



ARI Thematic Study: Private Sector and Reform

Selected Players for Selected Reforms

an integrated report*

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Summary:

Much of international cooperation relies on the assumption that economic liberalization leads to political liberalization: through economic reforms the private sector would gain sufficient autonomy to act as a change agent – and would also want to do so. In a research project involving several case studies of the Gulf countries and Syria, the Arab Reform Initiative (ARI) has analyzed the role of the private sector in economic and political reform and comes to the conclusion that both the will and the capacity of the private sector to be a change agent is still very limited.

After a first policy paper focusing on the structural development of the private sector in the Arab world, this policy paper takes a closer look at the relationship between the state and the private sector and the balance of power between the two. Historically, this relationship has varied across Arab states. Since the 1990s, the shared interests and the mutual dependency of the private sector and the state have grown in the entire region. Recently the power balance seems to have tilted slightly in favor of business as the state increasingly needs the private sector, for instance to satisfy social demands. Despite these changes, however, the private sector cannot be defined as a change agent: On the one hand, its room for maneuver is still very limited; on the other hand the private sector uses the little power it has to defend its vested interests which most often translates into maintaining the status quo.

Historic Roots of the Relationship between the Private Sector and the State

Historically, the countries of the region have followed very different paths in terms of political and economic development, which translated into profoundly different types of interactions between both groups. Suffice it to compare the experiences of Syria and the United Arab Emirates (UAE) to have a good illustration thereof. In both countries, internal politics – the birth of the Ba’thist regime

– and a revolution in the structure of the economy – the discovery of oil – dramatically changed the nature of the relationship between business elites and regimes. From a relation of distrust and enmity in Syria to a relation of shared interests and mutual dependency in the UAE, the degree of proximity and independence of the business sector vis-à-vis the decision-making elite has varied considerably throughout the region, affecting – be it positively or not – the capacity of the former to influence policies.

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Yet a few common features became obvious in the 1990s, as changes in the international environment led formerly socialist states like Syria to “adapt” their economic policies and start encouraging – even though slightly – private initiative. In most countries, relationships between business and ruling elites have progressively converged toward a general pattern of overall domination of political elites on their business partners, but also of shared interests and mutual dependency.

Hence, beyond its formal definition as that part of the economy that is not controlled by the state, the private sector is not a well-identified object. Perhaps even more than in other parts of the world, it is difficult to draw the line between what is private and what is public in the Arab world. Behind the formal label of “private sector”, there is a constant overlapping of interests between ruling elites and the business community.

In the Gulf, merchant and ruling families have had a long history of close interactions ever since the pre-oil era, but the oil rent has reversed the balance that existed between the two. As illustrated by Khalid Almezaini, with the discovery of oil the economic structure in the UAE changed dramatically from being one solely dominated by merchant families to one being state-led. Before oil, the relationship between rulers and merchants had the character of a protection racket: merchants subsidized the rulers, and the rulers in turn protected the merchants’ trade. The political elites did not intervene in the private sector precisely because of their limited capabilities: the merchants had more power and control over the economy than their local political authorities. When oil revenues began to flow into the Emirates, however, the relationship between the private and public sectors changed, the former being

subordinated to the latter in a patron / client relationship. Regimes have used the oil rent to protect and boost the private sector. At the same time financial independence provided them with an instrument of influence and control over the business community. **While significant rents were recycled to the private sector, merchant elites were asked to behave as loyal allies, and they became dependent on the state to access to the distribution circuit.**

Hence family businesses – relying for a large part on small and medium enterprises – have played a significant role in developing the private sector and adapting the economy to a global competitive environment since the 1970s. Leading merchant families now control a large portion of the UAE economy overall, a position that is largely attributed to their advantageous connections and relations with ruling families. Whereas the interrelationship between the two goes back to the pre-oil era, many large family businesses appeared later and benefited from the assistance of the state from then on. Those with stronger ties to leading families could easily obtain commercial lands and low interest loans. Other families have won government construction contracts and benefited from many of the subsidies or free-interest loans offered by the state. Examples abound to show how the politics of *wasta* (connections) has helped many leading merchants. The degree of influence of your *wasta* determines your political, economic and social status in the state.

As they were building their positions in the economic realm, the leading merchants – such as al-Fahim, Juma al-Majid, al-Habtoor, al-Tayer, and al-Dhahiri of Abu Dhabi – have become strongly embedded within the politics of the state in most of the emirates. Because of their wealth and, to some extent, their social relations with the ruling families, they have succeeded in positioning themselves parallel to the state.

Many of the old merchant families have also cemented their position in the private sector through joint ventures or business partnerships with different members of ruling families across the emirates. At present, there is a political and economic interlocking between them. The state's involvement in large enterprises makes it difficult to distinguish large private enterprises from state companies. Most directorial boards of leading public, semi-private and private companies include members of ruling families along with leading merchants. In many other instances, such as banks, telecommunications companies, property and insurance firms, the political and economic interests between the ruling families and merchant elites meet.

Much has to do with the rentier structure of the state and in many countries the business elite appears largely dependent on political authorities, who played a critical role in its creation. Despite common features such as the impact of the discovery of oil on political economies and a long history of interaction between merchant and ruling families, not all the Gulf states have enjoyed the same level of autonomy as the UAE have. **Not only oil resources, but also internal politics have played a critical role in the degree of proximity or independence between the business sector and the decision-making elite** in Bahrain and in Oman.

In Bahrain, the political and economic elites are historically distinct. Because of the scarcity of oil resources, the ruling family never benefited from a rent sufficient to guarantee its complete autonomy from the business elite. Moreover, since the al-Khalifa's legitimacy was the most subject to challenge among the monarchies of the Arabian Peninsula, the royal family has considered it could not alienate totally the support of the Sunni merchants' elite, which it feels to be indispensable to assert its social and political control. However,

since the business elite views itself as a minority deprived of deep social networks, it has never been powerful enough to force the ruling family to stay out of business. Hence **the al-Khalifa family has always been substantially involved in business, and has never been forced to grant a substantial number of leading positions in the decision-making field to the economic elite.** In 2010, four members of the business elite only held positions in the Cabinet, the sovereignty ministries and most sensitive ones being monopolized by the al-Khalifa. The royal family itself has been the first beneficiary of the oil rent, which it has distributed as largesse to grateful citizens. In such a context, the private sector is heavily dependent on his good relationship with the most influential individuals within the royal family.

In Oman, on the contrary, the bourgeoisie has been directly involved in the decision-making sphere since the 1970s. To counterbalance his extreme vulnerability when he acceded the throne in 1970, Sultan Qaboos chose to give guarantees to the merchants' networks, ensuring them the protection of the political authorities, his non-interference in the business sphere, and their privileged access to the oil godsend through public contracts. Hence, in Oman, the old allies of the Sultan – in particular the major Muscat merchant families, such as the al-Sultan family – have received the greater part of the rentier state's subsidies. They were also offered direct participation into the decision-making process, notably through prominent government positions, since for Sultan Qaboos the possibility for his ministers to make business in a very favorable way has been seen as a means to insure their loyalty.

In Syria too, political reasons have played a critical role in the shaping of the relationship between the state and the business community. However, contrary to what happened in most Gulf countries, the birth of the Ba'thist regime and the coming

into power of a new political elite during the 1960s resulted in the reduction of the private sector to its minimum form. In an economically socialist and politically authoritarian context, it has been denied any autonomy and its development has been hindered. This can be explained by the fact that the relationship between the state and the business community in Syria has been historically strained. The two social forces have been at odds, for both political and social reasons. Most hardliners within the regime of Hafiz al-Asad viewed the relationship in zero-sum terms: the rise of the private sector could only occur at the expense of the regime. Conversely, from 1963, the nascent Ba'athist regime has consolidated at the expense of the traditional private sector, symbolized by what is called the "traditional" or "old" bourgeoisie. Exacerbating this essentially political antagonism was the social antagonism that characterized the differences between the rural minoritarian power holders who had been historically subordinated and their former "masters", who belonged to the urban Sunni elite and had subjugated them both in the city and in the countryside. This divide made the eventual re-incorporation of the business community a more risky affair in Syria, in the context of authoritarian rule and economic transition. Thus, today, despite the advent of informal liberalization in the late 1980s and its slight broadening since 2005, the private sector remains anemic in comparison to that of other similar economies. It is too small, too weak, too divided. In this context, the state remains largely in control of the economy, be it directly or indirectly.

As a matter of fact, even though extremely different in terms of structure of the state and the economy, the situation in Syria presents some similarities with that of the Gulf countries, in so far as the boundaries are most of the time blurred between what is public and what is private, and the so-called private sector appears largely

dependent on the state to hatch and grow. The Syrian private sector looks like a heterogeneous amalgam of various social components that are brought together under the "private" label, nominally defined as those components juridically separate from components owned by the state. Yet in reality, the larger segments of private sector assets and capital belong to individuals linked to the regime; they are often directly accumulated in the shadow of the state, through the exercise of state authority and via the state's own mechanisms and agencies. Since 1991 and more recently in the early 2000s, the lion's share of both new opportunities and new markets went to a small group of individuals associated in one way or another with the regime, either through familial ties or through positions in the public, governmental, or military/security sectors.

How the Regimes Utilize the Private Sector

Talking of the "private sector" and assessing its influence on reform policies may be somewhat misleading, given the unclear divide between business and political elites in most countries of the region. Indeed, be it mainly for political or economic reasons, leading private entrepreneurs largely owe their domination over the economic sphere to their relations with political authorities, who were most of the time able to manage the relationship so as to serve their own interests.

Historically, rather than dealing with the private sector as a whole, regimes have preferred selecting the "partners" that would fit the best their strategies of power. National security concerns and the priority given to regime survival have been key determinants of their choices.

In return, the players that had been selected within the business community

most of the time have had no option but to link their interests to those of their “patrons”. This has reinforced mutual dependency between the two, severely limiting the capacity of private business to act as an autonomous actor with regards to policies – in the economic realm, and even more in the political field.

That calculation has been especially obvious in Syria where the Ba’thist regime has related to the private sector through the prism of security ever since assuming power in 1963. Already at the time of Hafiz al-Asad, the Syrian regime had to deal “strategically” with the private sector. It would give either moderate concessions to the private sector as a whole or dole out “magnanimous” privileges to a select few therein, for the purpose of preserving its autonomy at the macroeconomic level (often at the expense of the health of the economy). Since the 1990s however, the regime has been unable to reverse the growth of the private sector. Moreover, it has become far more dependent on it for investment, job generation, and foreign exchange procurement. In these circumstances, it chose to encourage private sector growth to the extent that it could ameliorate the economy, but not so much that it would threaten the balance of power between state and business. In order to do so, it has selectively networked with the most economically significant individuals in the private sector – individuals who owe their rise to the state’s patronage and blessing.

At that time, relatively visible relations emerged between the regime and individuals in the private sector, signaling a slight change in the strategic situation. **Actors within the business community acquired more legitimacy because of the growing state-business alliance: supported by political authorities, they became members of Parliament and board members at the various Chambers of Commerce and Industry.**

Since the state crucially needed to adapt its economic policies, the “input” that these business representatives constituted was highly valued. For this reason, they were able to make policy recommendations at high-level institutions connecting the state to the business community, such as the Guidance Committee (*lajnat al-irshâd*). The calculation was that when the state succeeds in mobilizing the private sector, both state and private sector benefit economically, and the state benefits politically — at least in the short run.

Under Bashar al-Asad, even though the ideological markers shifted, allowing for some flexibility in terms of the regime’s proclaimed stance regarding market-versus state-controlled economy, the regime’s security concerns have remained. To date, the current regime has not broadened its rule sufficiently to contain or control a private sector proper. Hence, it still has to deal selectively with parts of it, avoiding normalized engagement with the private sector as a whole, interacting only with selected private moguls through informal economic networks. Because of historical memories and the history of the relationship between the state and the private sector, re-incorporating the interests of the business community has to be done carefully, in a way that would not compromise the regime politically. **Today, the growth of Syria’s private sector is as much – if not more so – a function of regime intervention as it is an expression of a private non-regime related initiative.**

In the Gulf, merchant families’ relationship to the state apparatus has historically been less antagonistic than was the case in formerly socialist systems like Syria. Yet **the current shape of the private sector in the UAE and the patron-client relationship between regime and business is the result of a number of motivating factors that include not only economic gains, but also non-economic objectives such as national security and**

regime survival. This appears all the more true as the state benefits from an important financial autonomy vis-à-vis private business. As the Kuwaiti state is a rich rentier state and financially autonomous from society, it is not dependent on a thriving private sector to effectively govern. It will instead use the private sector as a playing field for the creation of strata of loyal states clienteles. In Kuwait, it has penetrated society in a neo-patrimonial way and domesticated its opposition forces by the co-optation of its members. Thanks to its rentier nature, it can relatively easily switch its political alliances, basically by courting the leaders of whatever opposition group it fears most.

Reviewing Kuwait's history provides a meaningful example of the strategies implemented by both ruling elites and business actors. More precisely, it helps understand the origins and the rationale of the alliance between the al-Sabah family and the Shi'as that crystallized in 1938. In this instance, as is the case in other Gulf monarchies, the divide-and-rule game has been a typical government strategy for maintaining social peace. The co-optation of the Shi'i merchants by the rulers should be understood in the context of the social antagonisms that emerged in Kuwait at the end of the 19th Century, when authoritarian rule was introduced by the coup d'état of Mubarak the Great. At that time, following the breaking of the consultative agreement with the Sunni merchants, Shi'i merchants were co-opted by the ruler in an effort to counterbalance the nascent mercantile opposition. They became crucial allies for the regime. Being a national minority without any kinship ties to the regime, the Shi'as were less-problematic allies, as they could not contest the central elite's status. By segmenting society, the state played on nascent social antagonisms in order to erect itself as a neutral arbiter over society, implementing a political strategy of co-optation and discrimination. In return, as the alliance gave Mubarak the societal

support he needed to maintain his authoritarian rule, it presented for the Shi'i merchants an occasion to reinforce their economic position within the emirate. A relation of mutual interest and dependency was forged between both groups at that time. It explains why, in 1938, the Shi'as rallied under the al-Sabah against the Assembly Movement (*harakat al-majlis*) during which Sunni merchant notables organized themselves to formally protest the ruler's policy and demand political reforms. Shi'i merchants, being allied to the ruler ever since Mubarak's reign, were excluded from participation in these parliamentary efforts of the Sunni oligarchy.

Until the 1980s, for these Shi'i merchants, politics was essentially centered on the preservation of the status quo, which was itself dependent on their relation with the ruler. With the discovery of oil, they managed to maintain their privileged position in the private sector, even though at the cost of a most subservient capacity as commercial agents or importers. But the creation of Shi'i movements inspired by al-Da'wa and the Shiraziyyin and the emergence of a new generation of political Islamists radically transformed the political field. As mass-politics was introduced, merchant notables gradually lost their social power in community affairs in favor of a new elite of middle-class Islamist politicians critical of their narrow perception of politics, mainly centered on the preservation of their personal interests. The episode of the dissolution of parliament by the Emir in 1976 illustrates the opposition that had crystallized between both groups: whereas the young Islamist politicians organized collectively to oppose the ruler's decisions, the traditional notables refrained from any criticism. For them, government procurement had become a major source of their business profits after the oil boom. Hence personal interests in maintaining close ties to the government prevailed over

ideological convictions. Because of these positions they had almost lost their social power within their constituencies by the end of the 1980s. The government then realized that it needed more effective interlocutors with the Shi'i community. In the context of increased societal tensions, it resorted to parliament as an instrument for molding societal force according to its needs of the moment, and a new generation of Shi'i Islamist deputies – displaying an oppositional discourse – would come to dominate the representation of the Shi'i community in Parliament.

A new turn happened after September 11, 2001 and the American intervention in Iraq in 2003. In the context of growing societal criticism towards the Sunni Islamists, the government explicitly started to favor its Shi'i population. **In order to reach the Shi'i masses, it has relied upon a limited group of “new” Shi'i merchants who have been incorporated in the highest political ‘*asabiyya* around the al-Sabah house.** These Shi'i merchants currently belong to the wealthiest families in the emirate and differ from the old families in the sense that their wealth has only been created since the early 1990s. Merchants like Jawaad al-Bukhari, ‘Ali al-Matruk or Mahmud Haider, who undertake important charitable activities for all segments of the Shi'i community and are close to the al-Sabah family, play the role of intermediary between the Shi'i masses and the government. For the rulers, the selection of these new “partners” serves their interests: they resemble new political patrons who protect and can intercede at crucial moments, and they do not dispose of social power on their own, independent from the ruler; their political action is top-down driven. Now, after the elections of May 2009, for the first time since 1976, the Shi'as are dominantly represented by pro-government deputies and constitute a pillar of support to the government in its strategy to counter-balance the oppositional Islamist groups. The government has

succeeded in implementing its new political strategy towards its Shi'i minority, relying heavily on a group of new Shi'i merchants as informal intermediaries.

Why the Private Sector Does Not Use its Potential Political Clout

The private sector can hardly be considered a homogenous and coherent group with clear-cut boundaries and with actions oriented towards a common purpose. In Kuwait for instance, the entrepreneurs might have a shared class identity, but their political action is determined vertically by government. Their identity does not translate into coordinated political action.

The “partners” that have been selected by their regimes have used their relations with political authorities to preserve their interests and maintain other potential competitors out of the game. Consequently, they are more likely to prefer the status quo to reform. Only when they felt disadvantaged or threatened by outsiders or newcomers, they got involved in contentious politics.

In Syria, in contradiction with theories linking economic and political liberalization, the causality between privatization and government accountability was not; on the contrary, in some cases, the most powerful elements within the private sectors have favored the status quo. Several factors have contributed to this situation. First, the largest parts of the private economy in Syria are operated or owned by what is called the “state bourgeoisie”. Then, strategically loyal economic networks have developed between the regime and the “new bourgeoisie”, itself largely a creation of the state. The continuing mistrust between the regime and the larger business community has further altered, albeit

grudgingly, the preferences of the new bourgeoisie in favor of the status quo. Today, the “new” state-created and state-protected bourgeoisie favors the status quo because its own preferences were privileged over the preferences of the entire business community. Thus, the new, i.e. crony-like bourgeoisie and the private sector as a whole, i.e. everyone else, are at odds. The power of the private sector proper in terms of policy influence is not enhanced because the biggest private sector winners do not share the interests of the private sector as a whole.

Similarly, as a rule, merchant families in the UAE have not expressed demands for change. **They have essentially used their relationship with ruling families so as to protect their interests, and hence to exclude potential competitors.** Merchants were more concerned with their own economic interests, and their limited political interests were focused solely on the condition that ruling families should use their political power to stop foreign merchants from competing in the foreign sector. In return, they would involve members of the ruling families in the running and managing of their businesses.

The example of the al-Futtaim family of Dubai and the evolution of its relationship with the ruling al-Maktum family provides an interesting example of the circumstances and the way private business chose to get involved in politics. From the 1940s to the 1960s, the relations between the two families were rather bad. At that time, al-Futtaim engaged in the Dubai National Front – a loose organization established in 1953 by Arab merchants of Dubai and supported by members of the al-Maktum family (notably Sheikh Rashid bin said al-Maktum’s uncle) – and demanded economic and political reform. More specifically, he was amongst the merchants who wanted to be consulted about the development of the municipality and associated to the decision-making process. A member of the National Front

had declared that there would be no opposition party in Dubai if Rashid agreed to a council of merchants to advise on and contribute towards a proper *baladiya* (municipality). In fact, political demands consisted mainly in asking for personal political benefits, which meant being part of decision-making. During the Reform movement in the 1930s, the merchant elite did not get involved and demand political reform until it suffered a decline in its income. This shows **there is a strong correlation between economic decline and desire for political change.** Following this rationale, real reform in the UAE will probably begin with the decline of its economy and the introduction of a tax system. As long as the state continues to provide welfare, the citizens have no incentive to make any participatory demands on their governments.

Somewhat similarly, **the incentive for expatriates to push for reform is rather limited** in the UAE. Political participation being limited even for nationals, foreign businessmen do not have any direct role in policy matters. Constraints like the *kafala* – or local sponsor – system are sufficient barriers for the expatriate business class to take policy initiatives or ask for change. For these reasons, the Indian business community, the largest expatriate community in the UAE, is essentially passive: in general, Indian businessmen do not show inclination to play a role, especially in the political domain, being cautious not to threaten their position in the country. They show disinterest to “rock their boat”, which could be fatal for them given their precarious status. Yet, if the Indian business community is to engage in the process of voicing and safeguarding its interests, it will be in priority in the economic domain, and the nature of the reform sought will be one that will allow its business interests to grow and survive. As a matter of fact, the Indian entrepreneurs use their reach as economic players mainly for “facilitative policy”, i.e.

a policy that improves the enabling environment for private economic activities. In general, they push the host government to improve transparency (in rules and their application), accountability (of the representative offices) and efficiency of the bureaucracy (delivery).

The Growing Dependency of the Regimes on Business

In most countries, political authorities have played a central role in the emergence and prosperity of private entrepreneurs. In consequence, those have had to manage a relation in which the balance of power was disadvantageous to them.

Very recently however, in an international environment characterized by increased pressure – both in the economic and political realms – regimes have apparently become more dependent on their business “partners”, both nationals and expatriates. As they critically need private entrepreneurs not only as economic players, but also increasingly as social actors, the latter may realize that there are new means for them to exert their influence.

The increased role of the private sector in Arab economies has largely been the result of necessity. Most states in the region have experienced a severe fiscal crisis in the 1980s that forced regimes to open up important activities to local and, in many cases, foreign capital, gradually and surreptitiously hollowing out the distributional commitments incumbent in previous decades of public sector expansion.

The process now seems irreversible. Since GCC countries are keen to boost non-oil economic growth, the private sector’s role in the economy has naturally been promoted. Not only national businessmen but also expatriates have benefited from

this evolution. In the UAE, below the highest layer of state or ruling family-run enterprises having large capital, expatriate businesses play a very significant role in the local business scene. In particular the Indian community is deeply involved in the economic sector, be it in trading, construction and related businesses, retail or the services sector. Even though their expatriate status deprives them of any direct access to the political arena, the Indians do play an indirect and informal role in matters related to economic policies. That role relies on a few factors that contribute to explain how Indian expatriates, like other players within the private business community, have become more indispensable partners than ever for local authorities. While the Emirates and the GCC states all compete with one another to attract expatriate entrepreneurs in order to invigorate their respective private sector growth, the Indian business enterprise draws part of its influence from the fact that it can threaten with exit – “vote with its feet”. Its decision to leave would be detrimental to the host economy. In these circumstances, Indian entrepreneurs’ influence is real. Their power is structural, exercised through strikes or exit threats rather organized lobbying, and can have an impact on decision-making without being politically motivated. In a context of fierce international competition, Indian business leaders also have a specific role in so far as they serve as an instrument of interaction with a very valuable foreign partner; they have become indispensable “bridge builders”. Moreover, they have developed efficient “networks” of access in order to promote and safeguard their interests. They increasingly ask for recognition and closer integration into local societies. The Gulf States have now realized that they cannot do without the expatriates, which provide the latter with a better lever for influence vis-à-vis the states.

While looking for alternatives to state-led growth, Arab regimes have been calling upon an increased participation of private business in social activities. Their aim is to utilize, rather than resist, existing trends to a maximum to safeguard their grip on power. One important way of doing this is to encourage social initiatives in areas like service provision, education, training, and youth development, which are seen as apolitical and therefore non-threatening. While in the 1990s the development of NGOs in the Arab world was analyzed as a first move in this direction, this trend has recently taken new forms. In particular, regimes have demonstrated a high interest in the “social role” that could be played by the business sector, while international organizations such as the United Nations, the World Bank and the Organization for Economic Cooperation and Development (OECD) actively promote Corporate Social Responsibility (CSR) as a way to fill the gap between global markets and national regulations. Even though it has been translated into reality in varied ways, the influence of the international CSR discourse is palpable all over the region. The declared goal of involving the private sector in assuring social development and the concern with social responsibility have been going hand in hand.

In Dubai, the first institutionalized attempts to encourage CSR were made in 2004, with the creation of an ethics resource center by the Dubai Chamber of Commerce. Increased attention has also been paid to the theme of social responsibility at the federal level, meaningful initiatives such as the creation of the development organization Dubai Cares in 2007 being encouraged and supported by Sheikh Muhammad bin Rashid al-Maktum himself. The focus put on CSR should be understood as a means to consolidate the position of Dubai as a global city in the face of international competition, at a time when the issue of “respectability” has become determining.

CSR would thus be part of an attempt by political authorities to more actively counter international complaints about worker exploitation and other human rights abuses. Even a country like Syria has gradually shifted from “Arab socialism” to what is now officially called a “social market economy”. The 10th five year development plan (2006-2010), which was adopted during the Ba’th Party Congress in 2005, has attempted to rethink the social contract and redefine the role of the state. It broke with the state-centered approach of earlier development plans by calling for the joint effort and participation of society’s « vital forces », which were defined as the private sector, civil society organizations and the state. The historically marginalized private sector was thus publicly embraced as a « partner » of the state. This shows that even though Syria is less in dire need of appearing as a credible and capable international partner than the UAE is – since it is less integrated with the global marketplace – the regime has been looking for ways to improve its image and enhance its legitimacy. For instance, Bashar al-Asad’s wife Asma has made herself a name as the official sponsor of several social development organizations.

In the UAE as in Syria, however, the political authorities’ new stance regarding CSR and the need for an enhanced partnership between the state, civil society and the private sector has found a rather limited echo within business circles. In the Emirates, the companies that have picked up on the call so far are predominantly international and state-owned enterprises (SOEs) organized as quasi-private enterprises. Promoted from above, the model first happened to be difficult to implement because of an inappropriate legal framework, a lack of financial incentives, and the relative weakness of consumer pressures. Moreover, the rulers’ encouragement of community initiatives has been politically contradicted by their

simultaneous concerns to maintain authoritarian control from above. **The regimes call for a participative and constructive private sector, but are not prepared to cede the organizational liberties that would make civil society a dynamic force.** This fundamental contradiction illustrates the tendency to approach CSR as a “marketing tool” for the government. For instance, bin Rashid has sought to monopolize all sources of legitimacy, including the label of “generosity”, and officials in charge of Dubai Cares applied direct and indirect pressures on the private sector to contribute. In the context of a changing environment – at the international but also at the domestic level – **this evolution could also be seen as an attempt by authoritarian regimes to adapt their modes of domination in order to safeguard and consolidate their grip on power.** For instance, in the UAE like in Syria, CSR has been privileged as an alternative to the Islamic welfare model – based on *zakat* – and hence as a way to counter religious organizations often opposed to the regime. For this reason also, businessmen have been very reluctant to engage in the CSR framework, which is in clear contradiction with the dominant belief system among piously oriented businessmen in Syria and Dubai. On the conceptual level, there is a fundamental discord between the *zakat* and the CSR models. As a result, in Dubai like in Syria, the businessmen who are the most involved in charitable or philanthropic activities have preferred placing themselves within the Islamic tradition and resisted the “join-in” call of their respective regimes.

An Unaltered Power Balance, Despite Some Adjustments

Even though the balance of mutual dependency between regimes and private entrepreneurs seems to have tilted very slightly in favor of the latter during the last few years, the room for

maneuver they enjoy is still very limited. Obviously, states still control the mechanisms of inclusion and exclusion that rule the “private sector world”: for the most part, they are the ones who select the “partners” that are allowed to participate in the “game”.

However, it is not business as usual – or at least not completely. In reaction to changes in the overall environment, political authorities have experienced new mechanisms for co-opting business elites. New players coming from the business community have been invited to participate in policy-making, most of the time through new – but still informal or non-institutionalized – channels. This way, regimes can more easily make sure they will keep the control over their “partners”.

At the end, even though the relationship between private entrepreneurs and ruling elites has evolved, the balance of power between the two has not been fundamentally altered. Political power is still the one that counts. The influence of the new business elite over policy-making has increased, yet it remains largely conditioned by its following the orientations given by political leaders. Private businessmen rarely engage in direct and autonomous action regarding policy processes and there is no indication that this will change any time soon.

Arab regimes have been generally cautious to closely monitor and control how private business is organized and structured. Business actors become threatening to authoritarian regimes when they are able to achieve collective action at the level of the entire private sector or when their increasing bargaining power allows them to guide economic policy making.

It was a political decision – essentially guided by political motives – that originated in the increased participation of

businessmen into politics. Offering them governmental positions or seats in parliaments was but one step taken by rulers so as to enlarge the base of their power and get support from influential parts of their societies. In the UAE, merchant elites and families were historically able to link their wide-ranging economic, political and social interests with those of members of ruling families, as well as with the general government interests. As a consequence, the leading merchants of Abu Dhabi, Dubai and Sharjah remain in the ascendant in the number of government positions they hold. In Oman, Sultan Qaboos secured the merchants' loyalty by offering them political positions, notably as cabinet members. Business families have long been closely associated to the decision-making process, whereas in Bahrain only four members of the business elite held positions in the Cabinet in 2010, the al-Khalifa being cautious not to lose control over sovereignty or sensitive ministries. In both countries however, the Chamber of Commerce has been a stronghold of the merchant elite for long. Similarly, the Syrian regime has progressively adjusted its methods for co-opting and controlling private entrepreneurs and allowed some of them to participate into the formal political process – through participation in the Assembly, through election onto the boards of Chambers of Commerce and Industry, and through representation in the Guidance Committee that links the private sector to the state.

In the recent period however, existing institutionalized channels such as parliaments and Chambers of Commerce and Industry appeared rather “old-school” in many instances. Yet the organization of the business community is a crucial determinant of its influence on policy issues. One meaningful example of this is the labor market reforms in Bahrain and Oman. In both countries, these sensitive reforms have been decided and organized

at the top of the regime, but discrepancies in the organization of the business community have led to very different results.

In Oman, the huge challenge that the employment of the young constituted led to a national mobilization driven from above, of which the “omanization policy” was the main dimension. Yet the new labor market policy happened to provoke a political-economic conflict of interests at the top levels in the country, and since most cabinet members are still involved directly or indirectly in business, it could not be maintained as such in the long term. In 2008, Omani authorities had reversed the course of their policy and focused instead on economic liberalization, giving prominence to a stronger role for private (national and foreign) capital. **The major business families, who control the Chamber of Commerce and are above all represented in the Cabinet, were decisively positioned to express their disagreement and advocate for changes of long-term policy.** They were also able to prevent the emergence of newcomers in business and alternative voices from the private sector, contrary to what happened in Bahrain.

In Bahrain, the labor market reform has been designed as a key element of the new King's strategy of legitimization. The accession to the throne of Sheikh Hamad in 1999 marked the beginning of a series of reforms. In the economic sector, he declared his intention to adopt a more interventionist approach to decision-making, which materialized by the creation of a Supreme Council for Economic Development in April 2000. Transformed into an Economic Development Board (EDB - *majlis al-tanmiya al-iqtisâdiyya*) in 2001, this new institution was chaired by Sheikh Hamad's son, the Crown Prince Sheikh Salman. Initially conceived as a public think tank, EDB was progressively given extended prerogatives. Together with the American McKinsey consultant firm,

commissioned in 2004 to draft a comprehensive long-term economic reform program, EDB played a central role in the elaboration of the labor market reform. Whereas until then the government's policy had been focused, like in Oman, on the nationalization of employment ("bahrainization"), the philosophy of the proposed reform was to de-regulate and liberalize the job market, and redress the imbalance between local and cheap expatriate workforce in order to address the structural causes of unemployment of nationals. In 2006, in order to implement this reform, a government authority with a corporate body – Labor Market Regulation Authority (LMRA) – was created under the authority of a board of directors chaired by the Minister of Labor. A Labor Fund (*tamkeen*), created in 2007 and chaired by the Minister of State for Foreign Affairs, collected the fees paid by the companies employing foreign workers. The business community has criticized this reform. While they usually never talk against the government, the Prime Minister – because of power struggle within the ruling family – encouraged the Chamber of Commerce and the leading contractors to speak up to create cracks in the reform. Until now, the private sector has not saved its efforts to make its voice heard by the EDB and the LMRA – not only through informal channels and lobbying to the King and the Prime Minister, but also through public demonstrations outside the LMRA building and the Parliament to pressure the authorities and attract the support of the representatives. The power struggle within the ruling family, between what a lot of observers labeled as the "old guard", around the Prime Minister and the new generation of technocrats led by the Crown Prince and the EDB, has resulted in the latter getting the upper hand. Since then, the EDB has been granted an almost decisional independence, being accountable neither to the Cabinet nor to the Chamber. Contrary to Oman, where the business elite holds decisional Cabinet

positions, the leading historical business families, who control the Chamber of Commerce, are not powerful enough to oppose the emergence of new economic actors. These include the "nouveaux riches" who have benefited from the diversification policies with the benevolence of the al-Khalifa. **In order to impose the reform it favored, the ruling family was able to secure the support of new "partners" within the business community and to provide them with new channels to get involved in policy-making.**

Syria, being in dire need of a viable strategy for economic integration and cooperation and looking for suitable personnel to put it into practice, chose to recruit foreign-educated nationals into influential positions. Coming along with new skills, this new co-opted elite was less expensive than foreign experts, and above all less threatening in political terms. Moreover, these foreign-educated businessmen exert their influence in a rather indirect manner, since they work for newly created institutions or act as independent advisors on an ad hoc basis. While the Syrian government has started rallying 'civil society' so that it participates in social development, they are active and engaged in dynamic fields in Syria, most notably in establishing business-related NGOs and in the media. Furthermore, a myriad of private consulting firms were established by foreign-educated persons, of which US-educated Nabil Sukkar's Syrian Consulting Bureau for Development and Investment (SCB) is the oldest and probably best known. These consultants as well as some foreign-educated lawyers exerted noticeable influence on recent reform policies, for instance by preparing feasibility studies, drawing up draft laws, or by providing consultancy and drafts for several chapters of the 10th Five Year Plan (FYP).

However, the FYP illustrates that their influence is confined to some areas and has

to be invited by high officials. Progressive activities of foreign-educated businesspersons largely remain in the areas of reform that were set by the authoritarian state. In spite of pushing for a specific agenda of reforms they would be personally promoting, foreign-educated modernizers inside the regime – the First Lady and economic advisor Abdullah al-Dardari being the most visible – commission reforms in desired policy areas. Hence it seems that they are called upon by the regime and do not primarily push for influence by themselves. Foreign-educated businessmen do possess assets that are particularly valuable in the reform process, and they do exert some influence on several areas of reform. Yet only when they know that the regime will support their initiatives and it will not have negative repercussions on their business networks, do they dare pushing for specific policy changes.

That rationale seems to be largely shared among private entrepreneurs in Arab countries. Yes, the relationship between regimes and private business has evolved profoundly during the last twenty years. Because of significant change in the international political and economic environment, ruling elites have come to rely – and depend – on businessmen more than they used to do. As a result, a few selected private entrepreneurs have been offered a more important role to play in the conduct of state policies. Thanks to the positions they obtained in governments, parliaments, Chambers of Commerce and Industry and also, more recently, in new structures often formed on an ad hoc basis, they have been able to promote reform in some specific areas, in particular in the economic realm. The scope of their action seems to be limited, however. Belonging to that small elite selected and promoted by political authorities, they most of the time behave in a way to preserve and extend the privileges they have been granted. They are interested in reform, but on condition

that it is beneficial to them, i.e. profitable both to their business and to their status of “special partners” of their respective regimes. Hence, even though they are now more deeply involved in policy-making, they do not seem to be autonomous actors pushing for their own agenda; their interests remain closely intertwined with those of their “patrons”. Up to now, it seems they have found it more profitable to play with the regimes than against them – or even ahead of them.

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