From Resource Curse to Rent Curse In the MENA Region

Key Messages

• Taking a stock of the literature on MENA’s political economy, this paper emphasizes the need to unpack the region’s rentier experience through a broader conceptualization of rents that transcends beyond oil and accounts for a variety of other non-oil rent streams.

• The Middle East suffers from a rent curse, not just an oil curse. Oil revenues in MENA are complemented with other unearned income streams from aid, remittances and government regulation. These revenue streams are also inter-linked: resource-rich neighbours are a major source of capital flows for resource-poor economies in the region.

• Regulatory rents are arguably more important in labour abundant economies where distributional commitments are large relative to the available resource base. Importantly, these rentier structures help to explain why it is so difficult to operate institutional changes in the region.

• This importance of regulatory rents highlights the crucial role of business-state relationship in understanding MENA political economy.

• The insistence on rents —and their relationship to historically embedded power—not only liberates the existing literature from its excessive focus on oil but can help to frame discussions on MENA political economy in the broader field of institutions and development.
1. Introduction

This paper seeks to offer critical reflections and fresh comparative perspectives on the political economy of the MENA region. It begins with a question of wider interest: how do natural resources shape paths of economic and political development? Two stylized facts have shaped separate strands of literature on the economics and politics of natural resources. First: resource rich countries are systematically pre-disposed to have lower rates of long-run growth. Second: oil-abundant countries are condemned to weak institutions. After holding sway for some time, cracks have begun to emerge on the empirical consensus. Recent studies have cast doubt on the existence of a resource curse. In the face of this conceptual and empirical impasse, this paper argues that a scholarly spotlight on the political economy of the MENA region can enrich the debate on natural resources and development. While the issue has elicited considerable intellectual interest, the related discourses on (a) political economy and (b) natural resources have curiously ignored a systematic analysis of the Middle East—a resource rich region par excellence. Middle Eastern states are typically excluded from empirical analysis, in part due to the paucity of data. Yet, a proper study of Middle East’s political economy is desirable both to enhance our understanding of the region’s development challenges and for enriching the growing literature on political economy.

A key related objective of this paper is to advocate a broadening of intellectual scope on MENA political economy. To understand MENA political economy this paper highlights the centrality of “unearned” income streams, typically described as rents. Many of the region’s pathologies, whether it is unemployment, a bloated state, weak private sector or limited political evolution, are ultimately rooted in an economic structure heavily reliant on external windfalls, whether derived oil, aid or remittances. Questioning the exclusive focus of the prevailing literature on oil, I develop the case for a broader conceptualization of rent streams that includes, besides oil, rents derived from foreign aid, remittances and government regulation. The non-oil rent streams can also be both sizeable and significant in their impact. Regulatory rents that result from market subversion are particularly important in understanding business-state relationship and its bearing on political economy. Reliance on these windfalls is the “original sin” of development in MENA. The story of the region development is therefore a story of how these rent streams shape paths of political and economic development. I argue that the MENA resource curse can simply be viewed as part of a broader rent curse.

The paper argues for developing a rich multi-layered, but rigorous, narrative of the political economy of the Middle East. The paper aims to: (a) set out the limitations of the global literature on natural resources, institutions and development; (b) critically summarize the resource experience in the Middle East; and (c) feedback insights from the Middle East to the general ‘resource curse’ and development literature. In terms of defining a future agenda of research in this area, two aspects are noteworthy. First, given the paucity of credible data, the paper underscores the need to judiciously blend theoretical and applied perspectives from history, economics and political science. Second, in order to lend greater analytical rigour, a broad “political economy” lens can be used that draws on a growing literature in economics and political science studying the origins, development and impact of institutional arrangements (North, Wallis and Weingast 2009; Acemoglu and Robinson 2010; Mahoney and Rueschmayer 2003; Mahoney and Thelen 2010). While these approaches have been applied to in many regional contexts, Middle Eastern countries have rarely figured in any of these applications.

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1 For example, two recent comprehensive reviews on this subject, van der Ploeg (2011) and Frankel (2011), contain very limited discussion of the rentier experience of Middle Eastern oil exporters.
2 Following the tradition of Mankiw, Romer and Weil, empirical studies tend to exclude in the MENA region oil exporters.
3 Rent is defined as the residual revenue after deducting all costs of production of an efficient world producer, including a risk-related return on capital and normal taxation.
4 Empirical studies suggest that natural resource rent is typically 10-20% of the GDP of developing countries although it can be significantly higher, especially in hydrocarbon-rich economies (Auty 2001). Aid streams tend to be relatively stable and can have somewhat disappointing impacts, but there is disagreement whether this reflects Dutch disease effects (Rajan and Subramanian 2011), rent seeking (Boone 1996) or political instability (Islam 2005). Remittances have averaged 3.6% of GDP 1995-2004 (Barajas et al. 2009), typically ranging between 2-10%, but rising above 15% in seven countries, including Jordan. Although remittance flows tend to be stable and diffusely distributed their net impact is disputed (Rajan and Subramanian 2011).
The remainder of this paper is organized as follows. Section 2 critically reviews the related literatures in economics and political science, noting, in particular, their limitations in relation to the debate. Section 3 offers a brief synthesis of MENA’s development experience and develops the case for a broader conceptualization of rent streams. Section 4 outlines key features of MENA political economy that distinguish it from other resource-rich countries. Finally, section 5 concludes the paper by developing the case for a new political economy of the MENA region based on a wider consideration of rent streams.


2. The Economics and Politics of the Resource Curse

Few empirical facts have been as influential in shaping an entire field of study as the finding that natural resources are associated with perverse development outcomes (Auty 2001; Sachs and Warner 1995). The idea that a country’s resource-riches are often a curse, rather than a blessing, has spawned a vast literature on the economics and politics of the resource curse. Natural resources are shown to retard development through Dutch disease effects, commodity price volatility, policy errors, conflict and weak institutions (Collier and Hoefl 2004 and 2005; Mehlum et al. 2006). Natural resource wealth is also associated with adverse outcomes on education and inequality (Gylfason and Zoega 2001 and 2013). However, thirty years after the stylized fact was first established and after having inspired vast empirical work, no definitive explanation for the resource curse has emerged. Even its very existence is contested: recent research belies the statistical claim that resource rich countries are condemned to low growth (Lederman and Maloney 2007; Brunnschweiler 2008). The literature has also been critiqued for its neglect of temporal variations in the incidence of resource curse, historical legacies and the exclusion of non-oil revenues with ‘resource curse’ like symptoms (e.g., foreign aid). Fundamental disagreement exists on how best to measure resource wealth—a disagreement ultimately reflected in varied empirical results.

Importantly, it is disputable whether the prime cause of the curse lies in economic factors, flawed institutions or policy failure (Sachs and Warner 1995; Ross 2001; Mehlum et al. 1996). While institutions are presented as a mediating influence, their quality can be determined by a country’s resource riches itself. This circularity of logic, where institutions appear both as cause and effect, is underscored in a parallel literature in political science that explores the effect of natural resource wealth on a different dependent variable: the type (democracy or autocracy) in political science that explores the effect of natural resource wealth on a different dependent variable: the type (democracy or autocracy) in political science that explores the effect of natural resource wealth on a different dependent variable: the type (democracy or autocracy) in political science that explores the effect of natural resource wealth on a different dependent variable: the type (democracy or autocracy). Despite serving as a useful broad characterization, the RST fails to capture the differentiated, nuanced and dynamic realities of rentier states. For a long time it has served as a leading explanation for weak political institutions in oil-rich countries. Its deep influence on public debate is best illustrated by NYT journalist Thomas Friedman’s famous observation that in resource-rich countries ‘the price of oil and the pace of freedom always move in opposite direction’. It is customary in public discourses to blame oil wealth for the political troubles in the region. While long accepted as an article of faith, the RST has come under growing empirical scrutiny (even before the Arab spring shattered the myth of exceptionalism in politics in these countries). A growing body of case studies and large investigations have cast doubt on the fundamental assumptions, mechanisms and empirical predictions of RST.

As a general typology of resource-rich states, the RST captures many salient features of rentier states. For a long time it has served as a leading explanation for weak political institutions in oil-rich countries. Its deep influence on public debate is best illustrated by NYT journalist Thomas Friedman’s famous observation that in resource-rich countries ‘the price of oil and the pace of freedom always move in opposite direction’. It is customary in public discourses to blame oil wealth for the political troubles in the region. While long accepted as an article of faith, the RST has come under growing empirical scrutiny (even before the Arab spring shattered the myth of exceptionalism in politics in these countries). A growing body of case studies and large investigations have cast doubt on the fundamental assumptions, mechanisms and empirical predictions of RST.

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In fact, the impact of natural resources on growth and politics is now growingly contested. This essay argues that, in the face of this conceptual

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5. Lederman and Maloney (2007) show that a concentrated export structure is a bigger development constraint than resource wealth per se. Brunnschweiler (2008) offers a more radical challenge to the literature by establishing a positive association between natural resources and development.

6. Rents are defined as “supernormal profits, or the excess over the return on capital, land, and labour, when these factors of production are put to their next best use” (Dunning, 2008: 6). Beblawi and Luciani (1987) describe four conditions of a rentier state: (a) size and scale of the rent streams relative to the economy (b) external source (c) limited involvement of the population in its production and (d) accrual to the government of a rentier state.

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and empirical impasse on the economics and politics of the resource curse, the MENA region’s experience can illuminate the wider field. A rich literature already exists in the domain of regional studies. Connecting it with the mainstream social science debates on natural resources and development can yield intellectual dividends. Before proceeding, let me motivate the discussion by briefly sketching out the institutional dimension of the literature, particularly the debate on Rentier State Theory. The focus on institutions is the common denominator between the economics and political science literatures on resource curse. The economic side of the debate has been adequately covered in two recent reviews, van der Ploeg (2011) and Frankel (2011).

2.1 The limits of the rentier state paradigm

This section develops a (A) focused critique of the rentier state literature. Without aiming to be comprehensive, this section provides the backdrop to subsequent discussions. The concept of a rentier state was originally formulated in the area studies literature to describe Iran’s economic stagnation in the face of its growing oil revenues (Mahdavy 1970). Its first systematic typology, developed by Beblawi and Luciani (1987), was also inspired by the experience of MENA region’s (B) oil exporters. Ironically, despite providing the initial inspiration for the Rentier State Theory (RST), the MENA region’s experience has also exposed paradigm’s analytical limitations.

The broad claims of the theory resonate with the actual MENA experience. Resource rents have enabled ruling elites to expand instruments of both patronage and control. Without oil rents, it is difficult to sustain the region’s repressive structures, its bloated public sector, pervasive subsidies, and the “cradle to grave” welfare systems. Oil prices have also influenced macroeconomic outcomes—be it indicators of spending, investment or finance. Whether through co-option or coercion, oil wealth has allowed states to subdue and create new economic elites and bind old merchants in a relationship of dependence. In short, rarely any facet of MENA political economy can be studied without a deep understanding of how oil shapes the state-society relationship.

Despite the utility of this broad brush caricature of MENA political economy, the RST has come under growing academic scrutiny for failing to capture the complex state-society dynamics, and for predicting a linear, uni-causal and deterministic relationship between oil and development. Critiques of the RST revolve around three core areas of weakness: mechanisms, context and dynamics. Even if oil has fundamental influence on the state-society relationship, the mechanisms through which this relationship might unfold can be different. The impact of resource rents is also conditional on the temporal context; the impact is not uniform over time and across countries. It requires a consideration of the active domain of political economy, defined by such factors as actors, alliances, ideology and initial conditions. While the RST and its attendant empirical literature on final outcomes, relatively less attention is paid to intermediate political processes. There is a need, in other words, to move beyond aggregates and unpack the state-society relationship. The devil is in the detail.

The RST is challenged on its very basics—that is, the conceptualization of the rentier state itself. While Beblawi (1987: 51) describes it as a state with a ‘substantial’ amount of external rents, Luciani proposes a threshold where the share of rent in government revenues is 40% (Luciani 1987:70). Others define a more differentiated scale along weak, medium and strong rentier states. The implicit assumption in such definitions is that the adverse impact of rents increases with its share in government revenues. This may not conform to empirical reality: (Eibl 2010). Even if the presumed link between variation in rents and political outcomes (authoritarianism, for example) is monotonic, it is usually agnostic about the theoretical mechanisms underpinning this relationship.

For the empirical literature this challenge of classification quickly translates into a measurement challenge. Specifically, to operationalize the scale of rent flows the choice of a denominator is critical. Typically, empirical studies have scaled natural resource measures (such as oil or primary commodity exports) by GDP. This can bias the selection of cases towards poorer countries that are ‘statistically less likely to become democratic’. Besides, with GDP in the denominator, a negative correlation between resource measures and the dependent variable (or growth) exists almost by construction. Careful distinction is sometimes drawn between resource abundance and resource dependence; the latter is better proxied by scaling natural resource exports by GDP or total exports (which lessens, somewhat, the endogeneity concern). Another decisive influence, particularly in the MENA context, is the scale of resource flows. The distributive capacity of a rentier state can be determined by a higher share of resource revenues per capita (Herb 2005). Others like Haber and Menaldo (2009) propose a different measure that is conceptually closer to RST: share of resource rents in total government revenues. The availability of World Bank data on rents from different

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7 Richter (2007) argues for shifting the focus of analysis from revenues to expenditures, since expenditures tend to be stickier than resource rents, which can often be volatile. This can explain why variation in rents doesn’t always predict variation in political outcomes (such as regime durability).
primary commodities has allowed the compilation of direct measures of rentierism. While having enriched the debate, these alternative indicators have failed to generate an empirical consensus.

**In search of an empirical consensus**

The measurement debate has a direct bearing on research outcomes. In fact, the empirical controversy is defined largely by issues of timing and measurement. Since Michael Ross’s seminal study on the antidemocratic effects of oil rents (Ross 2001), more than a dozen studies have been published on the subject. The debate remains largely unresolved, however. Contradicting the findings of Ross, Herb (2005) advocates a counterfactual approach that compares oil rich states to their non-oil equivalents. By this yardstick, the evidence is less conclusive: many states are unlikely to be democracies even without their oil riches. Non-oil factors, such as institutional, historical and geo-strategic characteristics can be more important in determining political outcomes than oil wealth (Herb 2002, 2005).

A more direct empirical challenge to the ‘Oil hinders democracy’ thesis comes from Haber and Menaldo (2011). Deploying a longer historical dataset they demonstrate the absence of a long-run relationship between resource rents and democracy. The relationship between rents and regime type can be sensitive to the time period considered for empirical analysis, unobserved heterogeneity, and outliers. Revisiting these empirical challenges, Anderson and Ross (2012) argue that the political resource curse is conditional on time. Oil only hindered democratic transitions after 1970s when, faced with sudden windfalls, governments wrested greater control over oil revenues from private companies. The relationship is arguably weaker before 1970s, before the structural break in the contractual regime kicked in.

Thus, even if there is a causal relationship between oil and democracy, it is not time invariant. Another empirical prediction of the RST—that rent declines should coincide with moments of political liberalization—is not borne out by evidence. Using historical data since 1861, Wacziarg (2012) refutes the thesis that the price of oil is inversely related to political freedom (the so-called ‘First Law of Petropolitics’). Meanwhile, the empirical literature on the oil curse in politics grapples with the same methodological challenges in large N analysis: omitted variable bias, reverse causality, and unobserved heterogeneity. While there is weak evidence that oil prevents democratic transitions, there is greater empirical consensus that, once such a transition has taken place, authoritarian regimes are more likely to survive in oil-rich countries. Using historical evidence Sandbakken (2004) argues that oil wealth only explains the authoritarian resilience, not democratic transitions. The argument that the oil curse applies more to regime stability is endorsed by a growing body of evidence (Smith 2004; Ulfelder 2007).

Theoretically, the existence of natural resource wealth is consistent with a range of theoretical possibilities. Depending on the underlying context, it can lead to either democracy or autocracy. If elites resist democracy due to the threat of redistribution, resource rents can relieve this constraint. In resource abundant countries with relatively high levels of private income inequality, for example, oil wealth can mitigate the ‘redistributive cost’ of democracy to elites (Dunning 2010). The ‘radical possibility’ that resource wealth may actually promote, rather than hinder, democracy is best illustrated by ‘rentier democracies’ in Latin America. Venezuela has sustained its democracy in the midst of petroleum wealth.

**Conditional effects**

The primacy of the non-oil context is echoed in the wider case study literature. This literature, grounded mainly in regional studies, is guided by the need for ‘specificity’. Moving beyond the ‘generalities’ implied by the rentier state approach, it invites us to delve deeper into alliances, interactions and micro processes that shape state-society relationship. We are confronted with a more differentiated and nuanced reality, where oil is only one amongst many mediating factors. In fact, there is no automatic connection between oil and perverse outcomes. Resource-riches permit the possibility of both regression and reform.

A key insight emanating from Hertog (2010) is that oil can shape the state-society relationship differently at different levels of the state. While oil does make the State more autonomous from society, this autonomy is imperfect and varies over time. While the State enjoyed greater autonomy in shaping fiscal policy in the initial stages, ‘it is the interplay of meso- and micro-politics in the Saudi distributive system that determines outcomes’ [pg 127]. It is also mediated by historically determined power structures and social relations. It shows how intra-family politics within a vast dynasty shapes the bureaucratic structure,

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8 Attributed to an article in FP where Thomas Friedman argued that ‘the price of oil and the pace of freedom always move in opposite directions’.

9 As Ross (2012) observes: ‘rich democracies invest much more in their extractive sectors than the rest of the world, which could mean that more democracy leads to higher levels of oil production, not the reverse.’ The variability of this investment over time means that country fixed effects do not account for it, leaving us with an ‘unresolved’ empirical challenge.

10 In fact, as Dunning (2010) shows, when rents fell in Venezuela they actually threatened democracy.
reducing it, ultimately, to a system of ‘segmented clientilism’, where the state’s administrative apparatus is organized around parallel clienteles that are vertically integrated but segmented from each other. Not just a story of status-quo, but also reform. Thus, SOEs in rentier states are not destined to be inefficient, unproductive and susceptible to corruption (Hertog, 2009).

A similar misconception mars the relationship between rents and representation. The predilection of RST literature with parliamentary forms of representation understates the role of other means of interest articulation. It is true that the social order in authoritarian states rests on the twin pillars of patronage and control. But even the most repressive regimes actively seek alternative sources of legitimacy, and depend on alliances, coalitions, and pacts with powerful societal groups. Ruling families protect the interests of tribal clans, merchant families and other groups with bargaining power. They are appeased through bureaucratic appointments, private sector contracts and financial compensation12. In fact, the very expansion of the public sector is partially an outcome of such elite accommodation. The relationship between rulers and tribal clans is cemented, however, not just through co-option, but also dialogue and consultation.

Thus, even if governance is personalized and centralized, it remains accessible. Existing structures12 institutionalize such regular feedback, offering an informal means of feedback and interaction. Admittedly, neither such citizen access nor alliances are substitutes for representative democracy, but they are important for explaining why authoritarianism is often so resilient even the face of volatile rent streams and periodic shocks. Authoritarian resilience is therefore not just a function of oil, but also of the ability of rulers to forge broader alliances with society. The nature and strength of such alliances is unlikely to be captured by polity indicators used in regression analysis.

The presumed connection between taxation and representation, implied by the rentier theory, is also questionable. The dictum, ‘no representation without taxation’, has emanated from a complex European reality that cannot be blindly applied to the MENA context without paying due attention to the underlying structural factors that led to it. Evidence belies the claim that lightly taxed regimes face limited demands for representation. In fact, ‘citizens of rentier states have just as much reason as people who pay taxes to want their rulers to govern wisely and in their interests’ (Herb 1999: 259)13. The absence of taxation does not preclude the need for legitimacy and responsiveness to public demands. Even the most autocratic Arab rulers are seen as engaging and conceding to domestic constituencies. Unsurprisingly, therefore, variation in tax regimes, within and across MENA countries, has limited predictive power in explaining political outcomes14.

**Historical Legacies**

In explaining the political effects of oil wealth, the RST literature also tends to underestimate the temporal dimension. The timing of when a country discovers its petroleum wealth—or experiences a price boom—can be consequential. The pre-existing institutional arrangements of a state, especially its capacity to foster a broader and inclusive coalition, decisively shapes the effect of oil wealth.

The role of historical legacy has lately gained traction in narratives of long-term institutional change in the Middle East. As successor states of the Ottoman Empire, many Middle Eastern states inherited a legacy of centralized rule whose prime obsession was to prevent the emergence of autonomous groups with the ‘capacity to initiate political action’ (Pamuk 2012; Malik 2012). Domestic merchants were disfavoured: as a centralized land-based Empire, the Ottoman state was not fiscally dependent on merchants. While land was the primary source of revenue generation, a landed aristocracy was never allowed to take root. As the principal owner of land, the Ottoman state simply delegated the rights for cultivation and tax collection. Perhaps, the state’s centralizing tendencies can be best captured through its military system that relied on young recruits who were neither initially allowed to own property nor marry. Being totally insulated from society, the military class was unlikely to have emerged as a possible challenger. This peculiar military organization shaped an institutional trajectory that differed sharply from that of western Europe, where power was more fragmented and rulers were fiscally dependent on merchants. Importantly, Europe’s greater reliance on feudal elites for military recruitment conferred greater bargaining strength on these elites, allowing them to impose constraints on the sovereign (Chaney and Blaydes 2012).

This Ottoman institutional heritage, consisting of centralized political power and weak merchants, persisted under colonial rule and, on the eve of independence, many Middle Eastern states had weak social intermediaries to begin with, and generally adverse conditions for

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11 Davidson (2009) characterizes the latter as a ‘system of tribal capitalism’.
12 Clearly, the small size of the population relative to resource riches facilitates such personal access.
13 The existence of ‘democratic rentier states’ outside the MENA region (Venezuela and Norway) also poses an empirical challenge to this idea.
14 A comparison of Tunisia and Algeria reveals that a growing tax burden in Tunisia was not necessarily associated with any popular demand for representation.
collective action. From North Africa to the Gulf, oil revenues gave unconstrained rulers considerable leeway in building a military and bureaucratic architecture that could serve as an instrument for regime durability. Soon after independence, a wave of nationalist coups swept through the region. The new leaders tightened their grip on power by seeking greater independence from propertied elites through land reforms and nationalization of the private sector. Where private business was spared from nationalization—the Gulf countries, for example—oil radically shifted the power equation between rulers and merchants, making the latter structurally dependent on state patronage. Either way, the nationalist moment strengthened the state at the expense of independent social groups (Malik and Awadallah 2013).

This legacy of centralized rule can be useful in explaining why democracy has often failed to take root even in resource-scarce countries. Chaney and Blaydes (2012) argue that the principal obstacle to democratic change was the historically rooted ‘control structures’ that left a deep imprint on the region’s political economy. Historically, rulers have displayed a greater reliance on armies and religious intermediaries rather than groups with an autonomous support base in society (countervailing power could not emerge). This legacy of centralized rule and weak civil society has persisted long after independence, and has sustained adverse political outcomes even in countries that lack substantial oil riches. This insistence on past as a guide to the present should not be misconstrued as historical over-determination; it simply underscores the need to craft a broader narrative of institutional change that shows how the interaction between oil and prior social formations can produce distinct political outcomes.

In short, the impact of oil on politics is conditional, depending on a variety of non-oil contexts, including the crucial role of historical legacies. In reality, oil rent is often just one causal factor that interacts with a wider ‘configuration of causes’. This calls for a shift from the study of aggregates to an analysis that is rich in context, mechanisms and dynamics. It is important, in other words, to unpack the complex architecture of authoritarianism in resource-rich societies. As the next section argues, one approach is to consider the broader impact of rent streams that go beyond oil and include aid, remittances, and regulatory rents.

15 Chaney shows in his empirical analysis that the percentage of a country’s landmass conquered by Arab armies is strongly correlated with the ‘Arab world’s democratic deficit’. See Chaney (2012) for further details.
3. How Rent Flows Shape MENA’s Political Economy?

This section argues that MENA’s experience can illuminate the broader literature on the political economy of natural resources. After briefly synthesizing how natural resources have shaped MENA’s development experience, it develops the case for a broader conceptualization of rent streams. The mainstream debate on the economics of resource curse is not sufficiently informed by evidence from MENA states. MENA countries are either considered “exceptional” or too data poor to be meaningfully included in empirical analysis, where, until recently, the common convention was to drop Arab oil exporters from the sample, in line with the seminal study on economic growth by Mankiw, Romer and Weil (Mankiw et al. 1982). Discussions of resource curse have typically revolved around experiences of primary commodity exporters in Latin America and Africa. Even when included in the sample, data from Arab countries is often devoid of the accompanying socio-political context. Two recent reviews of the economics of natural resources highlight this omission (van der Ploeg 2011; Frankel, 2012).

This neglect is surprising given that the MENA region is a resource-rich region par excellence. With its unusually large scale of rent flows and its extreme dependence on them, rent situations predominate in the MENA region. Figures 1 and 2 situate the MENA’s proven hydrocarbon reserves in a comparative context. Proven crude oil reserves in the Middle East are at least three times more abundant than other regions. Together with Eastern Europe, it also has one of the largest proven gas reserves in the world. In fact, in 1999 the MENA region overtook Eastern Europe as the region with the largest gas reserves. Table 1 presents further comparative evidence on the region’s exceptional resource riches. While broader measures of natural wealth per capita place MENA states somewhere in the middle, the region is significantly rich in point-source resources that generate more concentrated rent streams (oil, natural gas and subsoil assets). On oil wealth per capita the Middle East surpasses all other regions.

MENA states also stand out for the scale and volatility of their rent streams. As a share of GDP, natural resource rents in the Middle East are, on average, three to four times higher than Latin America and Sub-Saharan Africa (see Table 2). And, these rent streams are also considerably more volatile in MENA: standard deviation of the resource rents ratio is 12% compared to 3% in LAC and 5.5% in SSA). Importantly, the significance of resource rents in MENA is not restricted to oil-rich states alone; even the relatively oil-scarce countries derive a higher share of their GDP from natural resource rents compared to their oil-poor counterparts globally. Their resource rents are also twice as volatile as that of the global non-fuel sample. The export structure of even these relatively oil-scarce countries is dominated by fuel. The ratio of fuel exports to total exports, averaged over the period 1962-2008, is 63% in Syria, 34% in Egypt and 21% in Tunisia.

These resource riches translate into massive revenue streams. Hydrocarbons generate roughly $750 billion in the MENA region every year. Over the past decade the region has accumulated surpluses of $2.9 trillion—equivalent to the combined GDP of all Arab states. Given the significance of natural resources—both for resource-rich and resource-scarce countries of the region—and their profound bearing on development it is surprising that MENA experience has remained marginal to the analysis of resource curse in development economics. To develop the case for mainstreaming MENA evidence, we first offer a quick discussion of how natural resources shape the development experience in the MENA region before underscoring its relevance for social science.

2.2. Natural resources and development in MENA

Since the discovery of oil in 1950s hydrocarbons have defined the MENA’s development experience. A quick review of existing evidence suggests that the MENA region shares with other developing countries the basic pathologies associated with a resource curse. Arab economies have experienced a middling growth performance with substantial volatility of macroeconomic outcomes. The symptoms appear all too familiar: weak private sector, unproductive investment in white elephant projects, pervasive rent seeking, and a large and oversized public sector. Government spending (especially on subsidies and public employment) has remained surprisingly resilient in the face of fluctuating oil prices.

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16 Estimates for natural wealth per capita place the region above South Asia and Sub-Saharan Africa but behind Europe, Central Asia and Latin America.
17 The Economist Magazine, there is also considerable untapped potential, with significant shale oil reserves in Jordan and gas fields in the Eastern Mediterranean, 13 July 2013.
The relationship between oil and development in MENA is well-documented (Yousef 2004; El Badawi 2005; Nugent and Pesaran 2005). Rather than offering a comprehensive summary, we will highlight only the salient aspects of this literature.

Behind these generic patterns lies considerable diversity in individual development experience. It is customary to classify the MENA region along two dimensions: labour and resources. The political economy dynamics of resource-rich, labour scarce countries of the Gulf are distinct from more labour abundant economies in the region (some of which are oil-rich, and others oil-scarce, such as Egypt and Syria). Classifying the region by rent endowments, it is initially useful to divide these economies into: capital-surplus oil exporters, capital-scarce oil exporters and resource-poor labour-surplus economies. During the first oil boom (1973-80) all three types of economies favoured the public sector for allocating rents and developed patronage systems that undermined markets and competitive structural change. However, the development strategies and the nature of underlying rent streams differed across countries.

- The capital-surplus oil exporters deployed their sizeable oil rent to co-opt political support by providing generous welfare. This has led to rapid absorption of resource rents through high government consumption. It has also been accompanied with perverse outcomes: stable autocracies, pro-cyclical fiscal policy, labour market distortions, patronage driven private sectors, and high dependence on resource rents through high government consumption. It has also been accompanied with perverse outcomes: stable autocracies, pro-cyclical fiscal policy, labour market distortions, patronage driven private sectors, and high dependence on resource rents.
- The capital-deficient economies are labour-abundant with relatively modest resource-rents per capita in comparison to Gulf countries. Some of these deployed rent to initiate state-led industrialisation behind high protective tariffs, but largely failed to create competitive industrial strength. Like other oil exporters these economies also created systematic welfare entitlements. Importantly, oil rents are combined here with regulatory rents through manipulation of the economy. This has led to rent seeking, unproductive investment, weak private sectors and greater resistance to reform.
- The resource-poor economies might be expected to achieve more rapid political and economic development due to their lower resource rents, but this ignores sizeable rents derived from foreign aid, worker remittances and regulation.

The labour surplus economies witnessed declining rents in 1980s—at the back of falling oil prices and dwindling inflows form foreign aid and remittances. With growing debt to GDP ratios economic reform became a policy imperative. Several MENA countries introduced privatization and economic liberalization on a limited scale. This was done in a way as not to disrupt the status-quo. Neo-liberal reform generated opportunities for new rent streams through lucrative contracts and licenses in banking and telecommunications. These rents were allocated to consolidate elite coalitions and to re-organize political power. Overall, economic reforms failed to dismantle pervasive entry barriers and anti-competitive practices.

The second oil boom, which began with the oil price surge in 1990s, led to a sizable windfall (MENA oil revenues grew four-fold during the 2000-07 period). Most oil exporting governments initially responded prudentely to the windfall revenue through higher saving, slower domestic absorption and greater reliance on markets. During the aforementioned period, total MENA debt fell from 55 to 17% of GDP. Oil exporting nations began to set aside a larger proportion of their current account surpluses in Sovereign Wealth Funds (SWFs). Arguably, in several MENA countries, the private sector has shown greater agency and independence in relation to the state. Despite this evidence of a steeper learning curve, however, the second oil boom did not redefine the rent-dependent model of development.

Public expenditures have accelerated since 2005 due to growing commitments on salaries, subsidies and infrastructure projects. Typically, roughly half of the extra hydrocarbon revenues have been deployed in resource-rich MENA states, with public spending noticeably higher in capital deficient economies. Public spending continues to be the primary driver of private investment in oil-rich MENA states, but returns on these investments (especially those on infrastructure) are typically low (Um et al. 2009). It is therefore unsurprising that income per capita gains of regional oil exporters were mainly attributable to gains in the terms of trade, with limited contribution from non-oil GDP (Arezki and Nabli, 2012). In short, despite changes on the margin, the old development model is alive and well.

This quick review of the region’s development experience suggests at least two takeaways. First, the Middle East suffers from a broader rent curse, not just an oil curse. Oil revenues in MENA are complemented with other unearned income streams from aid, remittances and government regulation. These revenue streams are also inter-linked: resource-rich neighbours are a major source of capital flows for resource-poor economies in the region. The rentier experience in the MENA region is thus deeper (and more pervasive) than commonly understood. A second relevant aspect relates to the distinct nature and variety of channels deployed for rent distribution.
While the resource riches are often held culpable for its perverse political economy, the role of oil can be easily overstated. It is also difficult to explain the adverse performance of relatively resource-scarce countries. Despite the absence of vast quantities of oil, many of these societies share the resource-curse symptoms of their oil-rich neighbours. This is partly explained by the significance of non-oil rent streams that mimic the effect of oil, and help to shape a similarly adverse political economy. At least three such revenue streams are noteworthy in MENA economies that are relatively labour abundant and resource scarce: aid, remittances and rents from government regulations. The first of these—foreign aid—is a geopolitical rent that can replicate resource curse symptoms. By virtue of its strategic location the average MENA state derives greater aid rents than the average low-income country or Sub-Saharan African state (see Table 3). Over the last fifty years the MENA region received roughly three times more net aid per capita than Latin America. Despite being home to significantly greater proportion of poor, South Asia received only $6 per capita in net foreign assistance during the last decade compared to $43 per capita in MENA.

As is evident from Table 3, an average North African state receives more net aid (in per capita terms) than an average low-income country. Since 2011 aid flows have skyrocketed in Arab spring countries, rising up to $158 in Egypt and $86 in Tunisia. In the wake of its recent political crisis, Egypt has secured aid pledges worth $12 billion in 2013. Interestingly, these aid windfalls are shared even by countries being home to significantly greater proportion of poor, South Asia received only $6 per capita in net foreign assistance during the last decade compared to $43 per capita in MENA.

A second potentially important source of rents is remittances from expatriate workers. The salience of these rents is again evident from Table 3: the MENA region has the highest ratio of remittances to GDP among all the developing regions (4% compared to 1-1.5% in LAC and SSA). Jordan and Lebanon derive roughly 20% of their GDP from worker remittances. The ratio is similarly high, by international standards, in Yemen, Egypt and Morocco. Unlike oil and aid, remittances are well dispersed among recipients, leading to more ambiguous political effects. Although, remittance flows, together with foreign aid, are statistically correlated with stability, they can also weaken patron-client linkages and create an independent political space (Ahmad 2012). The mechanisms behind these statistical correlations are unclear, however. It is surmised that remittances can influence government spending decisions, tilting them away from essential public goods, and that they can relieve political pressure emanating from excessive unemployment.

The economic effects are similarly ambiguous. While remittances can improve financial intermediation, they can also trigger Dutch disease effects depressing growth in the long-term (Rajan and Subramanyan 2011). By providing the necessary foreign exchange cushion, remittances can shield countries from economic crises, thereby weakening incentives for economic reform. In MENA a key feature of both aid and remittances is their high correlation with oil prices. This is easy to understand: oil rents are recycled in the region through financial support to poorer neighbours and employment generation for unskilled migrants from labour-surplus countries. Oil price is, therefore, a fundamental driver of these cross-border financial flows. As Figure 3 shows, aid non-oil producers (% of GDP) tracked quite closely with oil prices till 2002. A similar trend is observable for remittances.

The third rent stream, with particularly pernicious effects on political economy, is generated through government manipulation of the economy18. These markets are one of the most protected in the world. In MENA countries domestic economic activity is routinely governed by monopoly concessions, price controls, procedural regulations, and a raft of arbitrary trade barriers. Effectively, these barriers assign elites control of vital access points of the economy, generating rent streams that support ‘networks of privilege’ deemed essential for regime survival. Arguably, the need for such rent streams is most acutely felt in labour-abundant countries with more extended distributional commitments. This provides an important explanation for why non-tariff barriers remain both more pervasive and persistent in labour abundant MENA economies. In fact, on measures of trade restrictiveness, MENA’s labour-surplus economies leave behind all other regions, including Sub-Saharan Africa (see Figure 7 in Malik and Awadallah 2013).

Taken together, it is the confluence of these rent streams—rather than oil alone—that is potentially most damaging to MENA’s political economy. Resource curse is, in fact, a variant of a broader rent curse that can also manifest itself in resource-poor economies through dependence on foreign aid, remittances and regulatory rents. Given that some of the oil wealth is recycled in the region through aid and remittances, the traditional distinction between oil and non-oil countries lacks analytical utility. The boundaries between resource-rich and resource-poor economies of MENA are more fluid than often perceived (also challenges the classic distinction between resource-rich and resource-poor countries).

18 These rents are often generated through government intervention that changes relative prices (Tollson 1982).
4. Relevance of MENA’s Experience for the Global Literature

How can the MENA’s experience enrich the global debate on natural resources and development? In this section I propose at least six characteristics that distinguish MENA political economy from their resource-rich counterparts globally. This is a tentative outline aimed at inspiring more systematic research in future.

Size and significance of rent streams

First, as has been emphasized before, the MENA’s resource riches are more sizeable and significant than the average resource-rich country in the global sample. The region’s high resource-rents per capita, its relatively low cost of resource extraction, and its unusually large and volatile rent streams set it apart from other oil exporters. The region’s specialization in hydrocarbons also makes its rent streams more concentrated. But, perhaps more importantly, it is the multi-faceted linkages between oil and non-oil economies of the region that fashions the distinct character of MENA political economy. Whether a country in question is resource-rich or resource-poor, hydrocarbons are a powerful driver of MENA political economy. The significance of such spatial effects—operating through aid, remittances and a variety of other channels—is arguably more profound in the Middle East in comparison with other resource-rich regions. It is also an invitation to conceptualize rent streams more broadly, where oil is only component.

Channels of rent distribution

Apart from the scale of resource rents, a second distinguishing aspect relates to the channels through which these rents are distributed. While most resource-rich states tend to distribute their wealth through salaries and subsidies, the scale, coverage and variety of these distributional channels sets it apart from other regions. The ‘cradle to grave welfare systems’ in the MENA region are a special variety. The rent-funded welfare regime embraces all aspects of life, from employment, education and healthcare to subsidized housing, fuel and food. The public sector is more bloated and centralized than most developing countries: ‘By the start of the 21st century the proportion of workers employed by the state was close to double the global average’. The average country in the MENA region, regardless of whether it is a net exporter or importer of oil, also spends a staggering proportion of their revenues on energy subsidies. About one-half of global energy subsidies are disbursed in MENA, which amounts to nearly a third of the region’s oil-surplus and 8.5% of its GDP.

Energy subsidies are pervasive even in relatively oil-scarce countries: Egypt spends nearly 11% of its GDP on fuel subsidies; the corresponding ratio in Yemen is 6%. Energy subsidies are even more costly if implicit subsidies (for electricity production and state-owned enterprises) are taken into account. The opportunity cost in terms of foregone spending on health and education is similarly high. In Egypt the total subsidy bill is three times the combined spending on health and education. Food subsidies, though less burdensome in fiscal terms, remain equally pervasive in a region known for its astonishingly high levels of dependence on food imports. Despite its notorious scarcity in the region, water is provided virtually free of charge.

Apart from salaries and subsidies, which dominate the distribution regime, MENA states rely on a variety of other channels for sharing resource wealth. One important channel for rent distribution is the financial sector. Favoured groups benefit from subsidized credit in the form of interest free loans. By early 2013 personal loans granted to the GCC citizens exceeded $355.3 billion. While universal subsidies buy broader public support, other means are used to bind elite interests with regime continuity. Oil-funded public investment generates plentiful opportunities for taming political and business elites through construction contracts, import licenses and land acquisition deals. The construction sector—a key beneficiary of resource-windfalls—depends, in turn, on the import of foreign labour that is organized through a sponsorship system that generates additional rents for local sponsors, without whose

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19 This is equivalent, according to IMF estimates, 22% of government revenue.
20 Energy subsidies are also badly targeted, since their benefits disproportionately accrue to urban areas and the rich.
21 Food subsidies constitute 0.7% of GDP in MENA, while there is considerable variation across individual countries.
22 Even when charges are in place these are normally very nominal and do not reflect the actual cost of provision.
23 Many MENA states extend credit for homes and businesses. The financial channel is particularly important in Iran which has virtually suffered through a state of financial repression, and where cheap credit to favoured constituencies has helped to consolidate support for the regime.
24 Citizens of UAE and Saudi Arabia were the largest beneficiaries of this favoured credit.
permission migrants can neither enter (and leave) the country nor change jobs. While a comprehensive description of these channels is beyond this paper’s remit, the preceding discussion highlights the scale and variety of distributive rents that set MENA apart from their resource-rich counterparts.

The external environment

A second distinguishing characteristic is the primacy of the external environment in understanding MENA political economy. The Middle East has long been the staging ground for great game politics, where resources and conflict have drawn the interest of foreign powers. The region is strategically valued for its immense resource riches. Importantly, some MENA states have the capacity to expand oil supply at short notice. This capacity to stabilize global oil markets is particularly convenient in turbulent periods (for instance: in the wake of the Iran-Iraq war in 1980s, and the two Gulf wars in Iraq). Securing access and control of these resources riches—and their associated transport routes—is crucial for states seeking global domination.

The MENA region also remains an active sight of regional and global conflict. This allows many countries to derive the adverse dividends of geography by virtue of their strategic location. The political economy impact of these geo-strategic rent streams is not very different from oil rents. Being conflict prone, the Middle East is also one of the most militarized regions in the world. The ‘robustness’ of this coercive apparatus depends, apart from oil revenues, on western support for aid, arms and equipment (Bellin 2004). Finally, the sheer foreign military presence on Gulf soil and shores accords external players significant leverage vis-à-vis local rulers, who are often dependent on them for their own security. This begs the question: to what extent does this translate into an ability to influence local political economy?

Besides US treasury bonds, the region’s growingly active Sovereign Wealth Funds (SWFs) are engaged in substantial overseas investments (predominantly in European and American markets). Given their limited domestic absorptive capacity it is rational for MENA states to invest abroad, but there is a sense in which such investments are driven not purely by economic, but also geo-political, returns. Arab states also play a key role in the global political economy of conflict. Arms purchases—which now run into billions of dollars annually—are used to plough back resource rents in states considered strategically important for local rulers. The strategic value of MENA countries transcends beyond their resource riches, however. Growingly, it is their role as brokers in local conflict management. Effectively, this binds MENA’s states and foreign powers in a relationship of mutual interdependence, helping to privilege the discourse of stability.

As events unfolding in the region demonstrate the regional influence on local political economy remains paramount. Rich states wield tremendous financial leverage over neighbouring countries. The subsidy regime in these countries will be unsustainable without the regular cash injections from their rich neighbours. Jordan’s domestic political economy has long been shaped by waves of migration resulting from all of this goes to suggest that any discussion of MENA political economy remains incomplete without taking into consideration the role of neighbourhood effects and regional spill-overs.

Dualistic labour markets

Another distinguishing aspect of MENA political economy is the structure and performance of its labour markets. Arab labour markets are defined by segmentation along different lines: between nationals and migrants, public and private sector, formal and informal sector, and males and females. In some countries universal public employment is offered to nationals and the private sector is dependent on migrant workers. Across the region, some 60% of formal employment is provided by the government. Higher wages in government jobs creates an ingrained preference for state employment25. New entrants to the labour market prefer to queue for public employment than to accept a job in the

25 There are several other non-wage benefits associated with government jobs as well.
private sector. This is a feature not just of oil-rich countries alone: in a recent Gallup poll only 5-8% of respondents in resource-scarce North Africa (Tunisia, Egypt and Morocco) expressed preference for private sector jobs. As the fiscal cost of maintaining high levels of public employment becomes growingly unsustainable in resource-scarce countries, the adjustment costs are passed on to the “outsiders” to the system: educated youth and the informal sector (Assad 2014)\textsuperscript{26}. Apart from this inter-generational inequity, dualistic labour markets reinforce multiple distortions in education, finance and private sector development\textsuperscript{27}.

Structurally, however, this labour market segmentation is grounded in a political equilibrium supported by a social contract that uses public employment as a key mechanism for rent distribution to citizens. In fact, the operation of labour markets underscores all three factors in Weber’s analysis: class, status, and power. Traditionally, public employment has been used to tie the fortunes of middle classes and members of important sects, tribes and clans with the fate of the ruling coalition. Keeping middle classes dependent and immobilized, dualistic labour markets have preserved a political division of labour that forecloses all avenues for class based politics. This dualism is maintained through unhindered access to rent streams, of which oil rents are only one component.

**Anatomy of business-state relationship**

Another dimension that sets MENA political economy apart from its comparator states is the nature of business-state relationship. Although business life in resource-rich countries is typically driven by a dominant natural resource sector, the fragility MENA’s private sector is legendary. The boundaries between the public and the private are blurred to the extent that business is permitted to thrive only under the shadow of the state. Even in the “rich countries”, which has a long tradition of accommodating business elites into the ruling circle, businesses lack both “political clout” and an “autonomous organizational space” (Hertog et al. 2013). Throughout the region the de facto presence in export of manufactures, where firms become successful through greater integration in regional and global markets. This exposes economic elites to greater external competition and aligns their incentives of ORBIS firm 92% of loans were allocated to the politically connected firms (Diwan and Schiffbauer 2013)\textsuperscript{28}.

Arguably, such crony capitalism is not unique to MENA. Other emerging economies in Asia and Latin America have displayed similar crony capitalist tendencies. A pertinent question is whether crony capitalism in MENA is configured differently from other regions. Tracking these differences is a fertile area for future research. Three tentative explanations can be offered here.

**First**, unlike other emerging markets, MENA’s economies suffer from excessively weak firm dynamics, reflecting restricted entry, access and mobility of firms. Business is often organized around a pyramid of privilege, with a few connected firms at the top and a wide base of small firms, operating largely in the informal sector. This results in the proverbial “missing middle”. MENA countries have some of the most pervasive non-tariff barriers in the world, which results in fragmented markets, high barriers to entry and a thriving informal sector.

**Second**, scarred by the legacy of centralized control, businesses suffer from a heavier bureaucratic hand. In many North African countries substantial parts of the economy are controlled by the military and security services. Economic exchange is rarely governed by a rules-based institutional structure. Even when laws exist the enforcement regime is discretionary, driving a wedge between the de jure and de facto. The underlying legal framework is particularly unhelpful for small enterprises. Egypt’s bankruptcy code has long penalized firms that are unable to clear their debt; owners of such firms can be put to jail, barred from holding public office and still liable to clear the debt. Tunisia faces the opposite problem: here the absence of a bankruptcy law prevents firms from risk taking ventures.

**Third**, crony capitalism in MENA rarely extends the economy’s productive structure. This is partly determined by the nature of economic activity cronies engage in. Politically connected firms primarily operate in sectors that are protected from import competition and energy intensive, thereby benefiting from subsidized provision (Diwan and Schiffbauer 2013). East Asian giants, by contrast, have a greater presence in export of manufactures, where firms become successful through greater integration in regional and global markets. This exposes economic elites to greater external competition and aligns their incentives.

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\textsuperscript{26} As Assad (2014) shows falling government employment in Egypt is being compensated by a growing share of the labour force employed by the informal sector.

\textsuperscript{27} This peculiar structure of labour markets comes at a significant development cost. It traps educated labour force in unproductive public jobs and distorts the educational incentive structure by emphasizing credentials over skills. Access to state employment is also rationed through connections, which means that the labour market system works to the advantage of insiders (especially prime-age workers). It is also associated with low rates of female labour force participation, high rates of youth unemployment and limited geographic mobility. See Assad (2013) for a detailed review.

\textsuperscript{28} ORBIS is a global company database, produced by Bureau van Dijk.
with a more open economic access. In MENA economies, on the other hand, limited export activity means that rents are sustained through patronage rather than competitive markets. In Tunisia, which has a more vibrant export sector, the policy regime has traditionally insulated the export activity from import-oriented sectors, which has prevented productive spill-overs and undermined firm linkages across the two sectors. Firm linkages are generally weaker in MENA economies, since vertical control structures tend to dominate horizontal connections between economic agents.

**Progress in human development**

In the large-N literature, natural resource dependence is associated with higher levels of income inequality and lower education and health outcomes (Gylfason 2001; Gylfason and Zoega 2003). The region defies this trend. Over the last five decades, the MENA region has made an impressive progress in human development, especially in universalizing primary education. The region has experienced one of the fastest growth in educational attainments (Youssef 2004). Of the top twenty high achieving countries in terms of increasing mean years of schooling between 1980 and 2010, nine belonged to MENA (Camphante and Chor 2012). Despite lingering quality issues, even this quantitative access to education and health services is no mean achievement, especially in a global milieu where many developing countries are still struggling to put all their children in school.

The average MENA state spends a greater proportion of its GDP on education than developing countries. The region also compares favourably on commonly used measures of poverty and inequality. For example: the incidence of extreme poverty is lower (the Headcount estimate for 2008 is only 2.70 compared with 6.70 in Latin America and 35.97 in Latin America). The region has also made a remarkable advance on composite measures of human development. In 1990 low-income countries did not fare much better on the HDI than Sub-Saharan Africa; in 2007 they surpassed the levels achieved by most developing countries (Malik 2012). This is another instance where MENA’s rentier experience produces radically different patterns of human development—patterns that are ultimately rooted in a rent-funded social contract that trades welfare distribution for political acquiescence. The MENA model of human development model is ultimately self-undermining, since it is primed to produce greater youth unemployment and unfulfilled aspirations. Generous welfare provision also comes at the expense of a long-term advance in human capabilities, since it compromises political agency.

These distinct shades of MENA political economy are an outcome not just of the region’s resource riches but also its history. As highlighted before, the impact of natural resources on development is mediated through a different set of initial conditions. On the eve of independence, many societies in the region inherited a weak business class and centralized bureaucratic structures. The Ottoman political economy, the strength of prior social formations, and the rentier structures in place before independence left a deep imprint on subsequent paths of development. Importantly, an exclusive focus on oil, without mapping the totality of the rentier experience, cannot adequately encapsulate the region’s political economy.

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29 Eight Arab countries plus Islamic Republic of Iran.
30 Similar achievements have been made in improving life expectancy.
Toward a New Political Economy of the MENA Region

Taking a broader stock of the literature on MENA’s political economy, this paper has emphasized the need to unpack the region’s rentier experience through a broader conceptualization of rents that transcends beyond oil and accounts for a variety of other non-oil rent streams. In its predilection with the role of oil and ideology, existing literature has paid scant attention to non-oil rents associated with foreign aid, remittances and government regulation. Once the effects of these are taken into account the MENA region appears to suffer from a broader rent curse, not just a resource-curse. I argue that concentrated economic and political structures in the MENA region are fundamentally linked with the creation, distribution and sustenance of these rents. The scale, volatility, and the degree of concentration of rents matter decisively in shaping elite incentives (Auty 2010). In fact, they define the very nature of a social order—that is, whether it is inclusive or exclusive (North, Wallis and Weignast 2010).

Focusing on rents that are largely external to the economy, past literature has neglected rents derived from domestic manipulation of the economy that forecloses markets in favour of politically connected actors. By restricting economic advantage to insiders, these regulatory rents create powerful incentives for elite cooperation. Accounting for such rents is especially important in North Africa—the home of the Arab spring—where labour is abundant and natural resources relatively scarce. Regulatory rents are arguably more important in labour abundant economies where distributional commitments are large relative to the available resource base. As the North African uprisings have painfully revealed, it is easier to change regime than to eliminate the rentier structures.

This importance of regulatory rents highlights the crucial role of business-state relationship in understanding MENA political economy. In fact, no discussion of the region’s political economy is complete without a consideration of the ruler-merchant relationship and the overlap between economic and political power. The region’s epic failure to develop an autonomous private sector reflects not only the burdensome legacy of centralized control but also point to weak bargaining structures. But the structure of rentierism needs be institutional located across time and space. Rentier relationships are not just a feature of the oil era. They are historically embedded; in some cases, their foundations were laid during Ottoman and colonial times—and they interact over time with a changing external environment. Mapping such interactions should form a crucial part of relevant discussions.

This focus on rents opens the door for more fundamental research questions: How is power organized and exercised in MENA’s societies? What are the nature, sources and mechanisms of institutional persistence? Answering these questions requires a better understanding of the institutional incentive structure that governs economic and political exchange. Understanding de facto power in MENA’s societies requires a better mapping of both elites and history. A systematic analysis of elites—their composition, preferences, strategies and the like—is crucial for such political economy analysis. The literature also needs a fresh approach to temporality that studies history, not just as an isolated account of the past, but as a prism through which contemporary institutions can be understood. Although there is a well-established literature in the MENA economic history, pioneered by such towering figures as Charles Issawi, Roger Owen and Sevket Pamuk, it does a less satisfactory job of linking the past with the present.

The insistence on rents—and their relationship to historically embedded power—not only liberates the existing literature from its excessive focus on oil but can help to frame discussions on MENA political economy in the broader field of institutions and development. In doing so, the field can benefit from broader theoretical and empirical approaches to studying the origin, impact and development of institutions. Two approaches—the New Institutional Economics (NIE) and Comparative Historical Analysis (CHA)—offer useful theoretical lenses. Apart from adding rigour to the analysis, such wedding of MENA political economy and dominant theoretical paradigms will also preserve the multi-disciplinary character of the literature, where all three disciplines—history, politics and economics—contribute towards generating a holistic discourse.

Selected examples where scholars have sought motivation from NIE frameworks are: Dirk Vandewalle on Libya, Steffen Hertog on Saudi Arabia, and Reinoud Leenders on Lebanon.
Despite growing interest in the field, these theoretical paradigms are inadequately explored in MENA region studies. Even when studies draw on insights from NIE they provide neither a rich test of theory nor feedback insights into the global literature. Mainstream political economy, in turn, has shied away from a serious engagement with the region. There is thus a rich potential for a two-way engagement. The mainstream literature on political economy can be enriched by throwing a scholarly spotlight on the MENA region—by mapping multi-causal interactions, identifying intermediate processes and channels, and exploring nuances and contexts through which we can view political economy in action.

**Policy recommendations**

It is difficult to talk of policy reform in a milieu where rents are used to sustain an institutional status-quo. Nevertheless, this focus on rents in the study of institutions and development enriches our understanding of the long-term constraints to development. Recognizing the structural barriers to prosperity is especially important in the presence of vicious development cycles, which poor countries are often trapped in and where one bad thing is connected with another through a set of mutually reinforcing relationships. While this might sound frustrating for those interested in advising and implementing policy reform, a better appreciation of what is not likely to work is probably as important as what might work.

To appreciate its significance, let us consider the failure of policy reform in the 1990s when economic liberalization was sold as a recipe for development in poor countries. This was clearly based on a sound rationale: decades of economic control and interventionism by developing country governments had failed to produce an economic turnaround. Instead, it strengthened, what scholars like Anne Krueger termed as, rent seeking activities that created social waste without expanding the productive frontier. The obvious policy implication was that change is inadmissible; it simply points to the fact that change usually results from an incentive-compatible process where regimes find it in their interest to constrain their own powers. One reason why crises often induce reform is because crises generate new political incentives for change.

This is borne well through the experience of Arab economies as well. It is partly due to the pressure of low oil prices that many resource-rich states in the region are now broaching sensitive issues of tax and subsidy reform. GCC states have recently begun discussions on reform of the subsidy system and are even considering ways of imposing VAT taxes. Recently, the decision by Saudi Arabia’s cabinet to impose a tax on unused land also comes on the throes of low oil prices and enduring pressures in the housing market. Long considered as politically sensitive, the introduction of land tax is a genuine concession by the ruling family in the face of a growing middle class discontent against politically connected elites that keep land idle in order to push up its scarcity value.

In short, when thinking about policy reform, it is important to consider elite incentives. Clever institutional design should consider ways in which elites may be compensated for the loss of rents that might result from reform. The role of timing is also important as elites may be more receptive to reform at certain crucial junctures when they realize that the cost of postponing reform may be higher than the cost of conceding it. In general, there is need for a more integrated development strategy that considers the underlying processes, not just final development outcomes, since an attention to the former is crucial for binding rulers and rents in a common analytical frame.

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31 A good example of this is Acemoglu and Robinson’s magnum opus, Why Nations Fail, which contains only a few passing references to the Middle East.
References


Davidson, C.M. (2010), Abu Dhabi: Oil and Beyond, Columbia University Press.


FIGURE 1: Proven Crude Oil Reserves by Region

FIGURE 2: World Proven Natural Gas Reserves by Region

FIGURE 3: Foreign Aid & Remittances for non-oil producers (% of GDP) Vs Oil prices
### TABLE 1: Estimates of Natural Wealth per capita, 2005

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<tr>
<th>Region</th>
<th>Natural Capital</th>
<th>Oil</th>
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<th>Subsoil Assets</th>
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<td>Latin America &amp; Caribbean</td>
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**Memo Items:**

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<td>Upper middle income</td>
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Notes: Data is compiled by the World Bank; All values are calculated in 2005 USD. Trend in total wealth—per capita values, based on a balanced sample of 124 countries for the year 2005.

### TABLE 2: Natural Resource Rents (% of GDP)

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<td>1.811</td>
<td>1.027</td>
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<tr>
<td>North America</td>
<td>2.314</td>
<td>1.561</td>
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**Memo Items:**

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<thead>
<tr>
<th>Category</th>
<th>AVG</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>High income: OECD</td>
<td>1.506</td>
<td>0.854</td>
</tr>
<tr>
<td>Low income</td>
<td>4.06</td>
<td>0.606</td>
</tr>
<tr>
<td>World</td>
<td>3.741</td>
<td>1.9</td>
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<table>
<thead>
<tr>
<th>Category</th>
<th>AVG</th>
<th>SD</th>
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</thead>
<tbody>
<tr>
<td>Non-fuel MENA</td>
<td>4.309</td>
<td>10.181</td>
</tr>
<tr>
<td>Non-fuel world</td>
<td>3.103</td>
<td>5.769</td>
</tr>
<tr>
<td>Non-fuel primary exporters</td>
<td>3.458</td>
<td>7.462</td>
</tr>
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</table>

Source: World Development Indicators 2013.

Notes: Total natural resource rents are the sum of rents from oil, natural gas, coal, minerals and forest resources. AVG and SD stand for average and standard deviation, respectively. Data spans the period, 1970-2011.
### TABLE 3: Net ODA per capita, Current USD

<table>
<thead>
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</thead>
<tbody>
<tr>
<td>Egypt, Arab Rep.</td>
<td>3.993</td>
<td>35.235</td>
<td>31.405</td>
<td>50.839</td>
<td>17.412</td>
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<tr>
<td>Jordan</td>
<td>68.264</td>
<td>219.396</td>
<td>323.901</td>
<td>138.418</td>
<td>128.928</td>
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<tr>
<td>Lebanon</td>
<td>4.909</td>
<td>28.669</td>
<td>62.569</td>
<td>70.969</td>
<td>127.977</td>
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<tr>
<td>Syrian Arab Republic</td>
<td>2.186</td>
<td>86.681</td>
<td>90.018</td>
<td>27.669</td>
<td>6.235</td>
</tr>
<tr>
<td>Tunisia</td>
<td>17.809</td>
<td>32.361</td>
<td>32.231</td>
<td>26.24</td>
<td>34.407</td>
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<tr>
<td>Yemen, Rep.</td>
<td>3.61</td>
<td>32.602</td>
<td>50.324</td>
<td>21.647</td>
<td>16.133</td>
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**Memo Items:**

<table>
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<tbody>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>2.944</td>
<td>3.763</td>
<td>8.374</td>
<td>12.031</td>
<td>12.53</td>
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<tr>
<td>South Asia</td>
<td>2.301</td>
<td>3.121</td>
<td>4.96</td>
<td>4.634</td>
<td>5.786</td>
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<td>Sub-Saharan Africa</td>
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<td>9.031</td>
<td>23.041</td>
<td>29.695</td>
<td>38.113</td>
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<td>Low income</td>
<td>2.19</td>
<td>7.515</td>
<td>18.825</td>
<td>23.089</td>
<td>31.111</td>
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**Selected oil exporters:**

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<tbody>
<tr>
<td>Iraq</td>
<td>0.572</td>
<td>3.175</td>
<td>2.958</td>
<td>11.519</td>
<td>214.734</td>
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<tr>
<td>Bahrain</td>
<td>7.767</td>
<td>173.107</td>
<td>308.432</td>
<td>207.568</td>
<td>103.493</td>
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<tr>
<td>Oman</td>
<td>1.454</td>
<td>124.11</td>
<td>79.221</td>
<td>60.144</td>
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</table>

### Personal remittances received, % of GDP

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</thead>
<tbody>
<tr>
<td>Egypt, Arab Rep.</td>
<td>10.078</td>
<td>7.693</td>
<td>4.248</td>
<td>7.248</td>
</tr>
<tr>
<td>Jordan</td>
<td>19.519</td>
<td>18.817</td>
<td>20.001</td>
<td>19.035</td>
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<tr>
<td>Lebanon</td>
<td>-</td>
<td>-</td>
<td>22.123</td>
<td>21.514</td>
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<td>Morocco</td>
<td>6.717</td>
<td>6.333</td>
<td>7.588</td>
<td>6.899</td>
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<tr>
<td>Syrian Arab Republic</td>
<td>3.055</td>
<td>2.741</td>
<td>2.265</td>
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<tr>
<td>Sudan</td>
<td>2.258</td>
<td>2.522</td>
<td>5.183</td>
<td>3.251</td>
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<tr>
<td>Tunisia</td>
<td>4.183</td>
<td>3.644</td>
<td>4.372</td>
<td>4.092</td>
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</table>

**Memo Items:**

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</thead>
<tbody>
<tr>
<td>Middle East &amp; North Africa</td>
<td>-</td>
<td>4.897</td>
<td>3.497</td>
<td>4.037</td>
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<tr>
<td>Latin America &amp; Caribbean</td>
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<td>0.733</td>
<td>1.688</td>
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<td>3.615</td>
<td>2.638</td>
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<tr>
<td>Sub-Saharan Africa</td>
<td>0.641</td>
<td>1.035</td>
<td>2.463</td>
<td>1.46</td>
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