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Gulf States

A Marxist Guide to Understanding the Gulf States' Political Economy

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Western analysts often regard the Gulf as a strange anomaly among capitalist states. In fact, it has the same underlying dynamics as capitalist countries elsewhere, and it is powerfully shaping the politics of the Middle East.

In December 2019, the government of Saudi Arabia commenced partial privatization of its own oil firm, Saudi Aramco, in what became the world's largest initial public offering (IPO) to date. This was the boldest move yet in Saudi crown prince Mohammed bin Salman's plan to overhaul the country's entire economy and raise funds to create a neoliberal nirvana.

Similar trends manifest in neighboring Gulf countries, with measures like reducing public spending and privatizing public assets featuring prominently in the region's political discourse. This has especially become the case since the 2014 oil glut.

HC: The Gulf region is viewed in public discourse as an anomaly — a place that has maintained elements of its semi-feudal past but has nevertheless managed to adapt to modern capitalism. The primary framework used to understand this relationship is rentier state theory (RST). Is this approach enough to understand the contemporary economic and political realities of the Gulf?

AH: There are a many different variations of RST, but their common feature is an attempt to explain social, economic, and political patterns in the Gulf through state revenue derived from hydrocarbon exports. These are called "rents" because they ultimately come from the fortuitous accident of having natural resources in your national territory. The basic idea is that access to these rents gives the Gulf's rulers a very pronounced autonomy and power over other parts of society. This has been used to explain all manner of things in the Gulf — authoritarianism, weak civil societies, a reliance on patronage networks, rentier "mentalities," and patterns of economic development.

Now, obviously, hydrocarbon exports (oil and gas) are hugely important to the Gulf's political economy. But there have been numerous critiques of how RST is deployed to explain the Gulf and other states possessing natural resources. In my opinion, one of the major problems with RST is that it moves our analysis away from approaching Gulf societies as capitalist; that is, as countries with their own specificities but that nonetheless have the same underlying dynamics as capitalism elsewhere. By disappearing capitalism, we lose the category of class. Private capital is portrayed as weak and underdeveloped, and the importance of labor and the structure of working classes are downplayed. We also end up with a particularly problematic understanding of the state in the Gulf.

In contrast, I think a Marxian approach to state and class formation is a much more convincing and fruitful way of understanding the Gulf. This approach directs our attention to a whole range of different questions and issues. How do classes of capital and labor emerge in the Gulf, and how do these classes relate to one another? What are the major moments of capital accumulation (e.g., production, commodity exchange, and finance), and how are these connected to one another? What are the spatial dynamics of accumulation in the Gulf, i.e., how does accumulation extend across national, regional, and global circuits? How do these dynamics relate to the specific role of the state in the Gulf? How can we conceptualize ruling families vis-Ã -vis the capitalist class, and migrant labor vis-Ã -vis the citizen population? How are classes racialized and gendered in the Gulf? These kinds of questions can reveal much about the Gulf as capitalist societies.

The other thing RST approaches tend to do is abstract the Gulf from wider global processes — questions such as imperialism and the dynamics of the world market are treated as secondary. But how can it make sense to explain the "lack of democracy" in the Gulf without foregrounding the region's long-standing centrality to US power, or the unflinching military and political support shown by Western states to Gulf ruling families? A really important part of this is also understanding the histories of colonialism and war that are very much part of how the contemporary Gulf exists today.

The basic point is that Gulf countries are not some strange anomaly among capitalist states globally. But conversely — and I think this is a fact not widely appreciated by parts of the Left in Western countries — the Gulf can teach us a lot about how capitalism actually works in other places, too.

HC: What are petrodollars, and are they still an operative factor in today's global system?

AH: "Petrodollar" is a term coined in the 1970s to describe the revenues earned by countries through their hydrocarbon exports. This capital can be spent inside the country in question or "recycled" back into the world market. Historically, petrodollars were very important to the development of global financial markets, and they remain important today.

An early illustration of this was the emergence of the so-called Euromarkets – financial markets that developed in Europe through the late 1950s and 1960s, which lay outside the jurisdiction of national regulatory systems and were largely exempt from taxation and other domestic financial restrictions. London became the key international center for Euromarket operations, allowing banks and companies to deal in deposits and bonds that were denominated in currencies different from their domestic markets. Following the nationalization of Gulf oil companies in the 1970s and the large increase in oil prices that ensued, petrodollar deposits in North American and European banks operating in Euromarkets reached very high levels.

These flows of Gulf petrodollars greatly increased the capacity of international banks to lend to multinational firms, governments, and other borrowers and helped propel the internationalization of production that began to gain ground from the 1970s onward. Euromarkets were also pivotal to how the "Third World" debt crisis unfolded through the 1980s, with cash-strapped countries in the South forced to borrow recycled petrodollars through Euromarkets, thereby becoming tightly enmeshed in debt relations to international financial institutions. Today, the power of the City of London in the global financial system is a direct legacy of these markets — and the position of the Gulf within this remains significant.

Gulf petrodollars were also important to the emergence and consolidation of the United States as the dominant global power through the second half of the twentieth century. By agreeing to invest oil revenues in US Treasury securities, equities, and stocks — coupled with the denomination of the price of oil in US dollars — the surpluses of Gulf countries helped cement the preeminent status of the US dollar as "world money."

Gulf petrodollars are also recycled through international markets by other more indirect means. This includes the Gulf's purchase of foreign goods and services — particularly important here are those connected to the development of urban infrastructure such as machinery and transport equipment, high-end engineering, and construction services. And, of course, a major route of petrodollar recycling is the Gulf's purchase of military hardware and services. Between 2015 and 2019, the six Gulf states bought more than one-fifth of arms sold globally, with Saudi Arabia, the United Arab Emirates (UAE), and Qatar ranking as the world's first, eighth, and tenth largest arms importers. Saudi Arabia alone purchased one-quarter of total US arms exports during that period, up from 7.4 percent in 2010–14.

HC: Could you speak a bit more about the nature of the capitalist class in the Gulf, and its relationship to the state and ruling families?

AH: Big capital in the Gulf is typically organized through large conglomerates that are active across a variety of economic sectors, including construction and real-estate development, industrial processes (particularly steel, aluminum, and concrete), retail (including the import trade and the ownership of shopping centers and malls), and finance. These conglomerates are often controlled by families who have their origins in earlier merchant activities, and are closely linked to the Gulf's ruling families and state structures.

Now the Gulf states are all monarchies of varying types, and the ruling families control the state apparatus and much of the wealth derived from oil and gas exports.

Successful capital accumulation in the Gulf is very much dependent upon proximity to the state and the support of the ruling family. This can be seen in a variety of ways — subsidized land and other grants, lucrative state contracts for various projects, joint investments between private capital and the state, and the political and financial support of state institutions for overseas investments by private conglomerates. This kind of relationship with the state is not something unique to capital in the Gulf — it's the normal way of doing business as a big capitalist in any country around the world today.

Now, one of the legacies of RST approaches is a view that private capital in the Gulf is weak and overshadowed by a strong state. This idea rests upon a dichotomous reading of state and capital, which I think is methodologically wrong. In reality, members of the ruling family often control large business groups in a private capacity, and they thus need to be seen as part of the private capitalist class (as well as a core part of how state power is exercised). In Qatar, for example, 80 percent of stock market firms have at least one member of the ruling Al Thani family sitting on their boards — these individuals are acting in their own individual capacity, not as representatives of state institutions. Similarly, Dubai's ruler, Mohammed bin Rashid Al Maktoum, holds private stakes in a significant number of the largest companies in the emirate, including some of the largest real estate firms, banks, and a major telecom.

In short, I think it's important to reclaim a Marxian conception of the state/class relation in work on the Gulf, i.e., an approach that views the state as an institutional expression of class power in the Gulf, and a capitalist class understood as inclusive of ruling families and state elites.

HC: In your book *Capitalism and Class in the Gulf Arab States*, you identify the "spatial fix" as an important tool in overcoming crises of overproduction and fragmenting the Gulf working classes. What are the elements of the spatial fix in the Gulf? How does it play out on the ground?

AH: I borrowed this term, of course, from David Harvey, who used it to describe the ways in which capital often rearranges itself spatially in order to overcome or displace moments of crisis. In the Gulf, I think we can see a kind of analogous process occurring in relation to migrant labor.

Noncitizens make up between 56–82 percent of the labor force in Saudi Arabia, Oman, Bahrain, and Kuwait, and around 95 percent in Qatar and the UAE. These striking figures are fundamental to understanding the Gulf's class structure. Through the infamous kafala system, migrant workers are tied to an individual employer and are prevented from seeking alternative employment or even leaving the country without permission. The vast majority of these migrants are employed in the private sector — across sectors such as construction, domestic work, and retail — and are often poorly paid and subject to highly exploitative and dangerous working conditions. In this sense, the exploitation of migrant labor is an essential part of the accumulation of the business conglomerates I spoke about above.

One of the consequences of these flows of migrant labor is that literally millions of families across South Asia, the Middle East, East Africa, and elsewhere depend upon remittances sent home by workers in the Gulf. There are more migrant workers in the Gulf than any other region of the Global South, and Saudi Arabia alone ranks as the second largest source of remittances in the world (after the United States).

These cross-border flows of migrant workers remind us that class is not simply an abstract category describing a certain relationship to capital and the production of surplus value within national spaces. Concretely, classes come into being through the interlinking of geographical spaces and are continually forged through the flows (and displacement) of human beings across borders. When we think about a category like the "reserve army of labour" in the Gulf, we need to consider those millions of people who may be living outside the borders of the Gulf Cooperation Council (GCC) — but who are nonetheless constantly moving in and out of Gulf labor markets.

Now, at times of economic downturn, large numbers of these migrant workers in the Gulf are simply sent home, frequently without receiving overdue wages or compensation due to them. We saw this on a large scale in the wake of the 2008 global crisis, and we can see it again today. Indeed, a few weeks ago, the former head of Dubai's Department of Finance tweeted that he was predicting a minimum 10 percent drop in the emirate's population over this year — a remarkable plunge! This is one way that Gulf states are able to partially deal with these moments of downturn as a "fix," rearranging the ways in which their working class is spatially organized and displacing the impact of the crisis onto poorer zones of the world market.

HC: The post–Arab Spring period saw significant intervention by some Gulf states in the affairs of neighboring countries. This was most evident in 2013, when Saudi Arabia, the UAE, and Kuwait materially supported a military coup that brought Egyptian dictator Abdel Fattah el-Sisi to power. Qatar, on the other hand, backed the Muslim Brotherhood government that was under attack at that time. Is there an economic dimension associated with these political tensions? What is the relationship between Gulf capital and Middle Eastern politics more broadly?

AH: I think it's very important not to divorce the economic processes we see in the Middle East from the region's politics. Over the last couple of decades, there has been widespread adoption of market-led neoliberal economic policies across the entire region. This has been driven by structural adjustment packages linked to loans from international financial institutions (IFIs) — and has involved the usual "reforms" associated with such packages, e.g., privatization, a shift toward export-oriented production and agriculture, labor market and financial deregulation, opening up to foreign direct investment, and so forth. The pace of these measures varies widely across different states, but countries like Egypt and Tunisia were repeatedly lauded by IFIs as "successes" up until the Arab uprisings began in late 2010.

Now, there are several points that need to be emphasized about these economic transformations. First, they were closely associated with hardening forms of authoritarianism throughout the region. It's no accident that both Zine El Abidine Ben Ali in Tunisia and Hosni Mubarak in Egypt came to power in the 1980s promising to implement structural adjustment packages — and they were strongly praised by the World Bank and IMF for doing so. This makes absolute sense: in the face of widespread popular opposition to structural adjustment, you need someone in power who can push these measures forward through the use of internal repression.

This is why there has historically been such a close association between authoritarianism and neoliberal reform in the Middle East. It's a reality that runs against the myth, peddled by US policymakers through the 1990s and 2000s, of free markets and free elections.

This relationship between the political and the economic is particularly important to emphasize today, as it points to the necessary connection between political change and real socioeconomic transformation. It's not good enough to simply change the face of the person at the top while keeping the same economic policies in place — that's a key lesson of the Arab uprisings.

But the neoliberal measures of the 1990s and 2000s were also closely bound up with the development of new economic and political hierarchies at the regional level. One of the key aspects of this was the internationalization of Gulf capital throughout the region — i.e., cross-border investments by Gulf conglomerates into neighboring Arab countries. In this manner, the large business conglomerates I spoke about earlier, as well as state-run Gulf investment vehicles, were primary beneficiaries of the neoliberal turn in the Middle East. We can see this across numerous key economic sectors — real estate and construction, infrastructure and logistics, banking and finance, media and telecommunications, retail and trade, agribusiness. I've tried to detail these processes in my latest book.

These regional capital flows have occurred through a variety of mechanisms, including mergers and acquisitions, minority portfolio investments in other Arab stock markets, the establishment of cross-border subsidiaries, and control over licensing and agency rights. Through these and other means, the internationalization of Gulf capital increasingly acts to shape production, consumption, and financial activities across various Arab states. The political economy of various Arab countries has become closely attuned to the dynamics of capital accumulation in the Gulf itself.

The upshot of all of this is that the Gulf — and here we need to be cognizant of the rival, competitive tensions between the different Gulf states — has a key stake in the region's overall political economy. We can't think about the region's political order separate from these economic dimensions (or vice versa).

HC: Can you speak about some of the possible future trajectories of the Gulf and the Middle East, particularly in the context of the COVID-19 pandemic?

AH: The region is obviously in major flux. Prior to the pandemic, there were a range of very deep crises across the Middle East. One of these is the massive number of refugees and internally displaced people as a result of the ongoing wars in countries such as Syria, Yemen, Libya, and Iraq. The region is now the site of the largest forced displacement since World War II. Many of those displaced live in rudimentary camps or overcrowded urban spaces, which puts people at much greater risk of infection from the virus. There is also the widespread prevalence of malnutrition and other diseases (such as the reappearance of cholera in Yemen) — again, these are closely connected to the wars and conflicts that predate the pandemic.

Through 2019 we had seen a new wave of popular struggles across numerous countries in the Middle East — notably Sudan, Lebanon, Algeria, Morocco, and Iraq. These were countries that had stood somewhat apart from the uprisings that took place a decade ago, and there were many reasons to be optimistic about these new mobilizations. They drew in wide layers of society, including the poor and informal sector workers. They effectively resisted attempts at marginalization, and there was a strong anti-sectarian character to these movements — especially important in Iraq and Lebanon.

These movements also clearly articulated the political and economic spheres as interrelated – in Lebanon, for example, the banks were identified as a major target of protest, going beyond the well-rehearsed issues of nepotism and political corruption. The 2019 wave of demonstrations also had an important recognition of regional hierarchies — with slogans raised against the machinations of neighboring powers, including Saudi Arabia, the UAE, Turkey, and Iran.

Now, the pandemic has obviously temporarily set these movements back and restricted the ability of people to come out onto the streets in protest. But none of the key issues that drove these protests in the first place have gone away. In fact, I think it's pretty clear that questions of poverty, inequality, and corruption — all of which fed the crisis of legitimacy facing established ruling classes across the region — will be accentuated in the wake of both the pandemic and the global economic downturn that is now upon us.

In the Gulf, of course, the big issue is the massive crash in the price of oil that has taken place over the past couple of months. Like all oil producers, this will hit the Gulf's fiscal capacities in a serious way. There will undoubtedly be cuts to social spending — some of these have already been announced — and a pull back from some of the larger projects associated with the Gulf "vision" strategies announced over the last few years.

But I think it would be wrong to read this crisis as necessarily marking a permanent reversal of some of the trends I've noted above. Unlike other states in the region, Gulf governments have relatively low levels of existing debt, access to accumulated reserves, and can borrow fairly cheaply on international markets. Although the world oil market has been severely affected by the pandemic, GCC oil companies could actually strengthen their position if assets in neighboring countries become available more cheaply in a post-viral world.

And, as is so often the case in the Gulf, migrant workers have borne the brunt of both the pandemic and the economic downturn. Saudi Arabia, for example, has begun expelling Ethiopian migrants and, according to an internal UN memo, is expected to deport 200,000 in total. There has also been a large spike in racist speech against migrant workers across the Gulf, as well as new laws that allow private-sector companies to permanently reduce salaries of noncitizens or force them to take unpaid leave.$

Source ***Jacobin***.

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