

ECONOMIC DEVELOPMENT IN ARAB GULF STATES

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It is my sincerest and humblest honor to dedicate this thesis to
Dr. Dan Breznitz.

Khalil Gibran once said, “The teacher who is indeed wise does not bid you
to enter the house of his wisdom but rather leads you to the threshold of
your mind.”

Thank you for giving me the opportunity to explore the breadth of my
wisdom.

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Most importantly, I would like to dedicate this thesis to every student who prevails through adversity and continues to strive for greatness.

We shall not cease from exploration, and the end of all our exploring will be to arrive where we started and know the place for the first time.

T. S. Elliot

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SUMMARY

After the discovery of oil, many Arab Gulf States failed to diversify and expand their economies beyond the oil sector. Resource curse theory contends these states, also known as rentier states, exhibited slower economic development than other states due to their dependency on oil. Dubai has been classified as a rentier state, however, it has achieved significant economic growth and political stability. Kuwait and Qatar were selected as case studies to compare and contrast with Dubai. Dubai's growth can be attributed to its rulers' decisions prior to and after the discovery of oil and the growing role of the merchant class in the state. Therefore, the resource curse theory alone cannot address the development of Arab Gulf states.

CHAPTER 1

INTRODUCTION

Since the discovery of oil, Arab Gulf States, exuberantly rich by any measure have not managed to utilize oil revenues to build and diversify their economies. Indeed, the prevailing wisdom is that oil discovery has been more of a curse than a blessing for the Arab Gulf States. Hence, over the past decade, several oil-producing Arab Gulf states have actively sought to diversify their economies. With only 6% of its GDP currently derived from oil revenues, Dubai has exemplified this philosophy by incorporating trade, financial services, and constant expansion of its non-oil sector.¹ Nearby nations which rely heavily on oil have tried to follow this trend, but have been met with limited success.

It is important to understand why Dubai was successful in diversifying its economy, while other oil-producing Gulf States previously failed to do so. To answer this question, one must compare and contrast the economic and political development of Dubai with that of similar Gulf States, both before and after the discovery of oil. Kuwait and Qatar are similar to Dubai in that they are constitutional monarchies with large ruling families, all have an area less than 6,000 square miles, and all share Islam as the state religion. Furthermore, all three states are demographically similar since they share a chiefly Arab ethnicity in which the nationals are the minority in each state.²

¹ Little, C. (2007). Understanding the Economic Development of Dubai. Human Geograpy. London, University of Portsmouth: 45.

² "CIA-The World Factbook." Retrieved October, 2008.

The most popular theory that addresses the lack of development in oil-producing states is the resource curse theory, which contends that revenue received from the export of natural resources hinders both economic and political development by transforming the state from a production state to an allocation state.³ A clear cause of rent seeking behavior, oil dependency forces leaders to manipulate and maintain their power, which is generally concentrated in the hands of government officials and few elites, through corruption and patronage. This corruption and lack of transparency undermines democratic growth and the development of free market economies.⁴ Scholars Hazem Beblawi and Giacomo Luciani argue that the rents from oil revenues prevent states from creating incentives based on productivity because states are focused on distributing oil revenues to the citizens.⁵ When rents from oil revenues are enough to provide adequate healthcare, education, and other services to citizens, allowing states to eliminate taxation, the need for citizens to be productive in order to earn these privileges is obviated.⁶

The resource curse literature is immense, with scholars addressing different aspects of the economic and political development of resource-rich nations. Scholar Michael Ross, who has analyzed the political aspect of the resource curse theory, states that political development is hindered in resource-rich nations due to the policy failures

³ Ross, M. L. (1999). "The Political Economy of the Resource Curse." World Politics **51**: 297-322.

⁴ Ross, M. (2001). "Does Oil Hinder Democracy?" World Politics **53**: 325-61.

⁵ Luciani, H. B. a. G. (1987). The Rentier State. London, Helm Croom.

⁶ Ibid.

and shortsightedness of the state actors. Resource rents produce a “get rich quick” mentality among public and private actors by creating easy wealth. Second, resource boom may enhance the leverage of non-state actors who favor policies which hinder growth.⁷ However, in developing nations, non-state actors do not have first claim to the resource rents, which are often controlled by government officials. Ross also emphasizes the weakness and strength of institutions in allocating resources properly by resisting the demands of interest groups and rent seekers. Finally, Ross examines the political consequences of oil revenues by observing that oil hinders democratic growth in states.

Prior to the discovery of oil, governments of states depended on taxation services to fulfill their budgetary needs. After the discovery of oil, states can become free of any social contracts with their citizens, who often surrender their political rights for the social services and goods provided by the government. The growth of revenue can also prompt the state to increase military spending in order to strengthen its control. The growth of democracies in these states is hindered by the lack of political representation of citizens and by military growth.⁸

Nations that depend on oil revenues for economic and political development are characterized as rentier states. According to Scholar Gwen Okruhlik, a rentier state is a state which depends on external sources such as oil revenues for state income. In a rentier state, spending is based on primordial ties and political considerations rather than

⁷ Ross, M. L. (1999). "The Political Economy of the Resource Curse." World Politics **51**: 297-322.

⁸ Ross, M. (2001). "Does Oil Hinder Democracy?" Ibid. **53**: 325-61.

economic rationality.⁹ Scholar Kiren Chaudhry classifies Gulf States in the Middle East as rentier states because the major oil-exporting states are financially autonomous from their citizens. In addition, these states are distributive such that they can exist without extracting taxes and surplus from the local population.¹⁰ Their bureaucracies are based on the need to allocate rather than the need to appropriate the revenues effectively. Oil revenues undercut the emergence of institutions and norms necessary for the construction of market economies.¹¹ A consensus exists between scholars who have researched oil-dependent economies and they agree that an abundance of oil impedes development. Overall, countries that are dependent on oil as their primary export exhibit significantly slower economic development than other developing states.

The history of development in Kuwait and Qatar resembles that of rentier states after the discovery of oil. In Kuwait, taxation mechanisms with the merchant elites were eradicated and the government became the main distributor of wealth to its citizens. In Qatar, the government was the sole beneficiary of the oil revenues and no merchant class existed to contest the distribution of oil revenues.¹² As a result, wealth created corruption and strife within the ruling family. Though Qatar and Kuwait can be classified as rentier

⁹ Okruhlik, G. (1999). "Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States." Comparative Politics **31**(3): 295-315.

¹⁰ Chaudhry, K. A. (1994). "Economic Liberalization and the Lineages of the Rentier State." *Ibid.* **27**(1): 1-25.

¹¹ Chaudhry, K. A. (1989). "The Price of Wealth: business and state in labor remittance and oil economies." International Organizations **43**: 101-144.

¹² Crystal, J. (1989). "Coalitions in Oil Monarchies: Kuwait and Qatar." Comparative Politics **21**(4): 427-443.

states, economic development is hindered due to the decisions of the rulers. In addition, the interaction between the government and merchant class also impeded development.

Dubai has been classified as a rentier state, but has nonetheless achieved remarkable economic growth and political stability. Dubai is a welfare state that provides services to its citizens, even though the percentage of its GDP coming from oil revenues is decreasing steadily.¹³ Dubai's growth can be attributed to its rulers' decisions prior to and after the discovery of oil and the growing role of the merchant class in the state.

The case studies in this thesis will demonstrate that Dubai has enjoyed greater economic success than Kuwait and Qatar because of its leaders' decisions to expand the state's economic interests beyond one primary sector, both before and after the discovery of oil. In addition, the presence or absence of a merchant class has largely dictated the extent of business-government relations, economic development, and reform in all three states. To demonstrate this argument, the economic history of all three states is presented in the following chapters.

¹³ Little, C. (2007). Understanding the Economic Development of Dubai. Human Geography. London, University of Portsmouth: 45.

CHAPTER 2

DUBAI

The modern history of Dubai began when the Al-Maktoum family of the Bani Yas tribe took control from the Al Abu Falasa, another Bani Yas family, without resistance. In 1853, the Gulf Sheikhs, including the ruler of Dubai, signed the Treaty of Maritime Peace and Perpetuity with the British government, making Dubai one of the Trucial states.¹⁴ In addition, the ruling monarchy of Dubai signed the Exclusives Treaties with Britain in 1892, which banned states from making deals with other governments without British consent. In 1966, small reserves of oil were discovered in Dubai and the export of oil began in 1969.¹⁵ Dubai's oil reserves were a fraction of Abu Dhabi's oil reserves and accounted for only a small percentage of Dubai's income. The British government, extremely strained by maintaining a military presence around the world, announced a withdrawal of all forces located east of the Suez.¹⁶ The Trucial states seized this opportunity and the Sheikhs of Abu Dhabi and Dubai created a federal system under the United Arab Emirates (UAE). In 1971, a constitution was established where seven Sovereign emirates (states) were brought into one single nation. The emirates of UAE are: Abu Dhabi, Dubai, Sharjah, Ras al-Kaimah, Ajman, Umm Al-Qaiwan, and Fujairah. Abu Dhabi became the nation's capital and each emirate was governed by individual

¹⁴ Matly, M. and L. Dillon (2007). Dubai Strategy: Past, Present, Future. Harvard Business School: 1-20.

¹⁵ Little, C. (2007). Understanding the Economic Development of Dubai. Human Geograpy. London, University of Portsmouth: 45.

¹⁶ Ibid

rulers.¹⁷ The national government of the UAE controls foreign policy and defense, but the ruler of each emirate retains absolute authority and is a member of the Supreme Council of Federation. This council is the state's highest authority and elects the president of the UAE. The president of the UAE is the commander-in-chief of the armed forces and is in charge of implementing national laws.¹⁸

A very important characteristic of the UAE's government is that the ruler of each emirate holds the autonomy to implement economic and political reform. Prior to the development of a national government, the rulers of Dubai played an instrumental role in devising successful economic development policies. In the 1900s, prior to the discovery of oil, the economy of the UAE was based on the pearling industry. The depression of the 1930s and the introduction of Japanese pearls into the market contributed to the decline of the pearling industry in the UAE, causing an economic depression in Abu Dhabi. Dubai's economy survived because its economy centered on forms of trade exclusive of the pearling industry.¹⁹

Sheikh Maktoum bin Hasher Al-Maktoum, Dubai's leader from 1894-1906, was a progressive business leader who promoted trade and fostered development. He engaged in a variety of entrepreneurship activities by relocating merchants from the Persian city of Lingah, which was one of the Gulf's major hubs for imports, exports, trading, and the pearling industry. When the Persian government became plagued by financial troubles, it

¹⁷ Mallakh, R. E. (1981). *The Economic Development of the United Arab Emirates*, St. Martin's Press New York.

¹⁸ Matly, M. and L. Dillon (2007). *Dubai Strategy: Past, Present, Future*. Harvard Business School: 1-20.

¹⁹ Economist.com. "Dubai- Historical Background." from www.theworldin.com.

was forced to impose taxes on Lingah merchants, who soon decided to move to a more beneficial location for their trading activities.²⁰ Sheikh Maktoum bin Hasher capitalized on the opportunity of having Lingah merchants relocate to Dubai in order to attract foreign trade and commerce. He developed incentives and agreements for these merchants based on abolishing import and export tariffs, providing free land, and personal benefits.²¹ Furthermore, laws were established which promoted tolerance and support for merchants' tribal, ethnic, and religious backgrounds. Thus, with all these social and economic incentives, the merchants of Lingah relocated to Dubai, creating a regional center for small traders, craftsmen, and seafarers. Hence, Dubai's economy was able to survive the pearling depression because of the diverse activities of the merchant class, with Sheikh Maktoum bin Hasher playing a vital role in the development of that class.²²

The second leader whose initiatives and decisions contributed to the development of Dubai's economy was Sheikh Rashid bin Saeed Al-Maktoum, who ruled Dubai from 1958-1990 and was the eighth ruler of the Al-Maktoum family. During his reign, Sheikh Rashid expanded Dubai's entrepreneurial and commercial focus to promote growth in the Emirate. Generations of merchants, due to the relocation of Lingah merchants, resided in

²⁰ Hvidt, M. (2006). Governance in Dubai: The emergence of political and economic ties between the public and the private sector. Centre for Contemporary Middle East Studies University of Southern Denmark, University of Southern Denmark. **6**: 1-28.

²¹ Little, C. (2007). Understanding the Economic Development of Dubai. Human Geography. London, University of Portsmouth: 45.

²² Little, C. (2007). Understanding the Economic Development of Dubai. Human Geography. London, University of Portsmouth: 45.

Dubai and were involved in trade with Northeast Africa, Asia, and India. Sheikh Rashid focused on expanding Dubai as an entrepot of trade by developing and improving infrastructure.

In 1959, the large volume of trader traffic through the Creek of Dubai began to cause severe silting problems. Widening and dredging the Creek of Dubai was expensive, and the government would need to impose a 4% custom fee tax on the merchants in order to complete the project. The merchants cooperated and the expansion of the creek allowed the world's largest modern shipping vessels to reach Dubai.²³ Dubai became the originating port and the stopover point for large ships in transit, resulting in the blooming of trade and exposure of foreign merchants to Dubai's economy. The high volume of trade enabled Sheikh Rashid to use tax revenue to modernize the city by building roads, improving electricity, and revamping water systems.²⁴

A second developmental project by Sheikh Rashid which contributed greatly to diversifying Dubai's economy was the development of Dubai's first international airport in 1960. Government officials borrowed an airport development strategy from Qatar, which abandoned construction of its own airport. Dubai's airport was a success, and eventually became home to nine airlines. The development of infrastructure projects such as the Creek and the International Airport, under the leadership of Sheikh Rashid, enhanced the growth of commercial activities and trade. The percentage of business

²³ Ibid.

²⁴ Franco, J. (2007). Dubai's Economy to Cushion UAE's Diminishing Oil Reserves. [Khaleej Times Online](#).

activity in Dubai increased due to the influx of foreigners entering and trading with Emirate merchants.

Despite the discovery of oil in 1966 and the exploitation of oil in 1969, the political and economic landscape of Dubai did not change. Dubai was a production state and did not become an allocation state after the discovery of oil. Sheikh Rashid understood that nurturing a business environment based on trade was more promising than relying on a limited oil supply, which was expected to run out in 2010.²⁵ Under the leadership of Sheikh Rashid, oil revenues were allocated to fund infrastructure development projects, such as Port Rashid, a harbour outside the Creek of Dubai.²⁶ By 1978, this port could handle the largest container vessels. In the following year, Jebel Ali Port was established through oil revenues, becoming the world's largest man made port in the Middle East. The development of these ports contributed to Dubai's economy in commerce and trade and created a hub for businesses and foreign investors. Overall, Sheikh Rashid used the oil revenues to implement changes in the infrastructure and commerce in Dubai, paving the way for greater developmental strategies with subsequent rulers.²⁷

After Sheikh Rashid's death, Sheikh Maktoum bin Rashid Al-Maktoum (1990-2006) was responsible for the next phase of development in Dubai, including Dubai's

²⁵ Little, C. (2007). Understanding the Economic Development of Dubai. Human Geography. London, University of Portsmouth: 45.

²⁶ Little, C. (2007). Understanding the Economic Development of Dubai. Human Geography. London, University of Portsmouth: 45.

²⁷ Matly, M. and L. Dillon (2007). Dubai Strategy: Past, Present, Future. Harvard Business School: 1-20.

2010 vision.²⁸ The growth of Dubai's economy can be attributed to the vision of Sheikh Rashid bin Saeed and Sheikh Maktoum bin Hasher because they developed infrastructure and a merchant class instrumental for trade. Dubai, by the 1980s, had become a hub for commercial activity and the stage was set for Sheikh Maktoum bin Rashid Al Maktoum.

During the reign of Sheikh Maktoum bin Rashid, the concept of free trade envisioned by Sheikh Rashid bin Saeed was further established. He created a more liberal regulatory environment by promoting free trade policies and creating cities in Dubai based on specific industries.²⁹ Companies of the same industry that were established in close proximity to each other were exempt from taxation. In addition to that, Sheikh Maktoum's strongest development policy was based on transforming Dubai into a tourism destination.³⁰ The Jumeriah group was established in 1997 to develop five-star luxury hotels in Dubai, designing and creating the Burj Al-Arab and Medinat Jumeriah. Dubai established itself as a center of tourism with the development of five-star resorts, world-class shopping, dining, and entertainment projects.

The subsequent ruler of Dubai, Sheikh Mohammed bin Rashid Al-Maktoum, has initiated his own development policies since 2006. However, Dubai's economic success can be attributed to the decisions of Sheikh Maktoum bin Hasher, Sheikh Rashid bin Saeed, and Sheikh Maktoum bin Rashid. Even though economic initiatives of the rulers

²⁸ DeNicola, C. (2005). Dubai's Political and Economic Development: An Oasis in the Desert? Political Science. Williamstown Williams College. **BA with Honors**: 136.

²⁹ Ibid.

³⁰ Hvidt, M. (2006). Governance in Dubai: The emergence of political and economic ties between the public and the private sector. Centre for Contemporary Middle East Studies University of Southern Denmark. 6: 1-28.

are extremely important in analyzing development, it is also of integral importance to assess the relationship between the merchant class and the government.

The merchant class of Dubai continued to cooperate with the decisions of the leaders because of strong business government relation. The merchant class was cooperative to the policies of the leaders even though no formal government bodies existed to represent merchant interests. Informal majlis, consisting of a group of leaders that functioned in place of a formal government organization, were used as a forum for senior government officials and business leaders to exchange ideas, share information, and solve economic problems.³¹ The majlis also provided the Sheikhs' with the opportunity to educate the merchant class on their incentives, decisions, and development plans. In time, the majlis became a consultative channel between the ruler and the citizens.³² The discovery of oil did not change the political structure between the rulers and merchants in Dubai; oil consolidated a neo-patrimonial relationship in which economic development policies stemmed from the leader who held sole governing power.³³ Private businessmen who exhibited success in their entrepreneurship activities, regardless of their patronage and loyalty, were invited by the ruler to advocate their own development policies.³⁴

³¹ Franco, J. (2007). Dubai's Economy to Cushion UAE's Diminishing Oil Reserves. [Khaleej Times Online](#).

³² Little, C. (2007). Understanding the Economic Development of Dubai. [Human Geography](#). London, University of Portsmouth: 45.

³³ Hvidt, M. (2006). Governance in Dubai: The emergence of political and economic ties between the public and the private sector. [Centre for Contemporary Middle East Studies University of Southern Denmark](#), University of Southern Denmark. 6: 1-28.

³⁴ Ibid

The ruling family in Dubai was not the most influential group in promoting economic development policies. The government of Dubai differed from those of other Gulf States because of its strong business-government relations and is characterized as an extremely political government but with business fervor. For example, Mohammed Ali Alabbar, the director general of Dubai's Department of Economic Development and the vice chairman of an aluminum and cable company, encouraged Sheikh Maktoum bin Rashid to sell Dubai's land to foreign real estate investors as a source of revenue for the government. Alabbar ensured that wealth was distributed between the government of Dubai and his enterprise. This demonstrates that Sheikhs, merchants, and members of the business community are linked through various public-private ties, which ultimately promotes economic development.³⁵

In summary, Dubai was successful in diversifying its economy because of its leader's decisions to allocate oil revenues to infrastructure projects and the cooperative nature of the merchant class with the monarchy.

³⁵ Hvidt, M. (2006). Governance in Dubai: The emergence of political and economic ties between the public and the private sector. Centre for Contemporary Middle East Studies University of Southern Denmark, University of Southern Denmark. 6: 1-28.

CHAPTER 3

KUWAIT

Kuwait was established in 1760 under the leadership of the Al-Sabah dynasty, and became a British protectorate in 1899. Sheikh Abdallah Al-Salem Al-Sabah declared Kuwait's independence in 1961, establishing Kuwait as a constitutional monarchy with a parliamentary system consisting of a National Assembly.³⁶ First inaugurated in 1961, the National Assembly is composed of fifty members elected by popular vote. The economy of Kuwait is dominated by the export of petroleum, which was first discovered by Kuwait Oil Company in 1938. Currently, petroleum accounts for nearly half of the GDP, 95% of export revenues, and 80% of government income.³⁷

The modern history of Kuwait began with the settlement of the Bani Utub tribe, which consisted of merchants and three major families: Al-Sabah, Al-Khalifa, and Al-Jalahima. Each of the three families assumed control of a different duty; the Al-Sabah family was in charge of political affairs, the Al-Khalifa family handled economic affairs, and the Al-Jalahima family handled security. In the early 1760s, after a dispute with the Al-Sabah family, the Al-Khalifa family migrated to Qatar.³⁸ During the late 18th and 19th Centuries, the elite merchant families of the Bani Utub were heavily involved in the

³⁶ "CIA-The World Factbook." Retrieved October, 2008.

³⁷ . "CIA-The World Factbook." Retrieved October, 2008.

³⁸ Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

prosperous pearling industry with East Africa and India.³⁹ The ruling Al-Sabah family was completely dependent on the wealth received from taxing the merchant class for political survival. Subsequently, the elite merchant families and ruling family entered into a strong symbiotic relationship in which politics needed commerce.⁴⁰

The modern history of Kuwaiti leadership began in 1896 with the rule of Sheikh Mubarak bin Sabah Al Sabah (1837-1915), also known as Mubarak the Great, whose decisions would continue to influence economic development in the following decades.⁴¹ Mubarak the Great was a determined leader whose goal was to strengthen the ruling Al-Sabah's leadership and Kuwait's position in the Gulf. In 1899, Kuwait became a British protectorate, with the British government agreeing to provide monetary payments to the Al-Sabah family in order to secure their family income and political standing. Sheikh Mubarak wanted to achieve financial independence from the merchant families and reinforce Al-Sabah political leadership, especially his role as the ruler, by creating state-building initiatives based on his own interests rather than those of the merchants.⁴² Sheikh Mubarak imposed a mandatory tax law on the merchant families, and used the associated revenues to support his political agendas. In 1909, Mubarak chose to ban pearl diving, which caused many merchant families to migrate to Iraq, though many would

³⁹ Moore, P. W. (2004). Doing Business in the Middle East: Politics and Economic Crisis in Kuwait and Jordan. Cambridge, Cambridge University Press.

⁴⁰ Crystal, J. (1989). "Coalitions in Oil Monarchies: Kuwait and Qatar." *Comparative Politics* 21(4): 427-443.

⁴¹ Moore, P. W. (2004). Doing business in the Middle East: Politics and Economic Crisis in Jordan and Kuwait, Cambridge University Press.

⁴² Moore, P. W. (2004). Doing business in the Middle East: Politics and Economic Crisis in Jordan and Kuwait, Cambridge University Press.

return to pledge their loyalty to the leader.⁴³ Mubarak's decisions and state-building initiatives, which led to strife between the ruling family and merchant class, exemplify the intention of the rulers to achieve financial independence and improve their political position by subjugating the merchant class.

The introduction of Japanese pearls into the market, combined with the effects of a world-wide depression, placed the Kuwaiti economy in severe distress during the 1930s. Discontent among the merchant class was so great that an opposition group known as al-Majlis al-Umaa al-Tashri'i (the People's Legislative Council) was assembled, which consisted of fourteen members from the elite merchant families. The decisions of Sheikh Ahmad Al-Jaber Al-Sabah, the ruler of Kuwait from 1921-1950, were critical during that unstable time period. Sheikh Ahmad agreed to the elections, thereby creating a new National Assembly whose members demanded reforms to end monopolies, reduce taxes, and build education systems.⁴⁴ Sheikh Ahmad did not oppose these reforms and was in favor of building systems that would improve social development.

However, the discovery of oil in the Burgan Field in 1938 caused Sheikh Ahmad to dissolve the National Assembly because of the merchants' demands to turn over oil revenues.⁴⁵ The reforms were jeopardizing Sheikh Ahmad's power and jurisdiction considerably, and by conforming to the merchants' demands, the sovereignty of the

⁴³ Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁴⁴ Moore, P. W. (2004). Doing business in the Middle East: Politics and Economic Crisis in Jordan and Kuwait, Cambridge University Press.

⁴⁵ Almubailesh, K. "Kuwait Past " Retrieved March 1, 2008, from <http://www.kuwaitpast.com/index.html>.

ruling family would be compromised.⁴⁶ Al-Sabah leadership was committed to developing the oil industry because oil revenues would provide the ruling family with financial independence from the merchants. Rulers would use oil revenues to accomplish objectives such as buying merchants out of politics, developing new allies in the national population, and creating a new administrative network based on the ruling family. Sheikh Abdallah III Al-Salim Al Sabah (1950-1965), who began his reign as the ruler of Kuwait in 1950 after the death his cousin Sheikh Ahmad, would play an important role in administrating these objectives.

During the reigns of Sheikh Abdallah and Sheikh Ahmad, oil revenues replaced taxes and British monetary payments to the ruling family. In sharp contrast to Dubai, Kuwait failed to efficiently channel oil revenues toward the development of infrastructure in the state. Instead, Sheikh Abdallah first instituted regular oil payments to prominent Al-Sabah family members and expanded their role in state politics. For example, sons and grandsons held the post of cabinet ministers, ambassadors, and defense department officials; moreover, each department answered directly to the ruler. In 1952, a Development board was established under the instruction of Sheikh Abdallah to execute economic planning initiatives and projects, however, all positions of authority were granted to members of the Al-Sabah family who were close allies to the ruler. Additionally, the Development Board contracted infrastructure projects only to local developers who were close allies to Sheikh Abdallah. Unlike in Dubai, the results of the projects were extremely poor because the ruler failed to provide adequate funding and

⁴⁶ Ibid

each party worked to their best interest only.⁴⁷ In fact, the entire process was ad hoc in that it completely depended on the will of the ruler, which made for inefficient decision making and allocation of resources between the merchants and ruling family.

The development projects of Sheikh Abdallah in the 1950s are characterized as large scale and ill coordinated, with skewed profit distribution. Sheikh Abdallah instituted a 15-year development plan in 1951, which failed due to corruption, cost overruns, and the government's inability to monitor expenses.⁴⁸ In 1953, a crisis emerged in which the ruler had to borrow money from the merchants to pay off the debts of the plan. Eventually, the debt was paid off and development was only successful in providing basic services such as roads, mosques, electricity, and water.⁴⁹ The government of Kuwait, unlike that of Dubai, was not successful in implementing infrastructure projects and the failure of their plans illustrates poor decision making by the government. Furthermore, unlike Dubai, the state did not use oil revenues to promote trade and the development of non-oil industries. Instead, oil revenues were used to fund domestic ordinary expenditures such as wages to civil servants, education, housing, and healthcare. The government created incentives for the labor force to join the public sector, hence over 60% of the labor force entered public sector employment.⁵⁰ The International Bank

⁴⁷ Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁴⁸ Ibid.

⁴⁹ Moore, P. W. (2004). Doing business in the Middle East: Politics and Economic Crisis in Jordan and Kuwait, Cambridge University Press.

⁵⁰ Kaboudan, M. A. (1988). "Oil Revenue and Kuwait's Economy: An Econometric Approach." International Journal of Middle East Studies 20(1): 45-66.

for Reconstruction and Development (IBRD) was asked by the Kuwaiti government to evaluate the economy of Kuwait in 1961. The IBRD argued that no separation existed between the public duty and private interest of civil servants, and that officials in high ranks participate in commercial and private activities.⁵¹

On the whole, Kuwait became a rentier state because oil revenues were used to provide economic and social development without taxation. The political participation of the public diminished and government control was centralized around the ruling family.⁵² Kuwait's economy underwent an economic boom in the 1970s due to the rise in oil prices, which brought unprecedented wealth to the government.⁵³ During this time period, Kuwaiti leadership continued to focus on gaining autonomy through distributional mechanisms, rather than using revenues to promote the development of new industries and infrastructure. Public expenditures grew by 26 percent annually and civil service jobs came to represent 75 percent of the workforce.⁵⁴ The Kuwaiti government focused on two areas, social services and employment, in order to ensure that Kuwaitis would have access to free healthcare, education, and a variety of subsidized goods and services. In addition, the ruler during this time period, Sheikh Sabah III Salim Al-Sabah (1965-1977)

⁵¹ Moore, P. W. (2004). Doing business in the Middle East: Politics and Economic Crisis in Jordan and Kuwait, Cambridge University Press.

⁵² Kaboudan, M. A. (1988). "Oil Revenue and Kuwait's Economy: An Econometric Approach." International Journal of Middle East Studies 20(1): 45-66.

⁵³ Ibid

⁵⁴ Moore, P. W. (2004). Doing business in the Middle East: Politics and Economic Crisis in Jordan and Kuwait, Cambridge University Press.

altered distributional policies to favor new business leaders who could rival the upper social stratum of merchants.⁵⁵ Sheikh Sabah accomplished this by supporting a new economic elite comprised of younger Kuwaitis, Shiites and Bedouins, who all pledged loyalty to the ruling family.⁵⁶ During his reign, Sheikh Sabah worked to uphold his predecessors' main objectives: economic largesse and political autonomy.

During the 1970s, massive state interference in the private sector by the state continued through new laws which enabled new merchants to access and dominate the private sector. Ruling family members used their leverage to win state contracts for companies and pressed the ruler to punish competing merchants.⁵⁷ The success of entrants into the private sector was based on favoritism and the projected payoff of activities; little consideration was given to the promise of societal benefit.⁵⁸ Kuwaiti merchants sought to increase their prestige, power, and wealth by cooperating with the economic initiatives of the government, which in reality were unproductive with respect to development. As a result, the economy of Kuwait encountered serious blows in the following decades.

⁵⁵ (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁵⁶ Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁵⁷ Ibid

⁵⁸ Moore, P. W. (2004). Doing business in the Middle East: Politics and Economic Crisis in Jordan and Kuwait, Cambridge University Press.

Economic development policies of the government, unproductive entrepreneurship activities, and the fall of the stock market led to repercussions which dominated Kuwait's economy well into the 1990s. The economy of Kuwait was compromised after the crash of the stock market, Souq al-Manakh, in 1982. At that time, there were five thousand individual debts totaling to \$92 billion, which were not backed by local banks.⁵⁹ Government initiatives, under the leadership of Sheikh Jaber Al-Sabah, funded the shortfall and the state ran a deficit well into the 1990s.⁶⁰ In addition, Kuwait's economy took a blow with the Gulf War, which precipitated a return of the Parliament, Islamist opposition to liberalizing the economy, and complete reliance on the policies of the state with respect to economic development.⁶¹

Prior to the discovery of oil, a merchant elite was established which participated in the pearl industry, shipbuilding, and long-distance commerce that dominated the economy until the pearl depression.⁶² More importantly, the merchant class was extremely powerful because they provided the funding of the ruling Al-Sabah family through voluntary taxes. The relationship can be characterized as economic dependence and political counterbalance.⁶³ However, this relationship changed considerably during

⁵⁹ (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁶⁰ Moore, P. W. (2004). Doing Business in the Middle East: Politics and Economic Crisis in Kuwait and Jordan. Cambridge, Cambridge University Press.

⁶¹ Ibid

⁶² (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁶³ Ibid

the reign of Sheikh Mubarak and changed even more so on the eve of the discovery oil. Unlike in Dubai, where the discovery of oil aided development, in Kuwait it hindered development. The merchant class felt a sense of political entitlement due to their historical financial interdependent relationship with the royal family, believing they had a right to state wealth.⁶⁴ However, the ruling Al-Sabah family and the leaders were determined to achieve financial independence and political autonomy from the merchant class. Regardless of any of the opposition movements, the Al-Sabah leadership was extremely successful in achieving this objective. For example, Sheikh Abdallah, sensing that the merchants were discontent with his distribution policies, attempted to appease the merchants by using oil revenues in various policies and programs designed to redistribute the wealth.⁶⁵ For example, the government created the land acquisition program which used oil revenues for land acquisition from elite merchants at inflated prices. Fifty percent of state expenditures were used for land acquisitions; the state purchased the land and resold it back to the asil merchants at prices below the market price.⁶⁶ The merchants made significant profits from this deal because they rented the land at high prices to other merchants.⁶⁷ The IBRD commented on this program, concluding:

The Government buys land at highly inflated prices for development projects and for resale to private buyers. Land purchases amounted to between KD 40 million

⁶⁴ Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁶⁵ Ibid.

⁶⁶ Ibid

⁶⁷ Ibid

Moore, P. W. (2004). Doing Business in the Middle East: Politics and Economic Crisis in Kuwait and Jordan. Cambridge, The Press Syndicate of the University of Cambridge.

and KD 60 million in most recent years. Whatever the political or development justifications for this practice, the prices fixed by the Government for these transactions and the small amount thus far collected on the resale of the land make the public land transaction a rather indiscriminate and inequitable way of distributing the oil revenues. (IBRD; 1965)⁶⁸

In addition to that, Sheikh Abdallah's developmental policies concentrated on creating new shareholding companies to create a public-private ownership. Merchants established a wide number of companies such as Kuwait Oil Tankers Company, Kuwait Hotels Company, and Kuwait Transportation Company: companies in which the government invested a considerable amount of startup equity.⁶⁹ Consequently, the government controlled about fifty percent of the shares of each company and had the opportunity to appoint royal family members in the executive board.⁷⁰ A dependent relationship grew between the merchants and ruling family because the government was providing generous incentives to the merchant class in return for public investment in private companies.⁷¹ The merchants in Dubai were a major part of the economic growth; while in Kuwait, they relied on the government for economic growth and success.

⁶⁸ Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁶⁹ Moore, P. W. (2004). Doing Business in the Middle East: Politics and Economic Crisis in Kuwait and Jordan. Cambridge, Cambridge University Press.

⁷⁰ Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁷¹ Moore, P. W. (2004). Doing business in the Middle East: Politics and Economic Crisis in Jordan and Kuwait, Cambridge University Press.

Merchants would continue to fight for political participation and access to decision making to influence development by participating in the National Assembly and creating the Kuwaiti Chamber of Commerce and Industry. In 1961, Kuwait gained independence from the British government and, after two years, elections were held for the National Assembly (Majlis al Umma).⁷² The National Assembly was a consultative body because it could only accept, amends, or reject legislation submitted by the Prime Minister, demonstrating absolute control of the government. As a result, laws were formulated according to policies of the government and the merchant's role in influencing policy was minimal because the National Assembly was used as a venue to secure allies and isolate opponents by the government. Overall, Kuwait and Dubai may have developed venues for discussions and opinions; however, it seemed in the case of Dubai that merchants' concerns and desires were met alongside with government objectives. In Kuwait, the objectives of the government were met first before the concerns of the merchants.

The merchants were successful in the creation of the Kuwaiti Chamber of Commerce and Industry (KCCI), a very important business and political institution composed of merchant elites who primarily focused on administrative access to policy making and enhancing their standing in the market.⁷³ In the first assembly of 1963-1967, twenty-two KCCI allies were elected into the seats out of the total of fifty representatives.

⁷² Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁷³ Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

Their lobbying efforts reveal their perseverance in trying to gain leverage in the economy and access to policy making. Regardless of the efforts, economic policy still remained as the final duty of the Prime Minister and his Council of Ministers. The government continued to use the ministerial positions designated for the KCCI as a tool of reward and punishment.⁷⁴

In summary, economic development in Kuwait was slow because of the leadership of the Kuwaiti government and their incentives to allocate oil revenues. Oil revenues were not used towards the development of infrastructure and non-oil industries, which would aid in economic growth and prosperity. Furthermore, the merchants were constantly in the shadow of government policies due to the Kuwaiti government's desire to achieve autonomy and complete dependence of the society on the state.

⁷⁴ Ibid

CHAPTER 3

QATAR

Established as a British protectorate in 1916, Qatar gained its independence in 1971 under the leadership of Sheikh Abdalla Al-Thani. Qatar is a constitutional monarchy whose constitution, established in 2005, recognizes the hereditary rule of the Al-Thani family. The government of Qatar has three branches: judicial, executive (council of ministers), and legislative. Pending elections in 2008 will decide the establishment of a legislative council which would ensure that government ministers are accountable to state legislature. In Qatar, exports of oil and natural gas account for more than 60% of the GDP, 85% of export earnings, and 70% of government revenues.⁷⁵

The modern history of Qatar began in 1872, when the Al-Khalifa and al-Jalahima families of the Bani Utub tribe left Kuwait and relocated to Zubara, a settlement located on Qatar's western coast.⁷⁶ By the 1770s, the Persian Empire had taken notice of the mercantilist profits of Zubara, which had become a well-known pearling center. The Bani Utub of Zubara and Kuwait joined with other Qatari tribes and attacked Bahrain in 1783. Most of the Al-Khalifa family left to settle in Bahrain, a move which would significantly impact Qatar's political history.⁷⁷ Large families of the Bani Utub tribe left for Bahrain,

⁷⁵ Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁷⁶ Ibid.

⁷⁷ Ibid.

taking their political and economic trade ties with them. As a result, Qatar was left without any semblance of a centralized authority, and was ruled instead by transitory tribal leaders.⁷⁸ The economy of the state was extremely poor due to the weak resource base and inhospitable climate. In time, Qatar's economy, like Kuwait's and Dubai's, would rely heavily on the pearling industry.⁷⁹ The Al-Thani tribe, which was deeply rooted in pearling, eventually rose to power as the political and economic force in the state under the leadership of Muhammed Al-Thani.⁸⁰

Sheikh Muhammed bin Thani Al-Thani was a prominent merchant who, upon signing a treaty with the British in 1868, became the first Sheikh of Qatar to be recognized by Britain. Sheikh Muhammed Al-Thani's decision to sign the treaty was extremely important because, due to Qatar's small population and weak merchant class which could offer little opposition, it firmly established the Al-Thani as the ruling family of Qatar. Qatar's economy prior to the discovery of oil was unlike Kuwait's or Dubai's; although Qatar participated in the pearling industry, its trade sector was extremely weak because local divers did not participate in sailing or trade like other divers in Kuwait or Dubai. Rather, many would return to the desert after the pearling season, preventing the development of a distinct merchant class which could challenge the rule of the Al-Thani family. The relationship between the merchant class and ruling family was unlike

⁷⁸ Crystal, J. (1990). *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar*, Cambridge University Press.

⁷⁹ Mallakh, R. E. (1985). *Qatar: Energy & Development*, Croom Helm.

⁸⁰ Ibid

Kuwait's; instead, the merchant class had very little political power because their revenues went into the hands of the ruling family without political participation in return. After the fall of the pearling industry, many Qatari merchants migrated to look for other opportunities and nomadic Bedouin represented majority of the Qatari society.⁸¹ As a result, unlike Dubai, Qatar did not have any institutionalized developments prior to the discovery of oil. The economic and political history of Qatar would change significantly after the discovery of oil because oil revenues enabled the Al-Thani family to consolidate economic and political power in the state.

The discovery of oil occurred under the leadership of Sheikh Abdalla bin Jassim Al-Thani (1913-1948). Sheikh Abdalla's economic decisions, relationship with royal family members, and political desires influenced Qatar's economic development. Sheikh Abdalla's relationship with royal family members was troublesome due to the lack of political support.⁸² Sheikh Abdalla came into power, in 1913, after the death of his father, Sheikh Jassim bin Mohammad Al-Thani. His ascension to power was heavily contested by his twelve brothers and cousins, who all refused to take an oath endorsing him as the governor of Doha.⁸³ Sheikh Abdalla had the opportunity to turn to an external ally, the British government, based on the relationship previously established by Sheikh Mohammed. In November of 1916, a mutual agreement was signed between the two

⁸¹ Mallakh, R. E. (1985). Qatar: Energy & Development, Croom Helm.

⁸² Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁸³ Ibid

parties which guaranteed Sheikh Abdalla's domestic power and his son Sheikh Hamad as the heir.⁸⁴ Although Sheikh Abdalla was legitimately recognized by the British government as Qatar's leader, his failure to earn the political support of his family resulted in internal tensions. Strife between family members was a characteristic seen in subsequent generations of Qatari leaders.⁸⁵

Sheikh Abdalla's economic decisions after the discovery of oil included an agreement between the British government and Qatar in May 1935. According to this agreement, the Anglo-Persian Oil Company was to have seventy-five years of exclusive oil rights in Qatar. Sheikh Abdalla agreed to this treaty since he would receive a generous yearly income and political recognition as the leader of the Qatar, regardless of internal family dissent.⁸⁶ The exploitation of oil began in 1947, after the economic crisis of the interwar period, and Qatar's economy was dominated by the oil industry. The only non-oil economic activity was small overland trade with Saudi Arabia. Sheikh Abdalla strategically negotiated a series of agreements with foreign oil contractors and these agreements were handled by only members of two merchant families, Al-Mani and Darwish, who survived the interwar economic crisis.⁸⁷ Sheikh Abdalla intentionally placed Salih Al-Mani and Abdalla Darwish in the negotiation agreements to curtail any

⁸⁴ Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁸⁵ Ibid

⁸⁶ Mallakh, R. E. (1985). Qatar: Energy & Development, Croom Helm.

⁸⁷ Ibid

dissent from the merchant class and solidify their ties with the palace. As a result, the only two main merchant families would no longer be threats to the Sheikh's power.⁸⁸

The agreements enabled Sheikh Abdalla to accumulate a substantial amount of wealth from oil revenues and yearly income from the British government. Only a limited amount of revenue was placed in the economy for the purpose of development and a limited amount was granted to ruling family members. A report by the Financial Times, although written in 1981, assesses the situation by stating, "money supply is controlled by the amir in such a personal way that bankers claim to be able to tell when he is on holiday."⁸⁹ Consequently, this triggered dissent since his own family, who formed a considerable bulk of the population, was excluded from the political process and wealth. Sheikh Abdalla's decisions were completely personal and autocratic in that he granted political access to court favorites, certain domestic merchants, and his son Hamad.⁹⁰ Sheikh Hamad was the only individual who was included in all his decisions and, by the early 1940's, Hamad had become the virtual ruler of Qatar.⁹¹ However, Sheikh Hamad's death in May 1948 created a succession crisis that would ultimately impede development in Qatar for decades.

Economic development initiatives required funds and the programs failed not because of insufficient revenue; rather, these initiatives had to compete with the Qatari

⁸⁸ Ibid

⁸⁹ Ibid

⁹⁰ Ibid

⁹¹ Crystal, J. (1989). "Coalitions in Oil Monarchies: Kuwait and Qatar." Comparative Politics **21**(4): 427-443.

ruling family's desire to acquire wealth. In Qatar, the impact of oil was that it increased the demands of the royal family members who were bent on acquiring a piece of the wealth. After the reign of Sheikh Abdalla, Sheikh Ali bin Abdalla (1949-1960) became the new leader of Qatar and Sheikh Khalifa the heir apparent. The Al-Thani family was so dissatisfied with the amount of wealth appropriated to them by Sheikh Abdalla that members petitioned to Sheikh Ali for allowance increases.⁹² Family members threatened to riot against the Sheikh, if he were to deny those increases. Internal strife was so great between family members that the British foreign office helped draft a fiscal budget. The British also urged the state to diversify its economy by developing natural gas, foreign investments, and fishing (a local industry which had potential). The implementation of the budget and advice from the British was not heeded by Sheikh Ali. More importantly, he failed to meet the demands of his family and was abdicated from office in October 1960, after which the affairs of the state were turned over to his son Shiekh Ahmad rather than Sheikh Khalifa.⁹³

The poor decisions made by Sheikh Ahmad with respect to allocating revenues and confronting his family severely impeded the development of Qatar's economy. Sheikh Ahmad decided the best policy was to comply and divide the oil revenues equally between the family and state. As a result, the ruler received 25% of oil revenues, ruling

⁹² Ibid

⁹³ Ibid

Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

family members took 25%, and the state received 50%.⁹⁴ Per British recommendation, the Qatari government initiated changes by creating state reserves, establishing gas-based petrochemical companies, and developing a handful of local industries and agriculture. However, these development projects failed due to insufficient funds, a problem also seen in Kuwait. The Qatari population resented the decisions of the ruling family and, in 1963, held an uprising against Sheikh Ahmad. Angry Qatari citizens demanded the Sheikh to reduce his personal privileges, expand social services, reduce foreign labor in government, and establish a budget beneficial to development.⁹⁵ More importantly, Sheikh Khalifa was the leader of the popular uprising which demonstrates that the government did not have an institutionalized system of dispute resolution within the family. After the strike was over, Sheikh Ahmad promised equality, justice, and stability, and established laws which provided social and economic services to Qatari citizens.⁹⁶ Although Sheikh Ahmad promised a set of new objectives, he remained abroad during the troubled times. Sheikh Khalifa took advantage of the absence, gaining the consent of the Qatari people to oust Sheikh Ahmad and declare Qatar's independence in 1971.⁹⁷

⁹⁴ Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press

⁹⁵ Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

⁹⁶ Ibid

⁹⁷ Ibid

Once Shiekh Khalifa bin Hamad Al-Thani (1971-1995) became the leader of Qatar, he faced the same decision as previous leaders with respect to the demands of his family members. Sheikh Khalifa was the first leader who decided to devote more revenues towards development and acquiring popular support in the nation.⁹⁸ Sheikh Khalifa borrowed from the ruler's twenty-five percent share and added it to the state budget in order to fund social and economic development. With respect to economic development, a five-year plan was initiated in 1970 which focused on creating joint public-private ventures between the state and businesses.⁹⁹ Sheikh Khalifa's industrial ventures in the areas of fertilizer, petrochemicals, and steel were extremely unsuccessful. For example, he initiated the development of a \$275 million dollar steel plant which could only produce steel at three times the selling price. When world steel prices fell in the 1980s, the setbacks hurt the economy as did the decrease of oil prices in the 1980s.¹⁰⁰ Furthermore, Sheikh Khalifa's policies of distribution, employment, and development contributed to uncontrollable bureaucratic growth in which personal relationships between government officials were extremely important. Because of Sheikh Khalifa's development policies, the state became a machine for distributing revenues to government employees, citizens, and family members, similar to the Kuwaiti government. In all respects, the Qatari government became a rentier and welfare state whose funds solely depended on oil revenues. When oil prices fell in 1980s, Sheikh

⁹⁸ Ibid

⁹⁹ Ibid

¹⁰⁰ Ibid

Khalifa delayed development projects, such as the expansion of gas fields, and prompted substantial financial cutbacks that created dissent among both the public and the royal family.¹⁰¹ Once again, Sheikh Khalifa became vulnerable as a ruler and this vulnerability was reflected in the economy because, by the early 1990s, the only highly developed industry in Qatar was the oil industry. Sheikh Hamad deposed his father Sheikh Khalifa in 1995 with the intent of integrating Qatar into the world economy and promoting diversification.¹⁰²

The second argument in this paper entails the role of the merchant class with respect to development. Prior to the discovery of oil, a merchant class existed in Qatar as in Kuwait and Dubai. Through all the dissent and chaos of the Al-Thani family, the merchants remained quiet. The Al-Mani and Darwish families were tied to the royal family through social and business agreements.¹⁰³ The Amir created these relationships to gain political control over the merchants. Economic favors were granted to merchant families, but, in return, they had to renounce their claim to any form of government decision making and political participation.¹⁰⁴ The extraction of wealth from oil revenues also enabled the regime to develop a symbiotic relationship with the merchant class through its distributive policies. The Bedouins in the Qatari society strongly held to their

¹⁰¹ Mallakh, R. E. (1985). Qatar: Energy & Development, Croom Helm.

¹⁰² Crystal, J. (1990). Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar, Cambridge University Press.

¹⁰³ Crystal, Jill. "Coalitions in Oil Monarchies: Kuwait and Qatar." Comparative Politics 21 (1998): 427-443.

¹⁰⁴ Crystal, Jill. "Coalitions in Oil Monarchies: Kuwait and Qatar." Comparative Politics 21 (1998): 427-443.

own tribal distribution customs.¹⁰⁵ As a result, the Amir used the revenues to distribute oil wealth to all nationals. All Qatari citizens had access to education, housing, and a variety of subsidized goods without taxation.¹⁰⁶ Since the population was receiving social services without taxation, loyalty to the government and royal family was widespread amongst nationals. By providing these services for free, the government was promoting an image of responsibility to its citizens in the form of social services.¹⁰⁷

In summary, the business and state politics in Qatar was an expression of the internal decisions of the ruling family regarding distribution.¹⁰⁸ Qatar's economy was characterized as a business community which was subservient to the Sheikhs and ruling family members. The Sheikhs were known to be merchants first and rulers second.¹⁰⁹ In the Qatari government, the power was deinstitutionalized such that the sovereignty of the Amir was unlimited. The absence of institutionalized succession mechanisms, in addition to corruption within the family resulted in forced abdications: Abdalla to Ali (1949), Ali to Ahmad (1960), Ahmad to Khalifa (1972), and Khalifa to Hamad (1995).¹¹⁰ Although

¹⁰⁵ Crystal, Jill. "Coalitions in Oil Monarchies: Kuwait and Qatar." Comparative Politics 21 (1998): 427-443

¹⁰⁶ Crystal, Jill. "Coalitions in Oil Monarchies: Kuwait and Qatar." Comparative Politics 21 (1998): 427-443

¹⁰⁷ Moore, Peter. "Rentier Fiscal Crisis and Regime Stability: Business-State Relations in the Gulf." Studies in Comparative International Development 37 (2002): 34-56.

¹⁰⁸ Moore, Peter. "Rentier Fiscal Crisis and Regime Stability: Business-State Relations in the Gulf." Studies in Comparative International Development 37 (2002): 34-56.

¹⁰⁹ Moore, Peter. "Rentier Fiscal Crisis and Regime Stability: Business-State Relations in the Gulf." Studies in Comparative International Development 37 (2002): 34-56.

¹¹⁰ Crystal, Jill. "Coalitions in Oil Monarchies: Kuwait and Qatar." Comparative Politics 21 (1998): 427-443

corruption and strife existed with respect to political power, the Al-Thani royal family was united on the basis of keeping governmental power within the family. Power has never left the hands of the Al-Thani family, but development in the economy has been affected.

CHAPTER 4

CONCLUSION

The purpose of this thesis is to demonstrate that the resource curse theory alone cannot address the development outcome of all oil rich states. Dubai, though it is characterized as a rentier state, has enjoyed successful economic development relative to other oil rich states. The diversification of Dubai's economy relative to those of Qatar and Kuwait is attributed to the rulers' ongoing commitment to effective allocation of wealth. Throughout the century, each ruler of Dubai effectively channeled oil revenues into the development of new infrastructure and diversification of the economy. These initiatives were not taken by the rulers of Kuwait, who were preoccupied with gaining autonomy from the merchant class and establishing themselves as the political and economic powerhouse of the state. Economic development in Qatar was impeded by internal strife within the ruling family and forced abdications of the rulers. This study has proven that an effective analysis of economic development in oil-producing states must address the decisions of the rulers regarding allocation of revenues, as well as the role of the merchant class. It is not effective to simply argue that development is hindered because oil is a resource curse.

Currently, Dubai is under the leadership of Sheikh Mohammed bin Rashid Al-Maktoum, who became the leader of Dubai after the death of Sheikh Maktoum bin Rashid Al-Maktoum. Sheikh Mohammed maintains a successful economy by following the policy traditions of the Al-Maktoum leaders: encouraging investment, establishing free trade zones, and promoting Dubai as a premier tourist destination in the Middle East.

The success of Dubai's economic development strategies has prompted other Middle Eastern states to promote economic diversification and integration into the world economy. The development and diversification plans in Qatar and Kuwait are a result of Dubai's economic competitiveness in the region. Currently, the Kuwaiti government is trying to implement a five-year economic diversification plan, which would begin in 2009.¹¹¹ The aims of this plan are to attract foreign investment, encourage privatization, improve the real estate market, and promote the development of the non-oil sector, which now accounts for only 10% of state revenues. However, Kuwait continues to face obstacles because parliament and government fail to achieve consensus on economic development projects.¹¹² The Amir of Kuwait, Sabah Al-Ahmad Al-Jaber Al-Sabah, has dissolved the Parliament on many occasions because of the unresolved conflict between parliament members and the Kuwaiti government. On the other hand, Qatar has been more successful in diversifying and developing its economy away from the oil sector under the leadership of Sheikh Hamad Al-Thani.

The growing diversification and modernization in Qatar is a result of Sheikh Hamad's dedication to expanding the development of Qatar's natural gas reserves, increasing foreign investment in non-energy sectors, and promoting tourism. The administration is allocating revenues to develop infrastructures such as a \$2 billion

¹¹¹ Laessing, R. E. G. a. U. (April 2, 2008). "Kuwait unveils post-oil era plans." from <http://www.arabianbusiness.com/515301-kuwait-plans-post-oil-era?ln=en>.

¹¹² Ibid

international airport and manmade Pearl Island.¹¹³ Qatar is now home to a wide variety of tourist attractions such as Qatar National Library and the Museum of Islamic Arts. In addition, Qatar received international recognition when it hosted the WTO Ministerial Conference in 2001.¹¹⁴

Sheikh Rashid, the ruler of Dubai from 1979-1990, once said: “my grandfather rode a camel, my father rode a camel, I drive a Mercedes, my son drives a Land Rover, his son will drive a Land Rover, but his son will ride a camel.”¹¹⁵ His quote accurately exemplifies some truth about the economies in the Middle East. In order for an oil state to be successful, diversification beyond the oil sector and integration into the world economy are imperative.

¹¹³ (2006). "Urban Planning & Development Authority- The Master Plan of Qatar." from www.up.org.qa/upeng.

¹¹⁴ Ibid

¹¹⁵ Ibid

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