the activities of pearling, shipbuilding, and entrepot trade. Standing over this class was the al-Sabah family, which, by the late eighteenth century, had become preeminent following the departure of its two rivals, the al-Khalifa and al-Jalahima families, for al-Zubara in Qatar (and eventually Bahrain). The relative strength of the merchant class vis-à-vis the al-Sabah, who relied upon the merchants for much of its import duties, meant that Kuwait's pre-oil political history was largely punctuated by successive waves of conflict and reconciliation between the al-Sabah and the merchants (and, up until the early 1900s, often conducted through the threat of migration by the merchant class) (Crystal 1995; Fattah 1997). It was partly in response to claims from the merchant class, and partly due to pressures from the neighboring al-Saud and the Ottoman Empire, that the al-Sabah pursued a very close alliance with the British government, particularly in the lead-up to World War One. This intimate British-Kuwaiti relationship continued following the discovery of oil, and (as is discussed in Chapter 3 in more detail) Kuwait's "recycling" of its oil revenues through the British sterling zone was an important step in the development of Kuwaiti financial institutions.

In the coastal areas in the South of the Gulf, British warships had definitively ended any challenge to their control of the sea with the defeat of the Qawasim, a tribal group based in the coastal area of Ras Al Khaimeh in 1819. Britain codified its policy of divide-and-rule through a series of treaties signed with all the Gulf sheikhdoms from 1820–1945 and seven "Trucial States" emerged (Abu Dhabi, Dubai, Sharjah, Ras Al Khaimeh, Umm al-Quwain, Fujairah, and Ajman—named as such because they came into being through the treaty process). In these states, the British sponsored seven individual ruling Sheikhs, forbidding them from entering negotiations with any foreign power other than the British, and preventing them from building up their naval power. Indeed, British control was so extensive that no foreigner could enter any of the Gulf states without explicit British permission (Zahlan 1998, p. 21).[3] Through the treaties, Britain blocked any move toward internal unity between the seven sheikhdoms, which were unable to negotiate with each other without British mediation. Britain also used the inevitable conflicts between the seven sheikhs as a way of setting themselves up as an external referent and power broker (Kazim 2000, p. 151).

From the early 1900s, Dubai became particularly important to British colonialism as a key trading route and port of call for the British India Steam Navigation Company following Iranian cancellation of British leasing and tax rights in the port of Lingah, located on the western side of the Gulf (Davidson 2008, pp. 73–74). Strengthened by the decision of Dubai's ruler Sheikh Rashid bin al-Maktoum to grant protection and tax-free status to Iranian merchants leaving Lingah, Dubai became strongly orientated toward trading activities with a flourishing merchant stratum that benefited from the city's tax-free incentives. Following the discovery of oil in Abu Dhabi in the 1950s, however, Dubai was soon eclipsed by its wealthier neighbor. The seven Trucial States joined together as the UAE after British withdrawal in 1971.

In Qatar and Bahrain, the relationship between rulers and the rest of society was markedly different. In 1766, the aforementioned al-Khalifa and al-Jalahima families had settled in al-Zubara on the west coast of Qatar after they had left Kuwait. These families set up a prosperous pearling and trading center in al-Zubara, linked to tribal connections back in Kuwait. The other main clan present in Qatar were the al-Thani, who originally hailed from Najd. Qatar, however, was of minor importance compared to neighboring Bahrain, which, at the time, was under the control of Iran.[4] In 1783, in the context of several years of rivalry with the Matareesh (an Arab tribe who ruled Bahrain and owed fealty to Iran), the al-Khalifa and al-Jalahima conquered Bahrain and moved their pearling and trading operations there. Qatar was relegated to a collection of minor pearling and fishing towns and was viewed by most as a dependency of Bahrain. One of the consequences of this was that the al-Thani (who remained after the departure of the al-Khalifa and al-Jalahima) became a relatively poor ruling family situated within a much weaker merchant class. Qatar's small population also meant that the broader al-Thani tribe constituted a very large proportion of the entire population—by some estimates half of the indigenous population of Qatar in 1900. The weakness of the merchant class, and the relatively large size of the al-Thani, has meant that political disputes in Qatar have largely originated from within different factions of a fractious ruling family (Crystal 1995). A tiny handful of merchant families, notably the Darwish and al-Mana, remained close to the al-Thani and evolved to be an important component of the Qatari capitalist class today.

The al-Khalifa and al-Jalahima alliance broke apart soon after the conquering of Bahrain in 1783, and the al-Khalifa emerged as the unchallenged rulers of the island. Bahrain was a key location for trade and merchant activities in the Gulf.[5] It formed the major port in the trade of Indian goods between Basra (in modern-day Iraq) and Muscat (Oman), and was one of the most important pearling centers in the Gulf. The defeat of the Matareesh by the al-Khalifa gave a very important socioeconomic distinction to Bahrain in comparison to the rest of the Gulf. Unlike Qatar, Kuwait, or the sheikhdoms that eventually became the UAE, the ruling elite of Bahrain, the Sunni al-Khalifa, joined an existing Sunni community that was much smaller than the Shia majority who hailed from Arab tribes that had been settled on the eastern side of the Gulf. These sectarian differences were reflected in social divisions—the Sunni constituted the bulk of the merchant and ruling elite while the poorer Shia were concentrated as rural date farmers and in fishing. Shia farmers were required to pay a poll and water tax to the al-Khalifa—similar taxes were not placed on the Sunni population (Khuri 1991, p. 48). Over time, a stratification began to emerge within the Shia as some were given the positions of *wazir*, a minister or secretary, and thereby obtained the right to redistribute land and collect rent. This social structure meant that the key division in Bahraini society emerged between the al-Khalifa, allied Sunni tribes, and a small layer of Shia on one hand, and the bulk of the mostly poor Shia on the other. While Bahraini politics should not be interpreted as "Sunni vs. Shia" and Bahraini opposition groups have historically been careful to build across sectarian divides, the imprint of this early history on the country's class formation remains important to this day.

Of all the states in the Arabian peninsula, Oman was perhaps the most affected by British colonialism (although it was never officially a British colony or protectorate). In the eighteenth century, Oman had been the center of a vibrant trading system in the Indian Ocean, dominating much of the trade between East Africa, India, and the Arabian peninsula. The key to Oman's prosperity had been its control over the East African island of Zanzibar, which acted as the chief trading intermediary between the precapitalist African interior and an industrializing European capitalism (Sheriff 1987). Virtually all the lucrative East African trade in slaves, animal products, and raw materials passed through Zanzibar on its way to Europe via India. As Britain and France fought to assert their dominance over the Indian Ocean during the early 1800s, this trade was largely halted but replaced by the extremely profitable production of cloves, once again under the control of Omani landowners. In the 1860s, however, Oman lost control over Zanzibar and its East African possessions following British mediation of a succession dispute within the Omani ruling family. The British came to dominate Oman, intervening militarily to support their main ally based in the country's capital Muscat, Sultan Taymur Ibn Faisal, against threats from tribes in the interior of the Arabian peninsula[6] (Al Naqib 1987, pp. 55–70). The country was rapidly impoverished, with the main concern of the British being the tight control over the strategic entrance to the Gulf, the Straits of Hormuz. The Omani armed forces were run by British officers, decisions of the Sultan were largely directed by British representatives, and in 1891 a treaty was signed that forbid Oman from relinquishing territory except in British favor (Kaylani 1979, p. 570). Omani Arabs were prevented from participating in commerce, and travel outside the country was next to impossible for them. Indians who were protected by the British largely controlled merchant activities. Moreover, the British brought Baluchi Sunni Muslims, originating from an area now part of Pakistan, to serve in the country's military.[7] In contemporary times Baluchi still make up a significant part of the Omani population (around 12 percent in 2002) and an important family in the contemporary Omani capitalist class, the Zubair, is said to have Baluchi origins (Peterson 2004).

In short, at the cusp of the oil era that began to emerge from the 1920s onwards, most of the Gulf remained tightly inserted in the British colonial system (with the important exception of Saudi Arabia). Each of the future GCC states was controlled by a ruling family, which—to varying degrees—relied upon a network of powerful merchant families and colonial backing. Many of these early merchant families, alongside new groups that emerged with the onset of oil, were the proto-class that came to underlay Gulf capitalism. They form the social substratum that was transformed through a complex process of development in the subsequent oil era into contemporary Khaleeji Capital.

Theoretical Approaches to Class Formation in the Gulf

Analysis of state and class formation in the period following these colonial times has been largely dominated by rentier-state theory, a theory that has been described as "one of the major contributions of Middle East regional studies to political science" (Anderson 1987, p. 9). The Iranian economist Hossein Mahdavy is usually credited with developing the concept of the rentier-state in relation to Iran prior to the Revolution of 1979.[8] He defined rentier-states as countries "that receive on a regular basis substantial amounts of external rent [which are] rentals paid by foreign individuals, concerns or governments to individuals, concerns or governments of a given country" (Mahdavy 1970, p. 428). In addition to the revenues of oil producing countries, other examples of external payments identified by Mahdavy included rents for pipelines or transportation routes (such as the Suez Canal in Egypt). Oil revenues, however, were particularly significant according to Mahdavy because their size did not depend upon production in the country itself but from "differential and monopolistic rents that arise from the higher productivity of the Middle Eastern oilfields and price fixing practices of the oil companies" (Mahdavy 1979, pp. 428–29). Mahdavy described the period from 1951 to 1956 as a turning point in the Middle East because the rising nationalist movements meant that several states were able to gain a greater share of the oil revenues that had previously accrued to foreign oil companies. Crucially, this enabled the Iranian government to embark on large-scale public expenditure programs and other state spending without having to resort to taxation. Mahdavy described this as a "fortuitous étatisme" in which the government became an important—and perhaps dominant—factor in the economy.

Mahdavy's theorization of the Iranian state carried both political and economic implications that were frequently echoed in subsequent literature. He explicitly linked the rentier-state to the high possibility of social stagnation and political inertia. The revenues of the government were derived from external rents rather than from exploitation of the population, thus relieving the government from any pressure to implement political reform. Moreover, because part of the population experienced an increasing prosperity from oil revenues, mass movements for social change were less likely to emerge. Furthermore, the government possessed large capacity to bribe or coerce pressure groups and thus forestall any fundamental change. These distortions in the political structure were paralleled at the economic level. Mahdavy believed that the economic policies of rentier-states were predisposed to myopic, short-term reliance on rent flows with little incentive to diversify. He argued that Iran needed to consciously lessen its reliance on these flows and implement plans for industrial diversification.

Mahdavy's concept of the rentier-state was further developed in an edited collection on the theme published by Hazem Beblawi and Giacomo Luciani in 1987. This work has become a main reference point for debates over the nature of the state in the Gulf monarchies. In it, Beblawi and Luciani argue that the rentier-state needs to be distinguished from the rentier-economy, with the former a subset of the latter. The rentier-state is a mediating link between the national and international economies. Through its control over the flow of rents, it shapes the economic development of the country as a whole. The analytical focus of Beblawi and Luciani's work thus revolves around an examination of the size of the state and its linkages and role vis-à-vis the economy as a whole. They also introduce a more specific definition of the rentier-economy *ideal-type*, based on four characteristics: (1) the rent must be external to the economy, that is, it comes from foreign sources; (2) rent must be a predominant economic activity (defined by Luciani as 40 percent of revenue); (3) the majority of the population are engaged in the consumption and redistribution of rent rather than its production; and (4) the principal recipient of the rent is the government (Beblawi and Luciani 1987, p. 86–88).

Using the framework advanced by Beblawi and Luciani, much of the subsequent debate has focused on the relationship between the state and other social groups in Gulf societies. Three key political and economic characteristics of the rentier-state have been highlighted. First, following Mahdavy, numerous authors have postulated a link between rentier-states and autocratic regimes (Skocpol 1982; Beblawi and Luciani 1987; Ross 2001; Jensen and Wantchekon 2004). Michael Ross, for example, has argued that rentier-governments are able to relieve "pressures for greater accountability" by relying on low tax rates (thereby short-circuiting claims for representation), fostering patronage networks, and blocking the formation of groups that might challenge the dominance of the state. He infers from this that these regimes tend to be more autocratic in nature (Ross 2004, p. 332).[9] Second, it is argued that the rentier-state has a pronounced degree of autonomy in economic decision-making, and is thereby able to determine which social strata to promote and support. Third, there is supposedly a bias in rentier-economies toward the service sector rather than value-added production. States find it easier (and possess the fiscal resources) to import goods to satisfy consumer demands and increasingly sophisticated tastes, rather than produce those goods domestically (Niblock 1980; Abdel-Fadil 1987).

These three characteristics have typically been used to explain the development of the private sector and merchant classes in the Gulf in the post-colonial era. The allocative decisions of the state mean that certain elites are able to benefit from the redirection of oil revenues. This does not happen through direct involvement in the oil sector itself, which remains under the exclusive purview of the state (and hence the ruling family). Rather, no longer reliant upon the merchant classes for financial support, the state/

ruling family's coalition with the leading merchant families is reworked in the wake of the large influx of oil rents. A key strategy emerges in which, as Jill Crystal has argued in the cases of Kuwait and Qatar, "the merchants were bought off, by the state, as a class." The state did this in both a direct and indirect manner, through mechanisms such as land grants and providing money and monopoly concessions to the old trading families (Crystal 1995, p. 8).

The rentier-state framework has certainly provided some useful insights into postcolonial development of the Gulf states (as well as those in other similarly rent-financed states in Africa and elsewhere). At a comparative level, it has helped to distinguish different outcomes dependent upon the particular configuration of state institutions and their relationships with other social classes. Much of the historical analysis in the following chapters draws extensively upon rentier-state narratives of the Gulf state in the early periods of state formation. This book, however, departs in a number of distinct ways from the methodological assumptions of rentier-state theory. The most fundamental of these differences concerns the nature of the state and its relationship to class. As noted, rentier-state theory relies heavily upon a notion of "relative autonomy," in which the state is seen as a distinct sphere of the political economy with a high degree of latitude to maneuver and deploy economic strategies free from the constraints of the capitalist class. A main argument of this book is that this approach is highly misleading, because it views the state as a separate object—severed from the class relations of Gulf society—with politics interpreted as the struggle over this object. This is reflected in the common use of phrases such as "capturing the state" in much Arabic-language commentary on the state or, as a prominent Lebanese sociologist puts it, "the state was given birth as an external force . . . holding the reins of government, political institutions, the means of production and the official ideology" (Sharara 1980, p. 280). Within the rentier framework the analytical focus is typically placed upon the state (usually assumed to be opposed to an all-encompassing "society") with little attention given to capitalism as a social system. The class character of the Gulf economy is seldom tackled with any theoretical sophistication and the term "capitalism" often absent from these accounts. The category of "merchants" is typically used as a synonym for "bourgeoisie" or "capitalist class"—terms that are (as Luciani has noted in regards to Saudi Arabia) rarely encountered in scholarly work on the region (Luciani 2006, p. 145).

In contrast, this book conceives the state not as a "thing" or collection of individual social actors, but rather as a particular expression of class formation—with the latter understood as a set of social relations that is continually in the process of coming-into-being. This methodological approach draws from a range of Marxist understandings of the state, in which the key point is to understand the state as an alienated form of the social relations that exist within society. Seen in this manner, the existence of the state is ultimately an expression of the fact that social reproduction occurs within a society divided into classes yet, simultaneously, *is* a society—that is, these classes are mutually interdependent. The state is the form taken by this social relation—the contradiction "between universal and particular interests" (Marx 1844). Marxists describe this materialization of social relations in the form of the state as fetishism, in which the "relationship between people takes the character of a thing and thus acquires a 'phantom objectivity,' an autonomy that seems so strictly rational and all-embracing as to conceal every trace of its fundamental nature: the relationship between people" (Lukacs 1968, p. 83).[10] The state is therefore not a thing, but rather a *relation*, or, as Bertell Ollman has put it, "the set of institutional forms through which a ruling class relates to the rest of society" (Ollman 2003, p. 202). These institutional forms allow the ruling class to actually *be* the ruling class (in the political sense).

It is important to understand the particular manner in which Ollman uses the notion of "relation" here. Ollman employs an epistemological approach that emphasizes Marx's "philosophy of internal relations." According to this perspective, the relations existing between objects are not considered external to the objects themselves, but are part of what constitutes those objects as they actually exist. Any object under study needs to be seen as "relations, containing in themselves, as integral elements of what they are, those parts with which we tend to see them externally tied" (Ollman 2003, p. 25). In other words, objects are not self-contained; they are constituted through the relations they hold in their stance with the whole. Thus the relationships in which things are embedded do not exist "outside" of these objects but are internal to their very nature. The state, therefore, is "part of what it means for a ruling class to rule, that is . . . an essential feature of the class itself" (Ollman 2003, p. 202). It is not a distinct or separate sphere that is external to the ruling class.

For this reason, care must be taken when speaking of the "autonomy" of the state. In capitalist society, the state apparatus acts to articulate and manage the interests of the capitalist class. This is true both economically, in the sense of securing the conditions that best facilitate capitalist accumulation, and politically, in the sense of ensuring that there is no challenge to the power of that class.[11] Because production and exchange under capitalism is anarchic, in which individuals are set against one another in pursuit of their private interests, it is difficult for a common capitalist class interest to be articulated directly. The capitalist state thus acquires (and *requires*) a certain level of autonomy from individuals and factions within the capitalist class, in order to mediate the "common good" of capital as a whole. This is more pronounced the more developed the capitalist economy, and is well illustrated by the vital roles of the modern state: regulating the function of the market and labor, arbitrating disputes within the capitalist class, securing the necessary infrastructure that no single capitalist could profitably provide, and managing the inevitable periods of crisis that emerge. But autonomy should not be understood in the sense of "independence" or "separation" from the ruling class; rather, it as an actual aspect of ruling class power itself. It is precisely in the appearance of "relative autonomy," that the state is able to represent the interests of the dominant class as a whole.[12]

Moreover, if the state is conceived as an "internal relation" of the capitalist class—part of what constitutes it as a class—the conceptual division between class and state should not be seen as a rigid boundary. Class lines shift as capitalism develops, and it is critical to remember that class formation is a process in which social relations emerge over time.[13] Understanding the state as an institutional relation of class thus implies that many of the individual personnel related to the institutions of the state can simultaneously be considered part of the capitalist class. This is a pronounced feature of the way that capitalism has developed in the GCC and, in many cases, the "capitalist class" should be understood as inclusive of state personnel and individuals from the ruling family. From this perspective, notions of relative autonomy as they are typically employed by rentier-state theories are misplaced. This book will note many cases in which members of the ruling family who hold high-ranking state positions should simultaneously be considered part of the "private" capitalist class and, in a related fashion, where prominent nonroyal private capitalists simultaneously serve in the state apparatus. This is not a novel observation, as Abbas Al-Nasrawi noted two decades ago in an interesting Arabic-language debate on the nature of the state and private sector in the Arab world: "The question raised is whether it makes sense to speak of the existence of different sectors in [the Gulf] . . . and whether the interlocking of the State and the private sector will make the separation between these sectors meaningless or, at the very least, give it a meaning different from that usually accepted in economic literature" (Al-Nasrawi 1990, p. 530). Indeed, the World Bank has offered the interpenetration of the state and private capital as one explanation for the "business-friendly environment" in the Gulf, remarking that the private sector in the Gulf "included mostly entrepreneurs either from the ruling families or close associates" and that the GCC's "political leadership (often their extended family members) are . . . large enough to develop the private sector country-wide" (World Bank 2009, p. 181).

Of course, seeing the state as an institutional embodiment of class power does not mean that the state is just an automatic or passive reflection of capitalist social relations. As the above analysis suggests, state formation is very much intertwined with class formation and plays an active role in the latter process. Marx noted the historical role that the bourgeois state played in providing the necessary fixed capital for the growth of capitalism; creating private ownership of land and a mobile labor force forced to sell their ability to work (e.g., the enclosure acts in England); restraining forms of capital accumulation that were threatening the very existence of the social structure (e.g., the eight-hour day, child labor laws); and, of course, enabling much of the initial primitive accumulation of capital through the state-orchestrated brutality of colonialism and slavery. Engels was also to write of the Russian state "breeding a Russian capitalist class" through the "emancipation" of the peasants (thereby creating a proletariat) and forcing the development of a bourgeoisie "as in a hot-house, by means of railway concessions, protective duties, and other privileges" (Engels 1890). Engels' phrase is apt and, as will be seen throughout this book, Gulf capitalism has developed in similar "hot-house" fashion with the critical assistance of the state.[14]

But integrating the Gulf state's active role in the development of capitalism is not a *causal* explanation of how and why class and capitalism formed in the Gulf. The Gulf state is an institutional reflection of a set of social relations that has developed within Gulf society. It is not the *reason* for those social relations—except in the narrow sense that it fosters the conditions that help them develop—and it cannot explain the specificity of capitalism in the Gulf (both spatially and temporally). The theoretical weakness of the institutionalist assumptions underlying rentier-state theory is found precisely in this point. To eschew the Marxian observation that "the conditions of existence of specific institutions are the wider social structures that they mediate, rather than institutions being determinant relations unto themselves" means to advance an explanation that is largely self-referential (Albo 2005, p. 74). The logic of much rentier analysis—where the development of capitalism is seen as the outcome of actions and decisions by state elites—needs to be turned on its head.[15] Specifically, the challenge becomes one of understanding why capitalist social relations developed and took the particular form that they did in the Gulf. Obviously oil revenues and the concomitant development of the state is a central feature of this narrative, but the deeper factors shaping class formation must be given analytical primacy. Capitalism did not arise ex nihilo and cannot be simply explained by the policy choices of the state.

What then explains the nature of class formation in the Gulf? This is the third major methodological difference between the theoretical approach of this book and standard rentier-state frameworks. The perspective adopted here is that Gulf class formation has evolved alongside and within the development of a global capitalist system, and is best seen as a specific reflection of the capitalist world market as a whole. This process took place in societies that were largely precapitalist, but which were rapidly integrated into the world market over a period of just a few decades. The focus is thus placed upon the evolving relationship between the social relations of the Gulf and those of the world market as a whole.

Seen in this manner, the GCC is not a sealed bubble that can be understood through a narrow focus on what goes on solely inside its borders (such as the deployment of oil revenues).[16] Rather, this regional space is constituted through the relations that exist between it and global capitalism as a whole (most importantly since the end of World War Two). This should not be understood as an external impact or "effect" on the Gulf (the standpoint taken—even if implicitly—by many rentier-state approaches). Instead, following Ollman's theorization of "internal relations," the global economy is part of the actual essence of the Gulf itself—the development of the global "appears" through the development of the Gulf. The Gulf materialized as a concrete spatial region alongside, within, and through the making of the global economy, and the process of class formation in the Gulf needs to be seen as a unique, spatially specific expression of the concatenation of tendencies underpinning the development of global capitalism. It is necessary to identify those tendencies (or at least their broad outlines) and trace the ways in which they appear in the making of class in the Gulf.

This conception of the Gulf as a region that materialized alongside the development of the capitalist world market implies a rethinking of the nature of the oil commodity. Oil is clearly the major factor differentiating the region from any other in the world and will undoubtedly form the central part of any account of the development of Gulf capitalism. But one of the main arguments of this book is that oil is not a "thing" but a commodity embedded in a set of (globally determined) social relations. Marx warned of "commodity fetishism"—an attempt to explain patterns of social development through the presence (or absence) of a commodity rather than understanding the significance given to that commodity by the social relations within which it is situated. It is these social relations that need to be identified and traced if the nature of oil is to be understood. This implies that a primacy needs to be placed on the wider motion and tendencies of the capitalist world market that confer a particular meaning to oil as a commodity centrally located within the reproduction of the system as a whole.[17]

Once again, it is important to emphasize that this methodological approach is not meant to deny the role of institutional factors or the decisions of state actors in shaping the particular form of the Gulf political economy—indeed, these will continually be highlighted throughout the analysis that follows. This book, however, does not claim to present a complete accounting of the institutional history or evolution of economic policy in the Gulf economies. Rather, the focus is placed on elaborating an analysis of Gulf capitalism—specifically the process of capitalist class formation—alongside and within the development of capitalism at the global level.

Class and Capitalism

Identifying the tendencies that structure the development of the world market and give the Gulf region a particular meaning requires a theory of accumulation. This book adopts a framework drawn from Marxian theory, in which the endless drive to accumulate is seen as the sine qua non of the capitalist system. Marx noted that human beings are distinguished from other animals through their repeated, purposeful application of labor on nature as a means of producing the necessary elements of survival. This labor is necessarily social, and the extension of this social labor presupposes and deepens the development of tools and language, as well as more complex social forms of organization. In this manner, the necessity of socially organized human labor underlies the development of human beings.

At a certain point in human development, the production of the means of survival through this metabolic interaction with nature posits the possibility of production that is greater than that necessary for day-to-day survival and reproduction. The existence of this increasingly permanent and predictable *social surplus product* is the basis for the development of classes (Marx 1859; Engels 1877; Engels 1884). As this social surplus increases through the development of more efficient tools and methods of social production, the struggle for control over it eventually leads to the development of classes and a state able to protect and secure preferential access to this surplus for the ruling group.

Marx's perspective is grounded in the fundamental observation that, in all human societies, labor is necessarily social and must be distributed between different productive activities (in other words, a division of labor) as well as appropriated in specific ways. The social relations that emerge between human beings in this process are the central element of Marx's theory of class. This is an important point to emphasize as it differs from the Weberian-inspired definitions offered by much contemporary academic work. According to Marx's perspective, class is not defined by a person's occupation, income level, or status. Rather, class is an antagonistic social relation. It arises through the relationship established between groups of people in the course of society's reproduction of itself and through the struggle over the social surplus product.

Classes do not come into existence ready-made. They crystallize alongside the formation of the set of social relations that come to typify a certain society, and hence the emphasis is placed on class formation as a *process* rather than as a static category. The methodological key to understanding this process is an emphasis on how the production and circulation of commodities occurs, thereby enabling a mapping of the social relations (and hence class structure) that emerges around these activities. Marx developed a particular heuristic tool for describing the motion of capital through different stages of accumulation, which he called the "circuit of capital":

M……C(Mp + Lp) … P …C'….M'

In this basic circuit, an individual capitalist starting with a sum of money (M), exchanges it for commodities, C, which includes labor power (Lp, or the work done by the worker) and means of production (Mp, raw materials, machinery, factories et cetera). Labor power and the means of production are combined in the process of production, P, to produce a commodity with an increased value C' that can then be exchanged for an increased sum of money, M'. According to Marx, this increased value is created by the worker (Lp) and appropriated in money form by the capitalist. The circuit thus captures the basic capitalist *social relation*—workers employed by capital in the production process, P, to produce a commodity C' with a value greater than C.

This is a schematic representation of a single capital with the arbitrary beginning point M (presuming, therefore, the existence of money and capitalist social relations prior to the beginning of the circuit). It is an abstraction, therefore, from any historically determined or concrete capitalism. The value of this heuristic tool, however, lies in the fact that it highlights the different moments through which the system as a whole reproduces itself and the points at which accumulation can occur. Specifically, there are three basic moments or subcircuits to this general circuit of capital, each of which corresponds to different capitalist activities. Some capitalists specialize in the production (P) of commodities through their ownership of manufacturing and other businesses. This is the *productive circuit*, which, broadly put, involves the creation of new commodities through the transformation of other commodities. Second, some capitalists specialize in the sale of commodities (C') through their ownership of retail outlets and other types of shops. This is the *commodity circuit*, which involves the realization of the value produced in P through the sale of commodities. Finally, a section of the capitalist class deals in money (M') through their ownership of banks and other financial entities. This is the *finance circuit*, and it has become an increasingly important feature of contemporary capitalism (see below). Of course, all capitalists are involved in all three activities to some degree, but this basic division of the general circuit of capital into three subcircuits—the productive circuit, the commodity circuit, and the finance circuit—is useful in that it describes the way in which capitalism reproduces itself and the way in which classes form around this process. These three circuits form the basic framework used in later chapters to understand the character of the Gulf capitalist class.

The Internationalization of Capital

Based upon this understanding of accumulation, Marx was led to make a prescient remark on the nature of capitalism: "Thus, while capital must on one side strive to tear down every spatial barrier to intercourse, i.e. to exchange, and conquer the whole earth for its market, it strives on the other side to annihilate this space with time, i.e. to reduce to a minimum the time spent in motion from one place to another. The more developed the capital, therefore, the more extensive the market over which it circulates, which forms the spatial orbit of its circulation, the more does it strive simultaneously for an even greater extension of the market and for greater annihilation of space by time" (Marx 1973, p. 539). This conception of capital's tendency to overcome "every spatial barrier to intercourse" powerfully captures the pressures toward the *internationalization of capital*, that is, the ways in which capital seeks unrestricted, increasingly rapid, and free flows across the globe in order to "conquer the whole earth." In this view, space is not a property that can be understood separate from the time it takes to traverse it. The distance between spaces can be "annihilated" through revolutions in time. Internationalization drives the search for new markets, cheap labor, and sources of raw materials. It underpins the continual technological revolutions in the communication and transport industries. The conquering of space is something that springs immanent from the nature of accumulation itself—not a policy choice or a decision of states.

The motor-force of this drive to internationalize is the competition between different capitalists. Because the aim of production under capitalism is not human happiness or the satisfaction of needs but the pursuit of profit, capitalists are forced to compete with each other or face being swallowed by a more successful rival. Those capitalists able to engage in large-scale investments generally out-perform smaller capitalists—they have better ability to produce cheaper commodities, swamp markets, and engage