# DEFYING THE RESOURCE CURSE
## Explaining Successful State-Owned Enterprises in Rentier States

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THIS article explains how several Gulf rentier monarchies have managed to create highly profitable and well-managed state-owned enterprises (SOEs), confounding expectations of both general SOE inefficiency and the particularly poor quality of rentier public sectors. I argue that a combination of two factors explains the outcome: the absence of a populist-mobilizational history and substantive regime autonomy in economic policy-making. We need to rethink our generalizations both about rentier states and, arguably, about public sectors in the developing world.

The debate about the state's role in economic development has moved far beyond the liberal orthodoxy of the 1980s. A majority of development theorists now acknowledge that active, targeted industrial policies can play an important role in enabling long-term growth and diversification of late developers.[1] But despite this thorough revision of the Washington Consensus, there seems still to be widespread agreement that states, however "developmental," should not exert direct control over productive assets. Outside of public utilities and some other natural monopolies, state-owned enterprises (SOEs) are seen as relics of bureaucratic overstretching, a fiscal and administrative burden that modernizing governments are struggling to get rid of.[2]

Another piece of received wisdom from the recent development debate is that resource-dependent, or "rentier," states have particularly inefficient and bloated bureaucracies and public sectors.[3] We should

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[1] Evans 1995; Woo-Cumings 1999; Wade 2003.

[2] Lawson 1989; Boycko, Shleifer, and Vishny 1996; Aharoni 1986; Boubakri and Cosset 1998; Shirley and Walsh 2000.

[3] Chaudhry 1997; Isham et al. 2005; Karl 1997; Vandewalle 1998.

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therefore expect SOEs in rentier states to be especially dysfunctional. Under any reform-oriented rentier state government, SOEs should be prime candidates for divestiture or liquidation.

SOEs in industry and services do indeed seem to be on the way out across the developing world. Not so, however, in a number of important resource-rich states. On the one hand, the regimes in Venezuela and Russia have started during the recent oil boom to renationalize strategic industrial assets, using them for overt political and strategic ends at home and abroad.[4] On the other hand, several of the Gulf Cooperation Council's (GCC) much less belligerent oil monarchies have poured a considerable share of their rents into a new generation of sleek, profit- and market-oriented public companies. Instead of nationalizing, they are creating new state assets or expanding existing ones, while leaving ample investment opportunities for local and foreign private sectors. Instead of using them as political tools, they are taking pains to signal that the business of their public sectors is only that: business.

The reemergence of the state in rentier state industries is interesting from many perspectives. This article focuses on one particularly striking puzzle: that a good number of the latter set of the Gulf SOEs have been surprisingly successful. Although they have been subsidized in various ways and often enjoyed local monopolies or duopolies, several of them are increasingly proving themselves to be competitive both in a liberalized domestic setting and in international markets. Both older players like Saudi Arabia's Basic Industries Corporation (SABIC) and newer actors like Industries Qatar, Dubai logistics giant DP World, and UAE telecoms conglomerate Etisalat have realized impressive returns and acquired a reputation for capable management. Most of the new Gulf SOEs have so far survived both oil price contraction and global economic crisis rather well.

As these SOEs enjoy certain strategic advantages, it is difficult to compare their success with that of "conventional," private multinational enterprises. The Gulf SOEs' track record does, however, stand in stark contrast to that of public companies in other resource-rich states: the economic histories of Algeria, Indonesia, Iran, Libya, Nigeria, and Venezuela are cluttered with monumental white elephants. SOE performance has been lackluster at best; public industry in these countries is usually politicized, stagnant, and, in the best of times, slated for partial sell-off.

What explains this relative success of Gulf SOEs when the deck, it would seem, was in many ways stacked against them? Gulf monarchies,

[4] Anders Aslund, "Vladimir Putin's Program: Nationalization through Extortion," *Daily Star* (Lebanon), December 11, 2007; *International Herald Tribune*, May 18, 2008.

after all, have weaker preoil traditions of statehood, administration and economic development and are ruled in a patrimonial fashion by extended kinship groups. None of this seems to augur well for rational-bureaucratic development.

When can resource riches be turned into efficient, state-controlled enterprises that deliver both added value in production and a net fiscal contribution? I will argue that the immediate cause is a profit- and market-oriented management that is *autonomous* in its daily operations, hence insulated against political and bureaucratic predation, and that receives *clear incentives* from a strictly limited, *coherent set of high-level principals* in the political regime.

This answer however begs a deeper question: why is such a set-up possible in some places but not in others? Based on a cross-sectional and, in part, longitudinal comparison of eleven cases, I find two necessary underlying factors that make profit-oriented, insulated rentier SOEs possible: first, the *absence of a populist-mobilizational history of economic development*, and second, *substantial decisional autonomy of the regime leadership* from interest groups within state and society.

The article seeks to contribute to the debates about public companies and about rentier states and the developmental state more broadly. I will show that there are very different types of rentier states and that some provide political conditions in which the oil *can* be "sowed" productively through public investment. I will also show that the building of "islands of efficiency" in an otherwise bloated state apparatus can be a politically viable second-best development strategy if wholesale administrative and public sector reform is neither feasible nor desirable politically.

## Scope and Methods

The cases included are Algeria, Bahrain, Indonesia, Iran, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.[5] The list includes *all resource-dependent developing countries that have at some point engaged in ambitious SOE-based industrialization* and diversification drives beyond infrastructure and utility investment.[6]

[5] It is too early to judge GCC member Oman: it is on the road to heavy industrialization, but its large projects are only just about to come on stream. In all cases, only companies with at least majority state ownership are included.

[6] Iraq, which started an ambitious industrialization strategy in the 1970s, is excluded, as it has been in an almost perpetual state of war since 1980. In any case, its overstaffed and inefficient SOE sector has been and remains similar to those of its non-GCC peers. As the latter, it now seems on the way to partial sell-offs (Reuters, July 11, 2008; *International Herald Tribune,* September 27, 2009). Russia is a semirentier whose SOE sector is still so strongly determined by the Soviet legacy that it is a sui generis case. After recent renationalizations, the jury on its rejuvenated SOEs is still out.

The research is kept largely within the rentier universe, where the puzzle of successful SOEs is the most striking. More important, the politics of development in rentier states is arguably subject to challenges that differ from those in other developing countries.

First, rentier public industry tends to be deployed much more quickly and on a larger scale. Second, and closely related, as fiscal resources exceed local economic and extractive capacities, the scale of funds available tends to outmatch the government's administrative resources. On the one hand, therefore, the scale of the managerial challenge is much larger; on the other hand, rentier regimes control unusually large amounts of resources that can be used for acquiring foreign technology and "buying" their way out of problems. Most other developing countries do not have to contend with the former and cannot avail themselves of the latter. As we will see, the combination of the two factors probably has contributed to the GCC's unusual pattern of development based on "pockets of efficiency" within a larger patrimonial system.

As the article's main explanations are located at the country level, countries will form the main unit of analysis. In the Gulf section, the article will look at specific SOE cases as illustrative of the country-level institutional context in which they thrive and contrast them with less efficient parts of the same states. Outside of the Gulf summary descriptions of public sectors shall suffice, as their (low) performance is comparably homogeneous.

The article starts with a review of the general literature on SOE pathologies, continues with an overview of "traditional" rentier state SOEs in the non-Gulf cases, and then surveys SOE structures in the Gulf. After establishing the immediate organizational causes for the latter's success, the subsequent section tests a number of hypotheses to explain the underlying political conditions that allow these causes to operate.

## SOE Pathologies in the Literature

The economics literature on public companies is much wider than that in political science. In both disciplines, however, the majority of authors describes a number of pathologies that afflict SOEs. The only political science work that provides a systematic and comparative causal analysis of SOE outcomes in developing countries is John Waterbury's *Exposed to Innumerable Delusions*, which paints a gloomy picture of public sectors in four large industrializing countries: India, Turkey, Egypt, and Mexico (the latter two arguably "semirentiers").[7]

[7] Waterbury 1993.

What are the typical ailments afflicting SOEs? One widespread argument is that governments can produce only diffuse oversight over SOEs, as ownership is dispersed throughout the state apparatus and SOE management often has to negotiate with several principals, vitiating clear accountability, incentive structures, and agenda setting.[8] Managers and bureaucrats can use their pivotal position in this setup to maximize their own power, budgets, and hiring discretion.[9]

Waterbury has argued forcefully that principal-agent problems in his four cases have led to crippling inefficiencies, although he focuses less on managers' rent seeking and more on complex systems of bureaucratic rules created by overlapping principals that prevent managers from operating.[10] Externally imposed aims are multiple and shifting and can include nonprofit considerations such as guaranteeing "fair" prices, providing employment, contributing to regional development, or helping other local industries.[11] Such ambiguous objectives make SOEs easy prey for political operatives; political principals and bureaucrats can use them for patronage by allocating jobs and subsidized output to their clients. Despite de jure autonomy, boards staffed with bureaucrats and "politicos" can arbitrarily intervene in management, thanks to the centralization of administrative power.[12]

All of the above undermines profitability. The misery of SOEs is often prolonged and exacerbated by the "soft budget constraints"[13] under which they operate: SOEs, especially large ones, are seldom allowed to fail and hence there is no "exit" for companies that suffer losses.[14] While there has been a lively debate about SOE efficiency in developed countries, in the discussion about developing countries there is a near consensus that SOEs are inefficient and a fiscal liability. Public companies have imposed huge burdens on the public purse in most of the developing world.[15]

## "Traditional" Rentier SOEs

Strategies of SOE-based heavy industrialization and import substitution have been pursued in most of the significant oil exporters. Outside of

[8] Lawson 1994; Vernon 1984.
[9] Alessi 1969; Aharoni 1986.
[10] Waterbury 1993, 15, 110f., 262.
[11] Vernon 1984; Boycko, Shleifer, and Vishny 1996; Waterbury 1993, 158.
[12] Waterbury 1993, 9; Lin, Cai, and Li 1998.
[13] Kornai 1979.
[14] Waterbury 1993, 15.
[15] Waterbury 1993, 90, 115, 125; Chen 1998; Celasun 2001; Grosh and Mukandala 1994; Richards and Waterbury 2007; Floyd, Gray, and Short 1984; World Bank 1995.

the Gulf, these have without exception lived up to our bad expectations: in all six non-GCC cases SOEs are unprofitable, are overstaffed, suffer from corruption, lack managerial autonomy, are politicized, carry huge social overhead, and often cannot set their prices freely.[16]

Very low or—at least as frequently—negative returns are documented for all cases. In the most extreme case—Algeria—net financial flows from government to the SOEs have at times amounted to almost a quarter of GDP.[17] Indonesia is by many measures the least bad non-GCC case, yet in 2006 the total profit of its 139 SOEs was a paltry $1.56 billion on total assets of $147 billion.[18]

In all cases large SOEs have operated under soft budget constraints, receiving subsidies throughout decades of deficit. In Iran some two-thirds of the national budget is allocated to SOEs and religious foundations (*bonyads*) that command large enterprises. Ambitious attempts to boost nonoil exports through SOEs have faltered without exception. Under public management Iranian heavy industry capacity has shrunk to such a degree that Iran, endowed with the world's second largest hydrocarbon reserves, has to import refined petrol.

Overstaffing and use of SOEs as "employers of last resort"[19] are widespread. At the same time capacity is often underutilized; Algeria used only 35 percent of its public industrial capacity in the late 1990s.[20] Corruption, both by external principals and by management, is rampant and well documented. While perhaps less surprising in unstable and/or authoritarian cases like Nigeria, Iran, and Algeria, it also reached high levels in democratic Venezuela, where 1970s heavy industry projects were caught up in the distributional policies and business cronyism of governing elites. The corruption scandals of Pertamina, an Indonesian heavy industry conglomerate built up in a few dizzying years in the 1970s, are legendary.

[16] The section draws on reports from Oxford Analytica, Economist Intelligence Unit and Oxford Business Group, international newspapers, oil and industry trade journals, and the reference work by Amuzegar 1999. Further main sources include the following:

—for Algeria: Entelis 1999; Werenfels 2002; Ruppert 1999; World Bank 1994; World Bank 2003.

—for Indonesia: Bevan, Gunning, and Collier 1999; Barnes 1995; Bresnan 1993; Inusantara Networks 2007; Lewis 2007

—for Iran: Karbassian 2000; Karshenas 1990; Maloney 2000; Saeidi 2001

—for Libya: Naur 1986; Vandewalle 1986; Vandewalle 1998; World Bank 2006.

—for Nigeria: Bienen 1985; Lewis 1992; Lewis 1994; Nwokeji 2007; Onoh 1983; Ugorji 1995

—for Venezuela: Di John 2006; Karl 1997; Mares and Altamirano 2007

[17] Data from World Bank Bureaucrats in Business data base.

[18] Inusantara networks.

[19] Ugorji 1995, 540.

[20] Ruppert 1999, 156.

Much in line with existing literature, public sectors in the six cases have suffered from the conflicting priorities of political principals, aiming to use SOEs not only as revenue generators—whether public or private—but also as employment providers and sources of patronage and subsidized goods. Against this background, SOEs—even if autonomous on paper—in fact have little control over strategic decisions. Senior bureaucrats on company boards or sectoral ministries meddle with corporate strategy, be it through price controls, employment regulations, or informal interventions of patronage and rent seeking.

As profitability competes with other targets, these have often come to be represented by different political constituencies. In Libya and Algeria technocratic and revolutionary factions squabble over efficiency versus distributional goals, while SOEs in Nigeria are used for competing purposes of regional and ethnic patronage.

But even in the case of more unified political principals, as in Suharto's Indonesia or Chavez's Venezuela, SOEs have been used for political purposes, whether to support Suharto's high-level crony networks or the lower-class constituencies of Chavez's "Bolivarian revolution." Political considerations of one kind or the other have intruded on the public sector in all cases.

The majority of the non-Gulf cases are now trying to privatize parts of their public sectors, often seeking foreign partners to fix their SOEs. Reform attempts in many cases have got unstuck, however.

Non-Gulf SOEs display most or all of the expected pathologies. There seems to be not a single example of a large SOE outside of the upstream sector that has consistently delivered solid returns. Taking traditional rentier state public sectors as the null hypothesis for our comparison with the Gulf gives us a low baseline indeed.

## The New Gulf SOEs

Although not all GCC SOEs have been paragons of lean management, the Gulf has seen a number of SOE successes that are unrivaled in the rentier world. The examples discussed in the following section are drawn from Saudi Arabia, Qatar, the UAE, and Bahrain. Kuwait is the one rich GCC country lacking successful SOEs, a fact we will address later.

Several of the large public companies in the Gulf seem to belie the received wisdom about the curse of state ownership. They offer the reverse picture of the above cases, operating under unified government principals, with great day-to-day autonomy in management and with profit as their main strategic target (see Table 1). Although they play a developmental

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TABLE 1
THE LEADING SUCCESSFUL SOEs IN THE GCC

| *Country* | *Company* | *Sector & Year of Founding* | *2008 Profit* |
|---|---|---|---|
| Saudi Arabia | Saudi Arabian Basic Industries (SABIC) | heavy industry (esp. chemicals) 1976 | \$5.9b on revenue of \$40.3b |
| Bahrain | Aluminum Bahrain (Alba) | heavy industry 1971 | \$376m |
| Qatar | Qatar Industries | heavy industry 2003 | \$2.0b on revenue of \$4.1b |
| Qatar | QTel | telecoms 1998 | \$630m on revenue of \$5.6b |
| Bahrain | Batelco | telecoms 1981 | \$280m on revenue of \$850m |
| UAE/federal | Etisalat | telecoms 1976 | \$2.4b on revenue of \$7.1b |
| UAE/Dubai | Emaar | real estate 1997 | \$830m on revenue of \$4.4b |
| UAE/Dubai | Emirates Airlines | aviation 1985 | \$270m on revenue of \$12.1b[a] |
| UAE/Dubai | DP World | logistics 1999 | \$530m on revenue of \$3.3b |

[a] 2008–9 fiscal year

role and employ larger shares of nationals than the respective private sectors, they are not abused as corporate charities, and although corruption does occur, it is the exception rather than the rule.[21]

Saudi Arabia controls perhaps the most remarkable Gulf SOE: SABIC. The company's profit outlook was rated as dim by multinational petrochemical companies when it was created in 1976 with a huge paid-up capital of \$2.7 billion.[22] It has, however, produced returns ever since its plants have come onstream in the 1980s, remaining profitable throughout market slumps when international chemicals companies incurred losses.[23] Its operating margins are higher than those of both of its main rivals, Dow and BASF.[24] Given SABIC's local feedstock advantages, this is

[21] The following section is based on interviews and discussions with GCC bureaucrats, businessmen , and expatriates during field research stints since 2003 in the UAE, Bahrain, Qatar, Kuwait, and Saudi Arabia, a daily press survey of fourteen Gulf newspapers since 2003, and official company and auditors' reports.

[22] Middle East Economic Survey, September 13, 1976.

[23] Annual reports.

[24] Pretax profits and sales for 2008 are \$1.3b/57.5b (Dow), \$6.0b/62.3b (BASF), and \$6.3b/40.3b (SABIC); annual reports.

explicable. Yet the company is worlds apart from the loss-making heavy industry dinosaurs in such resource-rich places as Algeria, Libya, and Nigeria. SABIC's 2006 exports alone were about seven times larger than the *total nonoil exports* of Algeria and Nigeria combined.[25]

Drawing on cheap energy and feedstock, other Gulf countries have used their rent surpluses to emulate SABIC's heavy industry success on a smaller scale. Equally remarkable, several governments own telecom SOEs that have been expanding rapidly and profitably into neighboring markets and into Asia and Africa, where their home government cannot shelter them. All of them have lost their local monopolies. Dubai moreover has carved out a niche in state-owned transport, logistics, and real estate services, all of which are exported across the Middle East and beyond.

Several players such as SABIC, Alba, or Emirates have been profitable even during the leanest of times in the 1980s and 1990s, when OPEC went through a collective fiscal crisis—more than can be said about any significant rentier SOE outside of the Gulf. Figure 1 documents SOE successes for the second half of the 1990s—a time when depressed oil prices put the Gulf economies under severe strain.[26]

The employment structure of the leading SOEs is lean, certainly compared with their non-GCC peers. In the richest GCC countries, this is perhaps explained with the high share of expatriates among workers. Payrolls, however, are also reasonably lean in the poorer GCC states Bahrain and Saudi Arabia, where nationals dominate public employment. In 2007, 85 percent of SABIC's seventeen thousand employees were Saudi nationals, yet its workforce relative to its sales volume was considerably smaller than that of its international rivals.[27] Because SOEs are not subject to civil service regulations, they can hire freely and on a competitive basis.

### The Institutional Context

The bulk of GCC bureaucracy is regarded as slow moving and opaque.[28] What allows the leading SOEs to be so different from their environment?

[25] Calculated from World Bank Development Indicators, SABIC reports.

[26] Most of the figures here go back to the point when companies were first publicly listed. As Dubai's Dubal and Bahrain's Alba are not publicly traded, only sporadic numbers are available; Alba however reported to have been consistently profitable since its creation in 1971, and has been consistently expanding; cf. Project Finance International no. 263, 16 April 2003. The same is true about pre-1997 Emirates airlines, where profit figures (but not turnover/margins) are available for various pre-97 years.

[27] http://www.sabic.com/corporate/en/career/peopleatsabic/default.aspx (accessed in July 2008); BASF and Dow employed 95,000 and 46,000 workers, respectively.

[28] GCC states score significantly worse than nonoil cases with similar GDP per capita on various measures of "governance" contained in the World Bank Governance Indicators (author's calculation).

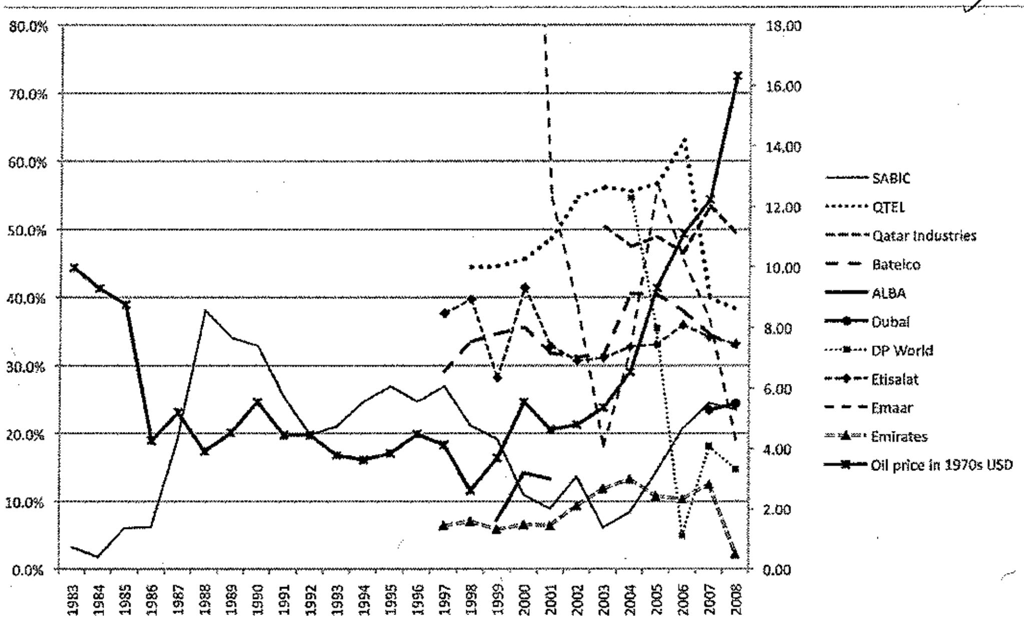


FIGURE 1
PROFIT MARGINS OF SELECT GULF SOEs (NET INCOME/SALES)

SOURCES: Company reports, Reuters Knowledge, Markaz Financial Center.

The most obvious and immediate cause seems to be the relationship to their principals: large and successful SOEs enjoy the direct protection of rulers. Different from most non-GCC cases, the regular administration has little leverage to intervene in their affairs. Instead, SOE-related bodies sometimes hold explicit mandates to cut through existing bureaucracy, as has been the case with the Royal Commission for the Industrial Cities of Jubail and Yanbu in Saudi Arabia, the historical handmaiden of SABIC.[29]

SOEs are usually established by special decree and their managers report directly to the ruler, the crown prince, or their close advisers. Senior managers tend to develop long-term relationships of trust with rulers, resulting in higher social status and less personnel fluctuation than in other developing countries.[30] While members of the ruling family are

[29] Author interviews with former RCJY advisers, Riyadh and London, 2004.
[30] Author interviews with government advisers, chamber of commerce representatives and high-level bureaucrats, Bahrain, UAE, Qatar, and Saudi Arabia; Waterbury 1993, 165.

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often company chairmen, the CEOs are almost invariably commoners—which makes SOEs different from the rest of the state apparatus, in which princes or sheikhs often play a large role.[31]

Hence, different from run-of-the-mill SOEs, Gulf public companies operate under *unified principals* and enjoy *relative managerial autonomy* from the rest of the state. With such status and backing, it has been easier for their managers to keep a consistent focus on generating profits, which is indeed the main task their sheikhly principals have given them.[32] This differs from the social and political tasks that burden SOEs elsewhere. Profit targets are publicly announced, as are international sales targets reflecting the outward orientation of Gulf SOEs.

With profits as core target, the leading Gulf SOEs have been spared not only overinflated payrolls but also excessive obligations to support local consumers. Given the distributive nature of Gulf regimes, how is this possible? The answer seems to lie in the separation of leading SOEs from the distributional structures of the state. Subsidized consumer prices in the Gulf exist, but they tend to be administered through either producer subsidies or state-supported purchase of imported goods separate from SOEs. Similarly, subsidized housing is guaranteed through special funds rather than by obliging real estate SOEs to sell at loss.

Thanks to their privileged political status, successful SOEs are also by and large shielded from excessive rent seeking and predation by senior bureaucrats and minor members of the ruling family. National oil champion Saudi Aramco and SABIC in particular are perceived as institutional "fortresses" in a system that is otherwise shot through with rent seeking and whose administrative and regulatory capacities are limited. Both have been defending themselves successfully against bureaucratic encroachment and predation by minor royals.[33]

GCC systems are certainly not free from corruption and patronage politics. However, pronounced overstaffing tends to happen in national bureaucracies, which in most GCC countries continue to employ more nationals than the private sector.[34] Moreover, large-scale rent seeking is tolerated and hence easier to conduct in areas in which the SOEs usually do not operate, such as "commercial agencies" in import trade, resale of state lands, ministerial procurement, and trade in visas for expatriate

[31] Gause 1994.

[32] Author interviews with former SABIC and Aramco functionaries and former deputy ministers; Saudi Arabia, 2003–8.

[33] Author interviews with former Saudi bureaucrats and Western oil executives.

[34] This is far above the average of both developed and developing countries (ILO, *World Labour Report*, various issues). Resulting problems in bureaucratic performance are akin to what one might have expected for SOEs. On declining public sector productivity, cf. Girgis and Diwan 2002.

labor.[35] The attempt by Dubai's ruler, Mohammad bin Rashed, to increase his stock holding in Emaar through a swap of state land against shares in 2007 provoked a lively debate among investors that led him to abandon the project lest Emaar's international reputation suffer.[36] In the 1980s Saudi King Fahd protected the management of newly nationalized Aramco against a takeover by the inefficient national oil bureaucracy.[37]

The burdens carried by GCC rentier administrations and the ailments that afflict them are similar to those of resource-rich regimes elsewhere[38]—but the profit-oriented bits of their public sectors are shielded from these pressures. They constitute pockets of efficiency markedly at odds with the rest of the state, unaffected by the overstaffed and unresponsive rentier bureaucracies surrounding them. This compartmentalization seems unique to the GCC.

Can this local mixture of patronage and profit orientation work for all SOEs? The answer is no. The business of certain SOEs, such as utilities, is harder to separate from the state's distributional policies. Therefore, electricity and water companies have historically struggled to turn a profit. The region, moreover, has also had its share of white elephants in other sectors. The 1970s oil boom saw several overambitious projects, and a number of unprofitable SOEs have functioned as patronage machines for senior regime players. Saudi Airlines for example has suffered chronic losses, which many observers blame on its affiliation with the powerful and opaque Ministry of Defense. Bahrain's Gulf Air has incurred large losses and senior managers have been investigated for corruption.[39]

Similary, Petromin, the Saudi national oil and industrial company created in 1962 that was expected to take over Aramco's role in the long run, was riddled with corruption, employed thousands of nationals without clear job assignments, and failed to generate a single profitable project.[40] It was gradually replaced by SABIC only after a contingent reshuffling of technocratic elites after King Faisal's unexpected assassination in 1975, in which personal animosities between Crown Prince Fahd's new and Faisal's old clients played a large role.[41] Abu Dhabi's "Lulu Island" real estate and tourism project under the auspices

[35] Author interviews with businessmen in UAE, Bahrain, and Saudi Arabia; Field 1984; al-Naqeeb 1990; Holden and Johns 1981; Hertog 2010.

[36] *International Herald Tribune*, August 27, 2007; author interviews with Dubai businessmen and government advisers, Dubai, February 2009.

[37] Discussions with Ministry of Petroleum and Aramco representatives in Riyadh, 2007; Jaffe and Elass 2007.

[38] Chaudhry 1997; Crystal 1990; al-Naqeeb 1990; Hertog 2010.

[39] Arabian Business, October 9, 2007.

[40] MEED, Special Report Saudi Arabia, August 1982; Montagu 1994.

[41] Hertog 2008.

of Sheikh Sultan bin Zayed has been unofficially rated a failure as has, more publicly and spectacularly, Abu Dhabi's large start-up investment in the Bank of Credit and Commerce International.[42]

### Summary

Such large-scale failures make the successes all the more striking. They also complement the point made above: in many respects GCC state apparatuses look similar to those of other rentiers, and this includes *parts* of the SOE sector. Not all SOEs have been immune against welfare employment, corruption, and abuse as personal fiefdoms by powerful regime actors.

Yet a sizable number of Gulf SOEs have overcome the malaise of rentier public sectors. They are different from run-of-the-mill SOEs and rentier bureaucracies in several important and closely interrelated ways. First, they are given *clear orders* by a strictly *limited number of elite players* and are not forced to prioritize welfare tasks over efficiency. Second, they are, to a significant degree, *insulated* from games of patronage and rent seeking, and enjoy considerable autonomy in their operations from the rest of the state. The problems that the SOE literature describes—muddled principals and priorities, lack of autonomy—are therefore systematically avoided.

This gives us a clear set of immediate causes to explain Gulf SOE successes. But if these causes are relatively easy to detect on closer inspection, why have not more rentier regimes been able to bring about these conditions? On the face of it, every ruler should be interested in profit-generating public assets: different from conventional capitalist development, there is no immediate danger of creating a politically independent business class. SOE returns, moreover, can be collected without engaging in the tangled politics of taxation.

The next section will address this puzzle: what are the political conditions that have allowed Gulf elites to act as coherent principals, keep their SOEs separate from games of patronage, and determine a clear hierarchy of goals?

## Explanations

In no case at hand have *all* SOEs been successful. There is unlikely to be a fully sufficient explanation of success that is not to some extent case specific: there will always be idiographic factors—personality, elite

[42] Davidson 2005; Davidson 2008.

rivalries, bad advice, avarice, bad timing, or bad luck—leading to failure even under auspicious circumstances. Conversely, the personalized and volatile patron-client politics underlying, for example, SABIC's replacement of Petromin remind us that in the positive cases there were probably no structural factors that preordained specific successes. It would indeed be a miracle if in patrimonial rentier regimes with few checks and balances such as the GCC monarchies all SOEs were insulated from patronage and rent seeking. There also is no specific sectoral pattern in SOE efficiency and inefficiency: heavy industry has seen both large-scale failures and phenomenal successes, as have real estate, logistics, and tourism—often within the same country.

By contrast, a significant number of rentier countries have had no successes at all, whatever the vagaries of personality, elite rivalry, and chance. Something systematic seems to be at work: it appears that these cases have lacked certain conditions that might not be sufficient but that are necessary for SOE success. The following section therefore looks for enabling causes that have allowed SOE success in the Gulf, while not guaranteeing it, and whose absence has prevented SOE success in other cases. I will proceed by way of exclusion, dismissing a number of possible hypotheses, and then argue that a combination of two necessary causes makes large and profitable SOEs possible.

Perhaps different degrees of rentierism could explain different outcomes? Table 2 shows that all cases with the exception of Indonesia rely on hydrocarbons for more than half of their state income, and there is no systematic pattern linking rent dependence to SOE success or failure.[43]

While relative rates of dependence are comparable, might higher absolute levels of oil income per capita in the Gulf have allowed for more institutional experimentation? There are two ways in which per capita riches could be important. First, they could be correlated with generally higher levels of socioeconomic development. Today, this is in many regards the case, but it hardly was during the first boom of the 1970s and 1980s, when important projects such as Alba, SABIC, and Emirates Airlines came into being: GCC countries had no educated national workforce, only limited infrastructure, a tiny middle class, and no private sector to rely on.[44] Saudi Arabia, the early bird of GCC industrialization, had a 57.5 percent rate of primary school enrollment in

[43] In Indonesia, too, fiscal rent dependence exceeded 50 percent during the 1970s boom when Pertamina was built; Smith 2007, 93. For more historical data on rent dependence, see Ahmad and Mottu 2002, 9.

[44] Looney 1994.

TABLE 2
RENT DEPENDENCY OF 11 CASES
(2003 IMF DATA UNLESS OTHERWISE INDICATED)

| | *Hydrocarbons Share in GDP(%)* | *Hydrocarbons Share in State Income (%)* |
|---|---|---|
| Algeria | 36 | 69 |
| Bahrain | 15[a] | 73 |
| Indonesia | 10 | 26 |
| Iran | 12[b] | 60[b] |
| Kuwait | 45 | 76[b] |
| Libya | 59 | 87 |
| Nigeria | 32 | 76 |
| Qatar | 59 | 64 |
| Saudi Arabia | 33[c] | 79[c] |
| UAE | 28 | 76 |
| Venezuela | 28[d] | 57[d] |

[a] 2006 data.
[b] 2002–3 data, corresponding to local fiscal year.
[c] National data (SAMA).
[d] 1996 data (most recent year available with oil prices comparable to 2003).

1975, while fellow Middle East industrializers Iran and Algeria both had rates above 90 percent.[45]

But could it be that higher per capita rents have given GCC rulers budgetary flexibility that others have not enjoyed? This does not appear to be the case either, as all major oil producers accrued large, if temporary surpluses in the 1970s and expanded their real spending by a factor of two or more during the decade. The idea that there was no "play money" or room for institutional experiments for the poorer countries is belied by the gigantic white elephant of Pertamina in Indonesia, one of the poorest OPEC countries, or the Shah of Iran's personal toys like the "Pahlavi Foundation" (which continued its existence as a *bonyad* parastatal after the revolution).[46] Both were colossal schemes of self-enrichment, belying the hypothesis that governments were under immediate distributional pressures to redistribute all newly gained wealth. More generally, if there had been such pressure, heavy industrialization strategies would probably not have happened, as they are capital intensive and very inefficient means of redistribution.

In fact, the *absolute* size of rents available for new, large projects was

[45] UNESCO and World Bank data.
[46] Bresnan 1993; Maloney 2000.

enormous in the more populous countries: several times larger in Iran or Venezuela than in smaller Gulf states like Bahrain or Qatar. The "fiscal flexibility" argument is further undermined by the persistence of SOE successes throughout the 1980s and 1990s, when GCC surpluses had turned into deficits, budgets were slashed, and fiscal leeway strongly diminished due to locked-in budget items for wages and subsidies.[47] In absolute terms oil income per capita in the poorer GCC cases during the 1980s dwindled to levels comparable to or below those witnessed in more populous oil states in the 1970s—but new or strengthened SOEs emerged in the Gulf during the 1980s, whereas public industry elsewhere had faltered a decade before.[48] Finally, Kuwait, one of the richest Gulf rentiers, consistently failed at building successful SOEs, an outcome that cannot have much to do with its rent levels.

SOE successes more likely have to do with political or institutional factors. Perhaps higher levels of stability have enabled thriving public industry in the Gulf. The long-term stability of most GCC countries has certainly helped. But in several of the non-GCC cases the same regime has been in power for decades, and even in the more volatile non-GCC cases, SOE problems have both preceded and persisted beyond periods of turmoil, be they the Iranian revolution, the Algerian civil war, or the fall of Suharto in Indonesia. All cases at hand, with the possible exception of Nigeria, have witnessed extended phases of democratic or, more often, authoritarian stability. GCC regimes have managed to derive both significant short- and long-term profits from their SOEs; elsewhere, neither has happened.

Based on the East Asian experience of successful state-induced industrialization,[49] one might assume that a strong bureaucracy and long administrative history are prerequisites for creating efficient public sector entities. Our cases, however, do not follow this pattern. The SOEs of states with relatively longer bureaucratic traditions, such as Venezuela and Iran, have failed. All of the GCC states started building a functionally differentiated bureaucracy only after World War II. Based on rapidly increasing oil rents, these apparatuses have in many cases been

[47] Fasano and Goyal 2004.

[48] While Saudi per capita oil income in 2005 terms was above $10,000 for most of the 1970s, the annual average for the 1985–99 period—when most of SABIC was built—was $2800. Per capita oil income in Dubai between 1997 and 2007, the emirate's most dynamic phase of SOE building, averaged only $1300. By comparison, per capita oil income from 1974 to 1981 was a sizable $2100 in Venezuela and $1900 in Iran; in Libya, it was a full $11,000 (figures based on BP Statistical Review of World Energy and World Bank Development Indicators).

[49] Evans 1995; Kohli 2004; Wade 2003; Woo-Cumings 1999.

distinctly un-Weberian: fragmented, unmeritocratic, and untroubled by formal rules.[50]

But, then, perhaps Western technical assistance to overcome local limitations is part of the story? It almost certainly is, but almost all rentier states, including socialist Algeria, have availed themselves of large-scale consultancy missions, management contracts, and, in many cases, joint ventures,[51] usually on a scale other developing countries could never have afforded. When SABIC's 100 percent Saudi-owned Petrokemya project was built through a turnkey contract in the early 1980s after its Western partner had abandoned the venture, it succeeded.[52] Algerian, Libyan, and Nigerian turnkey projects have failed notoriously.

Could the organizational form of SOEs explain their different trajectories? One is tempted to think of rentier SOEs outside of the Gulf as essentially part of the bloated national bureaucracy. In formal terms, however, that is generally not the case: SOEs usually have their own statutes and their own personnel policies.[53] Indonesia's Pertamina was an entity separate from the rest of the state apparatus. In Algeria, the most bureaucratic case of all, SOEs have enjoyed juridical autonomy early on, being formally responsible for their own debt and profits.[54]

We know that in fact things have played out differently and the actual managerial autonomy of many SOEs has been severely compromised. But this seems to have less to do with their formal organizational status than with deeper underlying factors that are still to be determined.

Development economists might argue that import substitution industrialization (ISI) is the culprit: non-Gulf rentiers were too focused on building up industrial autarky and not on generating returns through exports, thereby nurturing inefficient and unviable structures behind protective barriers. The argument might apply to certain fields of midstream and downstream manufacturing, but it does not pass muster when it comes to heavy industry, the main manufacturing area at stake here. Even the most inward-looking ISI programs envisaged exports of heavy industry goods to generate foreign exchange.[55] Moreover, Gulf industrialization itself was explicitly motivated and guided by ISI strategies, including

[50] Davidson 2005; Field 1984; Lacey 1981.

[51] Farsoun 1975, 8; Waterbury 1993, 65; Richards and Waterbury 2007, 188, 191.

[52] SABIC Americas 2001.

[53] Richards and Waterbury 2007.

[54] Farsoun 1975, 11; World Bank 1994, 30ff. Many failed SOEs have also pursued reasonably meritocratic recruitment, based on technical specialization; Waterbury 1993, 166–76.

[55] Farsoun 1975, 11f.; Richards and Waterbury 2007, 212.

protection and subsidies[56] (similar, incidentally, to the successful early phase of industrialization in important parts of East Asia).[57]

Costly Populism

While ISI strategies cut across all cases, there is another, more ideological facet of economic strategy that is not shared by all: economic populism, as defined by the political use of distribution in the economic development process.

Economic populism as understood here means *political use of economic resources to mobilize support from* what are perceived as previously *marginalized classes*, newly recruited as a support base for the regime. Often tied up with *rhetoric of "social justice"* and a *distrust of elites* (domestic or foreign), it gives economic policy a strong (re)distributional component. Productive assets become part of a nation-building exercise and assume a *direct* role in redistribution: economic populism conflates production and distribution. This can mean controlled consumer prices or the provision of extensive social services by SOEs, but also direct state interventions to create employment. In its more radical variants, economic populism can aim for a refashioning of class structures, but this is not necessarily the case.[58]

It bears highlighting that economic populism is more than just patronage: its use of distribution to create organized, actively mobilized lower- and middle-class political support, its egalitarian rhetoric, and its antielite bias give it particular features absent from other patronage systems, notably those of the GCC.

Whatever the rhetoric, the effect of populism on public sectors tends to be more dramatic than its effect on class hierarchies. The central role of distributional and (purportedly) egalitarian considerations in populist economic policy has led to the kinds of target conflicts and compromised managerial autonomy that have brought about the failure of SOEs in non-Gulf rentier states. Economic populism explains the pervasive manipulation of prices, overemployment, and welfare tasks imposed on SOEs, all of which make a clear focus on profit almost impossible to maintain and usually necessitate the relaxation of budget constraints. As another near necessary corollary, the imposition of overarching, politically determined, systemwide distributional goals on managers of

[56] Niblock 2007; MEED August 24, 1962, July 5, 1968, April 29, 1977, October 5, 1984.

[57] Wade 2003, 84–90.

[58] There is a wide debate about the definition of populism as a form of political rule with which I cannot engage here (Weyland 2001; Ayubi 1992; Dornbusch and Edwards 1991; Ellner 2003). My working definition here is limited to a specific and recognizable style of politically motivated economic policy.

specific enterprises compromises their operational autonomy, subjecting them to the influence of bureaucratic principals. Figure 2 presents a schematic overview of these processes.

Numerous developing countries have gone through extended phases of economic populism, among them four of the cases at hand: Algeria, Iran, Libya, and Venezuela. In all of these, the immediate causes of SOE failure are best understood as symptoms of a broader populist regime strategy.

The four cases are a very mixed bunch, including a populist Latin American state that has been democratic for most of its post-WWII history, a revolutionary Islamic theocracy, a postcolonial bureaucratic-military regime, and a highly personalized oil dictatorship with tribal accoutrements. If there is one cross-cutting theme in the literature about them, it is the identification of politics and regimes at critical junctures as populist, mixing redistributional strategies with "third worldist" rhetoric.[59]

In all four cases SOEs have been set up and/or operated in order to benefit populist political constituencies. State-controlled means of production have been at the core of a transformative, or at least redistributive, socioeconomic strategy. In the three more radical cases of Algeria, Iran, and Libya, public sectors have played an explicit role as instruments of building a new state and society through creating and empowering new classes and social identities to transcend old elite structures. While such grand transformative visions are harder to detect in the populist clientelism of 1970s and 1980s Venezuela,[60] Chavez's populism and use of SOEs is closely in line with a transformative vision of state and society.

As SOEs have become tools to support specific social strata, profits in the four cases have become a secondary consideration, subordinate to redistributive concerns accompanied by a rhetoric of economic nationalism, distrust of old elites, and social justice. The latter concern is used to explicitly justify both broad-based (over)employment policies serving specific social strata—for example, the "oppressed" in Iran's *bonyad*s and revolutionary veterans in Algeria's bloated industrial concerns—and price controls.

[59] In addition to sources already cited, this section draws on Cheriet 1992; Malley 1996; Hooglund 1992; Bayat 1983; Behdad 2000; Davis 1987; Hawkins 2003; Levine 1973; Karl 1986.

[60] While pre-Chavez Venezuelan politics has been more bourgeois than that in the other three cases, leading parties have clearly pursued populist themes of economic nationalism and have served a specific lower-class to middle-class clientele in the public sector. Broad-based socioeconomic inclusion has been prioritized over efficient management of SOEs; Di John 2006; Karl 1997.

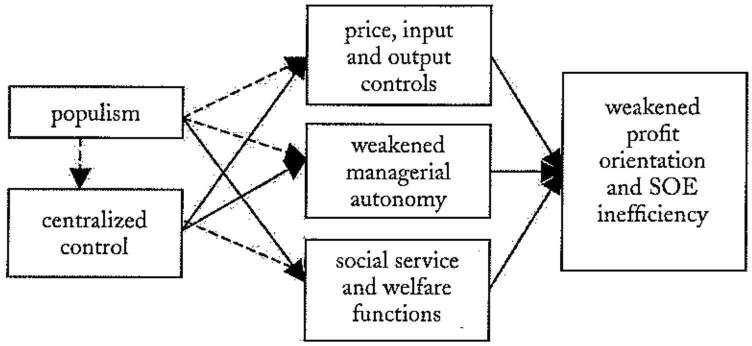


FIGURE 2
POPULISM AND CENTRAL ADMINISTRATIVE CONTROL OF SOEs

The redistributive agenda is also reflected in wages above market levels and extensive social services for employees and families, as well as in egalitarian pay schemes that stand in contrast to the market-oriented salary policies in the GCC cases. Although technically empowered to do so, Algerian SOEs have not dared to deviate from the civil service pay scale.[61] In all cases SOEs have at various times seen experiments with workers' self-management that have prioritized class empowerment over stable management. SOE workers are often unionized, with unions representing a powerful lobbying group in line with the regimes' redistributional ideology.

Economic populism is more than mere patronage: drawing on antielitist rhetoric, it implies the targeted mass political mobilization of "marginalized" classes and uses SOEs to rectify perceived social injustice. Part of a larger ideological project, it explains not only SOE failure per se but also accounts for a number of very specific characteristics thereof. Even when radical steps like nationalization and workers' comanagement were eschewed, socially motivated employment structures, workers' organization and politicization, price controls, and welfare provision by SOEs have been a direct outcome of populist mobilization. Across the board, these structures have led to severe inefficiencies, soft budget constraints, and—in the guise of imposed prices and welfare targets—strongly reduced managerial autonomy in public enterprises. It stands to reason that mixed performance aims have also widened opportunities for corruption.

[61] World Bank 1994, 81f.

Conversely, Gulf SOEs have operated in an ideological and institutional environment that is in many respects the opposite of populist. Although distribution plays a large role in the politics of the Gulf monarchies, this is paternal and conservative in nature rather than mobilizational. GCC regimes have been politically quietist, conservative on matters of class structure, and openly probusiness.[62]

Avoiding the revolutions and military coups that most other Middle East monarchies experienced, the GCC has never gone through a phase of populist mobilization. Instead, Gulf rulers have tried to prevent the formation and organization of domestic lower classes, not least through their policy of large-scale labor imports. Unions have been prohibited in most Gulf states for most of their history, and rulers have tried to develop a paternal, Islamically colored conservatism as a countermodel to the populist Arab nationalism that seemed to threaten their survival in the 1960s and 1970s.[63]

Patronage policies in the GCC have never aimed at the empowerment of subordinate classes or the deliberate refashioning of the socioeconomic hierarchy, and they have been much less directly linked with the prevailing ideology of economic development. Economic strategy as reflected in regime statements and planning documents was never tied up with egalitarian rhetoric, and industry has not been a tool of political mobilization. GCC economic planning has therefore not automatically been infused with considerations of redistribution.

This explains why, instead of using all their productive assets for wholesale distributional "empowerment" as in the populist cases, GCC regimes have often used institutions not involved in production for the provision of free jobs to nationals of all classes, as outlined above.[64] Different from populist leaders, GCC regimes apparently were under no illusion that all good things—patronage, redistribution, and productive economic development—would go together.

Gulf elites have gone to much greater lengths to separate distributional and economic policies, that is, the administration of productive assets. This antipopulist separation of state functions explains why they could give much clearer incentives for select SOEs to be profitable and nurture them as protected elite institutions.

Presence or absence of populist economics seems more important in explaining sectoral successes and failures than ISI or state ownership as such. Waterbury has argued that the distributional role of developing

[62] Luciani 2005; Henry and Springborg 2001; Niblock 2007.
[63] Holden and Johns 1981; Yizraeli 1997; Davidson 2008; al-Naqeeb 1990.
[64] Beblawi 1987; ILO 1994.

world SOEs tends to dwarf their economic role and that ISI has an "inclusionist" bent.[65] He seems to conflate different issues here, however. Waterbury happens to have studied four developing countries that all went through pronounced phases of economic populism. To boot, as far as there was significant ideological change, SOE performance seems to have deteriorated most during the most populist phases (Turkey and Mexico in the 1970s and India before Indira Gandhi's state of emergency—as documented in Waterbury's own account). It is not ISI per se, but the combination of ISI and economic populism—in which distributional considerations are deeply entangled with economic development strategy—that leads to large-scale SOE failures.

Our explanation thus far seems to provide a good fit of the evidence both cross-sectionally and in terms of the internal logic of our cases. Still, it does leave a number of anomalies. First, there have been widespread SOE failures in two cases that do not have a distinctly populist history: Indonesia and Nigeria. One might explain this away with bad luck, ham-fisted leadership, or other idiographic factors. Another problem is that several of the populist cases have entered "postpopulist" phases of rule, in which they have failed to convincingly reform existing SOEs or set up new, profitable structures. But perhaps populist legacies are simply too difficult to overcome.

A more serious anomaly is that one very well endowed and non-populist GCC state has failed in all of its major SOE undertakings: Kuwait. The Kuwaiti regime is procapitalist and similar in many respects to the rest of the GCC. Given the availability of Kuwaiti resources and the number of failed projects, it appears unlikely that the failure is pure coincidence. How could it be explained?

Accounting for most of the above anomalies, I will argue in the following section that there is a further necessary condition required for a successful SOE strategy to be enacted: the regime in question needs to enjoy substantial autonomy in economic decision making.

## SOEs and Regime Autonomy

For our purposes, autonomy is defined by a *coherent regime core that can make economic decisions independent of larger interest groups* within state and society.[66] In other words, a small number of reasonably unified

[65] Waterbury 1993, 2, 25, 193.

[66] The definition is inspired by Evans's discussion of the developmental state (Evans 1995). Unlike Evans and later authors such as Chibber and Kohli, I am less interested in the state's links to business and more interested in the corporate coherence of senior decision makers vis-à-vis not only society but also the rest of bureaucracy. Cf. Chibber 2003; Kohli 2004.

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leaders can set SOE-related allocative strategies reasonably freely and select teams that implement them accordingly. The section will first discuss non-GCC cases with low regime autonomy, then the GCC, and then the important exception of Kuwait.

Before engaging with the anomalous cases mentioned above, it should be noted that Venezuela in its classic urban-populist phase from the 1960s to the 1980s probably combined economic populism with lack of regime autonomy. Due to the competitive electoral nature of Venezuelan politics, "political party and state leaders needed to accommodate the growing factions of the populist coalition."[67] Populist distribution, it seems, was not only part of the regime's economic development strategy but also an immediate necessity of political survival. The cronyism (*amiguismo*)[68] in large cement and petrochemical projects of the 1970s seems to reflect tight informal networks of regime support that compromised regime maneuverability.

The authoritarian regimes in Algeria, Iran, and Libya arguably were more autonomous from societal clienteles when they first started their ambitious SOE projects.[69] By the time the Algerian and Iranian regimes revisited their populist developmental tenets, however, their very own public sector strategies had created new vested interests constraining their policy-making maneuverability.[70]

Like many other Middle Eastern regimes, Algeria started revising its generous populist policies from the 1980s on, when it found itself fiscally squeezed by the post-1986 oil crisis and the large deficits of its SOE sector.[71] Reform attempts, including an ambitious privatization program, have progressed very slowly, however.[72] Responsibility seems to lie with a number of interest groups, all of which came into being through the regime's own public sector strategy. These have included unions—enjoying a veto over any redundancies[73]—SOE management, and, more important, a bureaucratic and military lobby profiting from SOE-related structures of protection and subsidization. The Algerian regime, politically fragmented by the 1990s, has lacked a clear decision-making center and has been reluctant to revoke distributional entitle-

[67] Di John 2006, 55.

[68] Karl 1997, 147.

[69] Both Algeria and Libya had underdeveloped class structures and a strong military regime enjoying high levels of autonomy thanks to growing external income (Davis 1987; Henry 2004). Iran is the case on which the idea of rentier state autonomy was first developed (Mahdavy 1970).

[70] For a similar argument on developmental states, cf. Evans 1995.

[71] Ehteshami and Murphy 1996; World Bank 1994.

[72] World Bank 1994; Werenfels 2002.

[73] Ruppert 1999.

ments.[74] Reform has progressed haltingly, as populist regime building seems to have created its own vested interests.[75]

Similar to Algeria, Iran has suffered from a postpopulist fiscal hangover since the 1980s oil price collapse. When moderate conservative Rafsanjani became president, the government attempted to trim down SOEs and planned for privatization.[76] Most SOE reform attempts have been unsuccessful: *bonayds* have largely managed to defend their privileges, including virtually tax-free status,[77] and to operate independently of the cabinet.[78] Neither Rafsanjani nor his reformist successor, Khatami, could exert sufficient leverage over the parastatal sector dominated by revolutionary militants catering to a large lower-class clientele. Populist-distributional SOE strategies have led to a fragmentation of interests in the Iranian state apparatus.[79] Privatization policies have remained stuck since the 1990s.[80]

One might argue that reform of inefficient populist SOE legacies is a different process from the creation and preservation of efficient structures, which is the main subject of this article. Perhaps a more important question is therefore whether infringed state autonomy can explain the failure to *create and maintain* efficient SOEs in the nonpopulist cases at hand, among them Nigeria and Kuwait. Nigeria is one non-Gulf rentier state without a clear record of organized economic populism.[81] It seems that its state structure was too underdeveloped, its society too plural, and its regimes too brittle to allow for a coordinated, large-scale campaign of lower-class mobilization and inclusion.

So why have successive Nigerian regimes been incapable of converting oil surpluses into productive, insulated SOE structures? The answer seems to have much to do with the very weaknesses just outlined: with frequent coups and changes in government—seven heads of state alone were deposed or assassinated between 1966 and 1993—there has not been a coherent regime core that would have been sufficiently independent of various supporting groups in society to pursue a long-term development strategy.

Nigerian regimes have been deeply penetrated by social interests and, in the interest of survival, have been compelled to use the SOE sector for

[74] Cheriet 1992; Werenfels 2002.
[75] World Bank 1994; World Bank 2003.
[76] *Oxford Analytica*, May 18, 1992.
[77] *Oxford Analytica*, July 18, 2002.
[78] Saeidi 2001.
[79] Maloney 2000.
[80] *Oxford Analytica*, various reports. Differing from Algeria and Iran, Libya has only very recently started to seriously contemplate economic reform. Its reforms so far have been halting.
[81] Bienen 1985; Bevan, Gunning, and Collier 1999; Lewis 1992; Lewis 2007.

wide-scale discretionary patronage to different bureaucratic, regional, and ethnic interest groups, to the extent that very little money was left for infrastructure.[82] Public sector management has been inconsistent due to its deep politicization and capture by narrow interest groups.[83] Nigeria seems to be a typical example of a kleptocratic state bereft of autonomy.[84]

In contrast to the above cases, GCC oil regimes have had and continue to have very different relationships with the interest groups surrounding them. All the ruling families had to strike political deals with local merchant groups in the preoil age in return for taxes or loans. The severe underdevelopment of preoil societies meant, however, that large-scale oil income rapidly made the incipient oil states fiscally autonomous from local society and endowed them with unprecedented power.[85]

As mentioned above, conservative monarchical rule meant that classes were never politically mobilized in a top-down fashion; rather, ruling families put a premium on political quiescence, working to keep society vertically divided and state dependent.[86] At the same time, basic coherence of the ruling family cores was maintained through elaborate intrafamily deals, usually struck in the course of negotiations over succession.[87] These have allowed the perpetuation of a clear status hierarchy between the ruling family and the rest of the bureaucracy, which is a mere functional appendix of the rulers without any specific ideological legitimacy, political support base, or resources of political organization.[88] Public sector unions are outlawed everywhere but Kuwait.

Opposition movements in most countries after the onset of the oil boom, especially since the 1970s, have been absent or purely ephemeral phenomena,[89] while business soon became utterly state dependent.[90] The Gulf has seen decades of nonpolitics, with hardly any formally organized interests in society.

With the exception of Bahrain, postoil GCC history has seen no mass political movements: state and bureaucracy have dominated the scene. Even today, political life in most GCC societies remains remarkably ane-

[82] Bienen 1985; Ugorji 1995; Bevan, Gunning, and Collier 1999.
[83] Lewis 2007; APS Review Downstream Trends, August 13, 2007.
[84] Evans 1995.
[85] Chaudhry 1997; Crystal 1990; Gause 1994.
[86] al-Naqeeb 1990; Crystal 1990; Khalaf 2003; Hertog 2010.
[87] Herb 1999.
[88] Hertog 2010. While ministers from the ruling family are seldom reshuffled, technocrats are often sacked unceremoniously. In Saudi Arabia, moreover, princes on formally junior ranks are treated with much more deference than formally senior bureaucrats.
[89] Vitalis 2007; Davidson 2005; Gause 1994; Byman and Green 1999.
[90] Chaudhry 1997; Crystal 1990; Gause 1994.

mic: participation rates in elections, if any are held, usually are very low, public demonstrations are rare, and institutional reform initiatives are driven from the top, having little resonance within society.[91]

There are only two countries with lively civil societies that aspire to independence from the government: Bahrain and Kuwait. Bahrain has a much larger domestic working class than the other GCC states and has had a strong tradition of bottom-up labor activism since the 1930s that blended with Shiite political mobilization after the 1970s. This activism has been harshly suppressed by the large police apparatus of the probusiness conservative ruling family, however, thus preserving the regime's political maneuverability.[92] Significantly, unions are thus far allowed only in the private sector.

The political weakness of independently organized interest groups inside and outside of the state does not mean that GCC regimes are not compelled to spend considerable resources on patronage to keep various large if disorganized strata in society happy. But how this is done is up to the leadership: there are no labor, bureaucratic, or other interest groups that can exert a veto over major institutional decisions as has been the case in Iran or Algeria. This has given the GCC regimes considerable discretion in their allocative policies during crucial phases of increasing state income, allowing the dedication of different parts of the state to very different purposes.

Waterbury describes how maintenance of political coalitions has damaged the productivity of developing country SOEs.[93] In the GCC, coalitions—or, rather, socioeconomic clienteles—are managed elsewhere. Gulf SOEs are much less tied up with vested distributional interests than are public enterprises in Iran, Algeria, or Nigeria, and there are no strong organized groups to lay claim to them. Instead, they are managed by small teams directly subordinate to the leadership; other bureaucratic principals have no purchase over them.

The comparative evidence for regime autonomy as a necessary condition for SOE success thus far is weaker than that for populism. We have found economic populism as a clear, recurring type, a constellation of factors among otherwise very different cases. By contrast, lack of regime autonomy can have many different facets and is less easy to pin down. All of the comparisons above are imperfect: Algeria and Iran dealt with SOE rehabilitation rather than SOE creation and maintenance, and the Nigerian state suffers from many other problems in addition

[91] *Oxford Analytica* August 14, 2007; Kapiszewski 2008; Ehteshami and Wright 2007.
[92] Lawson 1989; Khalaf 2003; Niethammer 2006.
[93] Waterbury 1993, 119, 190.

to low autonomy; it is so different from the GCC that the comparison is weak. To really prove the point, a more similar case is needed.

This case is Kuwait. Among the five rich GCC states that have tried to engage in SOE-driven diversification, Kuwait is the one salient failure. And although as procapitalist as the other cases, it is the one regime that has been much less autonomous in economic decision making. Different from all other GCC cases, the Kuwaiti leadership has experienced strong pressure from electoral politics and organized bureaucratic interests that it has not been able to contain.

Kuwait has the longest parliamentary tradition in the GCC, going back to preoil national assemblies in the 1920s and 1930s, and a primus inter pares status for the ruling family that distinguishes it much less clearly from other local clans than is the case in the rest of the Gulf. Parliament nowadays represents a well-organized middle class that has far greater organizational freedom than civil society in any other Gulf state.[94]

Parliament can force individual ministers to resign and can veto the government's legislative initiatives. In recent decades, parliamentary politics—not directly accountable for government performance, as the cabinet is recruited by the ruler—have acquired a fiscally reckless character, forcing on the reluctant government salary increases in the public sector and direct handouts to Kuwaiti citizens in order to pander to the electorate.[95] At the same time, many of the government's economic reform initiatives, several of them related to existing or new SOEs, have become unstuck in parliament, as they seemed to threaten domestic distributional interests.[96]

The government has for years tried to get several Dubai-inspired infrastructure and logistics projects started. All of them have suffered severe delays, as matters of local participation and employment have been contentious in parliament. Project Kuwait, an attempt to get international oil companies to invest in new oil fields in partnership with Kuwait Petroleum, has been mired in parliamentary politics for about a dozen years, with MPs trying to defend employment privileges for nationals in the oil sector and interests of local firms in upstream contracting.[97] Similarly, plans to convert Boubyan Island into a Dubai-style logistics hub have faltered over political bickering. The parliament agreed on the privatization of Kuwait Airways, the badly loss-making

[94] Tétreault 2000; Crystal 1990; Gause 1994; Koch 2000; Herb 2009.

[95] *Oxford Analytica*, March 28, 2008; *International Herald Tribune*, May 6, 2008.

[96] Cf. Herb 2009; *Arab Times*, March 8, 2008; *Financial Times*, March 17, 2008; *Arabian Business*, December 26, 2007.

[97] *Oxford Analytica*, May 8, 2001, October 9, 2003; *Christian Science Monitor*, March 16, 2006.

national carrier, only in January 2008, twelve years after the company first pleaded for a sell-off.[98]

Public sector labor has been an important coalition partner in the parliament's veto policies: employees of Kuwait Airways are unionized and have gone on strike against privatization and for higher wages.[99] National labor in heavy industry SOEs has played a similar role in perpetuating bloated structures. Kuwaiti petrochemicals in the public sector have suffered losses over many years. Overemployment and lack of incentives have played an important role, as senior management finds it difficult to sanction workers. The latter, again, are unionized and can complain to ministers or MPs if they feel mistreated.[100] As in many countries in the wider Middle East, but different from its GCC neighbors, organized labor in Kuwait has been a staunch defender of inefficient SOE structures. The Kuwaiti public sector has failed to build up technocratic expertise over the years.[101]

Privatization, Project Kuwait, and other initiatives have all been seen as threatening national privileges of Kuwaitis and have therefore been battled by parliament and public sector interest groups.[102] Different from all its oil-rich GCC neighbors, Kuwait has not managed to set up a single large-scale, publicly owned heavy industry project that has turned a profit. The one successful, midsize petrochemicals project (Equate) is a joint venture with majority involvement by local and foreign businesses and thus insulated against parliamentary and public sector politics.[103] While political principals in other GCC states have been able to act in a unified fashion thanks to their relative independence of vested interests, the administration of the Kuwaiti public sector has been caught up in infighting between government, parliament, bureaucratic interest groups, and the public.

## Summary

There are many ways in which autonomy in economic decision making can become compromised: vested interests can be the legacy of a populist state-building project as in Algeria and Iran, can be the outcome of

[98] Reuters, January 9, 2008; *Arab Times*, June 5, 2008.

[99] *Kuwait Times*, November 12, 2007, May 8, 2008.

[100] Tétreault 1995; author interviews with Kuwaiti oil sector technocrats, Kuwait, February 2009.

[101] *The National* (UAE), June 4, 2008.

[102] AMEINFO, July 4, 2006.

[103] The contrast is further underlined by the fact that Kuwait has a number of very successful companies in sectors in which Dubai's SOEs have excelled, but all of which are outside of the public sector. Kuwaiti logistics company Agility is a regional leader, as is telecom giant Zain/MTC. The latter relocated from Kuwait to Bahrain in 2007, citing the bad regulatory environment in Kuwait.

neopatrimonial coalition building and power balancing as in Nigeria's weak state, or can derive from a tradition of middle-class mobilization and pork-barrel politics as in Kuwait. As Waterbury points out, SOE reform in many developing countries requires the breaking of the very interest structures created in the earlier SOE building phase.[104] In most of the Gulf, however, no such organized interests have been created in the first place.

The combination of nonpopulist politics and a high degree of regime autonomy provides the best explanation for the success of GCC SOEs and the comprehensive failures elsewhere. Moving beyond case histories, the two necessary factors provide a remarkably good cross-sectoral fit for all cases under consideration (see Table 3).[105]

Indonesia is the one case that is not perfectly explained by the two factors. By most accounts, the Indonesian regime under Suharto pursued a largely procapitalist development agenda, held the reins tightly, and was not unduly influenced by larger interest groups.[106] This however is not a substantial problem for our account. The two explanatory factors are necessary, not sufficient: not all elites who have the structural opportunity to build insulated SOEs choose to do so. Contingent reasons might sway them not to. In Suharto's case there appeared to be no particular need to build efficient public industries, as his economic development strategy could build on a powerful private sector and foreign investment attracted by cheap labor.[107] After the failure of Pertamina, he seems to have decided to use the public sector to grease his crony and military networks and to rely on business for driving growth.[108]

The latter option was not historically open to GCC regimes. There was no local private sector to speak of in the 1970s, and local merchants until recently lacked the capacity and inclination to pursue world-scale ambitions in heavy industry or services. Public sector investment seemed a logical choice for regimes whose resources dwarfed those of local society manifold. However, local Gulf capitalists have gradually accumulated capital and increased their managerial capacities, and the more entrepreneurial ones are now also entering heavy industry,

[104] Waterbury 1993, 260.

[105] The table is broadly inspired by Charles Ragin's qualitative comparative methods. I have settled on crisp coding, as my real-world cases fit rather neatly into dichotomous categories (Ragin 2000). To be sure, the possible candidates for "intermediate" cases such as Bahrain (not fully autonomous) and Indonesia (not fully autonomous, not fully nonpopulist) would fit a more fine-grained model well, as outcomes arguably are not quite as good in the former and not quite as bad in the latter case as compared with their peers. Precise measurement of outcomes would be very tricky, however.

[106] Bresnan 1993; Rosser 2007; Neher 1994.

[107] Rosser 2007.

[108] Bresnan 1993; Robertson-Snape 1999.

TABLE 3
SOE SUCCESSES AND FAILURES: OVERVIEW

| | *Nonpopulist* | *Autonomous* | *Successful SOEs* |
|---|---|---|---|
| *GCC Cases* | | | |
| Bahrain | *yes* | *yes* | *yes* |
| Kuwait | yes | no | no |
| Qatar | *yes* | *yes* | *yes* |
| Saudi Arabia | *yes* | *yes* | *yes* |
| United Arab Emirates | *yes* | *yes* | *yes* |
| *Non-GCC Cases* | | | |
| Algeria precrash | no | yes | no |
| Algeria postcrash | yes | no | no |
| Indonesia | yes | yes | no |
| Iran precrash | no | yes | no |
| Iran postcrash | yes | no | no |
| Libya | no | yes | no |
| Nigeria | yes | no | no |
| Venezuela pre-Chavez | no | no | no |
| Venezuela under Chavez | no | yes | no |
| *Auxiliary Cases* | | | |
| Egypt precrash | no | yes | no |
| Egypt postcrash | yes | no | no |
| Syria precrash | no | yes | no |
| Syria postcrash | no | no | no |
| Mexico precrash | no | yes | no |
| Mexico postcrash | *yes* | *yes* | *yes* (divestiture) |
| Suriname | *yes* | *yes* | *yes* |

telecoms, and logistics markets, often drawing on infrastructure set up for SOE operations and managerial strata reared in the public sector.[109] In this sense, local SOEs have acted not against business but rather as trailblazers of broader development.

## DOES IT TRAVEL?

As the rapid industrialization of well-financed but low-capacity rentier states is a rather specific process, we have kept the comparison in the rentier universe. There is no space for a full test of the hypotheses on the developing world at large, which is a subject for future research. A few observations are nonetheless in order.

First, "semirentier" systems with a strong but not dominant dependence on resource income seem to fit the explanation (see Table 2).

[109] Luciani 2005.

Mexico, Egypt, and Syria are partially oil- and aid-dependent states that started expansive, rent-financed public sector programs under populist regimes. By the 1980s, public sectors in all three had become bloated, loss making, and politicized, as we would expect.[110]

Reform trajectories have differed markedly, however. Reforms initiated in Egypt in the 1990s have remained incomplete, as Mubarak's Egyptian regime has been easily intimidated by worker demonstrations and resistance from bureaucracy and the ruling party.[111] In Syria the regime has not even dared to touch the populist ruling bargain that has entailed mass employment in underutilized SOEs since the 1970s. Until 2007 privatization was not even publicly talked about.[112]

The Mexican government under Salinas, by contrast, engineered a rapid turnaround in the early 1990s by selling off considerable parts of the public sector.[113] This was part of a major reconfiguration of Mexican politics, in which the regime repudiated old coalitions and turned toward liberal economic orthodoxy. At least in the Mexican case, a determined leadership has been able to reengineer the very political alliances that used to constrain its public sector strategy. Even there, however, SOEs remaining in state hands continue to underperform. The national oil, refining, and petrochemicals giant Pemex is perceived as an opaque and inefficient mess in which union bosses wield significant power.[114]

An interesting if odd auxiliary case of a successful rentier SOE is the Staatsolie oil company in Suriname. Being largely dependent on bauxite rents, the country has not had the means to embark on the kind of large-scale industrialization drive this article focuses on. As Suriname provides an almost total contrast to the GCC cases, it is nonetheless worth mentioning.

Oil in Suriname's case has not been the main rent generator but rather has been a focus of diversification from the early 1980s on. The driver has been Staatsolie, an SOE set up at the outset of Desi Bouterse's dictatorship in 1980. Staatsolie has become known as a "pocket of efficiency" that has enjoyed high-level protection against predation in an otherwise rather corrupt regime.[115] Although generally very different from the GCC monarchies, Bouterse's regime seems to fulfil both of our conditions: Suriname was ruled by a small coterie of officers that tightly

[110] Waterbury 1993; Perthes 1995.
[111] *Oxford Analytica*, December 21, 1998, June 28, 2004, October 19, 2006; Belev 2001.
[112] Interviews with EU government consultants and former ministers, Damascus, July 2008.
[113] Waterbury 1993.
[114] *International Herald Tribune*, June 5, 2008.
[115] Hout 2007.

controlled national politics and did not commit to any one constituency of support. Although Bouterse engaged in occasional anti-Western posturing, he also employed qualified technocrats[116] and abstained from populist economic policies.[117] Staatsolie operates on a different scale from Gulf SOEs; by the same token, however, its success suggests that high rent income is not a necessary condition for creating successful SOEs.

Political conditions for the buildup up SOE capacity in nonrentier states could well be quite different from those described in this article. In the latter, the issue was the quick productive use of temporary surpluses, while nonrentiers with a more stable revenue stream more likely require a gradual buildup of capacities, one that is based on better linkages with a more mature general administrative structure. These issues cannot be resolved here.

A preliminary survey shows, however, that several important nonrentier developing countries seem to conform broadly to our explanation, indicating that it could provide at least general background conditions for SOE success in nonrentier cases as well. Some of the most impressive SOEs have been based in South Korea, Taiwan, and Malaysia, all of which have been ruled by cohesive authoritarian regimes that have abstained—sometimes very explicitly—from populist economic policies, instead demobilizing their lower classes.[118]

A new generation of dynamic, internationally oriented SOEs now seems to be emerging from China, which has worked hard and increasingly ruthlessly to shed its socialist and egalitarian legacy. Although large swaths of the public sector remain inefficient and overstaffed,[119] the Chinese leadership has managed to carve some significant bits of meritocracy out of the state apparatus, especially in the fields of oil, heavy industry, and infrastructure.

At the same time, however, efficient heavy industry SOEs also exist in a number of democratic emerging economies, even those with, at times, left-leaning administrations, such as Chile and Brazil.[120] Outside of the rentier realm, therefore, it is not clear that authoritarian demobilization is the only way to efficiency. The requisite levels of institutional insulation might be lower in systems where the disconnect of fiscal resources and bureaucratic capacity is less striking, development more gradual, and politics less exclusively based on either repression or patronage than in the rentier universe.

[116] Dew 1994.
[117] Dew 1994; Brana-Shute 1986; MacDonald 1988.
[118] Wade 2003; Evans 1995; Troner and von der Mehden 2007.
[119] Lin, Cai, and Li 1998; Bai, Lu, and Tao 2006.
[120] Cypher 2005; Trebat 1983.

## Conclusion

SOE politics are complicated and contingent. The stylized facts presented in this article do not allow for firm predictions of what a specific rentier SOE is going to look like. Elite agency and historical context cannot be modeled in the abstract.

By the same token, however, existing literature on public sectors has also painted with too broad a brush: Waterbury and many others blame public ownership per se for the lack of monitoring, absent competition, soft budgets, and politicization from which many SOEs suffer. In fact, however, there are further contextual factors at play that can determine whether these pathologies emerge or not. There are institutional constellations in which unified principals, clear targets, and accountable management become possible for SOEs.

By keeping politically motivated distribution and profit-oriented economic planning separate, nonpopulist regime elites can provide space for profit-oriented management. If, moreover, they are reasonably coherent and politically autonomous from major economic interest groups, they can protect technocrats and their mandate over time. In this sense, the politically fragmented and quiescent GCC societies have provided the ideal environment for the creation of insulated SOEs.

Gulf SOEs show that rent inflows do not automatically lead to institutional stagnation or decay as resource curse theorists have posited. Rather, political circumstances determine which institutions are built with oil money. The procapitalist and politically autonomous GCC regimes have been able to use rents not only to build large-scale systems of patronage but also to build a number of remarkable pockets of efficiency. That not all of the public sector is efficient results from the basically distributional nature of the regimes at stake, with large numbers of nationals expecting to be accommodated through rewarding and undemanding public employment. Oil rents furthermore mean that there has been no pressing need to develop across the board and at any cost.

The study of SOEs gives us a new perspective on rentier states and the role of agency in building them. Populist and nonpopulist rentier regimes arguably belong to different categories, and rentier state apparatuses can be internally differentiated in very different ways.

The Gulf rentiers might be interpreted as an idiosyncratic variation on the developmental state, leading national development through small teams of elite technocrats by way of targeted technology acquisition, export promotion, infrastructure policies, and protectionist measures. In some respects, GCC patterns seem analogous to Asian developmental authoritarianism, which kept the working classes out of politics, relying on an apolitical, technocratic process of economic planning.

The Gulf monarchies are different from the ideal-type developmental state in several important ways, however. First, they never aimed at extracting resources from and forcing strategies priorities on local society.[121] Thanks to rents, they never had to. In state-society relations, only the demobilizational (and often repressive) aspect of the developmental state, emphasized in Kohli's analysis of "cohesive-capitalist" Asian regimes, is important for GCC regimes, guaranteeing their decisional autonomy.[122] Active, policy-oriented coalitions with key social groups are much less important.[123]

Moreover, below the regime core, Gulf states themselves are much less coherent than Kohli's cohesive-capitalist regimes: their bureaucracies at large are shot through with distribution and patronage to buy the loyalty of the politically demobilized population. The efficient bits of Gulf rentier states are insulated islands, and there are no overriding technocratic agencies pulling together the different parts of the bureaucracy as was the case with Japan's MITI or South Korea's Economic Planning Board.[124]

Gulf developmental strategies have resulted in a sui generis type: a hybrid regime broadly based on patronage, yet commanding important pockets of efficiency. Despite the state's fragmentation, the regime core is cohesive and autonomous enough to control the compartmentalized apparatus from the top down. The dualism of state structures is perhaps a luxury that only permanent rent income can afford.

Unfortunately, it seems to be their very authoritarianism that has made the Gulf monarchies nimble and autonomous economic players. The most democratic state, Kuwait, has struggled to turn rents into productive assets and suffers from the most patronage-afflicted public sector. Possibly a fully democratic state with a parliament accountable for government strategy would result in less elite conflicts. Kuwait's halfway democratization has doubtless been economically detrimental.[125]

For the time being, the pockets of efficiency approach seems to be

[121] Kohli 2004; Chibber 2003.

[122] Conversely, Kohli's account of "fragmented-multiclass states" in which power is more fragmented, rests on broader class alliances and is subject to capture by specific interest groups, appears similar to our account of populist rentier states, even if the latter is more specific.

[123] On social coalitions and state-business coordination, cf. Lewis 2007; and Evans 1995.

[124] Chibber 2002. The present account, although focused on SOEs, is closer to that of Cheng, Haggard, and Kang, who describe the emergence of islands of efficiency under direct control of the leadership in an otherwise patronage-based Taiwanese bureaucratic system; Cheng, Haggard, and Kang 1998.

[125] Cf. Herb 2009.

the most feasible second-best strategy available to GCC regimes that need to use other parts of the state to sustain their authoritarian patronage systems. "Pockets of efficiency" emerged as a research concept in the 1990s in the discussions of the developmental state, but little systematic work has been done on it.[126] If combined with a deeper understanding of elite choices and constraints as attempted in this article, it could be a promising point of departure for unpacking both rentier states and the developmental state in general.

### Open Questions

The politics of SOEs are likely to draw increasing attention as large Russian and Chinese public players emerge in international markets. The GCC SOEs might be part of a larger reassertion of the public sector in the global economy. As this article deals with a new or at least unresearched issue, open questions and research issues remain.

First, populism might itself be endogenous to other economic factors. It is here that GDP or oil income per capita might play an *indirect* causal role, as medium income countries could be more likely to see populist political takeovers. This must await further investigation.

Second, islands of efficiency in the Gulf do not exist only as SOEs. There are also insulated and efficient infrastructure providers, sectoral regulators, central banks, educational institutions, and so on that are decidedly superior to the bulk of the bureaucracy. SOEs were chosen for this article primarily because their success is more easily measurable, but they are not the only heterogeneous bit of the Gulf rentier state. The story of the latter is yet to be told.

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[126] Hout 2007; Evans 1995; Geddes 1990; Schneider 1991; Cheng et al. 1998.

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