Rethinking the Rentier Curse

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Abstract

The Middle Eastern political economy has long been studied through the prism of the resource curse—that is, how resource riches undermine the region's economic and political development. While many of the region's pathologies are rooted in an economic structure heavily reliant on external windfalls, the existing literature tends to overstate the role of oil. This research note develops the case for a broader conceptualisation of rents that includes not just windfalls from hydrocarbons, but also rents derived from aid, remittances and government manipulation of the economy. Reliance on these rent streams is the 'original sin' that perpetuates underdevelopment. Discussions of Arab political economy should therefore be framed as part of a broader enquiry into the relationship between rents and development. This requires, in turn, a deeper understanding of business–state relationships and the role of regional linkages in development.

1 Introduction

This chapter highlights the centrality of 'unearned' income streams, typically described as rents, for understanding the political economy of the Middle East. Many of the region's pathologies—including unemployment, a bloated state, a weak private sector or limited political evolution—are ultimately rooted in an economic structure heavily reliant on external windfalls, whether derived from oil, aid or remittances. Questioning the exclusive focus of the prevailing literature on oil, I develop the case for a broader conceptualisation of rent streams that includes, besides oil, rents derived from foreign aid, remittances and government regulation. These non-oil rent streams can also be both sizeable and significant in their impact.¹ Regulatory rents that result from market

1 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,

subversion are particularly important in understanding the business–state relationship and its bearing on political economy. Reliance on these windfalls is the ‘original sin’ of development in the Middle East and North Africa (MENA). The story of Arab development is therefore a story of how these rent streams shape paths of political and economic development. I argue that the Middle East’s resource curse can simply be viewed as part of a broader rent curse.

The basic analytical frame used in the literature is the celebrated—but increasingly contentious—paradigm of the *Rentier State Theory* (RST), which argues that unearned revenue streams, external to a country and accruing mainly to the government, shape that country’s political and economic character.² The upshot: resource-rich societies are systematically condemned to having underdeveloped political structures. A key mechanism behind this adverse connection between natural resources and democracy is the fiscal independence of the state from taxation, which relieves it from intense pressure for accountability (the famous dictum, ‘no representation without taxation’). Direct access to resource revenues also allows state elites to buy political consent through repression and patronage. The principal function of a rentier state is the allocation or distribution of rents, which tilts incentives away from production to predation, stifling competitive structural change that could otherwise have produced a social structure more favourable to democratisation— independent classes and horizontal alignments in society (Beblawi and Luciani, 1987; Ross, 2001).

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 New York Times journalist Thomas Friedman’s famous observation that in resource-rich countries ‘the price of oil and the pace of freedom always move in opposite directions’ (Friedman, 2009). 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

2005). In the period 1995–2004, remittances averaged 3.6% of GDP (Barajas et al., 2009), typically ranging between 2% and 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 Subramanyan, 2011).

2 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 the state’s production activities, and (d) accrual to the government of a rentier state.

control. Without oil rents, it is difficult to sustain the region's repressive military structures, its bloated public sector, pervasive subsidies, and the 'cradle to grave' welfare systems. Whether through co-option or coercion, oil wealth has allowed states to subdue possible challengers, create new economic elites and bind old merchants in a relationship of dependence. In short, rarely can any facet of MENA political economy be studied without a deep understanding of how oil shapes the state–society relationship.

There is growing realisation that, while RST paints a good broad-brush caricature of resource-rich societies, it falls short of fully capturing the nuances, contexts and dynamics. Scholars have therefore called for refining and qualifying the claims and predictions of RST by studying the role of initial historical conditions, dynastic family politics, the micro-politics of development, and emergent forms of capitalism in the Gulf (Dunning, 2008; Hertog, 2010; Herb, 2009; Gray, 2011). Much of this literature can be read as simply an exercise in refinement, rather than an outright rejection of the theory. While agreeing with the broad thrust of this literature, this research note insists on developing a wider political economy of rents and development, which takes into account the nature, composition and deployment of rents. I argue that there is a need to transcend the continuing predilection for tracing the impact of oil on development. Oil revenues in MENA are complemented with other unearned income streams from aid, remittances and government regulation, which together constitute a broader challenge of 'rentierism'.

While oil rents clearly dominate the external revenue flows in MENA countries, the impact of other rents derived from foreign aid and remittances is insufficiently explored. Furthermore, far more emphasis has been placed on the role of external rents, whereas domestically generated rents from government manipulation of the economy are largely neglected by dominant approaches to studying MENA political economy. Such rents are critical, however, in the region's labour-abundant economies, where—given the relative scarcity of oil rents—domestic rents from economic protection play a prominent role in generating elites' commitment to regime continuity. Perhaps the best example of the importance of such rents is the pervasive use of non-tariff barriers in North African economies. Restrictive trade policy is used to privilege businesses connected to the regime or other insiders who are given control of the protected enclaves of the economy. In turn, the regime is able to secure a binding commitment to the maintenance of authoritarian order.

Another important dimension—largely omitted from dominant narratives—is the importance of the external anchor in sustaining authoritarianism in the Middle East. Existing theoretical accounts have been largely focused on how domestic recycling of resource rents buys the political acquiescence of key

constituencies at home. While this is admittedly the core political economy dimension pertaining to the political economy of oil, another crucial dimension, at least in the Middle Eastern context, is the manner in which resource rents are externally recycled to build a support base abroad. As this research note will show, such recycling can take many forms and is often geared as much towards securing geopolitical returns as towards economic returns for overseas investments. As exporters of hydrocarbons, many MENA countries are highly integrated into global commodity and finance circuits. The external and domestic structures of power are therefore co-constituted in such domains.

All of this underscores the need to unpack the complex architecture of authoritarianism in resource-rich societies. The rentier experience in the Middle East is broader and deeper than uni-linear and deterministic oil-based accounts would have us believe.

The remainder of this article is structured as follows: Part 2 furnishes a brief background of the relationship between natural resources and development. Part 3 proposes a broader conceptualisation of rent streams and emphasises the role of the external recycling of rents. Part 4 provides a brief conclusion.

2 Natural Resources and Development in the Middle East

Before delving into the analysis of various rent streams it is useful to briefly review the relationship between natural resources and development. Ever since the discovery of oil, hydrocarbons have defined the Middle East's development experience. A quick review of the 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. The relationship between oil and development in MENA is well documented (Yousef, 2004; Elbadawi, 2005; Nugent and Pesaran, 2007). Rather than offering a comprehensive summary, I will highlight only the salient aspects of this literature.

Behind these generic patterns lies considerable diversity in individual development experiences. It is customary to classify the MENA region along two dimensions: labour and resources. The political economy dynamics of the resource-rich, labour-scarce countries of the Gulf are distinct from more

labour-abundant economies in the region (some of which are oil-rich, such as Algeria, while others are 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 economy 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 of the Gulf deployed their sizeable oil rents to co-opt political support by providing generous welfare. This has led to the rapid absorption of resource rents through high government consumption. It has also been accompanied by perverse outcomes: stable autocracies, pro-cyclical fiscal policy, labour market distortions, patronage-driven private sectors, and a 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 (e.g. Algeria and Iran) 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 the 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. In fact, in the first two to three decades following independence, Yemen and Syria both derived one-fifth of their respective GDPs from hydrocarbon exports, while Egypt generated aggregate rents in excess of 20–30 per cent of GDP. Morocco, Tunisia, and Jordan sustained sizeable rent streams until oil prices collapsed in the mid-1980s, after which they accelerated economic diversification but resisted opening up politically.

The labour surplus economies witnessed declining rents in the 1980s—resulting from falling oil prices and dwindling inflows from foreign aid and remittances. With growing debt-to-gross domestic product (GDP) ratios, economic reform became a policy imperative. Several MENA countries introduced privatisation and economic liberalisation on a limited scale. This was done in such

a way as not to disrupt the status quo. Neo-liberal reform generated opportunities to exploit new rent streams through lucrative contracts and licenses in banking and telecommunications. These rents were allocated to consolidate elite coalitions and to reorganise 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 the 1990s, led to a sizable windfall (MENA oil revenues grew fourfold during the period 2000–07). Most oil exporting governments initially responded prudently to the windfall revenue, through higher savings levels, slower domestic absorption, and a greater reliance on markets. During the aforementioned period, total MENA debt fell from 55 to 17 per cent 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, especially in the Gulf, the private sector has shown greater agency and independence. Despite this evidence of a steeper learning curve, however, the second oil boom did not redefine the rent-dependent model of development.

Public expenditure has accelerated since 2005 due to a growing commitment to 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, such as Iran. 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 (Noumba Um et al., 2009). It is therefore unsurprising that the 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). It is pertinent to explore if social learning has any role to play in explaining differential policy responses to the two oil booms that the Arab resource-rich economies (RRES) witnessed, in the early 1970s and the first decade of the new millennium.

A key difference, relative to the 1970s, is that spending on infrastructure was relatively more restrained during the second oil boom. There was also a more robust saving response. Learning from the fiscal challenges of the 1980s, most Arab RRES have devised explicit strategies to set aside a growing proportion of their resource windfalls for the future. SWFs emerged as important saving and investment vehicles during the second oil boom. Apart from facilitating overseas investments, these savings are coming to the rescue of Arab RRES in the present climate of low oil prices. The question, however, remains: is the recycling of petrodollars fundamentally different across the two oil booms? Apart from the differential savings response, the nature and direction of investment also displays interesting differences. At home, Gulf Cooperation Council (GCC)

countries have invested more in rail infrastructure,³ and in educational and financial institutions.

The destinations of overseas investments are also more diversified, with greater cross-border investment in Asian and MENA countries. But, at least in Qatar and Abu Dhabi, the pattern of prestige acquisitions abroad has continued and, in some cases, even intensified. In some sense, SWFs and their associated investments represent merely a change of form rather than one of substance. As investment vehicles, SWFs continue to be directed towards prestige projects at home and brand acquisitions abroad. Although investments have gradually become more diversified in terms of their destinations, few are oriented towards promoting development in the region. There are also lingering questions about the transparency of SWFs. Their operations are unusually opaque, with little public knowledge of their investment strategies. Many SWFs lack clear withdrawal rules. Even when specified, these rules are not consistently implemented. As a result, despite being a promising instrument, SWFs have not been entirely successful in imposing fiscal constraints on the sovereign. As the brief review in this section has suggested, despite small changes on the margin, the old development model is alive and well. Oil rents continue to drive the region's core trajectory of political and economic development. However, as the following section will argue, oil rents are only one large component of the region's complex structure of rentierism.

3 From Resource Curse to Rent Curse

While the Middle East's resource riches are often held culpable for the region's perverse political economy, the role of oil can easily be overstated. It is also difficult to explain the adverse performance of relatively resource-scarce Arab countries (the likes of Syria, Jordan and Egypt). Despite the absence of vast quantities of oil, many of these nations 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

3 Gulf Business, 11 January 2015, <http://gulfbusiness.com/2015/01/gcc-rail-projects-see-investments-worth-200bn/#.VfXGqhFVhBc> (accessed on 17 March 2016).

rents than the average low-income country or sub-Saharan African state. Over the last fifty years the MENA region has received roughly three times more net aid per capita than Latin America. Despite being home to a significantly greater proportion of poor people, South Asia received only USD 6 per capita in net foreign assistance during the last decade, compared to USD 43 per capita in MENA.

MENA economies engulfed in the Palestinian–Israeli conflict are particularly large aid recipients (Jordan and Lebanon receive the highest level of net aid per capita—USD 128). The figure for Egypt, while significant by international standards, does not take into account the additional stable rent stream in the form of US military aid (USD 1.5 billion annually). 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 to USD 158 in Egypt and USD 86 in Tunisia (once more in per capita terms). In the wake of its political crisis, in 2013 Egypt secured aid pledges worth USD 12 billion. Interestingly, these aid windfalls are shared even by countries with precarious oil exports (e.g. Iraq, Bahrain and Oman).

A second potentially important source of rents is remittances from expatriate workers. The salience of these rents is again evident from the fact that the MENA region has the highest ratio of remittances to GDP of all the developing regions (4 per cent compared to 1–1.5 per cent in Latin America and sub-Saharan Africa). Jordan and Lebanon derive roughly 20 per cent of their respective GDPs from expatriate 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 authoritarian stability, they can also weaken patron–client linkages and create an independent political space (Ahmed, 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 also relieve the 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 Subramanian, 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 for poorer neighbours and the creation of jobs for

FIGURE 3.1 *Inter-linked capital flows: Oil, aid and remittances (1972–2008)*

SOURCE: AHMED (2012).

Note: Oil price (left scale)—USD per barrel

unskilled migrants from labour-surplus countries. The oil price is, therefore, a fundamental driver of these cross-border financial flows. As Figure 3.1 shows, aid to Muslim non-oil producers (in percentage of GDP) tracked quite closely with oil prices until 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 economy.⁴ Arab markets are among the most protected in the world. In Arab 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 to 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, in terms of trade restrictiveness, MENA’s labour-surplus economies leave all other regions, including sub-Saharan Africa, behind.⁵

4 These rents are often generated through government intervention that changes relative prices.

5 See Figure 7 in Malik and Awadallah (2013, 16).

Such policy-induced rents can be significant even in resource-rich countries. In most Arab RRES little is known about the number and strength of those with veto rights with regards to major fiscal policy decisions. The activities of many public sector enterprises also remain off the fiscal radar screen, with such quasi-public spending believed to be particularly important in Algeria, where public sector banks are repeatedly recapitalised through outright cancellations of their debts, purchase of non-performing loans (NPLs), and liquidity injections. Such transfers are often sophisticated ways of transferring rents to elite groups in society, groups without whose support the authoritarian order is difficult to sustain. In the GCC countries many popular instruments of patronage, such as land sales and tax benefits, are not accounted for in fiscal terms but are crucial forms of rent transfers to elite constituents. In fact, the literature on the business–state relationship in the Gulf has long recognised the ways in which a private sector that is structurally dependent on the state bolsters authoritarian stability (see Hertog, Luciani and Valeri, 2013).

Selective economic reform itself provides an important mechanism through which rents are generated to reconfigure elite alliances. Most North African countries have suffered from the familiar ‘partial reform syndrome’ that has remained a persistent feature of African economies (Van de Walle, 2001). Selective liberalisation of trade, finance and services has helped to generate new rent streams. The growth of the financial sector provides an important illustration of this point and deserves a separate mention.

3.1 *Finance and the Rentier Structure*

The financial sector acts as an important domain in which regulatory rents can be generated. This is particularly true in MENA’s labour-abundant economies where the state has retained a domineering presence in the sector. These economies also stand out for the greater prominence of state-owned banks (SOBs) and specialised credit institutions (SCIs). Another feature of these countries’ banking systems is the high share of non-performing loans. As a share of gross loans, non-performing loans in Algeria’s government banks stood at 12.6 per cent in 2014. As the lead banker for the public sector, the financial sector is often used to safeguard oligarchic interests masquerading as claims by state enterprises. Partly as a consequence of excessive state involvement, there is also a greater ‘informalisation’ of the financial sector. Although capital flows are generally liberalised across the region, financial systems in labour-abundant RRES still exhibit some form of financial repression. With its pervasive exchange controls, which maintain negative real interest rates on dinar assets, Algeria presents clear evidence of financial repression.

Arguably, the banking sector in GCC countries can be considered comparatively 'well-developed, profitable and efficient' (Creane et al., 2003). With few exceptions, the banking sector in these economies extends reasonably high levels of credit to the private sector, when considered as a share of GDP. The region has one of the highest deposits-to-GDP ratios in the world. In most countries financial systems are also deep, as measured by the M2-to-GDP ratio.⁶ Although more developed when measured by conventional yardsticks, the financial structures of GCC economies are structurally weak. Although the GCC economies are immune from direct interventions in the financial sector, their banking systems face high reserve requirements, and interest rates are sometimes explicitly or implicitly capped. Even privately owned banks sometimes work as disguised state-owned banks. Overlapping patterns of ownership of banks and firms further blurs the boundary between the public and the private. Relatedly, the banking sector is predominantly owned by the government and there is also a high lending exposure to connected actors. The non-bank financial sector is generally underdeveloped, with only a nominal presence for equity, insurance and bond markets (Snaije's chapter in this volume comments on this in more detail). The financial sector also remains exposed to volatility induced by fluctuations in the oil market. Like many Latin American oil exporters, external shocks and financial fragility are a fact of life in Arab RRES.

All of this is an invitation to look at the political economy of finance behind the shallow differences in the organisation and structure of finance between resource-rich and resource-scarce countries. While, in principle, financial markets are needed to facilitate inter-temporal consumption and business investment, their distributive function often trumps the productive logic in highly centralised, extractive regimes. In the MENA context, Henry and Springborg (2010, 108) provide an apt reminder that the 'banking system is a major asset for these regimes as long as insiders hold the levers of financial power, for they then extend the regime's reach and patronage networks into the private sector'. The manner in which finance extends the rentier structure is perhaps best illustrated by considering dynamics. All across MENA the financial sector has suffered from a weak pace of reform. With the exception of Africa, most regions have made more significant progress on financial development than has the Middle East. Even within MENA, the Arab oil exporters have been extremely slow reformers (Creane et al., 2003).

6 The M2 is defined as the sum of currency outside banks, demand deposits other than those of the central government, and the time, savings, and foreign currency deposits of resident sectors other than the central government (see <http://data.worldbank.org/indicator/FM.LBL.MQMY.GD.ZS>).

Such reluctance to reform is rooted in an adverse political economy where control of finance helps to sustain the disjunction between the economy and society, a hallmark of rentier states. Whatever limited reform has taken place has been neutralised to offset such reform's adverse political consequences. Rather than supporting a consistent and predictable process of liberalisation, most MENA states have engaged in partial liberalisation, which has permitted regimes to protect their interests. Foreign banks have usually been allowed to operate only if they agreed to broker deals with regime insiders. Such selective liberalisation of the financial sector has generated new rents for insiders. This is the familiar story of North Africa. In the resource-rich countries of the Gulf, the liberalisation of the financial sector was used as a politically safe avenue for economic diversification. This is most evident in GCC countries, where the need for diversification is most acutely felt. In Bahrain the assets of wholesale banks equal 480 per cent of GDP; those of retail banks equal 270 per cent of GDP (IMF, 2013). However, this regime of high finance does not pose a political threat since the bulk of lending is geared towards connected parties and real estate. Thus, even where depleting oil reserves have incentivised a move towards diversification, real estate, construction and financial sectors have been the preferred avenues for that diversification. This diversification strategy is politically more palatable, since it allows for controlled forms of accumulation.

The above discussion on finance underscores the complexity of the rentier structure in Arab economies, of which oil is only one—albeit important—component. Taken together, it is the totality of the rentier experience—rather than oil alone—that is potentially most damaging to Middle Eastern political economy. The 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. This has an important implication for how we analytically categorise these economies. 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 the resource-rich and the resource-poor economies of MENA are indeed more fluid than often perceived.

3.2 *External Recycling of Rents*

Another neglected dimension of the mainstream analysis of rentier states pertains to the deployment of resource rents. The rentier analysis is largely concerned with the domestic cycling of rents that help to buy off key segments of society. While clearly a dominant concern, such rent distribution to domestic constituencies is only one major component of the distributive regime. It is complemented by a significant outflow of rents to appease strategically

important external constituencies. The political economy implications of this external rent recycling are largely understudied. Arab RRES are not just exporters of hydrocarbons; they are also net exporters of capital. While overseas investments are a natural response to the limited absorptive capacity of the domestic economy, the export of capital is also partly geared towards aligning the interests of external constituencies with domestic political continuity. Resource-rich Arab states face the imperative of sharing their resource wealth, not just with their citizens, but also with key external constituencies.

Trillions of dollars are invested abroad in the acquisition of foreign companies and banks, the purchase of company shares, and in infrastructure projects, US treasury bills, and other means. The foreign assets of Saudi Arabia's financial system, including the Saudi Arabian Monetary Agency (SAMA) are estimated to stand at 130 per cent of the country's GDP. Such investments by sovereign wealth funds and high net worth individuals are not purely driven by economic returns but, equally, by a geopolitical logic that treats these investments as instruments for buying leverage in important foreign capitals. Closer to home, the Arab oil-exporting nations have also routinely acted as a lender of last resort for neighbours who are financially struggling. In fact, the resource-rich countries of the Gulf are effectively financing the social contracts of Yemen, Egypt and Jordan. These external commitments include oil and budgetary support for regional allies, and the escalating cost of regional military engagements. The fiscal cost of these growing external commitments is ultimately driven by the need to sustain the authoritarian pact at home. In fiscal terms, these can be described as contingent liabilities in the geopolitical domain.

Ultimately, high net foreign assets are also a natural outcome of specialisation in a highly internationalised commodity that inserts the region into global commodity and finance circuits. This globalisation of commodity and finance is, in turn, intertwined with the formation of classes at home (Hanieh, 2011). Capital connects not just financial markets but also Khaleeji elites who are both mobile and have a personal interest in a liberalised capital regime. The political significance of capital mobility has received attention in comparative politics, but largely in a localised context. Asset mobility has been described, in the democratisation literature, as a crucial intervening variable. It has been argued that democratisation may be less threatening to the elites when assets are mobile, since this can lower the risk of redistribution (Boix, 2003). Arab countries furnish contrasting evidence of this, however. Here, capital mobility can bolster authoritarian structures through the interplay between the domestic political and geopolitical arenas. This remains a largely under-studied domain of political economy.

It is in this context that the regime of near perfect capital mobility maintained in most Arab RRES should be situated.⁷ Such unhindered movement of cross-border capital flows carries a larger political significance hitherto unappreciated by the resource-curse literature. From a purely macroeconomic standpoint, the regime of perfect capital mobility springs from a pragmatic concern for draining excess liquidity from the system and preventing the dangers of Dutch Disease evident in so many other resource-rich contexts. It is also inherently tied to preserving the credibility of the fixed exchange rate regime, which is also ultimately tied to regime legitimacy too. But there is also a complementary logic for capital mobility, a logic that is rooted in an underlying political economy that is excessively dependent on the import of labour from developing countries and the export of capital to developed markets. If low-skilled, foreign workers are important for sustaining the segmented labour regimes in GCC states, capital mobility is needed to facilitate outward remittance flows. This labour market arrangement is clearly significant from a political economy standpoint, since reliance on cheap foreign labour acts as an insurance against the possibility of class struggles emanating from labour politics (Herb, 2009).

4 Conclusion

In this research note I have tried to advocate a broader conceptualisation of rents that goes beyond a simple insistence on the role of hydrocarbon rents in shaping Middle Eastern political economy. I have argued that authoritarian structures in MENA are underpinned through a broader edifice of rents, which are both external and internal. Amongst internal rents, aid and remittances play a significant role in many Arab societies, ranging from Lebanon to Egypt. Despite their limited scale in comparison to oil rents, their impact in terms of political economy is often significant. Importantly, rents generated domestically through government manipulation of the economy play a crucial role in connecting the fate of business classes to the prevailing political order. All across the region, rulers often act as businessmen. For independent merchants, it is difficult to thrive outside the royal circle (Hertog et al., 2013). Domestic economic rents not only provide lucrative deals to insiders; they also generate elites' commitments to the ruler. This is one reason why such rents are more prevalent in MENA's labour-abundant economies where oil rents are either insufficient or unable to meet the more extensive distributional

7 Algeria and Libya provide important exceptions to this.

commitments of the regime. While the importance of these individual rent streams is recognised in the literature, their combined significance for MENA political economy is underappreciated.

Another important characteristic of the region's rentier structures relates to the external deployment of rents. The political economy significance of such deployment has been largely ignored by previous analyses. As MENA is a resource-rich region *par excellence*, most hydrocarbon exporters in the region maintain sizeable current account surpluses, enabling them to project their financial and diplomatic power abroad. Through their overseas investments and purchases, Arab exporters buy significant geopolitical influence, which—in turn—helps to bolster authoritarian structures at home. Expansive economic and financial engagement with the outside world provides interesting clues to the external recycling of rents, an activity that helps to build durable foreign commitment for the domestic political order. Just as the recycling of domestically generated economic rents creates binding commitments from the elites, several types of capital outflows are guises through which rents are distributed to core external constituencies to buy firm commitment to ruling families.

Given the significance of the non-oil rent streams, this article has argued that the Middle East appears to suffer from a broader rent curse. The oil curse is just a variant of the overall rent curse that MENA economies are trapped in. Concentrated economic and political structures in the Middle East are therefore essentially tied up with the creation, capture and distribution of these rents. A focus on the broader rentier structure allows us to frame the political economy of the Middle East within the emerging paradigms linking rents and institutional development. In fact, as argued by North, Wallis and Weingast (2012), it is difficult to evaluate any social order without a consideration of the nature, concentration and deployment of rents. With their consequent role in restricting economic opportunity, rents fundamentally define the scope and possibility of political action. Importantly, in the Middle Eastern context, well-entrenched rentier structures are crucial for understanding why authoritarian regimes are so durable despite occasional challenges to their rule. As the North African uprisings have painfully revealed, it is easier to remove regime leaders than to eliminate the rentier structures that feed the associated elite coalitions.

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