

**Rentier 2.0: Entrepreneurship Promotion and the
(Re)Imagination of Political Economy in the Gulf
Cooperation Council Countries**

by

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Author's declaration

I hereby declare that I am the sole author of this thesis. This is a true copy of the thesis, including any required final revisions, as accepted by my examiners.

I understand that my thesis may be made electronically available to the public.

Abstract

This dissertation provides an examination of the recent phenomenon of entrepreneurship and innovation promotion in the Gulf Cooperation Council (GCC) countries. Through the use of the structured, focused comparison method, this research examines two cases, Oman and Qatar, to provide a deep analysis of the policy and practice of entrepreneurship promotion in the region. Despite a claim of responding to regional challenges of economic diversification and the weak participation of nationals in the private sector, entrepreneurship as a key component of each country's quest for a knowledge economy seems paradoxical in its ostensible inconsistency with the Gulf rentier state status quo. Path dependencies from oil-led development and the concomitant labour market bifurcation have perpetuated incentive structures which obstruct innovation and entrepreneurialism. Responding to this puzzle, this research answers two questions. The first is concerned with the character and motivation of these strategies in the Gulf, and what that reveals about the evolution of policy making practices. The second assesses the role of the millennial generation and regional transformation. Through interrogating the entrepreneurship policy experience in the case studies, this research extends beyond the often perfunctory assumptions of rentier state literature to investigate the unfolding of development policies in the current milieu. This research finds that entrepreneurship promotion risks only becoming a new way of recasting rentier tools: rentierism 2.0. The study argues that governance in the Gulf is best understood as a contestation between reforms and rentier patterns. Being cognizant of this tension provides a venue for understanding how some policies contravene classic rentier expectations while others appear hypocritical as the implementation of policy announcements become obstructed by structural contradictions. This dissertation makes an empirical contribution on a prominent policy shift in the Gulf that has been largely ignored in social sciences. As well, it provides a theoretical contribution by integrating literature on development and innovation which is generally disconnected from scholarly work on Gulf political economy to deepen understandings of development and transition in the region. Overall, this project provides a window into transition and transformation, demonstrating the way rentier patterns and a combination of novel pressures interact and affect the practices of development policy making and the Gulf ruling bargain.

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Dedication

To my parents, who, in equipping me with critical thinking skills and encouraging me to challenge norms and question authority, prompted my intellectual curiosity that led me to academia.

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List of Abbreviations

AMIDEAST	America-Mideast Educational and Training Services, Inc.
CEO	Chief Executive Officer
CIC	Canadian Innovation Centre
CSR	Corporate Social Responsibility
DG SME	Directorate General for Small and Medium-sized Enterprises (Oman)
EIU	Economist Intelligence Unit
EU	European Union
EQ	Enterprise Qatar
FDI	Foreign Direct Investment
FIFA	Fédération Internationale de Football Association (International Federation of Association Football)
G-20	The Group of 20 Finance Ministers and Central Bank Governors
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GEW	Global Entrepreneurship Week
GNP	Gross National Product
GPE	Global Political Economy
GSDP	General Secretariat of Development Planning (Qatar)
ICT	Information and Communications Technology
ictQatar	Supreme Council of Information and Communication Technology
IFC	International Financial Corporation
IFI	International Financial Institution
IIC	Industrial Innovation Centre (Oman)
ILO	International Labour Organization
IMF	International Monetary Fund
IO	International Organization
IPE	International Political Economy
ITA	Information Technology Authority (Oman)

KOM	Knowledge Oasis Muscat
MBT	Ministry of Business and Trade (Qatar)
MENA	Middle East North Africa
MITI	Ministry of International Trade and Industry (Japan)
MOE	Ministry of Education (Oman)
MOHE	Ministry of Higher Education (Oman)
MoM	Ministry of Manpower (Oman)
MOCI	Ministry of Commerce and Industry (Oman)
MNC	Multinational Corporation
NCGC	National Career Guidance Centre (Oman)
NGO	Non-Governmental Organization
OCCI	Oman Chamber of Commerce and Industry
ODB	Oman Development Bank
OECD	Organization for Economic Co-operation and Development
OMIFCO	Oman India Fertiliser Company
OMR	Omani Rial
OPEC	Organization of the Petroleum Exporting Countries
PAIPED	Public Authority for Investment Promotion & Export Development (Oman)
PCT	Patent Cooperation Treaty
PEIE	Public Establishment for Industrial Estates (Oman)
QAFAC	Qatar Fuel Additives Company
QAFCO	Qatar Fertiliser Company
QAPCO	Qatar Petrochemical Company
QCCI	Qatar Chamber of Commerce and Industry
QDB	Qatar Development Bank
QF	Qatar Foundation
QFC	Qatar Financial Centre
QITCOM	Qatar Information Technology and Communications conference
QNRF	Qatar National Research Fund
QNV	Qatar National Vision
QP	Qatar Petroleum

QR	Qatari Riyal
QU	Qatar University
QSA	Qatar Statistics Authority
QSTP	Qatar Science and Technology Park
R&D	Research and Development
S&T	Science and Technology
SAC	Sohar Aluminium Company
Sanad	Self-employment and National Autonomous Development (Oman)
SDC	Social Development Centre (Qatar)
SEC	Supreme Education Council (Qatar)
SEZ	Special Economic Zone
SEZAD	Special Economic Zone Authority Duqm
SME	Small and Medium-sized Enterprise
SOE	State-Owned Enterprise
SQU	Sultan Qaboos University
STIP	Science, Technology, and Innovation Policy
TKM	The Knowledge Mine (TKM)
TRC	The Research Council (Oman)
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific, and Cultural Organization
WB	World Bank
WEF	World Economic Forum
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Chapter 1

Introduction

1. Introduction

An interesting phenomenon has begun to unfold in the states of the Gulf Cooperation Council (GCC) over the past decade. That is, the promotion of entrepreneurship by the state. This phenomenon is framed in the context of developing an innovation system toward the goal of shifting to a knowledge-based economy. Structurally typecast as hydrocarbon-dependent economies, the Gulf Arab states have had their modern development trajectories shaped by the vicissitudes of the petroleum market. Not only have hydrocarbons controlled state purses, they have impacted the nature of governance and institution building. Although diversification has had a nominal presence in economic planning documents of earlier decades, it has only recently had its prominence heightened. The notion of a knowledge economy has become the distant solution to the region's sustainability in a post-oil future. In this light, the championing of entrepreneurship has burgeoned.

The entrepreneurship and innovation promotion trend is especially intriguing insofar as it seems structurally incongruent with the rentier nature of the Gulf political economy. The behavioural expectations of rentier states that scholars have gleaned from two decades of literature on the topic render policy moves that would serve to strengthen the private sector and the individual at the expense of the state incredible. Moreover, many of the paradigmatic assumptions underlying the rentier state framework fail to account for the motivation for this policy type or, conversely, how these policy changes may influence

the so-called rentier social contract. This dissertation answers the following two questions that evolve out of this puzzle:

1. What motivates and characterizes entrepreneurship and innovation promotion in the Gulf and what does this tell us about development planning and policy-making practices?
2. What role, if any, do the youth demographic bulge and the regional “Arab Spring” actually have in shaping entrepreneurship and innovation policy measures and how does this inform conceptualizations and / or the evolution of the social contract?

This dissertation is concerned with the governance of development and policy making in the GCC countries, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE).¹ It contributes to the scholarly reassessment of rentier state literature by providing new insight into the development of policy and practice in Gulf states. Through the novel examination of a new policy agenda, specifically entrepreneurship and innovation promotion, this dissertation delves into the multilayered practices of development choices and the intersection of a multiplicity of stakeholders. By opening the black box on rentier state literature, it moves beyond its sometimes cursory assumptions to examine how development unfolds in the current environment. To this end, this research uses two paired case studies, entrepreneurship promotion in Oman and in Qatar, to shed light on this regional trend. It provides an examination of the character and motivation of entrepreneurship and innovation policies in the cases, by delineating the

¹ In this dissertation, I use the term Gulf and Gulf Arab to refer to the six GCC countries listed above. I do not include Iran, Iraq, or Yemen. Although they are part of the Gulf region, they are beyond the scope of this study, which assesses the member states in the GCC regional organization.

entrepreneurship ecosystem in each. It also assesses the role of the millennial generation in changing the dynamics of the governing game, and purviews the broader implications of such an evolution. Overall though, this dissertation assesses the paradox of entrepreneurship promotion in the Gulf states, and attempts to provide an understanding to an apparent policy hypocrisy that is striking next to the list of structural contradictions these policy moves confront.

The next section of this introduction situates the discussion of entrepreneurship promotion within the context of regional development, national innovation, and the quest for a knowledge economy. This is followed by a description of the research methodology, including case selection, methods used, and the unfolding of the research agenda. The final two sections outline the dissertation structure and arguments and presents the contributions this work makes to the advancement of scholarly knowledge.

2. National Innovation and the Knowledge Economy

Across the Gulf, entrepreneurship is being advocated as the tonic for the challenges of economic diversification, unemployment, and low levels of private sector participation among nationals. In the pursuit of “knowledge economies” and as part of a desire to diversify economies away from oil, all six GCC states are engaging in some form of entrepreneurship and innovation promotion. Development plans and policy documents are rife with language pointing to these as the new way forward. Reading any Gulf newspaper, you cannot avoid articles about entrepreneurship or celebratory reviews of support programmes like the Muhammad bin Rashid fund in Dubai, Tamkeen in Bahrain,

Sharakah in Oman, Enterprise Qatar in Qatar, to name a few. Despite this, thus far no one is assessing these within social science academia. Yet with such a widespread policy push, scholars ought to assess what such an endeavour means, especially when it seems logically opposed to our assumptions of how Gulf rentiers govern. How then can we understand the rationale behind the promotion of entrepreneurship and innovation?

The aspiration of becoming a knowledge economy is a fairly recent import in the Gulf countries. It is only in the last decade that the notion has been featured on development agendas. This began to occur after the 2003 Arab Human Development report infamously chastised the Middle East North Africa (MENA) region for its developmental failures.² It was more emphatically highlighted after the 2008 World Bank report underlined education reform as vital in the pursuit of a knowledge economy.³ Knowledge-based economies are defined as those which are “based on the production, distribution and use of knowledge and information.”⁴ The development of the term knowledge economy is attributed to Peter Drucker in his 1969 text, *The Age of Discontinuity*.⁵ In it, and before it was popular to do so, he noted that “knowledge has become the central ‘factor of production’ in an advanced, developed economy.”⁶ The OECD popularized the idea of a knowledge economy in national development agendas. Its 1996 report on knowledge-based economies stressed how knowledge was a key driver of economic growth and

² *Arab Human Development Report 2003: Building a Knowledge Society* (New York: United Nations Development Programme (UNDP), Regional Bureau for Arab States, 2003).

³ *The Road Not Traveled: Education Reform in the Middle East and North Africa*, MENA Development Report (Washington: The International Bank for Reconstruction and Development / World Bank, 2008).

⁴ *The Knowledge-Based Economy* (Paris: Organization for Economic Co-operation and Development, 1996), 7, <http://www.oecd.org/science/sci-tech/1913021.pdf>.

⁵ Peter F. Drucker, *The Age of Discontinuity: Guidelines to Our Changing Society* (New York: Harper & Row, 1969). In developing the concept, Drucker draws on the term “knowledge industries” coined by economist Fritz Machlup.

⁶ *Ibid.*, 264.

productivity and comprised the cornerstone of OECD economies. The central notion, that is the hope that drives the encouragement of entrepreneurship as part and parcel of this quest, is that entrepreneurship can foster new ideas that have the capacity to initiate change.⁷

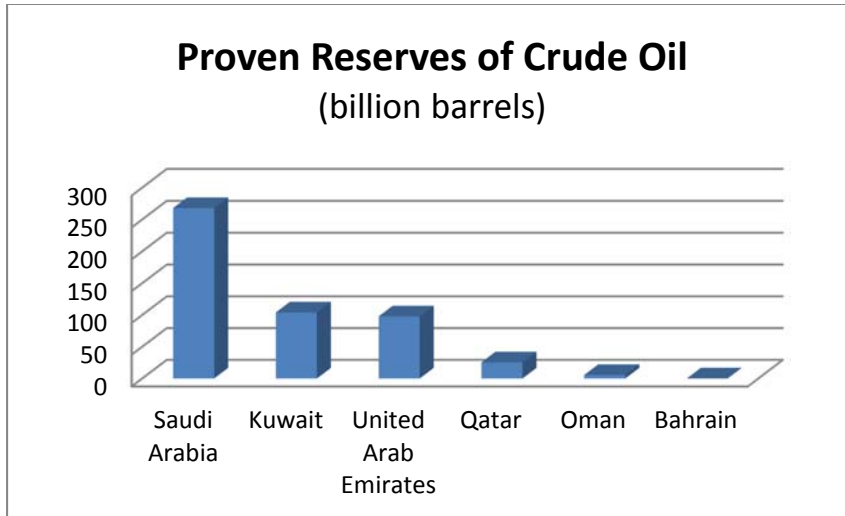
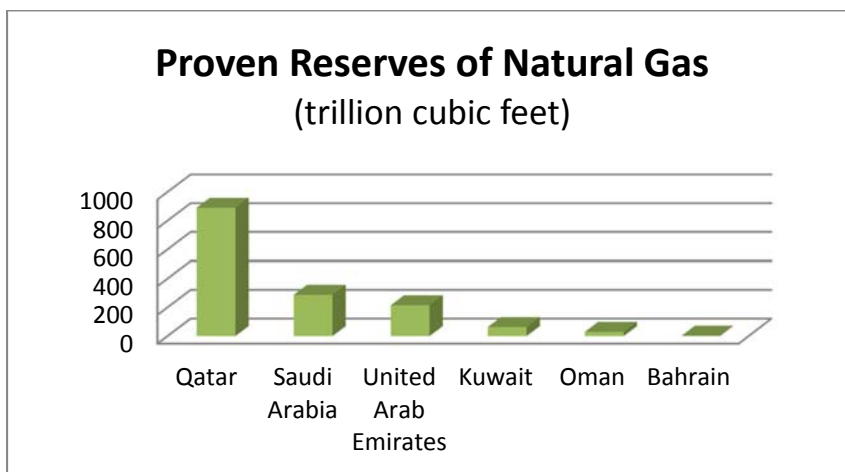
The GCC states have been reliant on hydrocarbons since their modern development story began with the first oil boom of the 1970s. Holding 33 percent of the world's reserves, economic development has been rapid and vast.⁸ GCC fiscal dependency has remained relatively constant over the years, with hydrocarbons accounting for approximately 80 percent of revenue and exports in the 1990s and 90 percent of revenue and 80 percent of exports during the 2000s in most GCC countries. The exception has been Bahrain, remaining constant at around 60 percent, and the United Arab Emirates (UAE), whose dependence declined to roughly 60 percent in the last decade.⁹ This dependency has also meant that development pushes tend to follow the vicissitudes of the oil market, allowing for faster growth during oil price booms, and stagnation or fiscal crisis during busts. This was evident during the slowdown in the 1980s.¹⁰ Alleviating such risks and preparing for a successful post-oil future has prompted various measures to encourage the diversification of the economy away from hydrocarbons.

⁷ *The Knowledge-Based Economy*, 30.

⁸ *GCC: A Statistical Glance* (Riyadh: The Cooperation Council for the Arab States of the Gulf, Secretariat General, December 2012), 18, <http://sites.gcc-sg.org/DLibrary/index-eng.php?action=ShowOne&BID=569>.

⁹ Samya Beidas-Strom, Tobias Rasmussen, and David O. Robinson, *Gulf Cooperation Council Countries: Enhancing Economic Outcomes in an Uncertain Global Economy* (Washington: International Monetary Fund, 2011), 2–3, <http://www.imf.org/external/pubs/ft/dp/2011/1101mcd.pdf>.

¹⁰ Hossein Askari, Vahid F. Nowshirvani, and Mohamed Jaber, *Economic Development in the Gcc: The Blessing and the Curse of Oil*, illustrated edition (Jai Pr, 1997), 2–8.

Figure 1.1: Proven Reserves of Crude OilEIA data, 2013¹¹**Figure 1.2: Proven Reserves of Natural Gas**EIA data, 2013¹²

Investment in industrial projects and the development of steel, aluminium, and petrochemical factories was one such move. In later decades, this was followed by investment in varied financial products and markets and real estate growth. Neither of these has been overwhelmingly successful in mitigating reliance on oil and gas. In fact, to a

¹¹ "International Energy Statistics," *Independent Statistics & Analysis: U.S. Energy Information Administration (eia)*, 2013, <http://www.eia.gov/cfapps/ipdbproject/IEDIndex3.cfm>.

¹² Ibid.

large degree in the early decades industrialization was tied to external processes rather than historical internal developments. Industrial plants were established through international turnkey contracts, allowing factories to develop in the geographic region but remain externally dependent, tied to foreign construction, engineering, and expertise chains.¹³ This meant limited genuine indigenous industrialization. It has also been suggested that emirates like Dubai have largely bypassed industrialization, instead shifting to a service economy.¹⁴

Reliance on foreign labour has also resulted in limited local productive capacity and stagnated the integration of nationals into the private sector workforce. As explored in further detail in chapters three and four (sections 2.1 and 6 respectively), it is not only hydrocarbons that Gulf economies are addicted to, but expatriate labour as well. This labour and expertise dependence began in the early oil boom days, where small populations and human capital development constraints meant local labour pools were both insufficient and ill equipped to manage the rapid, large-scale development projects let alone petroleum operations. Even as local education indicators have risen, reliance on foreign labour has not subsided. The by-product has been a deeply-entrenched but divided labour market, resulting in peculiar employment trends and distorted labour market outcomes.

The GCC region now faces a dual demographic imbalance. One based on indigenous population growth, where the Gulf's own baby boom generation is now moving up the

¹³ Robert E. Looney, *Industrial Development and Diversification of the Arabian Gulf Economies*, vol. 70, Contemporary Studies in Economic and Financial Analysis (Middlesex: Jai Pr, 1994), 25–26.

¹⁴ Martin Hvidt, "The Dubai Model: An Outline of Key Development-Process Elements in Dubai," *International Journal of Middle East Studies* 41, no. 03 (2009): 404, doi:10.1017/S0020743809091120.

population pyramid and straddling the years which should be marked by high labour market participation. Instead, youth unemployment, underemployment, and economic inactivity is high in most countries.¹⁵ The public sector is bloated, and the private sector is seldom willing to hire local labour without incentive and local labour is often not interested in the low-paying, insecure private sector.¹⁶ The second demographic imbalance is that between citizens and non-nationals. As noted in table 1.1, the expatriate composition of the population of GCC countries ranges from approximately 32 percent to 89 percent. Expatriates comprise an even greater proportion of the labour force, ranging from 59 to 94 percent. Not only does this widening demographic gap perpetuate labour market challenges, but gives rise to popular concerns of cultural erosion and policy questions on labour and immigration policies.¹⁷

Table 1.1: GDP and Population Indicators, GCC

GCC GDP and Population Indicators						
Country	Gross Domestic Product		Population		Labour Force	
	GDP (million USD / Current Prices)	GDP / capita	Total	% Expatriate	Total	% Expatriate
Bahrain	28,991	24,260	1,195,020	53.9*	618,036	77.3
Kuwait	160,897	52,481	3,065,850	64.40	1,800,033	80.5
Oman	72,680	22,056	3,295,298	39*	1,099,188	59.4
Qatar	173,519	100,143	1,732,717	72	1,275,971	94
Saudi Arabia	597,086	21,042	28,376,355	32*	8,611,001**	50.2**
United Arab Emirates	338,690	40,983	8,264,070	88.52*	5,208,447	93

2011 data, based on author's calculations. *2010 **2009¹⁸

¹⁵ Tarik Yousef, *Unlocking the Employment Potential in the Middle East and North Africa: Toward a New Social Contract*, illustrated edition (Washington: World Bank Publications, 2004); Ingo Forstenlechner and Emilie Rutledge, "Unemployment in the Gulf: Time to Update the 'Social Contract'," *Middle East Policy* 17, no. 2 (June 2010): 38–51, doi:10.1111/j.1475-4967.2010.00437.x.

¹⁶ This phenomenon is explored in greater detail in chapters three and four.

¹⁷ In the following EIU report, Jane Kinninmont raises a series of potential challenges resulting from the Gulf's demographic imbalances. Jane Kinninmont, *The GCC in 2020: The Gulf and Its People*, The GCC to 2020: Outlook for a Rapidly Changing Region (Economist Intelligence Unit, September 2009); See also Gabriella Gonzalez, *Facing Human Capital Challenges of the 21st Century: Education and Labor Market Initiatives in Lebanon, Oman, Qatar, and the United Arab Emirates* (Santa Monica: Rand Corporation, 2008).

¹⁸ *GCC: A Statistical Glance*, 63–64; Mshroo' al-t'daad al-'aam l-lskaan w-al-mnsaaakn w-almnshaat 2010, *Ahm Ntaa'j Al-t'daad 'la Mstooa al-Sultana 2010 (t'daad Census 2010)* (Muscat: Census Administration, National

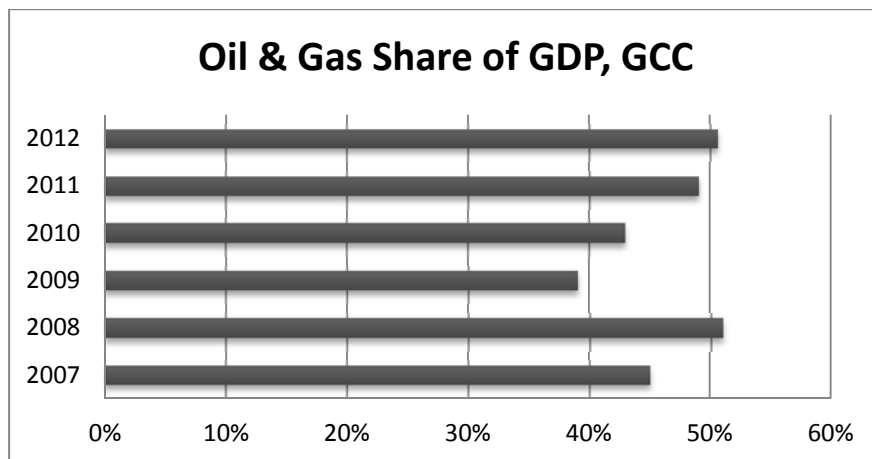
It is evident that the modern development trajectory of the Gulf has been heavily impacted by the presence of hydrocarbons. Notwithstanding all the language in development plans confirming a desire to diversify, the practice has been constrained. The contribution of hydrocarbons to GDP has remained around the 50 percent level. (See figure 1.3) Some positive movement in industrial developments occurred in the last decade. Buttressed by the oil price rise in the 2000s, the Gulf became a major producer for petrochemicals, fertilizers, aluminium, cement, and other construction materials. Not only was investment in these industries fuelled by oil price windfalls, but their success is directly tied to hydrocarbon supplies.¹⁹ In fact, the size of figures for the oil and gas share of GDP in the Gulf masks the actual levels of hydrocarbon dependence for failing to account for sectors like these which are tied to oil and gas. For example, manufacturing, categorized as a non-oil sector in GCC economic reports, was approximately 8.9 percent of GDP in 2011. This figure includes 2.1 percent for the refining sector and 1.5 percent for petrochemicals

Centre for Statistics and Information, 2010), 87; Qatar Statistics Authority, *The General Census of Population and Housing, and Establishment* (Doha: Statistics Authority, State of Qatar, April 2010); *Qatar's Third National Human Development Report: Expanding the Capacities of Qatari Youth - Mainstreaming Youth in Development* (Doha: General Secretariat for Development Planning, January 2012), 56; *2010 Census Bahrain* (Manama: Central Informatics Organization, Kingdom of Bahrain, 2010), <http://www.census2010.gov.bh/>; *Bahrain Labour Market Indicators* (Kingdom of Bahrain: Labour Market Regulatory Authority (LMRA), 2011), <http://www.lmra.bh/blmi>; *Statistical Review 2013* (Kuwait: State of Kuwait Central Statistical Bureau, 2013), http://www.csb.gov.kw/Socan_Statistic_EN.aspx?ID=18; *Annual Statistical Abstract 2011* (Kuwait: State of Kuwait Central Statistical Bureau, 2011), 97, http://www.csb.gov.kw/Socan_Statistic_EN.aspx?ID=18; *Latest Statistical Releases 2012* (Riyadh: Central Department Of Statistics & Information, Kingdom of Saudi Arabia), accessed May 6, 2013, <http://www.cdsi.gov.sa/english/>; *Manpower Research Bulletin 2009* (Riyadh: Central Department Of Statistics & Information, Kingdom of Saudi Arabia, 2009), 14, http://www.cdsi.gov.sa/english/index.php?option=com_docman&task=cat_view&gid=86&Itemid=113; *UAE Economic Insight 2012* (Doha: Qatar National Bank, 2012), 4, <http://www.qnb.com.qa/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1355477182471&ssbinary=true>.

¹⁹ Jean-Francois Seznec, "Financing industrialization in the Arab-Persian Gulf," in Jean-Francois Seznec and Mimi Kirk, *Industrialization in the Gulf: A Socioeconomic Revolution*, 1st ed. (Routledge, 2010), 30–32.

and chemicals.²⁰ Thus, despite the importance designated to economic diversification by the GCC countries, its realization has been limited. Little progress has been made outside enclaves such as Dubai. Even Dubai, once lauded a diversification success, required a financial bailout by oil-wealthy Abu Dhabi when it succumbed to financial crisis in its own property bust in 2009.²¹

Figure 1.3: Oil and Gas Share of GDP, GCC



Sources: QNB 2012, GPCA, 2012²²

The exhaustibility of hydrocarbon reserves and oil price volatility has rendered diversification important, the latter more than the former. Because proven reserves are expected to last for around a century in several GCC countries combined with the potential for new discoveries and the invention of new extraction technologies, much uncertainty actually abounds around the rate of depletion and levels of exploitability. Current

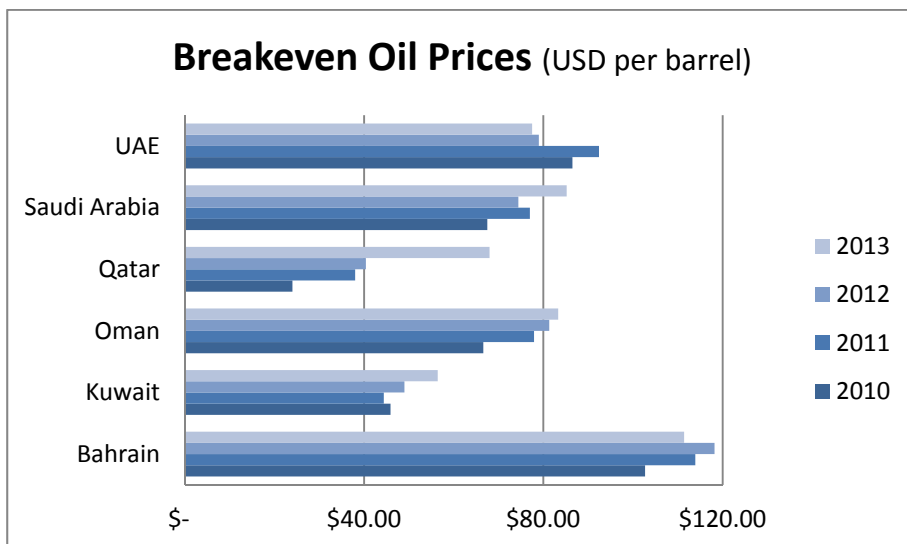
²⁰ *GCC Petrochemicals & Chemicals Industry: Facts & Figures 2011* (Dubai: Gulf Petrochemicals & Chemicals Association, 2012), 6, <http://www.gpcaforum.net/facts2011.pdf>.

²¹ "Dubai's Bail-out: The Outstretched Palm," *The Economist*, February 26, 2009, <http://www.economist.com/node/13186145>; Haris Anwar, "Abu Dhabi Bails Out Dubai World with \$10 Billion (Update 3)," *Bloomberg News*, December 14, 2009, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=apiaU8vfNR9A>.

²² *GCC Economic Insight* (Doha: Qatar National Bank, 2012), 12, <http://www.qnb.com.qa/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1355478588574&ssbinary=true>; *GCC Petrochemicals & Chemicals Industry: Facts & Figures 2011*.

estimates, however, suggest that the remaining years of production at prevailing levels renders diversification more imperative to some states than others. (See figures 1.5 and 1.6) Even more important to economic planning discussions in the region is the stability of oil prices. A sustained oil price decline would have a heavy impact on the fiscal balance of GCC countries.²³ Breakeven oil prices are quite high, even by conservative IMF estimates (see figure 1.4).²⁴ Increases in domestic spending during 2011 and 2012 only perpetuated this trend. Moreover, energy experts expect the recent stability in oil prices to be fleeting.²⁵

Figure 1.4: Breakeven Oil Prices



IMF figures, 2012²⁶

²³ *Regional Economic Outlook: Middle East and Central Asia*, World Economic and Financial Surveys (Washington: International Monetary Fund, November 2012), 19, <http://www.imf.org/external/pubs/ft/reo/2012/mcd/eng/pdf/mreo1112.pdf>.

²⁴ In the GCC, discussions on breakeven oil prices are in reference to the state budget breakeven point, rather than a commercial breakeven (i.e. the cost of oil extraction). This is a critical figure and well demonstrates the dangers of governments' over-reliance on oil in the region.

²⁵ *Short-Term Energy Outlook (STEO)* (Independent Statistics & Analysis, U.S. Energy Information Administration, May 2013), http://www.eia.gov/forecasts/steo/pdf/steo_full.pdf; Robin Mills, "Stable Oil Prices Will Not Be Staying That Way Much Longer," *The National*, April 15, 2013, sec. Industry Insights, <http://www.thenational.ae/thenationalconversation/industry-insights/energy/stable-oil-prices-will-not-be-staying-that-way-much-longer>.

²⁶ *Regional Economic Outlook: Middle East and Central Asia*, 93.

It is clear the challenges confronting the development paths of Gulf states are vast and have the potential to be more critical. In response, the contemporary development agenda across the region is wrapped into the pursuit of a knowledge economy. It is within this framework that the promotion of entrepreneurship has blossomed. As I demonstrate in the third chapter, entrepreneurship and SME support is viewed as the antidote to the ills of Gulf economies. The idea is that in order for emerging economies to realize the potential of establishing a knowledge economy, there must be an investment in both human capital and innovation. As I show, a variety of government agencies, financial institutions, and other state and NGO initiatives are stepping into various components of nascent domestic and regional entrepreneurship support ecosystems. For these support apparatuses to have the intended effect, genuine efforts need to be dedicated to secure an “economic, institutional and regulatory environment that fosters the acquisition, development and use of knowledge, an education system that supplies citizens with the ability to create and use knowledge, a dynamic information infrastructure, innovation systems and networks.”²⁷

Recent indicators suggest there is a long way to go. The 2012-2013 World Economic Forum competitiveness report documented intriguing results on the competitiveness and innovation of the Gulf. In this report, the World Economic Forum (WEF) uses three stages of development, and intermediary transition stages to categorize economies. These stages include: (1) Factor-driven, (2) Efficiency-driven, and (3) innovation driven. Countries like Chad and Haiti sit in the first stage, and countries like Canada and Denmark are positioned in the last. Among the Gulf countries, the UAE is the only one declared innovation driven.

²⁷ Ghirmai T. Kefela, “Knowledge-based Economy and Society Has Become a Vital Commodity to Countries,” *International NGO Journal* 5, no. 7 (August 2010): 161.

Oman and Bahrain are classified as economies in a transition stage moving from an efficiency-driven to an innovation-driven economy. Meanwhile, Kuwait, Saudi Arabia and Qatar are listed as in transition to efficiency-driven economies.²⁸ This is particularly interesting given the level of financial investment and official policy discourse dedicated to the push to development and the knowledge economy. WEF did, however, rank Qatar as the most competitive Arab economy, placing it 11th globally. Qatar even beat the UAE which sits at 24. Elsewhere in the GCC, Saudi Arabia has been ranked 18, Oman 32, Bahrain 35, and Kuwait 37.²⁹ Competitiveness, it would seem, does not necessarily equate with solutions to what ails the region's economy.

The prevailing wisdom from international financial institutions suggests not only that SMEs are the backbone of the economy, but also that they comprise the main engine for growth and employment.³⁰ The employment generation potential is lauded across Gulf countries in public justifications for entrepreneurship and SME support. Yet this rationale does not account for the deep structural contradiction presented by the Gulf's dual labour market, where economic growth and employment creation will not necessarily address indigenous innovation and citizen employment concerns. Moreover, without addressing

²⁸ There is an interesting collection of 21 countries listed in transition from efficiency to innovation-driven economies, which includes Brazil and Russia of the BRICs. Of the remaining BRICS, India sits at stage one, a factor-driven economy, while China and South Africa are listed as efficiency-driven. Not one of them is categorized as innovation-driven.

Klaus Schwab, *The Global Competitiveness Report 2012-2013* (Geneva: World Economic Forum, 2012), 10, <http://www.weforum.org/reports/global-competitiveness-report-2012-2013>.

²⁹ *Ibid.*, 14.

³⁰ *SME Finance Policy Guide* (Washington: International Finance Corporation, October 2011), 9, http://www1.ifc.org/wps/wcm/connect/f3ef82804a02db409b88fbd1a5d13d27/G20_Policy_Report.pdf?MOD=AJPERES; *Financing SMEs and Entrepreneurs*, Policy Brief (Organization for Economic Co-operation and Development (OECD), November 2006), 1, <http://www.oecd.org/cfe/37704120.pdf>; See also Susan M. Gates and Kristin J. Leuschner, *In the Name of Entrepreneurship?: The Logic and Effects of Special Regulatory Treatment for Small Business* (Santa Monica: Rand Corporation, 2007).

the real labour and employment issues, in the absence of being able to absorb all citizens into the public sector, entrepreneurship support potentially creates a new variety of a rent-seeking class. Furthermore, a potentially large problem with SME support is that it entails a high degree of risk. It is therefore not as socio-politically stabilizing as a job in the government because the entrepreneur may or may not succeed in his or her endeavour. Currently, governments are walking a fine balance with their support of entrepreneurship among the national population. While they have broad development and innovation aims, their implementation is in danger of only serving to revise existing rentier tendencies, by creating new means of distributing income and manipulating new forms of dependency on the state. There is a clear need to decrease dependency on the state rather than escalate it, especially given the rising breakeven oil prices. Some of the SME promotion moves do promise to do just that, yet if appropriate mechanisms are not put in place which address broad reliance on expatriate labour, supporting local SMEs will expand the number of citizens who can access a business owner's income while perpetuating reliance on expatriates and generating employment opportunities for foreign labour. Certainly this will increase the size and growth of the economy, but will do little to resolve the current ailments of the private sector.

The body of this research project identifies and addresses several overlapping, and in some cases mutually-reinforcing, contradictions that evolve out of these broader structural contradictions. The first is the significant amount of institutional competition between various government agencies in attempting to target this broad policy shift. Second, the notable policy disconnect between the plans and actual experience of entrepreneurship on the ground, as represented by tedious bureaucracy, difficulty in

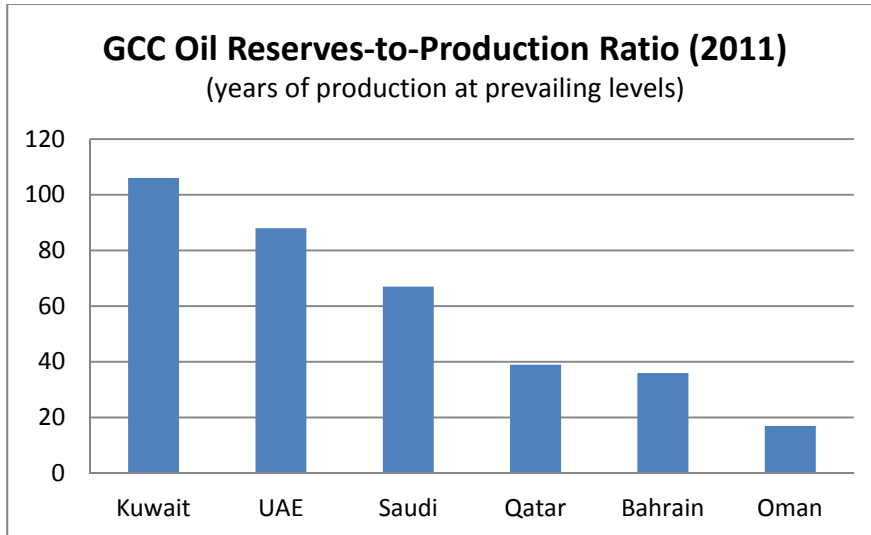
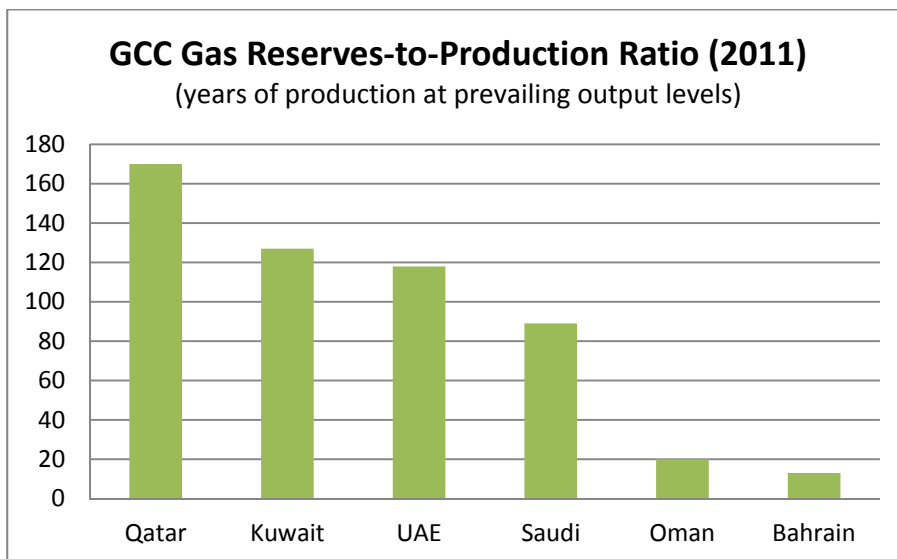
accessing finance, monopolized market conditions, competing pressures from stakeholders for regulatory change, and preferences for foreign expertise and business. Third, a lack of definitional clarity for SMEs, entrepreneurship, self-employment, and microbusiness frustrates policy efforts, confuses application, and misplaces the innovation imperative. Fourth, the two-tiered labour market with its dual-wage structure is arguably the staunchest challenge to these development aims. It is extraordinarily difficult to reverse incentive structures in the organization of labour and business in the economy, especially when the political will is confronted with competing outcome preferences. Fifth, the ideational challenge posed by the millennial generation is quite high. Millennial expectations, sitting at the nexus of rentier expectations and new global ones, are difficult for the state to meet in the current governance context. Finally, the pull of consumption in the drive away from the allocative structures of rentierism will challenge the path to a knowledge economy by neither increasing productive capacity nor stimulating innovation.

3. Methodology

As part of an examination of the evolution of rentier political economy in the Arabian peninsula, I have conducted extensive field research on entrepreneurship and innovation promotion and policy development. As noted, the promotion of entrepreneurship is a key mechanism utilized by governments in the region to target two of their prominent development challenges: diversification away from oil and gas and the facilitation of more local labour into the private sector. Both of these policy goals stem from the acknowledgement of declining hydrocarbon reserves, rising unemployment and underemployment, and the challenges associated with a segmented labour market. The

increasing politicization of the region in the wake of the Arab uprisings along with burgeoning young populations has made these goals even more crucial, particularly in those Gulf states more quickly approaching a post-oil future.

This study is a regional analysis of the Gulf Cooperation Council (GCC) countries. Toward addressing the broader questions of development policy making in the region, this research targets one particular policy subtype: entrepreneurship and innovation promotion. As noted above, this policy push is occurring in all six GCC countries. In order to shed light on this phenomenon, I conducted in-depth qualitative cases studies of two GCC countries, Oman and Qatar. These two countries are representative of the diversity of the GCC states, and sit at opposite ends of the wealth spectrum and the ratios of hydrocarbon reserves to production. As shown in table 1.1, Oman is among the lesser wealthy of the GCC, with a GDP per capita of \$22,056 (USD). Qatar, on the other hand, is the wealthiest of the six. Its GDP per capita is among the highest in the world at \$100,143 (USD). If predictions prove accurate and production levels hold constant, Oman is expected to have 17 remaining years of oil and 20 remaining years of gas production. With ample gas reserves, Qatar has a projected 39 years of oil and 173 years of gas production remaining (see figures 1.5 and 1.6).

Figure 1.5: GCC Oil Reserves-to-Production RatioQNB data, 2012³¹**Figure 1.6: GCC Gas Reserves-to-Production Ratio**QNB, 2012³²

Although there are significant differences, like the rest of the Gulf subregion Oman and Qatar have similar political systems insofar as they boast hereditary-based ruling families,

³¹ *GCC Economic Insight*, 17.

³² *Ibid.*, 19.

fairly recent constitutions, and partially-elected councils.³³ Within this broad comparison though, there are significant differences. Whereas Tamim bin Hamad Al-Thani, the second son of the current Emir of Qatar, is the crown prince, Sultan Qaboos has no heirs and as such his successor remains unknown.³⁴ As well, Oman has had a longer history of suffrage and participation in its consultative council (*majlis al-shura*), and levels of political engagement are expanding at a faster rate. In Qatar on the other hand, aside from municipal elections citizens have yet to go to the polls. Although the first-ever consultative council elections are regularly promised, they keep getting delayed. Nevertheless, the combination of economic and political characteristics makes these two countries compelling paired comparisons.

This research utilizes the case study method, defined as “an intensive study of a single unit for the purpose of understanding a larger class of (similar) units.”³⁵ To this end, I engage the method of structured, focused comparison.³⁶ The overall project engages four levels of analysis. The first, as is clear in chapter two, speaks to broader theoretical arguments concerning the role of the state and market in development. I situate the literature on the rentier state within this broader debate, and assess the role of Gulf states in governing development. The second level of analysis provides some empirical specificity to the prior debate. It assesses the impact of oil on the approach of states toward the

³³ See “The Basic Law of the Sultanate of Oman” and “The Permanent Constitution of the State of Qatar” on “Constitutions of the Arab Monarchies,” accessed August 4, 2011, <http://www2.gsu.edu/%7Epolmfh/constitutions.htm>; Michael Herb, “Emirs and Parliaments in the Gulf,” *Journal of Democracy* 13, no. 4 (2002): 41–47, doi:10.1353/jod.2002.0068.

³⁴ As of June 2013, Sheikh Hamad abdicated in favour of his son Tamim. Since this research was carried out during 2011 and 2012, I am retaining all references to Sheikh Hamad as the Emir throughout the dissertation.

³⁵ John Gerring, “What Is a Case Study and What Is It Good For?,” *The American Political Science Review* 98, no. 2 (May 1, 2004): 342.

³⁶ Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (The MIT Press, 2005), 67–72.

governance of national development. The third level is concerned with the regional and domestic contexts, specifically looking at demographic challenges in the region including the growing youth bulge, rising unemployment, and abnormally high percentages of expatriates. The final level of analysis, and primary thrust of the focused case studies, examines the policies and practices of entrepreneurship promotion in the two country cases. Through this multilayered assessment, these research findings will contribute to academic debates on the changing nature of Gulf economic development and governance as well as provide academics and practitioners a view for understanding this new, and as of yet un-researched, development initiative that is growing in popularity and intensity.

By drawing on the insights from the Omani and Qatari experience with entrepreneurship promotion, I am able to speak to the broader entrepreneurship trend and development policy-making practice across the GCC. In-person field research was carried out between September 2011 and August 2012 in the Sultanate of Oman and the State of Qatar. During this research period, I utilized three key qualitative research methods to arrive at the answers to my primary research questions. These include (1) content analysis, (2) participant observation, and (3) semi-structured elite interviews.

Content analysis of policy announcements, development plans, reports, and studies comprises an important component of the necessary process tracing to provide answers to the research questions. To the extent possible given the constraints of limited transparency, documents were collected from various ministries and government bodies engaged in development, as well as policy announcements available through the Oman News Agency (ONA) and Qatar News Agency (QNA). Several of these could be accessed through libraries at ministries and chambers of commerce, while many others were shared

with me by various departments or state agencies. In the case of Oman, development plans are the best source of tracing historical development plans and processes. These are developed and released by the Supreme Council for Planning (formerly the Ministry of National Economy) in five year intervals beginning with the first one in 1976. Development visions and plans are a more recent development in Qatar, meaning policy plans and practice are more difficult to trace from primary document sources before the 2000s.

Participant observation played an enlightening role in the research collection. I attended and participated in conferences, presentations, existing focus groups, initiative and event pitch meetings to decision makers, competition processes (e.g. Al-Fikra business plan competition in Doha), and other meetings and conferences organized by various government and private groups. This involvement allowed me to gain significant insight in the practice of policy development, promotion, and implementation. It also provided a first-hand account of institutional competition between different SME support programmes. My involvement was primarily in an observational role, but I was often asked to contribute to discussions. While serving as a visiting researcher at the University of Nizwa in Oman's ad-Dakhiliyah province, I co-directed workshops for students who aspired to be entrepreneurs. Being permitted to observe initiative directors making pitches to government bodies for support provided particular insight. As well, my understanding of the experiences of local entrepreneurs was augmented by my frequent attendance of support and networking events, especially the entrepreneurship workshops and "jams" in Muscat and the Bedaya Center networking events in Doha. These various types of participant observation also established positive contacts and helped facilitate the organization of small focus group sessions. I held small focus groups with university

students in Oman and Qatar, and led a focus group organized by the Social Development Centre (SDC) in Qatar with some of their programme beneficiaries who are new entrepreneurs.

Semi-structured elite interviews comprised the primary, and arguably most significant, component of my research. Interviews targeted the relevant stakeholders. Hence, there were four main categories of semi-structured interviews:

- (1) policy makers and bureaucrats,
- (2) public and private entrepreneurship initiative actors,
- (3) entrepreneurs, and
- (4) other stakeholders (from academic, diplomatic, media, financial, and research sectors)

Interviews with policy makers and other government officials were aimed at assessing the *raison d'être* behind the policies Gulf bureaucrats have formed, understanding the nature of the policies, and examining the outcomes. They contributed to better understanding the state conception of entrepreneurship and private sector development, its rationale for entrepreneurship initiatives and how these fit within government development plans, as well as state conceptions of their nation and region's global role and status. These interviews also shed light on the policy makers' broader cognizance and response to the perceived threat or opportunity of the Gulf millennials and the entrepreneurial members of their demographic.

Interviews with entrepreneurship and innovation initiative actors revealed implementation and practice details. This second category of interviews often overlapped with the first, as many of these initiatives are state-led. Many others are state-sponsored

or somehow affiliated. (See figure 3.2 and 3.3 in chapter three.) In addition to the themes above, these interviews also focused on the perceived challenges of these initiatives, challenges and opportunities of the clients and programme beneficiaries (entrepreneurs and aspiring entrepreneurs), expectations for the future of local entrepreneurship and innovation, and policy advice.

Another important side to this aspect of my research involved semi-structured interviews with entrepreneurs and other business people. In this category, there were three broad types: aspiring millennial entrepreneurs, existing millennial entrepreneurs, and business people from earlier generations. Aspiring entrepreneurs included young Omani and Qatari millennials enrolled at the local universities, colleges, or involved in entrepreneurship initiatives. Existing entrepreneurs were found through a variety of channels including local academics, initiatives, and even funders willing to share their contact lists. These were multiplied through the snow ball effect with an aim of gaining sectoral diversity. These interviews focused on the entrepreneurial ambitions of the interviewees. Questions were asked on career and economic aspirations, with follow up queries focused on uncovering the future expectations with regard to economic well being, political direction and societal hopes. Millennial entrepreneur interviewees were specifically asked questions concerning where they see themselves in 10 to 15 years, what their ideal-case scenarios with their businesses will look like, and whether they plan to publicly list. They were also asked about perceptions of accessibility, barriers to entry, ease of business start up, and programme and business application procedures. As well, interviewees were asked about their views on the best ways to move their country forward in development. Thus, in addition to understanding the entrepreneurial motivation, the

interviews were designed to gauge socio-political apathy, civic-mindedness and sense of citizenship or identity with their local area, nation, region or world.

Part of the aim of the entrepreneurship interview process was to discover whether the responses from different generations varied with regard to their expectations, views on development and their pro-market versus government clientelist leanings. That is, were they seeking new ways of acquiring government income or favours, waiting for further government sponsorship in their business pursuits, or were they interested in being subject to market forces? Economists, government advisors, and officials at the institutions and agencies were also asked whether they saw a difference in the cultural attitudes of different generations toward development policies, business, and private sector growth and regulation.

The following table provides a quantitative overview of the interviews.

Table 1.2: Interview Numbers

Interviews		
CATEGORY	OMAN	QATAR
Policy makers / Bureaucrats	25	15
Initiatives (Founders/Directors/Managers)	12	12
Entrepreneurs	40	28
Others (Academics, Researchers, Think tankers, Banks, Media, Embassy staff)	20	20
Subtotal	<u>97</u>	<u>75</u>
TOTAL		172

Interviewees were granted their choice of confidentiality. In many cases, interviewees wanted either full or partial anonymity. Interestingly, participants in Oman were less concerned with confidentiality than those in Qatar. As well, Qataris tended to prefer hand-written notes over audio recording of interviews than Omanis. In all cases,

interviewees were assured that the interview transcripts would not be made public. For consistency's sake, I opted to provide partial anonymity even to those who granted permission to use their names. Another motivation for this confidentiality is to protect the identity of my interviewees given rapidly changing political situations on the ground. Where in late 2011 some may have been comfortable to say political opinions on the record, as 2012 progressed the political environment tightened. Interviews are labelled in the references in the following way: Those interview references which credit a "senior official" refer to those officials at the undersecretary or director general level (or equivalent titles). The term, "official" refers to bureaucrats at other levels. Some interviewees had specific credit requests, such as "expert" at a specific broader government body, rather than detailing their position details. Others requested even vaguer crediting, for fear of identification. In these cases, the ministry, agency, or organization to which they are attached is also left unstated. In all cases, I left the entrepreneurs and aspiring entrepreneurs completely anonymous.

Data from document content analysis, all categories of interviews, focus groups, and participant observation were triangulated. The greatest challenge facing this research was the lack of available data and the lack of transparency where data did exist. This challenge is well-known and documented by scholars of the region.³⁷ Some of this difficulty can be overcome through personal visits to ministries, official offices and through personal meetings and formal and informal interviews. Due to the personal nature of the culture, officials are frequently more willing to discuss issues frankly on a one-to-one basis.

³⁷ Janine A. Clark, "Field Research Methods in the Middle East," *PS: Political Science & Politics* 39, no. 03 (2006): 417–424, doi:10.1017/S1049096506060707.

Although interview responses provide subjective data, this is overcome by both the quantity of the interviews across a variety of actors as well as by triangulation with other data and reports which can corroborate or refute responses.

Along with exercising some caution or skepticism when looking at the available numeric data presented, a note must be made about what may appear to be conflation between economic and political liberalization. In this research, it is often difficult to disaggregate economic from political reform because “an intrinsic link exists between politics and economics in rentier states.”³⁸ Indeed, there is a danger of conflating economic and political liberalization and there may seem to be conceptual slippage between the terms economic and political reform. In some ways, this conflation is intentional. Economic and political liberalization have many shared, overlapping characteristics in the GCC cases.

As Jill Crystal notes, both economic and political liberalization are

calculated, and limited, move[s] by rulers to maintain power... Economic liberalization has been driven largely by the governments’ fear that growing youth unemployment will metastasize into political dissent if jobs are not found, and by the hope that the private sector can postpone that day. Political liberalization has been driven by a similar desire to maintain power and delay a day of reckoning.³⁹

Because the processes are so intertwined, it is not always easy to separate where economic reform ends and political reform begins.

³⁸ Rolf Schwarz, “The Political Economy of State-formation in the Arab Middle East: Rentier States, Economic Reform, and Democratization,” *Review of International Political Economy* 15, no. 4 (2008): 600, doi:10.1080/09692290802260662.

³⁹ Jill Crystal, “Economic and Political Liberalization: Views from the Business Community,” in Joshua Teitelbaum, *Political Liberalization in the Persian Gulf* (Columbia University Press, 2009), 43.

4. Dissertation Structure, Arguments, and Contributions:

Rentier states are not a coherent black box, which behave as unitary actors. To many scholars, the characteristics of rentier states have become axiomatic. Hence, their governance processes remain unexplored. The decision and policy making practices of Gulf rentiers, however, are important to understand to gain a more rounded view of their development. Through examining the policy practices related to the promotion of entrepreneurship and innovation as well as analyzing the lived experiences of entrepreneurs, my dissertation delves into the nuanced realm of development in the Gulf Arab states. Where scholars have historically spoken in broad generalities of rentier state behaviour, I explore specific practices and the intersection of state and society. As well, I avoid privileging the elite to the extent others have by exploring the lived experiences of millennial entrepreneurs and aspiring entrepreneurs – the key focus demographic of these government initiatives. This allows for both top-down and bottom-up analyses, and contributes to a more holistic interpretation of the cases.

At the international level, studying the GCC countries matters for several reasons including the region's centrality to commodity markets and position in global capital and labour flows. Indeed, domestic and regional development practices are intrinsically connected to international forces because of their reliance on them. Although receiving surprisingly scant attention in international political economy considerations, the GCC states play an increasingly significant role in the global economy. Despite the best Orientalist arguments to the contrary, no system remains stagnant over time. Changes in regional political economy are evident. From sovereign wealth funds and high-profile foreign purchases, to their roles as international mediators or benefactors of certain

revolutions in the wider Middle East North Africa (MENA) region, different Gulf states are etching out political and economic niches for themselves aside from their traditional centrality to commodity markets. Not only this, but also the eastward shift of power and finance has not skirted over the Gulf. These states may still consult Western expertise, yet having had their global business interests slighted by the West they are increasingly looking East for economic advice as well as business and trading interests. Especially at a time of such regional upheaval, the political and economic development and reform trajectories of states that have been thrust into capitalism and been the centre of the neoliberal reconfiguration of the region for several decades demands attention.⁴⁰

In this dissertation, I examine the promotion of entrepreneurship and innovation in the Gulf Arab states, which seems a peculiar policy push given conceptualizations of development and governance in the region. I focus more heavily on the entrepreneurship side of this equation which, although it is part and parcel of innovation, tends to be the principal focus in the Gulf given its increasingly technocratic style of governance. In many ways, entrepreneurship and innovation are structurally incongruent with the way scholars have come to understand the nature of a rentier state. The research then explores how we understand the rationale behind their promotion across all six GCC countries.

I argue that understanding the ways rentierism impacts the trajectory of development and shapes the structures of the political economy is important for

⁴⁰ John W. Fox, Nada Mourtada-Sabbah, and Mohammed al-Mutawa, *Globalization and the Gulf* (Taylor & Francis, 2006); Bessma Momani and Crystal A Ennis, "Between Caution and Controversy: Lessons from the Gulf Arab States as (re-)emerging Donors," *Cambridge Review of International Affairs* 25, no. 4 (2012): 605–627, doi:10.1080/09557571.2012.734786; Andrew F Cooper and Bessma Momani, "The Challenge of Re-branding Progressive Countries in the Gulf and Middle East: Opportunities through New Networked Engagements Versus Constraints of Embedded Negative Images," *Place Branding and Public Diplomacy* 5, no. 2 (May 2009): 103–117, doi:10.1057/pb.2009.3; Matteo Legrenzi and Bessma Momani, *Shifting Geo-economic Power of the Gulf: Oil, Finance and Institutions* (Ashgate Pub Co, 2011).

appreciating the Gulf development experience. At the same time, one must move beyond the limiting strictures of broad generalizations to understand ongoing political and economic transformations. The deep structural contradictions and challenges confronting the implementation of entrepreneurship policies noted in section two above and expounded upon later in this dissertation are critical to understand. The difficulties faced in interjecting entrepreneurship into the modern development narrative given the embedded rentier structures are only compounded by the realities of the segmented labour market. I argue that today governance in the Gulf is best understood as a contestation between reforms and rentier patterns. Being cognizant of this tension allows us to understand how some policy outcomes contravene classic rentier expectations while others appear hypocritical as the implementation of policy announcements become obstructed by structural contradictions. In many ways, entrepreneurship support has become a new way of recasting the rentier state.

In order to understand the policy behaviour in each, and later why they are both undertaking similar trends, we have to understand how policy making occurs in the Gulf monarchies. The next chapter of this dissertation then speaks about the conventional theoretical explanations of policy making in the Arab Gulf. The first portion of chapter two assesses the series of expectations that exist on how a state behaves when it is categorized as rentier. In this body of literature, a number of assumptions have been helpful in shaping the scholarly understanding of rentier states. These include an expected autonomy of the state from society given its vast, external income which allows the state to implement a social contract whereby the state agrees to provide for the citizens in exchange for political submission. Another set of assumptions surround the projected institutional weakness in

rentier economies, facilitated in part by an absence of taxation and limited administrative capacity. The third body of assumptions are related to a pervasiveness of rent seeking, whereby the pursuit of rent rather than productivity commands attention of all levels of society.⁴¹ The chapter then explores development literature as applied to late-late industrializers. This is followed by an engagement of developmental state literature with academic conceptualizations on the Gulf region. The final section assesses the study of innovation in reference to development and engages the work with the current policy environment in the Gulf.

The subsequent two chapters explore the insights garnered through the in-depth cases studies on Oman and Qatar. The third chapter is rather elite focused, speaking about the plans and practices of state-led entrepreneurship promotion, whereas the fourth chapter is more people focused, exploring the lived experiences of entrepreneurs and aspiring entrepreneurs. Chapter three is therefore aimed at answering the first research question on the character and motivation of entrepreneurship and innovation promotion in the GCC. To this end, it explores the motivations behind these policies and illustrates the plurality of pressures which converge, creating a potent motivational force. From among the motivations, certain ones are stronger in each case, corresponding with a variance in economic comfort and social stability. This chapter also maps the respective entrepreneurship support ecosystems in each case, tracing the process of each. Through

⁴¹ See detailed description in chapter two of this dissertation. Hazem Beblawi and Giacomo Luciani, *The Rentier State* (New York:: Routledge, 1987); Donald L. Losman, "The Rentier State And National Oil Companies: An Economic And Political Perspective," *The Middle East Journal* 64 (Summer 2010): 427–445, doi:10.3751/64.3.15; Hossein Mahdavi, "The Patterns and Problems of Economic Development in Rentier States: The Case of Iran," in M. A. Cook, *Studies in the Economic History of the Middle East: From the Rise of Islam to the Present Day* (Routledge, 1970), 428–467.

an examination of certain structural contradictions, it discusses the absence of an ideal policy practice experience where despite both countries highlighting the importance of entrepreneurship and innovation in their overarching visions and development plans, the actual implementation has been less well crafted.

The fourth chapter addresses the second research question. It looks at how the promotion of entrepreneurship in the Gulf predates the stressors from the so-called Arab Spring but shows that the emphasis on entrepreneurship and innovation since the beginning of the uprisings has grown. It proceeds with analyzing the real state of entrepreneurship in Qatar and Oman, particularly among the Gulf millennial generation. It begins with a definitional exploration of the terms millennials. This is followed by an examination of the cultural critique thesis, which suggests an inherent cultural deficiency as the reason for limited entrepreneurship and innovation in the region. After shattering this myth, it examines the generational divide that became rather apparent during the research. An exploration of millennial expectations reveals dual levels of expectations, which form a crucial component of the challenge facing the Gulf states' social contract. The Gulf millennials no longer consider state handouts as mere privilege but rather an expected norm. At the same time as retaining high economic expectations, they harbour stronger political and social expectations than previous generations. This consequently places pressure on the existing Gulf rentier social contract.

The aim of the fifth and final chapter is to tie the lessons of the empirical chapters together and more clearly delineate their theoretical lessons. It explores the broad implications of the entrepreneurship and innovation trend, and considers the overarching meaning we can extract from the lessons learned. In exploring the paradox of

entrepreneurship promotion, it indicates some of the concomitant questions this research poses while assessing the empirical state of these policies moving forward. The examination of transition, explored throughout the dissertation, illustrates a broader contradiction. Hence, the conclusion weaves a tale of transition against the overarching incongruity between global neoliberal policy advice and the rationale and reality of economic life in the region.

This dissertation makes three contributions to the advancement of scholarly knowledge in the fields of Gulf political economy and development. First, scholars of the Gulf have largely overlooked the prominent shift toward entrepreneurship promotion across the region. This study addresses this through in-depth case studies of two of the six GCC countries. Second, academics in Gulf studies and scholars of development have been inclined to study the region in analytical isolation. The result of this tendency has been an infrequent engagement by Gulf scholars with broader development literature and development scholars almost never incorporating the Gulf region in development debates. This project responds to this deficit by engaging both literature sets within the analysis. Third, scholars of the rentier state have learned much about the effect of resource rents on national and regional political economies. They have also developed hypotheses concerning the role of rentierism in shaping state-society relations. Much less has been learned about how these states actually develop and carry out policies, and how they behave under novel socio-economic conditions which are the result of combined pressures. Internally, the pressures from evolving generational norms and expectations, and externally, the pressures of globalization and regional change have impacted the rules of the game. This dissertation provides a window into these changes, and demonstrates

how rentier patterns and these novel pressures impact both the practices of policy making as well as the evolution of the Gulf ruling bargain.

Chapter 2

Conceptualizing Governance and Development in the 21st Century Gulf

1. Introduction

There is greater complexity to the politics of the Gulf than oil alone. Despite this, scholarly frameworks for understanding the politics and economics of the region have not moved beyond the discourse of oil and the impact of rents. Indeed, there is much to be said for the heuristic value of rentier state literature for understanding the general nature, resilience, and practices of Gulf states. I would even go as far as suggest that understanding the assumptions of the rentier state framework are important for introductory conceptions of the region and an appreciation of their early historical development post-oil discovery. Nevertheless, these same assumptions become increasingly dissatisfying in their generalisms and lack the sophistication necessary to provide compelling interpretations of governance patterns and state-society relations since the second oil boom of the 2000s. Not only does it privilege state autonomy and remove agency from anyone but elites, it marginalizes domestic pressures while its focus on domestic political economy obfuscates the impact of globalization and global capitalist labour movements which so impact the regional political economy.

This chapter examines the existing literature available for scholars to understand governance patterns, policy making, and development in the Gulf Arab states. It begins with a discussion of rentier state literature, followed by an overview of development literature with a specific focus on the developmental state. It then assesses the means of examining and attempts at reframing the Gulf state in the current milieu. The final section

incorporates innovation literature into the development policy making context given current policy shifts. This chapter offers two contributions to the advancement of scholarly knowledge. First, it advocates increased dialogue across the fields of development, international political economy, and Gulf studies. Development scholars and Gulf scholars have tended to view the region in analytical isolation. This has resulted in scholars of development rarely including the Gulf in the questions and debates around development and similarly Gulf scholars infrequently engaging broader development literature in relation to the Gulf.

Second, scholars of the Gulf rentier state have learned a great deal about how earnings from resource exports impact the political economy of a country and have even hypothesized about how rentierism impacts decision making and state society relations. They have, however, learned much less about how these same states behave in novel socio-economic realities represented by the external pressures of globalization and the internal pressures of changing generational norms and expectations. In many ways, rentier state literature has not moved significantly beyond the assumptions of its primary literature base from the 1980s and 1990s. These make broad generalizations about patterns of development and linkages between oil and authoritarianism, but fail to provide nuance. Empirically rich accounts are sorely lacking and can lead readers to believe that rents explain everything about Gulf politics. These institutionalist political economy assumptions attribute a great deal of neutrality to the state and ascribe much liberty in policy development.

I argue that although it is important to understand the patterns of rentierism and its impact on fashioning the structures of the economy, it is important to pay heed to the

impact of globalization, generational change, demographic pressures, and local and regional trends. A revised form of rentierism is, in fact, being engaged by the state today; one which stays abreast of pressures and changes in the global and regional environment, maintains an eye on necessary economic reform, and seeks to address the desires of the millennial generation. Although its determination to utilize the global language of reform makes the Gulf state appear to have moved beyond the old structures of rentierism, the realization of reform is constrained by some path dependent structures. These constraints emerge alongside a perceived political imperative to retool practices of the rentier effect. I argue that rentierism is in effect being revised through attempts to deal with new socio-economic and geopolitical realities. Gulf state behaviour today is best classified as a contestation between reforms and rentier patterns. In some cases this leads to policy outcomes that defy classic rentier expectations and in others it results in apparent policy hypocrisy, where announcements and implementation are obstructed by structural contradictions. In this regard, the Gulf state can be cast as some genre of a neo-developmental state, absorbing capitalist tendencies but still harbouring some of the deeply-ensconced habits of patronage and rent seeking. In this usage, a neo-developmental state occurs in instances of late-late development whereby conventionally statist countries attempt to mirror patterns of development in developmental states by incorporating or approximating their capitalist patterns while still securing their statist footing.

2. Conventional Views on Rentier State Behaviour and Policy Making

The policy-making process in Arab Gulf states is nebulous at best, complicated by patronage systems and informal power structures. These states each face common policy challenges and often respond to them in surprisingly similar ways even if at varying speeds. Reform processes exist in most Gulf states in the private sector, educational sector and labour market. The policy-making process which leads to these reform programmes seems to be evolving, operating at different levels and including a broader array of non-state actors. The evolution of policy making or the broadening of policy making space does not fit easily within existing theoretical frameworks for explaining policy making in the region. The conventional paradigm through which scholars interpret the region is through rentier state literature. In the last decade, this was often used in parallel with work on the persistence of authoritarianism in the Middle East, which was a growing body of literature until the Arab uprisings of 2011 instigated a temporary pause.¹ While rentier theories may provide a valuable heuristic device for identifying broad problems of oil-dependent economies, they seem less useful as an explanatory mechanism. Still, it is impossible to adequately conceptualize the political economy of the Gulf without appreciating and utilizing rentier state literature. This work is thus the best starting point. In addition to this, another body of literature exists which can speak to economic policy making, decision

¹ See, for example: Eva Bellin, "The Robustness of Authoritarianism in the Middle East: Exceptionalism in Comparative Perspective," *Comparative Politics* 36, no. 2 (January 1, 2004): 139–157, doi:10.2307/4150140; Oliver Schlumberger, ed., *Debating Arab Authoritarianism: Dynamics and Durability in Nondemocratic Regimes* (Stanford University Press, 2007); Marsha Pripstein Posusney, "Enduring Authoritarianism: Middle East Lessons for Comparative Theory," *Comparative Politics* 36, no. 2 (January 1, 2004): 127–138, doi:10.2307/4150139; Marsha Pripstein Posusney and Michele Penner Angrist, *Authoritarianism In The Middle East: Regimes And Resistance* (Lynne Rienner Publishers, 2005); Raymond Hinnebusch, "Authoritarian Persistence, Democratization Theory and the Middle East: An Overview and Critique," *Democratization* 13, no. 3 (2006): 373–395, doi:10.1080/13510340600579243; Nicola Pratt, *Democracy and Authoritarianism in the Arab World* (Boulder: Lynne Rienner Publishers Inc, 2006).

making and development path choices in the region. That is, development literature, particularly that which focuses on the developmental state and that which examines the role of innovation in development policy.

Studies of economic development in the Middle East, and the Gulf in particular, point almost exclusively to literature pertaining directly to the region. The claim of Middle East exceptionalism pervades much academic work on politics, economics and decision making in the region. This, unfortunately, disconnects analysis of the Gulf from broader trends of globalization and the pressures of neoliberalism. It treats the Gulf as a geographically distinct area, thereby separating it from the impact of capital and labour flows. Moreover, it isolates Middle East analysis from broader political science and makes it difficult for theorists to speak to other bodies of literature.² This trend is slowly devolving, and through this study, I hope to further contribute to debates that span more than one literature set. I situate this dissertation within political economy, development and Middle East studies, three fields that are well-suited to the nature of the questions under examination.

2.1 The Rentier state

Petroleum has dominated the politics and economics of the Gulf since the middle of the last century. Thrusting the region into the forces of globalization and establishing interdependencies between oil producers and consumers as well as between labour rich

² See Lisa Anderson, "The State in the Middle East and North Africa," *Comparative Politics* 20, no. 1 (October 1, 1987): 1–18, doi:10.2307/421917; Lisa Anderson, "Policy-Making and Theory Building: American Political Science and the Islamic Middle East," in Hisham Sharabi, ed., *Theory, Politics, and the Arab World : Critical Responses* (New York :: Routledge, 1990), 52–80; Pratt, *Democracy and Authoritarianism in the Arab World*; and Bellin, "The Robustness of Authoritarianism in the Middle East."

and labour poor economies, oil has played a significant role in the geopolitics and economics of the region and has arguably shaped state building and development programmes.³ In effect, oil “restructured political life” and “produced a new kind of economy.”⁴ This economy became known as rentier. The concept of the rentier state was first developed by Hossein Mahdavy in 1970, where he explored the concept through the case of pre-revolutionary Iran.⁵ It has since been developed and popularized by other scholars, chief among them Giacomo Luciani and Hazem Beblawi.⁶ Derived from the economic term ‘rent,’ referring to returns on scarce resources that require little to no productive effort as in the case of rent given to landlords, an economy is defined as rentier when it is dependent on externally-accrued profit from the rent of a non-reproducible resource. In the case of the Gulf states, this resource is oil.⁷ A rentier state is characterized by its receipt of extraordinarily high revenue from the rent earned on its resource rather than its productive capacity. Wealth is generated by a fraction of the population, with the remainder involved in the distribution and utilization of this wealth. In contrast to standard productive states, Gulf rentiers are also known as “allocative” due to the distributional role of the state in rent circulation. Rents are circulated through a variety of distributional mechanisms including land allotment, housing, public sector employment, commercial licensing, agricultural subsidization, industrial development and other

³ Anoushiravan Ehteshami, *Globalization and Geopolitics in the Middle East: Old Games, New Rules*, 1st ed. (Routledge, 2008), 110.

⁴ Jill Crystal, *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar*, 1st ed. (Cambridge University Press, 1990), 6.

⁵ Hossein Mahdavi, “The Patterns and Problems of Economic Development in Rentier States: The Case of Iran,” in Cook, *Studies in the Economic History of the Middle East*, 428–467.

⁶ Beblawi and Luciani, *The Rentier State*.

⁷ *Ibid.*; Mahdavi in Cook, *Studies in the Economic History of the Middle East*, 428–429; Losman, “The Rentier State And National Oil Companies,” Summer 2010, 427–429.

subsidized goods and services. Rentier, allocative states further differentiate themselves because they neither rely on domestic production nor taxes.⁸

Much of the literature around the impact of natural resources on a country focuses on the assumed link between resource abundance and violent conflict, part of the so-called “resource curse.”⁹ Literature related to the effect of resources, and particularly oil, on development is more applicable for the purpose of this discussion of oil and development policy making. Two general premises shape the discussion on oil and its impact on development. The first is that oil hinders democracy.¹⁰ The second is that oil leads to economic problems like limited diversification, slow growth, and Dutch disease.¹¹ The expression Dutch disease encapsulates the essence of growing and depreciating sectors of the economy that result from a rising level of export earnings in resource-wealthy countries. The term is derived from the economic phenomenon witnessed in the Netherlands in the 1970s. The sudden growth of the natural resource sector can cause

⁸ Giacomo Luciani, *The Arab State* (University of California Press, 1990), 70–93; Beblawi and Luciani, *The Rentier State*; Christopher M. Davidson, *The United Arab Emirates: A Study In Survival* (Lynne Rienner Pub, 2005), 34–39.

⁹ Resource curse literature on conflict is wide and varied, much of it centred around correlations between resources and violent conflict. I am not including it in this discussion because I am examining here studies seeking to explain the impact of hydrocarbons on development. Paul Collier has been pivotal in the development of the literature and popularization of the thesis on resource abundance and conflict. See, for example: Paul Collier, *Natural Resources, Development and Conflict: Channels of Causation and Policy Interventions* (Washington: World Bank, April 28, 2003), http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2004/04/27/000265513_20040427110039/Rendered/PDF/28730.pdf; Paul Collier and Anke Hoeffler, “Resource Rents, Governance, and Conflict,” *Journal of Conflict Resolution* 49, no. 4 (August 1, 2005): 625–633, doi:10.1177/0022002705277551; Paul Collier and Anke Hoeffler, “Greed and Grievance in Civil War,” *Oxford Economic Papers* 56, no. 4 (October 1, 2004): 563–595, doi:10.1093/oep/gpf064; See also, Michael L. Ross, “What Do We Know About Natural Resources and Civil War?,” *Journal of Peace Research* 41, no. 3 (May 1, 2004): 337–356, doi:10.1177/0022343304043773; and Joshua D. Angrist and Adriana Kugler, *Rural Windfall or a New Resource Curse? Coca, Income, and Civil Conflict in Colombia*, Working Paper (National Bureau of Economic Research, March 2005), <http://www.nber.org/papers/w11219>.

¹⁰ Timothy Mitchell, *Carbon Democracy: Political Power in the Age of Oil* (London; New York: Verso Books, 2011); Michael L. Ross, “Does Oil Hinder Democracy?,” *World Politics* 53, no. 03 (2001): 325–361, doi:10.1353/wp.2001.0011.

¹¹ Jeffrey D. Sachs and Andrew M. Warner, “The Curse of Natural Resources,” *European Economic Review* 45, no. 4–6 (May 2001): 827–838, doi:10.1016/S0014-2921(01)00125-8.

exchange rate appreciation, thereby increasing the cost of exports and depressing the manufacturing sector. Although the service and transportation industries may grow rapidly, other industrial sectors are marginalized.¹²

Although much of the discourse on oil and democracy centres around Middle Eastern states which are almost wholly dependent upon oil, some scholars suggest that oil in fact always impedes democracy. This is said to be true whether the country is wealthy or poor and even when export earnings are moderate.¹³ Timothy Mitchell suggests that this condition only applies to particular types of energy, with limited organized labour. Oil fits this well, and, in his view, hinders global democratic outcomes. Oil requires a limited labour force under steady supervision, and its transportation and distribution are mechanized. Whereas the coal industry, with its large workforce, was partially responsible for the organized labour movements and democratic pressure, oil has no such parallel.¹⁴

Discussions of the resource curse and the impact of oil on economic development cannot be completely disaggregated from the political. Luong and Weinthal claim that it is not resource wealth itself which curses states but rather “the persistence of entrenched patronage networks that precede the formulation of development strategies.”¹⁵ Looking at former Soviet states, they suggest that state leaders prioritize political survival over short-term economic gains, thereby choosing to develop energy resources in such a way that

¹² Graham A Davis, “Learning to Love the Dutch Disease: Evidence from the Mineral Economies,” *World Development* 23, no. 10 (October 1995): 1768, doi:10.1016/0305-750X(95)00071-J; Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (University of California Press, 1997), 5–6.

¹³ Ross, “Does Oil Hinder Democracy?”; Robert J. Barro, “Determinants of Democracy,” *Journal of Political Economy* 107, no. S6 (December 1999): 167, doi:10.1086/250107.

¹⁴ Mitchell, *Carbon Democracy*.

¹⁵ Pauline Jones Luong and Erika Weinthal, “Prelude to the Resource Curse Explaining Oil and Gas Development Strategies in the Soviet Successor States and Beyond,” *Comparative Political Studies* 34, no. 4 (May 1, 2001): 395, doi:10.1177/0010414001034004002.

allows them to structure and fortify their political support and position. This has often resulted in strategies that are better for long-run growth and political stability.¹⁶ Similarly, Thad Dunning demonstrates that oil export earnings can produce incentives for authoritarian leaders to hold on to power while simultaneously reduce the incentives to invest in non-resource economic sectors. His work examines the structural conditions which allow resource rents to either impede or promote democracy. He claims that in cases where the non-resource sectors of the economy are small, weak, and equal in size to one another, then resource-derived rents result in an “authoritarian effect.”¹⁷

Along the same line of reasoning, in a later article, Weinthal and Luong suggest that rather than focusing on macroeconomic policies and economic diversification, managing the “resource curse” or limiting the effect of Dutch disease in the developing world is better achieved by strengthening institutions.¹⁸ Terry Karl’s work makes a similar argument with the importance of institutions, although she focuses more on the impact of oil on these institutions. In her view, countries that depend on the same rent source have similar characteristics in their development capacity and policy making practices. Much depends on the source of the rent.¹⁹ Significantly, the mechanisms utilized by the state to collect and use revenue define the state’s character. Using a range of cases which includes Algeria, Indonesia, Iran, Nigeria, and Venezuela, Karl emphasizes the importance of the fiscal base and institutional formation, character, and capacity of the state. Her research suggests that

¹⁶ Luong and Weinthal, “Prelude to the Resource Curse Explaining Oil and Gas Development Strategies in the Soviet Successor States and Beyond.”

¹⁷ Thad Dunning, *Crude Democracy: Natural Resource Wealth and Political Regimes* (Cambridge: Cambridge University Press, 2008).

¹⁸ Erika Weinthal and Pauline Jones Luong, “Combating the Resource Curse: An Alternative Solution to Managing Mineral Wealth,” *Perspectives on Politics* 4, no. 01 (2006): 35–53, doi:10.1017/S1537592706060051.

¹⁹ Karl, *The Paradox of Plenty*, 13.

oil states suffer from a narrow array of decision making choices. Development policy is constrained by the general “petrolization” of the policy environment, international and domestic private vested interests linked to the state and benefiting from the rent circuit, and rentier distributive tendencies which importantly involve reliance on “the progressive substitution of public spending for statecraft.”²⁰ Oil booms intensify each of these outcomes.²¹ The source and use of revenue, as well as the organization of pre-oil networks and institutions along with the level and type of their development make a difference to how oil influences development.

There are two general patterns to state building and development that can be identified in scholarly work on Middle East rentier states. The first is where the state indulges in excessive spending in boom years, predominantly investing its resource wealth into the military. With high security expenditure and little development investment, these states descend into political instability in times of fiscal crisis. (e.g. Iraq circa 1980s). Both insufficient regime autonomy in economic policy making and the presence of a populist-mobilizational history have also been considered contributing factors to the development failures of this category.²²

The second pattern is where the state focuses its efforts on sweeping economic and social development. Along with heavy infrastructure investment, it subsequently works to diversify the resource base of the economy and establish the foundations for the provision

²⁰ Ibid., 16.

²¹ Karl, *The Paradox of Plenty*.

²² Schwarz, Rolf. Ch. 13, “Rentier States and War-Making: The United Arab Emirates and Iraq in Comparative Perspective,” Kenneth C. Omeje, *Extractive Economies and Conflicts in the Global South: Multi-regional Perspectives on Rentier Politics* (Ashgate Publishing, Ltd., 2008), 223; Frauke Heard-Bey, “The United Arab Emirates: Statehood and Nation-Building in a Traditional Society,” *Middle East Journal* 59, no. 3 (July 1, 2005): 357–375; Steffen Hertog, “Defying the Resource Curse: Explaining Successful State-Owned Enterprises in Rentier States,” *World Politics* 62, no. 02 (2010): 261–301, doi:10.1017/S0043887110000055.

of social welfare and, consequently, political stability. The states of the Gulf Cooperation Council (GCC) generally like to be characterized by the latter pattern and can be in many ways.²³ Diversification, however, remains elusive and security expenditure is high by all accounts.²⁴ In fact, military spending as a share of GDP in the GCC countries are among the highest in the world. In 2010, these ranged from 3.4 percent in Bahrain to 8.5 percent in Oman and 10.1 percent in Saudi Arabia, well above the two percent global average.²⁵ Indeed, the use of money in rentier states makes a significant difference to its survival and stability.²⁶

The transformational role of oil on state building is evident in the Gulf rentiers. With the economic activity of the pre-oil era primarily centred around animal husbandry, pearling and trading, merchants formed the economic basis and therefore wielded certain political influence. Traditional social structures were organized around family and tribal lines, with nomadic Bedouin lifestyles dominating living patterns on the interior and the pearling industry and trade dominating the coastal areas. Families heeded lineage and claimed authority and status based on ancestry. The concept of modern statehood was largely alien given the diffuse, tribal way of life. Yet, a governance system was in place, whereby the leader of the ruling family would be responsible for the institutions and grievances of his population with a network of advisors and consultative meeting places.

²³ Schwarz, Rolf. Ch. 13, "Rentier States and War-Making: The United Arab Emirates and Iraq in Comparative Perspective," Omeje, *Extractive Economies and Conflicts in the Global South*, 223; Heard-Bey, "The United Arab Emirates"; See also Martin Hvidt, "Public – Private Ties and Their Contribution to Development: The Case of Dubai," *Middle Eastern Studies* 43, no. 4 (2007): 557, doi:10.1080/00263200701348862.

²⁴ *SIPRI Military Expenditure Database 2011* (Stockholm International Peace Research Institute, 2012), <http://milexdata.sipri.org>.

²⁵ Saudi Arabia, in fact, had the highest military expenditure in the world in 2010. Ibid.

²⁶ Michael Herb, *All in the Family: Absolutism, Revolution, and Democracy in the Middle Eastern Monarchies* (State University of New York Press, 1999), 10–11; Schwarz in Omeje, *Extractive Economies and Conflicts in the Global South*.

Patrimonialism was thus part of the existing social structure, with tribal rulers maintaining reciprocally-beneficial relationships with merchants and the commercial elite.²⁷

The effects of the collapse of the pearling industry in the interwar period on the merchant class were compounded by the consequences of oil revenues. Whilst merchants once underpinned the economic base of governance arrangements, oil reoriented the economy toward oil companies and eliminated the necessity of rulers to rely on merchant families for dues. Once the economy was dominated by oil, the merchants were no longer integral to the production process. The vast levels of oil revenue rendered taxes unnecessary and alliances less central. Ruling families could in effect ‘purchase’ the loyalty of trading families.²⁸ This pattern ultimately sets the stage for the rentier social contract, a trade off whereby political rights are substituted for socio-economic welfare.

Although a coherent “rentier state theory” does not exist, the description above encapsulates the common narrative on rentier economies and state building. Along with this, there are a body of general hypotheses concerning the effect of oil on political and economic development in developing countries. Most Gulf rentier state studies incorporate varying combinations of the following three assertions: (1) state autonomy and societal apathy; (2) institutional weakness; and (3) ubiquitous rent seeking.

²⁷ See Crystal, *Oil and Politics in the Gulf*, 1990; Herb, *All in the Family*.

²⁸ Crystal, *Oil and Politics in the Gulf*, 1990, 6–11 and 44–46; Davidson, *The United Arab Emirates*, 34–37; Oliver Schlumberger, “Structural Reform, Economic Order, and Development: Patrimonial Capitalism,” *Review of International Political Economy* 15, no. 4 (n.d.): 622–649, doi:10.1080/09692290802260670.

2.1.1 *State autonomy and societal apathy:*

The first category of hypotheses relates to the autonomy which characterizes states that receive vast external income. The bulk of literature on rentier states has centred on this category. It is important to reiterate that rentier states, in their pure form, are defined as states that receive more than 40 percent of their revenue from external sources. Crucially, this income accrues directly to the government.²⁹ Since they do not have to tax the citizenry, these regimes are not required to bargain with them. The assumption is that these states draw on resources they are not accountable for, freeing them from societal demands and bestowing with them discretionary policy making power. Scholars frequently invert the common adage, “no representation without taxation” to illustrate this negative relationship between state income independence and pluralism.³⁰ Michael Ross extends this idea to explain the absence of democracy in oil-exporting countries, purporting that oil in fact impedes democracy.³¹

Thus, fiscal power allows the state to reconstruct entire parts of society, moulding dependency. This comprises part of the “ruling bargain,” alluding to the social contract between rulers and ruled wherein the state commits to provide for the welfare of its citizens in exchange for their acquiescence. These hypotheses, therefore, typically remove

²⁹ Beblawi and Luciani, *The Rentier State*, 69–72; Luciani, *The Arab State*, 87–88. This is an important component because it suggests that arguments which point to high remittance receiving countries as rentier are inaccurate. In fact, because remittances travel to the population and not to the government, hypotheses about state behaviour are null. In fact, these arguments render assumptions about rentier state behaviour analytically nebulous.

³⁰ Beblawi and Luciani, *The Rentier State*; Luciani, *The Arab State*; Tom Najem and Martin Hetherington, eds., *Good Governance in the Middle East Oil Monarchies* (RoutledgeCurzon, 2003); Herb, *All in the Family*; Crystal, *Oil and Politics in the Gulf*, 1990; Michael Herb, “No Representation Without Taxation? Rents, Development, and Democracy,” *Comparative Politics* 37, no. 3 (April 1, 2005): 297–316, doi:10.2307/20072891.

³¹ Ross, “Does Oil Hinder Democracy?”.

agency from the citizenry. Ultimately, oil wealth is assumed to shield rentier states from internal and external pressures and allow them decision-making autonomy.³²

As a whole, this literature assumes political apathy among the populace. Because their loyalty has, in effect, been 'bought off,' social groups tend to be content with the status quo. So long as the rentier social contract persists, society is expected to remain complacent because its economic needs are attended to. There is no expectation that the population might desire a greater say in the trajectory of the state's socio-economic or political affairs.

2.1.2 Institutional Weakness:

The second set of hypotheses suggests that externally-generated income also hinders the development of strong institutions and weakens state capacity. The magnitude of rent income inflates the size and role of the state. Within the state, the executive dominates and tends to weaken the autonomous organizational capacity of societies in that social groups become dependent on the state's distribution. This argument suggests that since rentier states are distributive rather than extractive, their administrative capacity for regulating markets is lacking. This line of reasoning thus intimates that the level of bureaucratic interaction and information gathering are absent or weak in most cases, enervating information and decision making processes.³³

³² Beblawi and Luciani, *The Rentier State*; Mehran Kamrava, *The Modern Middle East: A Political History Since the First World War*, 1st ed. (University of California Press, 2005); Schlumberger, *Debating Arab Authoritarianism*.

³³ Schwarz, "The Political Economy of State-formation in the Arab Middle East," 615; See chapters by Beblawi and Chatelus in Luciani, *The Arab State*.

Some add to this by claiming that while rentier states appear “superficially strong and autonomous,” they are in reality unable to effectively cope with the various interests within the society.³⁴ These scholars doubt the real developmental potential of rentiers, suggesting that heavy oil dependence “tends to produce institutional arrangements which are conducive neither to real economic development nor to more transparent, citizen-responsive systems of governance that better adjudicate state/civil society tensions.”³⁵ That is, consumption and stability tends to be prioritized over actual development and industrialization, distorting economic and political development. For example, in the early days Gulf rulers provided a pretence of industrialization which often amounted to little more than spending sprees and redundant projects from competitions aimed at boosting prestige or leadership claims.³⁶ The appearance of development rather than the improvement of real institutional structure and capacity takes precedence.

2.1.3 Ubiquitous rent seeking.

“Rentierism” is not limited to states. Rather, this behaviour extends to lower levels of society creating a hierarchy of rent-seeking. The culture of rent seeking derives from the tools of patronage engaged by the state as it redistributes wealth throughout society. A significant component of this allocative activity is the provision of government jobs, which in the Gulf comprise a majority of citizen employment. Rent seeking thus begins with bureaucratic jobs being used as a mode of state patronage. Steffen Hertog has elaborated

³⁴ Nazih N. Ayubi, *Over-stating the Arab State: Politics and Society in the Middle East* (I.B.Tauris, 1996), 400.

³⁵ Donald L. Losman, “The Rentier State And National Oil Companies: An Economic And Political Perspective,” *The Middle East Journal* 64 (Summer 2010): 427, doi:10.3751/64.3.15.

³⁶ Michel Chatelus, “Policies for Development: Attitudes Toward Industry and Services,” in Beblawi and Luciani, *The Rentier State*, 112.

on these practices in some detail in his work on Saudi Arabia.³⁷ He suggests that the government hires citizens into the state apparatus as a means of co-opting them and warranting their political compliance. In so doing, webs of state clients are automatically incorporated into patronage networks which create layers of patron-client relations and extend a complex of this clientelism throughout society. This behaviour also causes what has been called rentier mentality. A rentier mentality emerges from a disconnect between work effort and reward, where wealth is the result of happenstance rather than productivity.³⁸

The ubiquity of rent seeking also complements the weak state capacity argument. Insofar as there is an abundance of riches to be distributed and a weak capacity to regulate this wealth, there is an expectation that slack and waste will be substantial, inferring that there will be a significant portion of unused productive capacity. Individuals become more preoccupied with devising strategies to obtain rent than developing specialized skill sets or engaging in productive behaviour. Productive activity becomes a second rate choice after inclusion in the rent circuit.³⁹ Essentially, attaining a piece of the economic “pie” becomes more rewarding than actual productive behaviour. All sectors of the economy then become entrenched with these rent-seeking patterns, making economic activity both inefficient and incapable of autonomy from state-centred distribution.⁴⁰

³⁷ Steffen Hertog, *Princes, Brokers, and Bureaucrats: Oil and the State in Saudi Arabia* (Cornell University Press, 2010).

³⁸ Beblawi in Luciani, *The Arab State*, 88.

³⁹ Chatelus in Beblawi and Luciani, *The Rentier State*, 110–111.

⁴⁰ Luciani, *The Arab State*; Marcus Noland and Howard Pack, *The Arab Economies in a Changing World* (Peterson Institute for International Economics, 2007), 30.

These represent the more common assumptions in relations to development and policy-making processes within rentier states. Much of this literature, primarily focused on the Gulf, tends to represent the area as something exceptional, traditional, and culturally separate. Its socio-cultural orientation disconnected from modernity and its rentier economic foundations separating it from more conventional development processes. This has meant that political economy studies on the region have been rather insular, mostly focusing on broad generalizations of rentier consequences: the state autonomy, societal apathy, the pervasiveness of rent seeking, and institutional weakness delineated above. While these descriptions have been useful tools to understand the economic organization of the region, it sidelines alternative processes and diminishes the significance of ideational change. Thus, although these assertions offer interesting insights into some aspects of rentier state behaviour, they fail to explain specific outcomes. More crucially, they do not elucidate the rationale behind recent economic policy moves. In general, they lack the theoretically rich insights available through in-depth case studies and instead rely on broad generalizations.

3. Rentierism and Late-late Industrialization

With the above in mind, I am suggesting here the placement of Gulf development in the context of broader development and political economy literature. Rather than just relying on insular works of the Gulf rentier state, this adds a useful theoretical and interpretive lens. In this way, I view rentierism as influencing the trajectory of late-late development in the region without unquestioningly accepting the rather deterministic and perfunctory outcomes attributed to rentier states. All states are dynamic and, influenced

by global, regional, and local factors, have fluid social and governance patterns. Categorizing Gulf states as “late-late industrializers” à la Atul Kohli and Alice Amsden is a facilitative entry tool to broader development discussions, and a solution to the absent agency in rentier state literature.⁴¹

Thus, I suggest that along with understanding the predominant paradigm through which we view the Gulf, answering questions related to a political economy analysis of development paths requires this research be situated within development literature. This literature set is preoccupied with understanding the choices made along the road to ‘development.’ It is entwined within broader political economy debates surrounding the role of the state and the market in development. This section begins with a brief overview of development theory, and progresses into a more detailed discussion of developmental state literature which I suggest is important to understand in relation to Gulf development choices. Finally, it integrates Gulf development into the analysis.

3.1 Brief development theory background

While there is limited space to do development theory as a whole any justice, three prominent schools of thought deserve mention before exploring developmental state theory: modernization, dependency and neoliberalism.⁴² These aid in tracing the state

⁴¹ See Atul Kohli, *State-Directed Development: Political Power and Industrialization in the Global Periphery* (Cambridge University Press, 2004) for a survey of late-late industrialization in three separate case studies. See also: Alice H. Amsden, *Asia’s Next Giant: South Korea and Late Industrialization* (Oxford: Oxford University Press, 1989); and Alice H. Amsden, *The Rise of “The Rest”: Challenges to the West from Late-Industrializing Economies* (Oxford: Oxford University Press, 2001) for a discussion of late industrialization.

⁴² Political economists and sociologists who study the history of development and political economy thought will be unsatisfied with the depth of this introductory discussion. A more detailed history tracing the origins of the thought to Karl Marx, Max Weber, Émile Durkheim, and Ferdinand Tonnies, among others, through to the development of modernization and dependency would allow for a more rounded historical discussion. For the purpose of this dissertation, these ought to be noted but the focus remains on literature centred on more recent

versus market debate in relation to development thinking in late industrializers. The first, modernization theory, grew out of the tradition of classical economic liberalism, stressing the benefits of market-led development and the contention that economic liberalization would lead to growth. It viewed development as a primarily linear process, whereby nations would progressively achieve different benchmarks. The assumption was that developing countries would “modernize” according to the same pattern as European countries in the seventeenth century.⁴³ One of the more common modernization trajectories included Rostow’s growth model.⁴⁴

Reacting to the predictive failure of modernization theory, a variety of contending responses developed. One of the most tractable of these turned out to be Dependency, which grew out of the nationalist thinking and economic analysis of Raul Prebisch in the 1950s. Whereas neoclassical growth theories like modernization suggest that economic growth would be pareto optimal for all countries, economic growth in industrialized countries often resulted in economic problems in poorer ones. Dependency’s basic premise was that resources flow from the underdeveloped and developing countries to the “core” wealthy ones, creating situations of dependency. The impoverishment of the developing world was the result of Western subjugation. Poorer countries were forced into subordinate positions in which they became dependent on Western powers.⁴⁵

developmental paths for their comparative value with the case under examination. Sociologists and other scholars of development history will find these interesting to pursue however.

⁴³ Jeffrey A. Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century* (W. W. Norton, 2007); J.N. Pieterse, Ch. 13, “Trends in Development Theory,” in Ronen Palan, ed., *Global Political Economy: Contemporary Theories*, 1st ed. (Routledge, 2000).

⁴⁴ Rostow’s stages of growth include: stages of growth: 1. The traditional society; 2. the pre take-off stage; 3. take-off; 4. the road to maturity; 5. the society of mass consumption. See Pieterse in Palan, 2000.

⁴⁵ One noteworthy dependency theorist was Brazil’s Fernando Henrique Cardoso, who later served two terms as president. Pieterse in Palan, *Global Political Economy*; Frieden, *Global Capitalism*, chap. 18.

With the 1980s came a resurgence of classical economic liberalism in the form of “neoliberalism.” Championing a belief that a free-market economy is best suited to promoting economic development regardless of national socio-political and economic environments, neoliberalism conceptualizes development as economic growth, corroborated by aggregate economic indicators. In this view, the role of the government in economic management should be limited. Otherwise, states will develop economic policies which are “manifestly unworkable.”⁴⁶ These views shaped development thinking and policy prescriptions over several decades, becoming entrenched in the recommendations of International Financial Institutions and forming the foundation of structural adjustment programmes until recently.⁴⁷

During the late 1980s and early 1990s when rentier state literature was just gaining popularity in work on the Middle East thanks to the texts of Luciani and Beblawi in 1987 and 1990, theorists of all stripes posited on the impact of oil on the Gulf. Whereas modernization writers expected that oil would attract the necessary capital to stimulate economic growth and contingent democratic political development, dependency thinkers projected that because oil-based development relied on “unpredictable markets” it would usher in “dependency and decline.”⁴⁸ Both contentions contained some truth. These voices, coupled with neoliberalism, seem to have all affected the trajectory of development choices

⁴⁶ Anne O. Krueger, “Government Failures in Development,” *The Journal of Economic Perspectives* 4, no. 3 (July 1, 1990): p.

⁴⁷ Andrew Walter and Gautam Sen, *Analyzing the Global Political Economy* (Princeton University Press, 2009); Frieden, *Global Capitalism*; Palan, *Global Political Economy*.

⁴⁸ Cardoso and Faletto considered oil-producing states as part of a group of “enclave economies.” These economies were forced into situations of reliance on the world market and could not control production because their economic output was controlled externally. Fernando Henrique Cardoso and Enzo Faletto, *Dependency and Development in Latin America*, trans. Marjory Mattingly Urquidí (Los Angeles: University of California Press, 1979), 70; Crystal, *Oil and Politics in the Gulf*, 1990, 6.

in the region. In fact, it could be argued that the fame and perceived strong explanatory power of rentier state work was partially responsible for the subsequent segregation of the Gulf from broader development work.

Even given this separation, the contestation between the voices that argued for more foreign investment and those that argued for economic independence continues to resound in local policy circles in the region today.⁴⁹ Yusif Sayigh's work provides a good example of this narrative and the attempt to reconcile them. Taking dependency theory to task, Sayigh builds upon it and provides what ultimately comprises a nationalist vision to development and integration in the global capitalist system – on national terms. The perspective offered here suggests that in reality dependency “is less a determinant international structure and more a set of shifting constraints within which individual nation-states have room to manoeuvre.”⁵⁰ This is reflective of Sayigh's entreaty for a move from dependent to self-reliant development in the Middle East.⁵¹ The sentiment that Sayigh reflects in his entreaty for shifting from dependent to self-reliant development in the Middle East is ensconced within developmental state theory. Indeed, the example of developmental states elucidates the shortfalls of earlier theories. Literature on the developmental state emerged as an explanation of the developmental successes of East Asian economies, and was situated as a response to the dissatisfaction with both neoclassical growth theories and socialism.

⁴⁹ Yusif A. Sayigh, *Elusive Development: From Dependence to Self-Reliance in the Arab Region* (Routledge, 1991).

⁵⁰ Pempel in Meredith Woo-Cumings, ed., *The Developmental State* (Cornell University Press, 1999), 143.

⁵¹ Sayigh, *Elusive Development*.

3.2 Origins and Evolution of Developmental State theory

The notion of a developmental state is most commonly associated with the “miracle” of East Asian development. The term was first coined by Chalmers Johnson in 1982 in reference to Japan and its Ministry of International Trade and Industry (MITI).⁵² It has since evolved into a quasi-model of development, theorizing about the paths to industrialization predicated on a unique mixture of strong state-led development strategies and manipulation of market mechanisms to exploit capitalist development. Developmental states, as defined by Adrian Leftwich, are

... states whose politics have concentrated sufficient power, autonomy and capacity at the centre to shape, pursue and encourage the achievement of explicitly developmental objectives, whether by establishing and promoting the conditions and direction of economic growth, or by organising it directly, or a varying combination of both.⁵³

Similarly, in the introduction to her book, Meredith Woo-Cumings engages the term developmental states as “short hand for the seamless web of political, bureaucratic, and moneyed influences that structures economic life in capitalist Northeast Asia.”⁵⁴ She considers the emergence of developmental states as primarily a response to the problems associated with Western economic dominance, and their persistence as evidence of the necessity for a nation to sharpen its competitiveness and maintain a “residual nationalism” in the face of globalization.⁵⁵ Despite their corruption and inefficiency, their growth and resilience lend validity to arguments for state-guided development processes.⁵⁶ It is indeed

⁵² Chalmers A. Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford University Press, 1982).

⁵³ Adrian Leftwich, “Bringing Politics Back In: Towards a Model of the Developmental State,” *Journal of Development Studies* 31, no. 3 (n.d.): 401, doi:10.1080/00220389508422370.

⁵⁴ Woo-Cumings, *The Developmental State*, 1.

⁵⁵ Ibid.

⁵⁶ Woo-Cumings, *The Developmental State*.

within the context of seeking a unique solution to development that responds to ideological poles mandating both nationalism and international economic integration that the developmental state emerged.

There is neither a consensus on what ultimately constitutes a developmental state nor on what qualifies a state to be one. In all assessments, however, these states are characterized by regular state intervention in economic activities in order to promote domestic competitiveness. Oriented toward developing their national economy, long-term economic development is prioritized over short-term growth even though both are desired. As opposed to only building on existing comparative advantage, developmental states strive to construct “competitive advantages.”⁵⁷ The most common assumptions underpinning development state theory include the requirement that the state have strong capacity, an effective ability to shield itself from societal interests (relative autonomy), an insulated economic bureaucracy that is both potent and capable, an industrial policy aimed at shifting from import substitution to export-oriented industrialization, the mutual embeddedness of the state and society, and the embrace of market manipulation as opposed to the “deified Western concept of ‘the market.’”⁵⁸

The embeddedness of the state in society combined with autonomy from the society is what Peter Evans calls “embedded autonomy.”⁵⁹ In a developmental state, economic development is achieved not through pure market behaviour but the state’s ability to

⁵⁷ T.J. Pempel, “The Developmental Regime in a Changing World Economy,” in *ibid.*, 139; K.S. Jomo, “Rethinking the Role of Government Policy in Southeast Asia,” in Joseph E. Stiglitz and Shahid Yusuf, eds., *Rethinking the East Asian Miracle* (Oxford: Oxford University Press, 2001).

⁵⁸ Pempel in Woo-Cumings, *The Developmental State*, 157; Wonik Kim, “Rethinking Colonialism and the Origins of the Developmental State in East Asia,” *Journal of Contemporary Asia* 39 (August 2009): 384, doi:10.1080/00472330902944446; Peter B. Evans, *Embedded Autonomy* (Princeton University Press, 1995), 47–60; Leftwich, “Bringing Politics Back In.”

⁵⁹ Evans, *Embedded Autonomy*.

guide, regulate and stimulate the market. The ability of the state to embed itself in society allows it to establish industrial policies that maximise both industrial and social interests vis-à-vis high economic development.⁶⁰ Autonomy grants the state decision-making power whilst embeddedness allows it to make good decisions. Embeddedness, in Evan's view, is on equal footing with autonomy and both must be present in a developmental state. He notes,

... it is worth underlining that either autonomy or embeddedness may produce perverse results without the other. Without autonomy, the distinction between embeddedness and capture disappears. Autonomy by itself does not necessarily predict an interest in development, either in the narrow sense of economic growth or in the broader sense of improved welfare. The secret of the developmental state lies in the amalgam.⁶¹

There is broad consensus that embedded autonomy constitutes an important characteristic of the developmental state. Nevertheless, some scholars reject the term developmental state altogether because it is misleading and obfuscates that many such states are not always developmental and are often quite "brutal."⁶² Earlier descriptions of the developmental state, however, identify "repression" as a defining component.⁶³ These scholars attach repression, legitimacy and performance to their lists of identifying characteristics.⁶⁴ In fact, authoritarian features often fit in well with the autonomous character of economic bureaucracies.⁶⁵

⁶⁰ Kim, "Rethinking Colonialism and the Origins of the Developmental State in East Asia," 384.

⁶¹ Evans, *Embedded Autonomy*, 59.

⁶² Kohli, *State-Directed Development*, 31.

⁶³ Leftwich, "Bringing Politics Back In."

⁶⁴ Ibid.

⁶⁵ See Jeong-Hyun Kim and Chi Huang, "Dynamics of State Strength and Policy Choices: A Case Study of South Korea and Taiwan," *Pacific Focus* 6, no. 2 (September 1, 1991): 83–108, doi:10.1111/j.1976-5118.1991.tb00090.x; Simon Springer, "Renewed Authoritarianism in Southeast Asia: Undermining Democracy through Neoliberal Reform," *Asia Pacific Viewpoint* 50, no. 3 (December 1, 2009): 271–276, doi:10.1111/j.1467-8373.2009.01400.x; and Leftwich, "Bringing Politics Back In."

Many theorists claim that developmental states are limited to the East Asian countries of Japan, South Korea and Taiwan. Others expand this to include Hong Kong, Malaysia, Singapore and Thailand.⁶⁶ Pempel, for instance, believes that only East Asian states qualify as developmental. Reflecting his sense that the developmental state model “is unlikely to be easily implanted by other countries,” developmental state theory has received significant attention for the “particularity, not universality, on which it is based.”⁶⁷ Some scholars do broaden the application however. Whereas Evans situates Brazil and India as “intermediate,” that is, those in between developmental and predatory states, others such as Leftwich claim that developmental states “have not been confined” to East Asia.⁶⁸ Some have even expanded the applicability to non-Asian states that experienced high growth rates like Botswana and, with qualifications, industrialized states like France.⁶⁹ The strength of developmental state theory therefore lies in its admission to the “possibility of more than one historical path to economic development,” lending credence to the view that it is not overly restrictive in its applicability.⁷⁰ As such, it has become increasingly popular to expand the concept to include new emerging economies today.

3.3 Rentier Revised? Situating the Gulf

Recently, two scholars have paved the way for integrating developmental state literature into analyses on the Gulf, Martin Hvidt and Steffen Hertog. Indeed, Hertog

⁶⁶ Evans, *Embedded Autonomy*; Woo-Cumings, *The Developmental State*.

⁶⁷ Kim, “Rethinking Colonialism and the Origins of the Developmental State in East Asia,” 384; Pempel in Woo-Cumings, *The Developmental State*, 138.

⁶⁸ Evans, *Embedded Autonomy*; Pempel in Woo-Cumings, *The Developmental State*; Adrian Leftwich, *States of Development: On the Primacy of Politics in Development* (Wiley-Blackwell, 2000), 168.

⁶⁹ Leftwich, *States of Development*, chap. 7; Michael Loriaux, “The French Developmental State as Myth and Moral Ambition,” in Woo-Cumings, *The Developmental State*, 235–275.

⁷⁰ Pempel in Woo-Cumings, *The Developmental State*, 140.

suggests that the Gulf states may represent an “idiosyncratic variation of the developmental state, leading national development through small teams of elite technocrats by way of targeted technology acquisition, export promotion, infrastructure policies, and protectionist measures.”⁷¹ He does not, however, go much beyond suggesting this association in his conclusion. Hvidt, on the other hand, engages the concept in more detail in his series of articles on Dubai.⁷² He does this as part of an effort to develop what he calls the “Dubai model” of development, which he frames using Luciani’s allocation-production state dichotomy that he situates on a sliding scale. He suggests that Dubai, inspired by Singapore, represents a new development model in the Gulf. Even more recently, Hvidt has suggested that there are attempts to replicate the Dubai model in other Gulf countries and even suggests it may be “displacing the rentier state model.”⁷³ His conceptualization of rentier state literature as a “model” that is displaceable is problematic. The rentier state is a theoretical construction based on observations of the behaviour of resource-wealthy states. Rentierism is more of a condition than a series of characteristics a state can view and choose to emulate. Thus, a state does not voluntarily opt to be rentier or elect to follow a rentier model. Dubai’s path, in contrast, does offer a series of practices that a state can choose to implement. Nevertheless, although Dubai’s development may indeed comprise a model that some Gulf states are emulating to varying degrees in their largest cities, the reality that Dubai required bail out money by Abu Dhabi may interrupt the claim of the model’s efficacy and the desirability of its replicability.

⁷¹ Hertog, “Defying the Resource Curse,” 293.

⁷² Hvidt, “Public – Private Ties and Their Contribution to Development”; Hvidt, “The Dubai Model.”

⁷³ Martin Hvidt, “Economic and Institutional Reforms in the Arab Gulf Countries,” *The Middle East Journal* 65, no. 1 (2011): 101.

Aside from this, new ways of conceptualizing the Gulf states have begun to be engaged within the last decade. The Gulf has clearly undergone political economy transformations during this time, causing a small flurry of academic re-engagement among the, albeit small, Gulf studies community. Academics such as Anoush Ehteshami and Steven Wright note a gradual shift toward political enfranchisement in some cases.⁷⁴ Ahn Nga Longva calls the Gulf states civic ethnocracies rather than autocracies or democracies, and Adam Hanieh frames the Gulf in terms of class politics and its position and participation in global capital movement.⁷⁵ Clearly, scholars are searching for novel ways of framing and explaining governance in the Gulf. During the 2000s, the UAE in particular was pointed to as part of this gradual change potential. Similar to Hvidt, Schwarz suggests that the United Arab Emirates has

combined the positive attributes of a rentier state (huge oil investment and revenues) with those of a production-oriented welfare state. The UAE have attempted to diversify their economy and to attract foreign investments as part of a plan for the post-rentier phase. Their policy trajectory shows that the country is leaving the rentier tendencies of the past behind, and that the foundations for lasting stability and prosperity have been laid.⁷⁶

Even Luciani seems to note changes in the nature of Gulf governance. Pointing to an expanding role for the business class, he suggests that while they originally comprised a rent-seeking, crony capitalist class, there seems to be development within the corporate

⁷⁴ Anoushiravan Ehteshami and Steven Wright, "Political Change in the Arab Oil Monarchies: From Liberalization to Enfranchisement," *International Affairs* 83, no. 5 (September 2007): 913–932, doi:10.1111/j.1468-2346.2007.00662.x.

⁷⁵ Ahn Nga Longva, "Neither Autocracy nor Democracy but Ethnocracy: Citizens, Expatriates and the Socio-Political System in Kuwait," in Paul Dresch and James Piscatori, *Monarchies and Nations: Globalisation and Identity in the Arab States of the Gulf* (I. B. Tauris, 2005), 114–135; Adam Hanieh, *Capitalism and Class in the Gulf Arab States* (New York: Palgrave Macmillan, 2011).

⁷⁶ Schwarz in Omeje, *Extractive Economies and Conflicts in the Global South*, 222.

world causing a more empowered entrepreneurial bourgeoisie to develop as a result of partnerships between FDI and locals.⁷⁷

Recent literature also adds a twist to the rentier assumption of state autonomy. Much of the new work often points to the case of Saudi Arabia.⁷⁸ This case is used to suggest that the state is never actually fully autonomous from society in that there needs to be a broad popular agreement or compliance to the ruling establishment. This is because Saudi Arabia has to appeal to a variety of societal actors, ranging from princes to the religious establishment, as a means of maintaining its governing legitimacy and political stability.⁷⁹ Along with these, there are more recent works, from a variety of disciplines, which look beyond oil in their analyses. These refreshing studies form part of an emerging and positive trend in re-examining the Gulf through multiple lenses and avoiding the reductionism I criticize here.⁸⁰ Those who do employ the topic of oil see its use as a tool of regime legitimacy. In this regard, Toby Craig Jones argues that oil resources (among others) are utilized in such a way as to reinforce the legitimacy of the al-Sauds. Marc Valeri engages a similar line of argument with regard to Oman and the legitimization of Sultan Qaboos by

⁷⁷ Giacomo Luciani. Chapter 10: "Linking Economic and Political Reform in the Middle East: The Role of the Bourgeoisie," in Schlumberger, *Debating Arab Authoritarianism*, 161–176.

⁷⁸ In fact, if any empirically detailed case studies are engaged in rentier arguments the case of choice tends to be Saudi Arabia. See, for example: Toby Craig Jones, *Desert Kingdom: How Oil and Water Forged Modern Saudi Arabia* (Harvard University Press, 2010); Hertog, *Princes, Brokers, and Bureaucrats*; Tim Niblock and Monica Malik, *The Political Economy of Saudi Arabia* (Routledge, 2007); Robert Vitalis, *America's Kingdom: Mythmaking on the Saudi Oil Frontier* (London: Verso, 2009).

⁷⁹ Paul Aarts and Gerd Nonneman, *Saudi Arabia in the Balance: Political Economy, Society, Foreign Affairs* (Washington Square, NY: New York University Press, 2005); Niblock and Malik, *The Political Economy of Saudi Arabia*; Madawi Al-Rasheed, *A History of Saudi Arabia*, 2nd ed. (Cambridge: Cambridge University Press, 2010).

⁸⁰ Sean Foley, *The Arab Gulf States: Beyond Oil and Islam* (Lynne Rienner Publishers, 2010); Hanieh, *Capitalism and Class in the Gulf Arab States*; Adam Hanieh, "Khaleeji-Capital: Class-Formation and Regional Integration in the Middle-East Gulf," *Historical Materialism* 18, no. 2 (2010): 35–76, doi:10.1163/156920610X512435; Jones, *Desert Kingdom*; Ahmed Kanna, "A Politics of Non-Recognition? Biopolitics of Arab Gulf Worker Protests in the Year of Uprisings," *Interface* 4, no. 1 (May 2012): 146–164; Ahmed Kanna, *Dubai: The City As Corporation* (Minneapolis: University of Minnesota Press, 2011).

the means of the welfare state.⁸¹ Still, this conceptualization of state autonomy is only a slight inversion of the more classical use of the rentier ruling bargain. In these accounts the rulers, by virtue of their oil resources, are able to function with significant autonomy from society even if the use of resources is operationalized in a way as to avoid popular discontent. Thus, rather than differing significantly from rentier arguments, these contribute to a growing body of literature expanding upon them and deepening the level of analysis.

Despite the acknowledgements of change in recent work on the Gulf mentioned above, attachments to rentier state generalizations remain predominant within political economy studies of the region. As well, there is a split between two interpretations of Gulf state behaviour and economic policy making, one which suggests that reform and policy change are motivated by regime security and the other which attributes reforms to a genuine development motivation. The first view contends that economic reforms are undertaken as regime survival strategies and serve more as “a political project for the modernization of authoritarian rule” than a project for economic development.⁸² Accordingly, rentier states pursue economic reform in response to domestic unrest to quell social discontent and maintain autonomy from the population.⁸³ This view attributes reform in the 1980s to internal unrest given economic troubles resulting from the oil price decline, the establishment of trading zones in the 1990s to a desire to improve relations

⁸¹ Jones, *Desert Kingdom*; Marc Valeri, *Oman: Politics and Society in the Qaboos State* (London: Hurst Publishers, 2009), 71–94.

⁸² Schlumberger, “Structural Reform, Economic Order, and Development,” 630; Alan Richards and John Waterbury, *A Political Economy of the Middle East*, Third (Westview Press, 2007), 261.

⁸³ F H Lawson, “Economic Liberalization and the Reconfiguration of Authoritarianism in the Arab Gulf States,” *Orient* 46, no. 1 (2005): 19–43.

with the merchant community, and the establishment and/or reconfiguration of consultative councils to an attempt at improving ties between the ruling families and the business elite.⁸⁴ As such, Fred Lawson suggests that the commercial elite are connected to economic decision making when their inclusion is deemed facilitative toward stability and regime durability.⁸⁵ Structural reform, in Oliver Schlumberger's terms, resulted in capitalist but non-market economies.⁸⁶

The second view diverges slightly from the first, and seems to imply a genuine commitment to development and progress. These assessments point to the Gulf's pro-capitalist orientation and political autonomy. The development of deep systems of patronage across Gulf society has generated a strong mutual embeddedness between the corporate elite and ruling families which extends beyond rent seeking. Some even suggest a process in which the business class "divorces itself from rentier politics."⁸⁷ This has also allowed them to build a striking number of "pockets of efficiency" in such areas as state-owned enterprises (SOEs).⁸⁸ These evolutions coincide with the characteristics of the developmental states outlined in section 3.2. Like other developmental states, the Gulf rentiers have a strong capacity to shield themselves from society, and direct national development autonomously. Moreover, they have closely linked economic and security policies with the US. GCC countries rely heavily on technocratic economic planning and have been successful at preventing the working classes from engaging in politics.⁸⁹ Though

⁸⁴ Ibid.

⁸⁵ Ibid., 29–32.

⁸⁶ Schlumberger, "Structural Reform, Economic Order, and Development."

⁸⁷ Bessma Momani, "Shifting Gulf Arab Investments into the Mashreq: Underlying Political Economy Rationales?" in Legrenzi and Momani, *Shifting Geo-economic Power of the Gulf*, 163.

⁸⁸ Hertog, "Defying the Resource Curse."

⁸⁹ Ibid., 293–294; Pempel in Woo-Cumings, *The Developmental State*; Leftwich, "Bringing Politics Back In."

still largely accurate given the two-tier labour market, this resonates less strongly today with the rising frequency of worker strikes and mobilization in several Gulf states among both expatriate and national populations.⁹⁰

Whereas the one view grants society limited agency, the other removes it altogether, affording greater credence to the belief in the weakness of civil society throughout the region. This is rooted in the historical story of severe underdevelopment in the pre-oil era which bestowed unprecedented power to ruling families once oil conferred them fiscal autonomy. This view fits comfortably within the Coxian definition of state corporatism, suggesting the power of the state

in the hands of political leadership, predominates over both management and labour without there being any effective counterweight through parliamentary control or accountability. This mode of social relations of production accordingly is to be found in countries where liberal political institutions and competitive party politics have been suppressed or are only formal and where semiautonomous organizations of employers and workers exist or are created under state tutelage ... State corporatism is essentially a preemptive political form of social control.⁹¹

While this notion seems suitable, the claim of a weakness or absence of civil society in the region fails to account for the political opposition throughout Bahrain, Kuwait and Saudi Arabia and the mobilization of grass roots demonstrations of discontent in four of six GCC

⁹⁰ See, for example Iman Al-Quwaifili, "Saudi Labor Strikes: Rebirth of a Suppressed Tradition," *Al Akhbar English*, January 16, 2012, <http://english.al-akhbar.com/content/saudi-labor-strikes-rebirth-suppressed-tradition>; Praveen Menon, "Labour Strikes Erupt in Dubai," *The National*, August 31, 2009, <http://www.thenational.ae/news/uae-news/labour-strikes-erupt-in-dubai>; "Arabtec's Dubai-based Workers End Wages Strike," *Arabian Business*, January 27, 2011, <http://www.arabianbusiness.com/arabtec-s-dubai-based-workers-end-wages-strike--376656.html>; "Expatriate Workers Lodge Complaint on Non-payment of Salaries," *Muscat Daily*, January 10, 2012, <http://www.muscatdaily.com/Archive/Oman/Expatriate-workers-lodge-complaint-on-non-payment-of-salaries>; "Over 2,200 Workers Strike Work over 'unpaid Salaries'," *Muscat Daily*, March 5, 2012, <http://www.muscatdaily.com/Archive/Oman/Over-2-200-workers-strike-work-over-unpaid-salaries>; Sunil K. Vaidya, "Oman Petrol Company Workers Go on Strike," *Gulf News*, May 27, 2012, <http://gulfnews.com/news/gulf/oman/oman-petrol-company-workers-go-on-strike-1.1028296>; Saleh Al-Shaibany, "Thousands of South Asian Workers Strike at Oman Airport," *Reuters*, March 12, 2013, <http://www.reuters.com/article/2013/03/12/us-oman-strike-idUSBRE92BOX320130312>.

⁹¹ Robert W. Cox, *Production, Power, and World Order: Social Forces in the Making of History* (Columbia University Press, 1987), 80–81.

states during the Arab Spring of 2011. It also marginalizes the emergence of transnational civil society networks that have been facilitated by regionalism and organized on a Gulf-wide basis, in some cases for many decades.⁹²

In fact, in some ways both views complement each other; suggesting that whatever the underlying motivation, economic policy making is elite driven in the Gulf. Neither grants much credence to popular agency. The first school of thought contends that decision making is comprised primarily of ad hoc responses to internal (domestic) concerns. The other suggests that the elite have real developmental interests and facilitate certain consultation and compromises both to engender development progress and to maintain national stability and regime longevity. Rulers are thus perceived as benevolent dictators who quash dissent when necessary. In my view, this is reflective of the conventional theory of the developmental state prior to democratic reform. Speaking about contemporary developmental states, Leftwich notes that

Combining varying degrees of repression and legitimacy, where civil society is weak or weakened, these states have concentrated considerable power, authority, autonomy and competence in the central political and especially bureaucratic institutions of the state, notably their economic bureaucracies, and they have generated pervasive 'infrastructural capacity' (Mann, 1986) to achieve their developmental objectives. This has enhanced the capacity of these states to deal authoritatively and not dependently with both domestic and especially foreign economic interests in pursuit of national developmental objectives.⁹³

Studies indicate the importance of institutional capability in ensuring long-run economic growth and suggest that those with high levels of institutional capability experience more rapid growth than those without. Institutional capability can impact growth through

⁹² Matteo Legrenzi, "Did the GCC Make a Difference? Institutional Realities and (Un)Intended Consequences," in Cilja Harders and Matteo Legrenzi, *Beyond Regionalism?: Regional Cooperation, Regionalism and Regionalization in the Middle East* (Ashgate Publishing, Ltd., 2008), 107–124.

⁹³ Leftwich, *States of Development*, 168.

investment and through the allocation of resources.⁹⁴ Although this is a factor for all states, the strength of a state's institutional infrastructure necessarily impacts the effectiveness of its developmental aims. Given the perceived inherent institutional weakness of rentier states, this contention is especially significant for them. Interestingly Gulf countries ranked the highest in institutional quality in the Middle East North Africa (MENA) region.⁹⁵ They have even been successful in constructing efficient SOEs.⁹⁶ Whether these developments are motivated by regime security or by a genuine development motivation remains contested in the literature. The next few chapters of this study contribute to this debate by further interrogating policy motivations in GCC countries.

Despite the lack of agreement on the underlying motivation(s) for policy change, contemporary Gulf scholars are indicating that rentier systems appear to be evolving.⁹⁷ Hertog notes that rent-seeking is in decline and more sophisticated systems of redistribution and brokerage are developing.⁹⁸ Claiming that the 'secular decline' of brokerage systems in the Gulf is "politically significant," he suggests that "given the increasing nationalization of private labour markets, progressive liberalization of business regulations, and, in some areas at least, maturation of bureaucracy, levels of brokerage are bound to decline."⁹⁹ Onn Winckler and Giacomo Luciani mirror this sentiment and point to the private sector business community as eventual provocateurs, gradually transforming

⁹⁴ John Page and Linda Van Gelder, Chapter 2, "Missing Links: Institutional Capability, Policy Reform, and Growth in the Middle East and North Africa," in Hassan Hakimian and Ziba Moshaver, *The State and Global Change: The Political Economy of Transition in the Middle East and North Africa* (Routledge, 2001).

⁹⁵ Page and Van Gelder in *ibid.*, 30–31.

⁹⁶ Hertog, "Defying the Resource Curse."

⁹⁷ See the essays included in Legrenzi and Momani, *Shifting Geo-economic Power of the Gulf*.

⁹⁸ See Steffen Hertog, "The Sociology of the Gulf Rentier Systems: Societies of Intermediaries," *Comparative Studies in Society and History* 52, no. 02 (2010): 282–318, doi:10.1017/S0010417510000058.

⁹⁹ *Ibid.*, 314.

the nature of state-business relations.¹⁰⁰ In fact, examining entrepreneurship within developing country contexts has been part of development research for the past few decades. Development theorists and rentier state theorists have posited on the role of the business classes in development and reform.¹⁰¹ There is much debate concerning whether and under what conditions entrepreneurs may support reform. Several scholars, however, do emphasize that in the Gulf context the business community cannot be understood as an agent for change. While they may push for liberalization when beneficial, many note their seemingly duplicitous desire for the maintenance of illiberal political orders as long as economic reform continues in their favour.¹⁰² Thus despite any agency some may attribute to them, the business elite may not actually be change agents. Later chapters speak to this contention, between entrenched business interests and the promotion of new business hopefuls.

The promotion of entrepreneurship, especially among the millennial generation, arguably contains potential for shaking the assumption of a stagnant business community in favour of the status quo as we move into the future. This is assessed in greater detail in chapter four. State intervention through policies which advocate and support entrepreneurship and innovation may ultimately fashion certain social norms. To some extent, this is the policy intention especially with regard to attempts at inculcating an

¹⁰⁰ Onn Winckler, "Labor and Liberalization: The Decline of the GCC Rentier System," in Teitelbaum, *Political Liberalization in the Persian Gulf*; Luciani in Schlumberger, *Debating Arab Authoritarianism*.

¹⁰¹ See for example, Peter B. Evans, *Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil* (Princeton University Press, 1979); Eva Rana. Bellin, "Contingent Democrats: Industrialists, Labor, and Democratization in Late-Developing Countries," *World Politics* 52, no. 2 (2000): 175–205; S. Greenwood, "Bad for Business?: Entrepreneurs and Democracy in the Arab World," *Comparative Political Studies* 41, no. 6 (November 2007): 837–860, doi:10.1177/0010414007300123.

¹⁰² See Greenwood, "Bad for Business?"; and Giacomo Luciani, Chapter 10: "Linking Economic and Political Reform in the Middle East: The Role of the Bourgeoisie," in Schlumberger, *Debating Arab Authoritarianism*, 161–176.

entrepreneurial culture through education and training. At the same time however, just as states mould their own societies, they are also “moulded by them.”¹⁰³ When social change occurs, it can impact strata from the bottom to the top. Social change impacts a state no matter how autonomous one may believe it to be. Indeed, since “industrialization involves social change,”¹⁰⁴ one cannot disconnect these dual processes from the other. It stands to reason that the Gulf state’s promotion of entrepreneurship and innovation may have unintended consequences in terms of social change.¹⁰⁵

In some regards, both developmental state theory and rentier state literature can be accused of suffering the same elite centricism and statism, which risk overlooking social transformation. A great deal of faith is placed in the autonomy of the state. One noted development scholar, Kohli, has suggested that the ability of researchers to build satisfactory explanations of development patterns in late-late industrializers is challenged by a limited focus on social conditions. This accusation also resonates for Gulf cases. Whilst noting the importance of analyzing development patterns in light of social conditions, such as level of education, Kohli simultaneously expresses reservations around the efficacy to which one can carry out such analysis since social factors so regularly come under state intervention. Areas ranging from labour practices and ethics to education levels and quantity of entrepreneurs are often impacted by state intervention. He thus suggests placing the analytical focus on “variations in the patterns of state intervention.”¹⁰⁶ This study responds to this suggestion by examining the practices of the state promotion of

¹⁰³ Kohli, *State-Directed Development*, 372.

¹⁰⁴ *Ibid.*, 8.

¹⁰⁵ See Polanyi’s classic text for a description of change in social and economic organization. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Beacon Press, 2001).

¹⁰⁶ Kohli, *State-Directed Development*, 371.

entrepreneurship and innovation in Gulf countries, and delineating their experiences in the “promotion and policing” of these.¹⁰⁷

4. Reading Innovation in Developmentalism

Traditionally, developmental states are more focused on production. The challenge in the Gulf, as we delineate here, is its limited productive capacity. It seems odd that states so oriented toward allocation or distribution could be cast in similar terms with developmental states. Yet, it is the inherent developmentalism in their language and the attempts at guiding and stimulating economic activity toward different aims that has prompted scholars such as Hvidt to engage this debate. As pointed out in the introduction to this dissertation, Gulf states today are focusing their development visions and plans toward technological innovation and the knowledge economy. In this sense, they are trying to jump onto a neo-developmental path, admiring the successes and embracing some of the patterns from their Eastern neighbours. Significantly though, Gulf states seem to be looking to ideas around the knowledge economy, and more specifically, entrepreneurial growth, as a cure to economic concerns in the absence of diversified industrialization.

It is true that the nature of the economy today has changed the developmental state from its earlier days with its focus on production and industrialization. Trade for instance, has been surpassed by international financial flows and rises in FDI.¹⁰⁸ The Gulf region has been no stranger to this trend, despite its more limited industrial base. Joint ventures and FDI in the Gulf’s petrochemical, aluminium, and other similar industries are a case in point.

¹⁰⁷ See chapter 5, Evans, *Embedded Autonomy*.

¹⁰⁸ V. Spike Peterson, *A Critical Rewriting of Global Political Economy: Integrating Reproductive, Productive and Virtual Economies* (London and New York: Routledge, 2003), 56.

Likewise, the growing financialization of the region has been commented on by several scholars.¹⁰⁹ Along with this change, across the globe FDI has been shifting to services while simultaneously moving away from raw materials and manufacturing since the late 1990s. This investment environment has only intensified since then and can be linked to changes in technological developments, new production processes, and the size and flow of international financial capital. The investment environment now privileges short-term commitments, trade in services, global financial markets, and securities.¹¹⁰ Emphasis on innovation and the knowledge economy has replaced the stress on manufacturing and industrialization as the perceived means through which to engage globalization toward developmental aims.

This final section reviews development literature around innovation and entrepreneurship, and follows this with a discussion of the use of entrepreneurship in the Gulf context.

4.1 On Innovation and Entrepreneurship

The discussion of innovation utilized throughout this dissertation sits at the nexus of theory and policy worlds. Since I am engaging innovation in reference to policy, I begin with the technical rather than theoretical definition as used by the World Bank. Holding that innovation does not necessarily have to be new in “absolute terms,” the World Bank

¹⁰⁹ See articles in collected volume by Legrenzi and Momani, *Shifting Geo-economic Power of the Gulf*; Seznec and Kirk, *Industrialization in the Gulf*; and Jean-François Seznec, “The Gulf Sovereign Wealth Funds: Myths and Reality,” *Middle East Policy* 15, no. 2 (June 2008): 97–110, doi:10.1111/j.1475-4967.2008.00352.x.

¹¹⁰ Peterson, *A Critical Rewriting of Global Political Economy*, 56–57.

defines innovation as “technologies or practices that are new to a given society.”¹¹¹ Innovation, in this view, is not only derived from high technology, but also “low–technology developments and the exploitation of indigenous knowledge.” Innovations thus “come from entrepreneurs who make them happen and ultimately depend upon a society’s receptiveness. Innovation, therefore, is fundamentally a social process.”¹¹² Innovation should be promoted, in this view, because it improves economic growth, competitiveness, and welfare.

The study of innovation and innovation systems is intricately connected to the study of development and developmental states. During the 1950s, scholars like Solow and Abrahamovitz identified a link between technological advances and economic growth, which has been attributed with prompting questions around the role of innovation in development.¹¹³ One can even trace the roots of the discussion further back to Friedrich List’s idea of a national system of political economy.¹¹⁴ The study of national systems of innovation began in earnest in the 1980s and 1990s with works by Freeman, Lundvall, Metcalfe, and Leydesdorff along with work on competitive advantage by entrepreneurship guru Michael Porter.¹¹⁵ A common thread which extends through this genre of works is the

¹¹¹ *Innovation Policy: A Guide for Developing Countries* (Washington: The International Bank for Reconstruction and Development / World Bank, 2010), 4, <https://openknowledge.worldbank.org/bitstream/handle/10986/2460/548930PUB0EPI11C10Dislosed061312010.pdf?sequence=1>.

¹¹² Ibid.

¹¹³ Robert M. Solow, “A Contribution to the Theory of Economic Growth,” *The Quarterly Journal of Economics* 70, no. 1 (February 1, 1956): 65–94, doi:10.2307/1884513; Moses Abrahamovitz, “Resource and Output Trends in the United States Since 1870,” *American Economic Review* 46, no. 2 (1956): 3–23; Jeffrey L. Furman and Richard Hayes, “Catching up or Standing Still?,” *Research Policy* 33, no. 9 (November 2004): 1332, doi:10.1016/j.respol.2004.09.006.

¹¹⁴ Friedrich List, *National System of Political Economy: Three Volumes in One*, Original 1841 (Cosimo Classics, 2011).

¹¹⁵ Chris Freeman, “The ‘National System of Innovation’ in Historical Perspective,” *Cambridge Journal of Economics* 19, no. 1 (February 1, 1995): 5–24; Bengt-Ake Lundvall, *National Systems of Innovation: Toward a*

idea of “catching up” or developing. It was this concern which prompted List’s analysis of Germany’s ability to catch up to England just as this was the primary concern of literature assessing how newly industrializing states could catch up with industrialized ones. Different eras, but similar development enquires.

The focus on innovation has intensified in the last several decades, and has been coupled with theorizing around entrepreneurship and the role of the entrepreneur.¹¹⁶ Scholars like Audretsch and Thurik claim that new firms play a key role in technological development. In their view, this role has been enhanced by the declining importance of scale economies and rising levels of uncertainty in the global economic environment, allowing space for innovation.¹¹⁷ The central idea is that traditional industrial policies have lost their effectiveness as policy instruments in the face of both globalization and the notion that a knowledge economy is the source of competitiveness and economic growth.¹¹⁸ In

Theory of Innovation and Interactive Learning, (2010) ed. (London and New York: Anthem Press, 1992); Michael E. Porter, *Competitive Advantage of Nations* (Simon and Schuster, 1998); Carlsson, “Internationalization of Innovation Systems: A Survey of the Literature,” *Research Policy* 35, no. 1 (2006): 56–67; J. S. Metcalfe, “Technology Systems and Technology Policy in an Evolutionary Framework,” *Cambridge Journal of Economics* 19, no. 1 (February 1, 1995): 25–46; Loet Leydesdorff, “‘While a Storm Is Raging on the Open Sea’: Regional Development in a Knowledge-based Economy,” *The Journal of Technology Transfer* 31, no. 1 (n.d.): 190.

¹¹⁶ Enrico Santarelli, *Entrepreneurship, Growth, and Innovation: The Dynamics of Firms and Industries* (New York: Springer, 2006); Porter, *Competitive Advantage of Nations*; Freeman, “Continental, National and Sub-national Innovation Systems—complementarity and Economic Growth,” *Research Policy* 31, no. 2 (2002): 191–211, doi:10.1016/S0048-7333(01)00136-6; Bo Carlsson and Ram Mudambi, “Globalization, Entrepreneurship, and Public Policy: A Systems View,” *Industry & Innovation* 10 (March 2003): 103–116, doi:10.1080/1366271032000068122.

¹¹⁷ David B. Audretsch and Roy Thurik, *Innovation, Industry Evolution and Employment* (Cambridge: Cambridge University Press, 1999), 2–6.

¹¹⁸ For a more thorough discussion, see Asa Lindholm Dahlstrand and Lois Stevenson, *Linking Innovation and Entrepreneurship Policy*, Innovation Policy Research for Economic Growth (Swedish Foundation for Small Business Research, November 2007), http://ipreg.org/IPREG_AsaLois_web.pdf; Carlsson and Mudambi, “Globalization, Entrepreneurship, and Public Policy”; and Kefela, “Knowledge-based Economy and Society Has Become a Vital Commodity to Countries.”

response, policy makers are looking to entrepreneurship and innovation policy, considering them crucial ingredients for economic growth and employment creation.¹¹⁹

Promoting innovation and developing a comprehensive innovation policy for a nation is no easy task. Although it is often conflated with science and technology (S&T) policy, innovation policy extends beyond that and requires government action in education, trade, and finance among others.¹²⁰ Albeit to some extent theorizing and policy making on innovation has evolved from S&T as well as research and development (R&D) policies, innovation policy is broader. Similarly, entrepreneurship has grown out of SME policy, but also moves beyond this to include educational, training, and finance aspects. Improving strategies and policy mechanisms around both innovation and entrepreneurship policy requires a view of all of these elements.¹²¹ Research suggests that for innovation policy to thrive, both scientific and business environments need to be conducive to innovation. Regulatory frameworks need to be amended to facilitate innovators and innovative ideas. As such, technical, commercial, financial and other support services ought to be designed with the innovator or entrepreneur in mind and designed in such a way that it is easily accessible by them.¹²²

Like most development questions, the state versus market debate perforates the discussion of entrepreneurship support as well. In this case, the discussion tends to be centred more on the type and value of certain forms of state intervention or government

¹¹⁹ David B. Audretsch, Isabel Grilo and A. Roy Thurik, "Explaining entrepreneurship and the role of policy: a framework," in David B. Audretsch, Isabel Grilo, and A. Roy Thurik, *Handbook of Research on Entrepreneurship Policy* (Cheltenham and Northampton: Edward Elgar Publishing, 2007).

¹²⁰ *Innovation Policy: A Guide for Developing Countries*, 9.

¹²¹ Dahlstrand and Stevenson, *Linking Innovation and Entrepreneurship Policy*, 1–3, 17.

¹²² *Innovation Policy: A Guide for Developing Countries*, 10–12.

support of innovation or entrepreneurship. Frequent examples include American business support practices like grants from the Small Business Bureau as well as examples of state directed support in evolving developmental states.¹²³ Many seem to take a fairly nuanced view and suggest the value of certain support policies are not clear cut. With regard to innovation, Furman and Hayes suggest:

While no country achieves a relatively high level of innovative capacity without such innovation-oriented policy commitments, policy commitments appear to be insufficient in the absence of vastly increased investments in the drivers of innovative capacity... The data do suggest that continuously increasing investments in innovation is, ultimately, essential for achieving innovative leadership.¹²⁴

As far as entrepreneurship promotion is concerned, simple policies that remove excess regulations and call for strengthening education are generally viewed as positive. However, the benefits stemming from policies around grants, financing, and strategies like building innovation cities or strategies like clustering are far less conclusive.¹²⁵

It was not until the 2000s that international organizations began viewing entrepreneurship and the support of SMEs as a critical component of innovation policy.¹²⁶ According to an UNCTAD report, “entrepreneurship is a source of innovation and change, and as such spurs improvements in productivity and economic competitiveness.”¹²⁷ Central to this has been the development of new business incubators, the clustering of innovative

¹²³ Audretsch, Grilo, and Thurik, *Handbook of Research on Entrepreneurship Policy*; Carlsson and Mudambi, “Globalization, Entrepreneurship, and Public Policy.”

¹²⁴ Furman and Hayes, “Catching up or Standing Still?,” 1350.

¹²⁵ Aaron K. Chatterji, Edward Glaeser, and William Kerr, “Clusters of Entrepreneurship and Innovation,” NBER Working Paper Series, No. 19013 (Harvard Business School Working Paper, No. 13-090, April 2013), <http://dash.harvard.edu/bitstream/handle/1/10646423/13-090.pdf?sequence=1>.

¹²⁶ *Innovation Policy: A Guide for Developing Countries*, 83–94.

¹²⁷ *Entrepreneurship and Economic Development: The Empretec Showcase* (Geneva: United Nations Conference on Trade and Development, January 5, 2005), 3, http://unctad.org/en/Docs/webiteteb20043_en.pdf.

sectors, and capacity building training.¹²⁸ In all cases, innovation and entrepreneurship require “a series of coordinated policies able to promote innovative entrepreneurship and structural change. But such change also requires major effort to introduce policies targeted on human capital.”¹²⁹ This is critically important in the case studies in this dissertation, as will be interrogated further in the next chapter. Difficult to attain, policy coordination is needed to effectively promote entrepreneurship. Overall, the promotion of entrepreneurship depends on the strengthening of entrepreneurial skills and the improvement of the “entrepreneurial framework conditions.”¹³⁰

Like the state of industrial diversification, the entrepreneurial environment in the Gulf has been impacted by the nature of its reliance on hydrocarbons.¹³¹ Indeed, the type of diversification and style of developmentalism in the Gulf is both constrained and somewhat distinct from other regions. For example, trade policy is simple and guided by commitments associated with WTO membership. With limited production outside of oil and gas, export strategies are limited. Oman and Qatar both have investment promotion and export development agencies or units within the government. Work with the former is more successful and export promotion often tends to be concerned with promoting local cultural products abroad or local agricultural and fisheries products within the region. Intellectual property concerns are theoretically guided by WIPO practices. Local offices responsible for intellectual property do exist, but are underdeveloped and understaffed.

¹²⁸ *Innovation Policy: A Guide for Developing Countries*, 83–94; Chatterji, Glaeser, and Kerr, “Clusters of Entrepreneurship and Innovation”; Hector O. Rocha, “Entrepreneurship and Development: The Role of Clusters,” *Small Business Economics* 23, no. 5 (December 1, 2004): 363–400, doi:10.1007/s11187-004-3991-8.

¹²⁹ Roberta Piergiovanni and Enrico Santarelli, “Chapter 13: What is the Best Policy for Innovative Entrepreneurship?” in Santarelli, *Entrepreneurship, Growth, and Innovation*, 272–273.

¹³⁰ *UNCTAD: Entrepreneurship and Economic Development*.

¹³¹ Chapter four explores this at some length, after a detailed discussion of entrepreneurship and innovation promotion policy environment in chapter three.

The most rigorous domestic attention to intellectual property protections have been focused around cultural heritage and traditional knowledge. Discussions around IP are increasing however.¹³² This is only natural given the recent attention to innovation and entrepreneurship in the region.

Discussions of innovation within national and regional contexts generally include a discussion of the level of innovation. Many researchers look to statistics such as the numbers of patents and scientific publications as indicators of innovation.¹³³ By these accounts, the Gulf has a long way to go. Looking at the two cases which are the focus of this study, the number of scientific publications per million of the population in Oman was 113.1 and in Qatar was 152.2 according to a 2010 report.¹³⁴ 2012 data based on the Patents Co-operations Treaty lists Oman with 0.4 and Qatar with 1.3 patent applications per million of the population.¹³⁵ Compared with Canada at 77.6 and Singapore at 123.2, a shift to focusing on innovation in the countries is arguably quite critical.¹³⁶ If the GCC patent office figures are any indication, there has been some improvement. They suggest that patent applications to the regional body have doubled since 2005, reaching a total of 3,001 in 2012.¹³⁷ Oman, in fact, is to be the first GCC country to undergo a Science, Technology, and

¹³² Personal interviews and meetings at Ministry of Commerce and Industry, Oman, and Ministry of Business and Trade, Qatar, September 2011 – July 2012; David Price, *The Development of Intellectual Property Regimes in the Arabian Gulf States: Infidels at the Gates*, 1st ed. (Routledge, 2009), 251–253.

¹³³ Hariolf Grupp and Mary Ellen Moguee, “Indicators for National Science and Technology Policy: How Robust Are Composite Indicators?,” *Research Policy* 33, no. 9 (November 2004): 1373–1384, doi:10.1016/j.respol.2004.09.007.

¹³⁴ *UNESCO Science Report 2010: The Current Status of Science Around the World* (Paris: United Nations Educational, Scientific and Cultural Organization, 2010), 265, <http://unesdoc.unesco.org/images/0018/001899/189958e.pdf>.

¹³⁵ Schwab, *The Global Competitiveness Report 2012-2013*, 283, 301.

¹³⁶ *Ibid.*, 131; 319.

¹³⁷ “Annual Filing,” *The Patent Office of the Cooperation Council for the Arab States of the Gulf*, accessed June 30, 2013, <http://www.gccpo.org/Statistics/en/Default.aspx>.

Innovation policy (STIP) review by UNCTAD. The review will provide both a diagnosis and a series of recommendations on improvements of the innovation system and environment.¹³⁸

Innovation and entrepreneurship policy has captured the attention of development strategy throughout the Gulf region. A great deal of policy announcements and public discussions revolve around this policy world trend, indicating a certain impact from global actors and ideological trends on the region. The promise of economic growth and employment creation that accompany innovation and entrepreneurship policy makes this shift particularly attractive to decision makers.

4.2 Defining Entrepreneurship in the Gulf

The framing of entrepreneurship and innovation support in these cases is the provision of a new path for a new generation. Certainly the language of sustainability, diversification, and private sector development is engaged, but it is really the focus on the younger generations that makes a tired dialogue sound fresh and invigorating. Both Oman and Qatar are acutely aware of their youth bulge moving up the demographic pyramid, waiting to enter adulthood with secure employment and other “growing up” markers of success. One would be hard pressed to find someone not intimately conscious of the challenges these new generations face, however varied they may explain the causes. Indeed, entrepreneurship and innovation have dominated policy discussions on the

¹³⁸ “UNCTAD to Conduct STIP Review for Oman,” *United Nations Conference on Trade and Development*, June 6, 2012, unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=125.

domestic agenda and have become the ruling buzzwords for a new generation, offering an alternate path and the hope for change.

The term entrepreneur itself has been a subject of some debate in entrepreneurship promotion circles. Typically, one who engages in business endeavours, whether traditional or novel, is referred to as *rajil a'mal* or businessman. Aside from the obvious gender implications, this terminology is problematic in reference to entrepreneurs, the definition of which connotes an element of risk and innovation.¹³⁹ Indeed an entrepreneur, as the acclaimed entrepreneurship scholar Peter Drucker notes, “always searches for change, responds to it, and exploits it as an opportunity.”¹⁴⁰ In the Gulf, and broader Middle East for that matter, those who work in entrepreneurial support capacities have been utilizing and encouraging the use of a different Arabic term for entrepreneurs, *ruwad a'mal*. The term *ruwad* literally translates as pioneers or leaders, thereby calling entrepreneurs the pioneers of business. The implication of leadership and pioneering within this term is more consistent with the innovative aim of entrepreneurship in theory and practice.

The emphasis across the Gulf on entrepreneurship often overlooks this element, equating as Americans are wont to do, entrepreneurship with new small business creation. Not every business person or new small venture is entrepreneurial though.¹⁴¹ The need for entrepreneurship in the Gulf extends beyond the creation of employment opportunities outside of the public sector. Of course, non-state employment is an important motivation

¹³⁹ See, for example: Joseph Alois Schumpeter, *The Theory of Economic Development: An Inquiry Into Profits, Capital, Credit, Interest, and the Business Cycle* (New Brunswick: Transaction Publishers, 1934); Santarelli, *Entrepreneurship, Growth, and Innovation*; Peter Drucker, *Innovation and Entrepreneurship*, Revised (Oxford: Elsevier Ltd., 2007).

¹⁴⁰ Drucker, *Innovation and Entrepreneurship*, 25.

¹⁴¹ *Ibid.*, 19.

behind entrepreneurship promotion. Still, the overall challenge necessitating it is much broader. Enclosed in the promise of entrepreneurship is also the hope of an antidote to the much larger problems of diversification stagnation and the segmented labour market conundrum. If the desire is for the entrepreneurship effect to be system wide, there must be an inculcation of innovation. Systemic innovation, as Drucker notes, “consists in the purposeful and organized search for changes, and in the systematic analysis of the opportunities such changes might offer for economic or social innovation.”¹⁴² In this regard, the state as the promoter of entrepreneurship needs to delineate with some clarity whether they are trying to stimulate the sort of systemic transformation that proffers innovation and change or merely prompt piecemeal reforms furthering various degrees of self-employment.

Entrepreneurship in the Gulf is best characterized as an aspirational business endeavour at the intersection of global trends, government fanfare, and genuine necessity. By itself, the idea of promoting entrepreneurship thus far may have been more successful at spawning entities with a vision for supporting entrepreneurship than the objective of creating independent entrepreneurs and growing their establishments in the private sector. This phenomenon is well illustrated throughout the next chapter. Especially in the last five years, the language of entrepreneurial promotion, and its contingent prestige and financial endowments, instigated the creation of a plethora of initiatives, businesses, and nonprofit entities aimed at training, developing, or financing entrepreneurship.

¹⁴² *Ibid.*, 31.

5. Conclusion

Much literature on the Gulf tends to represent the area as something exceptional, traditional and culturally separate. Its socio-cultural orientation disconnected from modernity and its rentier economic foundations separating it from more conventional social and economic processes. Regional political economy studies have mostly focused on the consequences of rentierism on social, political and economic development. The concept of the rentier state has been one of the more frequent and functional descriptions of the economic environment in the region. The alleged consequences of this structure include state autonomy from the population, societal apathy, ubiquitous rent seeking and institutional weakness among others.¹⁴³ While these descriptions have been useful tools to understand the political economy of the region, it sidelines alternative processes and diminishes the significance of ideational change. This literature reduces the state behaviour to a function of economic activity and removes any agency from the local population. This view on the role of economy in Middle Eastern states, in Charles Tripp's words,

privileging the economic aspects of state capacity, has been heavily influenced by the structuralist-functionalist assumptions underlying most writing on political economy, whereby states, as integral parts of this assumed system, are represented as actors responding with varying degrees of effectiveness to pressures and attractions of the system itself.¹⁴⁴

Similarly, international relations and international political economy scholarship generally focus on oil and gas supply, with some attention paid to the neighbouring threat of Iran

¹⁴³ Beblawi and Luciani, *The Rentier State*; Losman, "The Rentier State And National Oil Companies," Summer 2010; Jill Crystal, *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar* (Cambridge University Press, 1995).

¹⁴⁴ Charles Tripp, "States, Elites and the Management of Change," Hakimian and Moshaver, *The State and Global Change*, 211.

and problems with regional terrorism, particularly within Saudi Arabia. On the whole, though, scholarship on the Gulf, tends to remain within particular area studies and engages little with broader literature and its ontological and conceptual evolutions.

While there is a small but growing body of literature addressing development and political economy within the Gulf regional framework, there are notable gaps.¹⁴⁵ Although several political economy pieces identify the challenge posed from social issues like the burgeoning youth 'bubble,' few have explored the subject in detail or identified and assessed specific policy responses. This absence is significant because it limits our understanding of both the domestic environment with its contemporary social changes and actual patterns of policy making. Analyzing specific variations in policy announcement, development, and implementation, as this study does, will undoubtedly contribute to our understanding of Gulf state behaviour and policy making practices today.

To date, these puzzles have been neglected in academic work on the Gulf region. This can be largely attributed to a lack of theoretical tools available to deal with the complexity of the social world within Middle East political economy studies. Two factors have caused this deficit in Gulf studies. First, the Gulf, and Middle East studies more broadly, have been marginalized in most political science disciplines – from international relations to comparative political economy debates – for a number of years. Perceived as holding a unique place within governance systems, their development trajectories have

¹⁴⁵ Much of the political economy work on the Gulf has been situated within broader research on the Middle East although interest has been growing in the last number of years since Dubai's mounting international presence. See Richards and Waterbury, *A Political Economy of the Middle East*; Beblawi and Luciani, *The Rentier State*; Askari, Nowshirvani, and Jaber, *Economic Development in the Gcc*; Michael C. Hudson, ed., *The Middle East Dilemma: The Politics and Economics of Arab Integration* (New York: Columbia University Press, 1998); Tim Niblock, ed., *Social and Economic Development in the Arab Gulf* (London: Croom Helm, 1980); Bradley Louis Glasser, *Economic Development and Political Reform: The Impact of External Capital on the Middle East* (Edward Elgar Publishing, 2001); Hvidt, "The Dubai Model."

been viewed as outliers.¹⁴⁶ Only a small number of scholars engage rentier state literature with other bodies of academic work on development. Recently, scholars like Hvidt and Hertog have pointed to developmental state literature in relation to the Gulf development context. As noted, Hvidt engages the topic in the context of Dubai and develops this idea of the “Dubai model.” The financial bust Dubai experienced in 2009 may call into question some of these however. At the very least it demonstrates that Dubai is not a complete aberration and still very much attached to the underlying structures of the oil economy despite trying to transcend them. Indeed, the trajectory of late-late development in the Gulf, even in its intoxicating Dubai variation, has been influenced by rentierism. It further demonstrates that bringing these different bodies of literature together and looking at wider development trends is essential for conceptualizing the Gulf’s new reality and understanding of these patterns.

On the ground, states are sending investigators to Asian countries, bringing speakers, experts, or advisors in who have looked at various Asian development experiences. However, researchers are still not speaking to these wider trends. They remain consumed by one body of literature. Although rentier state studies may have first emerged out of discourses on wider international development, they evolved into an isolated discussion and are now viewed as one more example of the exceptionalism of Middle Eastern development and/or authoritarian political structures. This both isolates and marginalizes the development experience of the Gulf and diminishes any cross learning that could occur. This study begins addressing this widening gap.

¹⁴⁶ The perceived lack of contribution to political science theory by Middle East studies was suggested as far back as the late 1980s. See, for example, Anderson, “The State in the Middle East and North Africa,” 1.

Second, an examination of the role of ideas and norms on development and economic change is notably missing in Gulf research. Scholars now widely accept that prevailing ideas may certainly be “an important determinant of policy choice.”¹⁴⁷ Nevertheless, blending material interests with ideational factors is necessarily difficult because doing so involves a more nuanced approach than scientific modelling allows. Not only do the global economy and prevailing economic discourses necessarily shape how actors view the world and interact within the system, but understandings of social identity also shape actors’ interaction and how they undertake systemic change.

In this study, I address these gaps by incorporating insights from development and innovation literature into the analysis of Gulf development policy making. I argue that it is the multivariate pressures from below and beyond the state which renders the contemporary economic policy making milieu analytically distinct yet still not detached from certain path dependencies of rentierism. Policy making processes are, in fact, a contestation between rentier structures and broader struggles with development paths whereby these states, still so dependent on hydrocarbons, are entering, competing, and reaching certain development stages in the global political economy.

Through an examination of two heretofore unanalyzed policy shifts, that of entrepreneurship and innovation promotion, I assess motivations and explanations behind the puzzle of their promotion given our expectations from rentier state literature. I further avoid the oversight of much rentier state work by examining generational change and demographic pressures alongside local and regional trends. Moreover, I incorporate

¹⁴⁷ Peter M. Haas, “Introduction: Epistemic Communities and International Policy Coordination,” *International Organization* 46, no. 01 (1992): 26, doi:10.1017/S0020818300001442.

learning derived from innovation policy literature, an outgrowth of work on development, in order to better delineate under what conditions such strategies prosper.

Chapter 3

Between Trend and Necessity: State-led Entrepreneurship Promotion and the Reshaping of Rentierism in the Gulf Arab States

1. Introduction

The importance designated to innovation and entrepreneurship promotion within the Gulf Cooperation Council countries have made it one of the most “vogue” regional policy trends of the past few years. Breakeven oil prices, that is the price per barrel required for a country’s fiscal accounts to remain in balance for a given level of public expenditure and oil revenue, have reached record levels.¹ These prices, driven in part by a sharp increase in government expenditure responding to associated Arab Awakening pressures, have made the GCC countries more acutely aware of the need to diversify their economies.² While all Gulf rentier states face similar challenges, the stakes are higher for relatively less affluent ones approaching the new post-oil reality. The centrality of entrepreneurship policies is stimulated not only by diversification but also the necessity for governance mechanisms to contend with a unique regional employment conundrum: an economic distortion where expatriate labour levels and national unemployment are

¹ International Monetary Fund, *World Economic Outlook April 2012: Growth Resuming, Dangers Remain*, World Economic and Financial Surveys (Washington: International Monetary Fund, 2012), 71, <http://www.imf.org/external/pubs/ft/weo/2012/01/pdf/text.pdf>.

² There is some variation in the figures offered by different bodies as comprising the average breakeven oil price for the GCC. This includes approximately \$73USD by the IMF and \$85 by TAIB Securities. In early 2013, the NBD surprised many with higher figures such as \$107 for the UAE and \$90 for Saudi Arabia. According to the same TAIB report, government spending across the GCC expanded by 6-30% in 2011. International Monetary Fund, *World Economic Outlook April 2012*; Khatija Haque, *GCC Outlook 2012*, Quarterly (Dubai: Emirates National Bank Dubai, January 12, 2012), <http://www.emiratesnbd.com/assets/cms/docs/quarterlyReports/2012/GCCQuarterlyQ12012.pdf>; TAIB Securities W.L.L, *GCC Economic Outlook 2012* (Manama: TAIB Securities, March 2012), http://www.menafn.com/updates/research_center/Regional/Economic/taib060312ev.pdf.

simultaneously rising with a growing youth population and private sector that either systematically excludes or fails to attract local labour. Policies aimed at promoting entrepreneurship have thus been looked to as a possible policy solution. Their diffusion across the region, however, has occurred irrespective of wealth levels or oil-reserve longevity.

This chapter assesses the peculiar manifestation of similar development strategies across the Gulf, despite the seeming absence of incentive to implement them in the case of the wealthier states like Qatar, with its more robust hydrocarbon reserves. In the following detailed examination of two paired cases, Oman and Qatar, the motivation and character of entrepreneurship and innovation promotion is determined from a triangulation of data sources. This includes content analysis of development plans and policy papers across from interviews with a multiplicity of actors. The interviews were conducted across three categories of stakeholders: (1) policy makers and bureaucrats, (2) public and private entrepreneurship initiative actors, and (3) entrepreneurs and other business people. Overall, I examine the character, motivation, and diffusion of state-led entrepreneurship promotion in Oman and Qatar and assess what this says about the evolution of rentierism and policy-making practices.

2. Motivations for the Promotion of Entrepreneurship and Innovation

In recent years, a considerable aspect of development policy in the Gulf is wrapped up in the promotion of entrepreneurship and innovation as part and parcel of a broader

drive toward a knowledge economy.³ It may have been the 2003 UNDP Arab Human Development Report which first placed the concept of “knowledge economies” on the regional agenda when it emphasized the imperative to establish them in the Middle East North Africa (MENA).⁴ The idea naturally reverberated in policy circles where diversification was already featured prominently but the end game had yet to be articulated. This was followed by the 2008 World Bank report on education reform in the MENA that stressed human capital development as a critical pathway on the road to knowledge economies while cautioning against the dangers of falling further behind comparably developed regions.⁵ Building a knowledge economy has since become central to diversification strategies in the imagination of a post-oil future in the GCC.

2.1. The “Three-D” Challenge

Motivations for the promotion of entrepreneurship abound in both the theoretical and practical spheres. Many of the policy endeavours stem from the hope that there is truth to international wisdom on entrepreneurship. The United Nations Conference on Trade and Development (UNCTAD) links entrepreneurship to growth, claiming that “entrepreneurship is a source of innovation and change, and as such spurs improvements

³ The idea of a knowledge economy was popularized by the OECD in their analysis of the role of knowledge and technology in economic growth. They used the term “knowledge-based economies” in reference to economies that are “based on the production, distribution and use of knowledge and information.” *The Knowledge-Based Economy* (Paris: Organization for Economic Co-operation and Development, 1996).

The realization of the potential of knowledge economy in emerging countries demands an investment in both human capital and innovation. It requires an “economic, institutional and regulatory environment that fosters the acquisition, development and use of knowledge, an education system that supplies citizens with the ability to create and use knowledge, a dynamic information infrastructure, innovation systems and networks.” Ghirmai T. Kefela, “Knowledge-based Economy and Society Has Become a Vital Commodity to Countries,” *International NGO Journal* 5, no. 7 (August 2010): 161.

⁴ *Arab Human Development Report 2003*.

⁵ *The Road Not Traveled: Education Reform in the Middle East and North Africa*.

in productivity and economic competitiveness.”⁶ This claim encompasses the vision of dynamism, sustainability, and growth that developing and emerging economies aspire toward. This is especially relevant to a region characterised by unitary resource-led growth, low productivity, low capital development, and rising national unemployment.

It is within the ambition of becoming a knowledge economy that three challenges confronting this regional trajectory are apparent: (1) development, (2) diversification, and (3) demographics. These concerns are more salient in the less wealthy GCC members, where a post-oil future is more imminent. Of the two case studies delineated in this study, Oman is representative of this group whereas Qatar rests on the other side of the spectrum as the wealthiest (per capita) Gulf state with a much longer expected future of hydrocarbon revenue. Interestingly perhaps, both states point to these same challenges as concerns moving into the future and entering the knowledge economy.

As part of Gulf development goals, human capital development was incrementally featured more prominently alongside industry and infrastructure from the mid-1990s onwards. The mid-2000s marked a real shift in development moves in the region. By 2005, Saudi Arabia became the last GCC country to accede to the World Trade Organization (WTO), and the visibility of Dubai’s economic boom escalated. States and citizens alike could point to the allure of Dubai’s rapid development, and their experimentation with economic liberalization in the form of foreign direct investment, economic free zones, and an open property market with the concomitant wide growth in the real estate sector. This transformation led credence to the neoliberal dogma of opening markets and encouraging

⁶ UNCTAD: *Entrepreneurship and Economic Development*, 3.

FDI.⁷ It also seems to support common pathways to developmental state status, whereby the ability to attract FDI is considered advantageous to development promotion when combined with the nurturing of innovation networks and linkages between local and global technology.⁸

Buttressed by high oil prices, the mid-2000s were characterized by high FDI, bilateral free trade agreements, and rising levels of expatriates that overwhelmed even the pretext of encouraging labour nationalization quotas. During this time, a focus on industrial development beyond hydrocarbons began which has continued into the present. The beginning of this decade, however, has been characterized by official discourse around stimulating knowledge-based economies. Stimulating innovation is deemed a crucial factor on the road to knowledge economy. To this end, recent years have been imbued with high-profile research announcements, forums and conferences, and the announcement of innovation and entrepreneurship promotion initiatives. Much of the attention is dedicated to entrepreneurship. Indeed, its promotion serves as a means through which the government is targeting labour market reform and encouraging local participation in the private sector. It also contributes to economic diversification strategies.

The imperative to diversify the economy away from oil and engender sustainable development for the post-oil age becomes more critical as oil reserves dwindle. Thus the

⁷ Foreign Direct Investment has long been viewed as key to economic growth in times of transition. Part of a neoliberal market agenda, it was especially championed in Eastern European and former Soviet areas during their transition to capitalist economies. FDI here, however, met with mixed results. See Chapter 5, "Economic Growth and Foreign Direct Investment in the Transition Economies," in Secretariat of the Economic Commission for Europe, *Economic Survey of Europe* (Geneva: United Nations, 2001), 185–222, <http://www.unece.org/fileadmin/DAM/ead/pub/011/>.

⁸ Dan Breznitz, "Development, Flexibility and R & D Performance in the Taiwanese IT Industry: Capability Creation and the Effects of State–industry Coevolution," *Industrial and Corporate Change* 14, no. 1 (February 1, 2005): 158–160, doi:10.1093/icc/dth047.

second challenge in the regional development trajectory, diversification, remains high on the agenda. This is true at least in the language of policy aims. The share of GDP attributed to petroleum-related activities tells a different story. This figure has not declined significantly in the last decade. The annual statistical bulletin published by Oman's Ministry of National Economy in 2010 indicates the relative share of GDP that petroleum-related activities comprise was 40.4 percent in 1999, increased to 49.4 percent in 2005, only to come back to 40.6 percent in 2009 (current prices). If, however, we look at constant prices (with 2000 as the base year), we see a 19.6 percent decline in the relative share of petroleum-related activities to GDP from 1999 to 2009. This also is not markedly high given the attention paid to diversification.⁹ The Qatari case is quite similar with hydrocarbons comprising a 53 percent share of GDP in 2006 and 51.1 percent in 2010 (current prices).¹⁰ One should keep two things in mind when considering these figures. First, the hydrocarbon sector contribution to GDP does not include downstream activities like petrochemicals and metallurgy. Second, a failure to diversify considerably in Qatar is not as significant of a concern in the short run as in Oman given the size of its oil and gas fields.

Notwithstanding the above, there has been an increase in downstream and services to upstream activities in Oman, contributing to industrial development and the building of internal industrial capacity.¹¹ The Public Establishment for Industrial Estates (PEIE), for example, hosts over 333 projects across the industrial estates of Rusayl, Sohar, Raysut,

⁹ See Annual Statistical Bulletin, Oman, 2010.

¹⁰ *Qatar Economic Statistics at a Glance* (Doha: Economic Statistics and National Accounts Department, Qatar Statistics Authority, April 25, 2012), 24.

¹¹ See Oxford Business Group, *The Report: Oman 2011* (Oxford Business Group, 2011).

Nizwa, Sur, and Al-Buraimi. The aluminium sector, for example, is in a good position in Oman. Sohar Aluminium Company (SAC) began in 2008 as a joint venture between Oman Oil Company and Rio-Tinto-Alcan, the result of an Australian-Canadian merger.¹² Rio-Tinto-Alcan currently has a 20 percent share in SAC and other shareholders include Oman Oil and Abu Dhabi Water and Electricity Authority, each with a 40 percent share. In 2011, SAC reached its millionth tonne of aluminium production.¹³ Along with the petroleum refinery and power plant in Sohar, SAC is part of a broader narrative of industrialization in the Al-Batina region which includes the development of the Port of Sohar (a joint venture between the Omani government and the Port of Rotterdam) where SAC has a dedicated facility, and the expanding Sohar Industrial Estate, under the auspices of PEIE. It is the industrial development of Duqm, in the al-Wusta governorate, and the establishment of its Special Economic Zone Authority (SEZAD) in 2011 however which has been gaining increasing attention over the past two years.¹⁴ Duqm projects include a large industrial port, a dry dock and ship repair yard, an airport, an industrial and logistics zone, a petrochemical complex, water and power generation and distribution, natural gas supply, and a fisheries harbour. Imports into the zone will be duty free, and there are plans to make the area into a transportation hub for the region. SEZAD is also developing an area dedicated to tourism.¹⁵ In fact, Oman has been pursuing diversification through tourism since its fifth five-year development plan, with the aim of increasing its miniscule

¹² "Rio-Tinto-Alcan," 2013, <http://www.riotintoalcan.com/index.asp>; Jean-Francois Seznec, "Financing Industrialization in the Arab-Persian Gulf," Seznec and Kirk, *Industrialization in the Gulf*, 31.

¹³ "Rio-Tinto-Alcan"; "Sohar Aluminium," 2013, <http://www.sohar-aluminium.com/>.

¹⁴ "Royal Decree 119/2011 Establishing Al-Duqm Special Economic Zone Authority and Issuing Its Regulations" (Special Economic Zone Authority - Duqm, 2011), <http://www.duqm.gov.om/resources/royal-decree.pdf>; "Duqm Special Economic Zone – Planning for the Future," *Muscat Daily News*, February 9, 2013, <http://www.muscatdaily.com/Archive/Oman/Duqm-Special-Economic-Zone-Planning-for-the-future-2143>.

¹⁵ "Special Economic Zone Authority - Duqm," accessed June 1, 2013, <http://www.duqm.gov.om/>.

contribution to GDP. Although this has risen from one percent in 2005 to three percent in 2012, tourism as a generator of revenue remains well short of goals.¹⁶

Similarly, inexpensive hydrocarbons in Qatar have helped the development of its downstream activities. Along with this, Qatar has been expanding in media, airlines, and real estate. In terms of industrialization, it seems that much outside of the hydrocarbon sector remains at the planning and development stage. For instance, an Agro-Industrial Park for the food processing industry is being planned as part of a broader food security programme.¹⁷ Still most active industrial expansion is concentrated around the national oil company, Qatar Petroleum (QP). QP oversees all of the stages and activities of the oil and gas industry as well as holds controlling stakes and joint ventures with several other companies especially concentrated in the gas and petrochemical industries. It also retains investments in several others from plastics and metals to shipping.¹⁸ Like much of the region, industrial cities exist in Qatar as well. At least half of them focus on oil and gas with the others directed toward downstream and service activities to the energy and hydrocarbon sector. Steel and cement are growing segments given rapid construction development.¹⁹ The benefit of state-owned enterprises in Qatar is that, like in developmental states, it has allowed the government to embed their activities in the

¹⁶ International Financial Corporation, *Doing Business 2011: Making a Difference for Entrepreneurs* (Washington: The International Bank for Reconstruction and Development / World Bank, 2010); "Economic Update - Oman: New Blueprint for Tourism," *Oxford Business Group*, February 12, 2013, http://www.oxfordbusinessgroup.com/economic_updates/oman-new-blueprint-tourism.

¹⁷ "Agro-Industrial Park," *Qatar National Food Security Programme*, 2011, <http://www.qnfsp.gov.qa/programme/food/agro-industrial-park>.

¹⁸ "Qatar Petroleum Investment Portfolio," *Qatar Petroleum*, 2011, http://www.qp.com.qa/Files/Flash/QP_Map_3.swf.

¹⁹ "Industrial Development Hallmarks in Qatar," *Qatar News Agency*, 2012, http://www.qnaol.net/QNAEn/Main_Sectors/Energy_Industry/Pages/IndustrialrenaissancehallmarksinQatar.aspx.

sectoral and national development strategies. For example, Industries Qatar, a group of four companies [Qatar Petrochemical Company (QAPCO), Qatar Fuel Additives Company (QAFAC), Qatar Fertiliser Company (QAFCO), and Qatar Steel], receives inexpensive petrochemical feedstock by QP, coincidentally its largest shareholder.²⁰ Likewise, Qatar Airways, the national airline, began running its fleet on locally-produced fuel in 2007.²¹ There are moves to increase activity in the industrial areas, but regional competition remains high and the procedures for entrepreneurs to acquire a plot and operate in the industrial areas remain cumbersome even for Qatari nationals.²² More remains to be done.

The third and final challenge to regional development is posed by demographics. There are two separate but symbiotic demographic challenges endemic across the region. The first is the youth bulge and the second is the segmented labour market. 78.4 percent of the population of Oman and 60.87 percent of Qatar are under the age of 35 with 47.8 percent of Oman's population and 17.25 percent of Qatar's below 20.²³ The situation can be further highlighted when you look at the age pyramid of Qatari nationals alone, where 19.6 percent of Qataris are between the age of 15 and 24.²⁴ Alongside this, unemployment is an expanding challenge. Indeed, the Gulf sits within a region that the International

²⁰ With the exception of Qatar Steel, which is fully owned by IQ, the remaining IQ companies are joint ventures with various international companies although IQ retains majority ownership. "Industries Qatar Website," *Industries Qatar*, 2013,

http://www.industriesqatar.com.qa/IQ/IQ.nsf/en_Pages/en_AboutUs_IQGroupCompanies; Steffen Hertog, "Lean and Mean: the new breed of state-owned enterprises in the Gulf Monarchies," in Sez nec and Kirk, *Industrialization in the Gulf*, 21.

²¹ Hertog in Sez nec and Kirk, *Industrialization in the Gulf*, 21.

²² Interviews with businessmen and SOE employees, February – May 2012. Interview with senior staff at the Qatar Chamber of Commerce and Industry, April 11, 2012, and interview with a senior manager at Barwa, real estate developer, May 1, 2012.

²³ Qatar Statistics Authority, *Qatar Census 2010*; Mshroo' al-t'daad al-'aam l-lskaan w-al-mnsaaakn w-almnshaat 2010, *Census 2010*, 68 and 120.

²⁴ *Qatar's Third National Human Development Report*, 17.

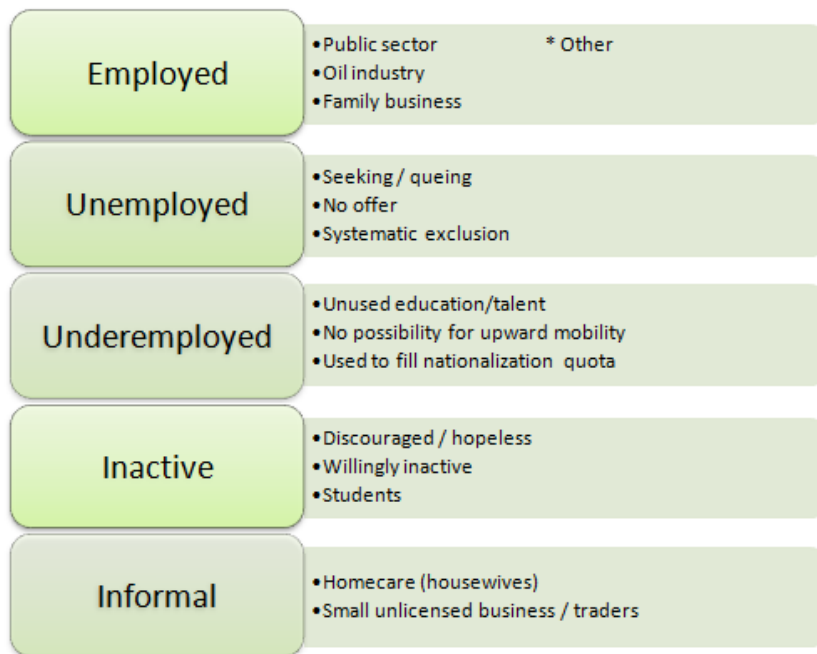
Labour Organization (ILO) ranks as second only to North Africa for the highest unemployment rates in the world, exceeding 10 percent.²⁵ Youth unemployment in the region is estimated to have reached 28.1 percent in 2012.²⁶ Yet gathering reliable statistical data on employment trends in the GCC is rather difficult, with variance between figures from the World Bank, IMF, Economist Intelligence Unit (EIU), and local ministries. All studies suggest, however, that unemployment and underemployment among youth is significantly higher than overall levels. Some reports indicate unemployment in Oman at 15 percent, with unemployment among 16-24 year olds much higher at 35 percent.²⁷ Official government statistics indicate unemployment is less a problem in gas-rich Qatar, with only 2.06 percent overall unemployment and 3.1 percent among 15-34 year olds. However, with only 46 percent of Qataris in the latter age category listed as employed, the remaining percentages are considered “not economically active.”²⁸

²⁵ *Global Employment Trends 2013: Recovering from a Second Jobs Dip* (Geneva: International Labour Organization, 2013), 81, http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_202326.pdf.

²⁶ *Ibid.*

²⁷ Kito de Boer and John M. Turner, *Beyond Oil: Reappraising the Gulf States*, Special edition, The McKinsey Quarterly (McKinsey & Company, 2007), 13, <http://mkqpreview2.qdweb.net/PDFDownload.aspx?ar=1902>.

²⁸ Qatar Statistics Authority, *Qatar Census 2010*.

Figure 3.1: Dissecting Labour Market Statistical Categories

Despite these employment trends, the region remains excessively reliant on expatriate labour with migrant workers constituting approximately 70 percent of the labour force since the 1980s.²⁹ In fact, Omanis only comprise 40.6 percent of the labour force while Qataris have consistently comprised six percent of the labour force from 2008 to 2011.³⁰ Dependence on foreign labour has persisted and remains difficult to contend with given a variety of economic structural issues. This will be discussed in greater detail in section 4.4 below.

²⁹ N. Shafik, "Labor Migration and Economic Integration in the Middle East," in Hudson, *Middle East Dilemma*, 285–291.

³⁰ *Qatar's Third National Human Development Report*, 56; Mshroo' al-t'daad al-'aam l-lskaan w-al-mnsaaakn w-almnshaat 2010, *Census 2010*, 87.

2.2. *Betwixt Force and Fashion*

Protests that emerged during the Arab uprisings of 2011 have heightened the significance of labour market and youth inclusion items on the development agenda in Oman. Although entrepreneurship has been given policy attention in recent years, it was only since 2011 that the government really magnified its support. At a government-sponsored event in 2012 on developing entrepreneurship in the country, a conversation with a senior government ministry official illustrates the degree of urgency sensed across the country. The event had a significant component designed for college student inclusion and entrepreneurial development. When probed about whether his ministry was planning on offering similar programmes in the future, the official replied,

Of course we do. Actually, we must. Were you not here during February of last year? Did you see the events? There are significant numbers of youth who lack economic opportunities. We have to do something about this. Things have to change.³¹

The concentrated protests during February of 2011 in several population centres across the country were mentioned without prompting in all interviews with bureaucrats and policy makers. Stability, in fact, was brought up time and time again in personal interviews when participants were asked about the motivations for entrepreneurship promotion.

Members of government, entrepreneurship support organizations, and the private sector frequently pointed to the protests, rising levels of unemployment, and growing numbers of school graduates and school leavers as significant concerns. “The motivation,” claimed a senior official from the Ministry of Commerce and Industry (MOCI),

... is to create jobs for Omanis. We have a problem. Every year a big number graduates – around 50,000. The government cannot employ them. Big private companies cannot employ them, so they really have to start their own businesses. The contribution of SMEs to the GDP is only 23 percent. We want to increase the

³¹ Informal conversation with senior government official, March 2012.

contribution. We cannot just rely on the oil. ... We have no choice! We have to encourage [entrepreneurs], to support them. Until now, we don't have a private sector in Oman that can really help the small businesses. So the government has to take a larger hand. If we don't help, I don't think we will be a success.³²

Nongovernmental initiatives supporting entrepreneurship echo this sentiment. A member of the GroFin / Intilaaqah team stated that, "we are really keen on developing the capacity of small businesses in Oman to be sustainable and eventually be able to hire more Omanis. So really, job creation and job development are one of our priorities."³³ The hope in Oman, and even in Qatar, is that entrepreneurship will stimulate not just a new segment of the economy, but also generate employment opportunities for nationals.³⁴

Albeit the economic imperative in Qatar is less immediate, the drive toward entrepreneurship has also risen in force over the last year. Some question the genuineness of the Qatari moves, suggesting that mere fad is behind the initiatives. "This is just the story now until 2022," noted a ministry employee in reference to the FIFA World Cup bid that bestowed upon Qatar international renown.³⁵ To be sure, "elements of grandiose and prestige" underline many decisions in the Gulf where rulers desire to be considered regional leaders in particular policy areas.³⁶ Nonetheless, an argument can be made for the sincerity of government support of entrepreneurship. Senior officials at the General Secretariat of Development Planning (GSDP), IctQatar, the Ministry of Business and Trade (MBT), and the Chamber of Commerce suggested that the rulers are truly visionary. Their support of entrepreneurship and investment in innovation is indicative of their desire to

³² Interview with senior official at the Ministry of Commerce and Industry, October 25, 2011.

³³ Interview with senior management at GroFin, Intalaaqah, October 22, 2011.

³⁴ Interviews 2011-2012.

³⁵ Confidential interview, February 19, 2012.

³⁶ Hiba Khodr, "The Dynamics of International Education in Qatar: Exploring the Policy Drivers Behind the Development of Education City," *Journal of Emerging Trends in Educational Research and Policy Studies* 2, no. 6 (December 2011): 578.

diversify the economy, pursue sustainability, and in so doing pre-empt future potential challenges.³⁷ Along these lines, a senior official at the Qatar Chamber of Commerce stated,

... the economy is shifting toward a knowledge-based economy. It's shifting to be dependent less on hydrocarbons and shifting toward supporting SMEs ... I can see on a daily basis, and you may not yet see the results, but the efforts that are being put to [the support of SMEs] are tremendous.³⁸

Mid-level to senior bureaucrats seem to rally behind the programmes in part because of their connection to Qatar National Vision 2030. Some would point to conventional American economic advice which describes SMEs as the backbone of the economy. As well, the idea of entrepreneurship and fast-paced development seems a good way to move into the global limelight. It was, after all, part of Dubai's claim to fame. Dubai is frequently pointed to as a regional business example by both business people and bureaucrats alike. Its liberalization of the economy combined with speedy business registration processes with fewer bureaucratic hurdles makes the Dubai model attractive. Even in the wake of the 2009 financial crash in Dubai, Qatar appears to be cautiously looking to its business model. Still, the prestige allocated to the entrepreneurial trend, especially in the Qatari case, cannot be disregarded entirely.

The challenges of real diversification, youth inclusion, and the stratified labour market have provided the grounds on which entrepreneurship and innovation promotion are framed as necessary endeavours. These challenges, when combined with the regional trend and global economic ideological fashion, produce a powerful driver.

³⁷ Interviews, Qatar, February – May 2012.

³⁸ Interview with senior official at the Chamber of Commerce, April 11, 2012.

3. The Emergence of Nascent Entrepreneurship and Innovation Policy Frameworks

The impending challenges described above provide a great deal of motivation behind entrepreneurship promotion in the region. These problems have beleaguered development policies and practice over the last several decades. Initially, the contemporary narrative of development in the Gulf emerged from the awareness that the hydrocarbon-driven rapid development experienced since the 1970s had both neglected some important aspects of development and created significant sustainability challenges. Across the Gulf, entrepreneurship education, training and sponsorship have emerged as the prominent response and comprise a critical means through which policy makers are attempting to transition to a new developmental phase, the knowledge economy. The language in the development plans of each GCC state recognizes knowledge economy as a goal and several states have benchmarked their development plans on Singapore, New Zealand and other small states building knowledge capacity.³⁹ This shift is significant because it signals not just the awareness of finite petroleum reserves but also the necessity to find new and creative ways to innovate and to employ nationals in the private workforce. However, whether there has been a tangible shift beyond the discourse of development remains questionable.

Development policy literature recognizes innovation and entrepreneurship policy as coinciding with developmental aims and running parallel with national shifts to a knowledge economy. The body of consultancy companies, which both coexist and compete

³⁹ The UAE, for example, used Singapore, New Zealand, Norway and Ireland as models in their recent Abu Dhabi Economic Vision 2030. Neil Parmar, "A Vision of Abu Dhabi's 2030 Future in Focus," *The National*, August 1, 2011, <http://www.thenational.ae/thenationalconversation/industry-insights/economics/a-vision-of-abu-dhabis-2030-future-in-focus>.

for advising roles in the Gulf, have encouraged the fostering of entrepreneurship for developmental progress and for helping address labour market challenges.⁴⁰ The role of consultancies in the Gulf, in fact, cannot be highlighted enough. Likewise, international organizations have developed reports encouraging entrepreneurialism as part of a broader programme of private-led growth.⁴¹ The advice of consultancies and IOs is not cultivated in a vacuum. It grows out of very real policy challenges related not only to diversification needs but also to the embedded labour market challenges described below. They also emerge out of a particularly neoliberal dogma which, while claiming to hold the remedies to the problems of the economy, often remain disconnected from the actual challenges and practices that underline Gulf economic life.

Entrepreneurship promotion sits within a broader mandate that involves the development of a national system of innovation. Although these systems include much more, there is hope that fostering entrepreneurship will lead to the technological and managerial innovations characteristic of knowledge economies. A national system of innovation can be defined as

that set of distinct institutions which jointly and individually contribute to development and diffusion of new technologies and which provides the framework within which governments form and implement policies to influence the innovation process. As such it is a system of interconnected institutions to create, store and transfer the knowledge, skills and artefacts, which define new technologies.⁴²

In the following pages, I detail the entrepreneurial ecosystems, and the nascent national systems of innovation in which they sit, of Oman and Qatar. In many respects, I am engaging

⁴⁰ See for example Richard Shediak and Hatem Samman, *Meeting the Employment Challenge in the GCC: The Need for a Holistic Strategy*, Ideation Center Insight (Booze & Company, 2010).

⁴¹ See Najy Benhassine, *From Privilege to Competition: Unlocking Private-led Growth in the Middle East and North Africa*, MENA Development Report (Washington: World Bank Publications, 2009).

⁴² Metcalfe, "Technology Systems and Technology Policy in an Evolutionary Framework," 38.

the ‘narrow’ definition of national innovation systems which entails the organizations and institutions that act within this ecosystem.⁴³ This account does, however, set up the discussion in such a way so that I can later speak to the broader definition. The “broad” definition of a national system of innovation includes all facets of the economic and institutional structures that affect learning such as the production, marketing, and finance systems.⁴⁴

3.1 The Entrepreneurship and Innovation Support Ecosystem in the Sultanate of Oman

Oman has perhaps a stronger impetus than its wealthier neighbours to invest in diversification and innovation. Within the last decade, and particularly within the last year, there has been growing focus on entrepreneurship and innovation. This is illustrated clearly in *Table 3.1*, which shows how many governmental and nongovernmental initiatives either re-strategized or increased their funding support packages since the 2011 unrest.

Table 3.1: Entrepreneurship Support

#	Programme	Type	Level	Date	Shift	Government Actors
1.	Sanad	Funding / Training	National	2001	2007 changes / 2011 funding increase	MoM
2.	Sharakah / Youth Fund	Financing / Advisory services	National	1998 / Redesigned 2008	2011 funding increased	PPP – various Ministries & Government institutions
3.	Knowledge Oasis Muscat (KOM)	Technology park / Incubator	National	2006	2011 expansion	MOCI

⁴³ Lundvall, *National Systems of Innovation*, 13.

⁴⁴ *Ibid.*, 13–14.

4.	The Research Council – Innovation Programmes	Policy making/ funding / innovation stimulation	National	2005	2010 tasked with drafting national scientific research strategy / 2013 innovation strategy	Government research council
5.	National Career Guidance Centre	Education	National	2008	2011	MOE
6.	Intilaaqah / GroFin	Training / funding	Global - localized	1995	2010 shift to GroFin management	Private / Shell
7.	Injaz Oman (Part of Injaz al-Arab, a member of Junior Achievement Worldwide)	Training / education	Global - localized	2006	2012	Initiated by MoM, Sanad and later delivered via MOE, MOHE, and ITA
8.	Cisco Entrepreneurship Institute	Training	Global, localized delivered via cooperation w/ AMIDEAST	2009	2011	Delivered via local consultancy by the end of 2011
	SME Development Fund	Funding	National with global cooperation / fund management	2012	N/A	MOCI & National Company for Projects and Management (NCPM)
9	The Cell (OMIFCO)	Training / incubator	National, with consultants	2012	N/A	OMIFCO CSR via consultancy
10.	Start-Up Weekend (annual)	Training	Global - localized	2010	N/A	
11.	Global Entrepreneurship Week (GEW), (annual)	Variety of events: training, education, competitions.	Global project / local branch hosted by local entrepreneur, owner of Zajil Oasis, LLC.	2011	N/A	In cooperation w many public and private partners.

As a result of Oman's production of development plans throughout its modern history, one can trace the evolution of language and usage over time. This provides useful insights into the trajectory of development planning over the years and one can trace the influence of prevailing global development ideologies and norms on its direction. The Omani government, since the British-orchestrated coup which led Sultan Qaboos bin Said to power in 1970, never joined the ardent Arab nationalist / Nasserist camp given its own fight with leftist revolutionaries. Rather, it was a combination of British direction and the

discourse of the 1980s and 1990s which solidified its capitalist tendencies. The global neoliberal push of the 1980s coupled with the oil price slump prompted economic policy language that mirrored prevailing international discourse of the time. Privatization, economic liberalization, and free trade became buzzwords in press releases and development plans.

The existence of a clear entrepreneurship and/or innovation policy in Oman is dubious at best. Still, there are a variety of programmes, plans, and reforms across a cross-section of Ministries and government bodies that point in a direction leaning toward the creation of an unambiguous policy. In the interim, a strategy is being developed. Like most development-related activities, each of these can be traced back to the Vision for Oman's Economy 2020. It is also tied to the most recent five-year development plan.⁴⁵ Human development began to be featured prominently on the development agenda during the 1990s, as is evident in Vision 2020, published in 1995. This was clearly before the push toward entrepreneurship and innovation in regional development agendas. Vision 2020, in fact, only mentions "entrepreneurship mentality" and "entrepreneurial spirit" on the last page in the context of directing Omanis toward free enterprise and preparing them with the skills of "businessmen."⁴⁶ However, its current five-year plan, the fourth installment toward the Vision 2020 objectives, places it front and centre.

⁴⁵ The completion of the most recent five-year plan was announced at the beginning of 2011 during the then Minister of National Economy, Ahmed Abdul Nabi Macki's speech. Although preliminary portions of the 2011-2016 plan were released around that time, the remainder was delayed. This delay was most likely tied to the disbanding and retooling of the Ministry of National Economy in March 2011 after protests took the nation by surprise. To date, only the second part, the Investment programme in civil ministries, has been published. The first part which comprises the primary planning document with goals, rationale, and targets has not yet been published. It seems likely this is tied to the uncertainty emanating from the unrest and the government response that likely does not closely follow pre-unrest plans.

⁴⁶ *Vision for Oman's Economy – 2020: Long-Term Development Strategy (1996-2020), 2nd Edition* (Muscat: Ministry of National Economy, 2007), 140.

In fact, early initiatives toward this end started a few years after Vision 2020's release. These include Sharakah, the Fund for the Development of Youth Projects in 1998 and Sanad through the Ministry of Manpower (MoM) in 2001. Sharakah is a type of a venture capital fund aimed at promoting, developing, and financing SMEs. It is the brain child of Mohammed Zubair, economic advisor to the Sultan, and his office. Although it is officially a private fund, it was established by Royal decree and a sizeable donation by Sultan Qaboos. Funding from private sector actors soon followed. The programme experienced road bumps along the way. Many of the early projects that were funded went out of operation by 2005, and the organization went quiet. It basically stopped functioning for at least a year and a half. In 2008, there was an organizational revamping which included a fresh managerial team. Since that time, they have been performing better and have also been involved in useful research projects.⁴⁷

The Ministry of Manpower's programme, Sanad, meaning support in Arabic and standing for Self-Employment and National Autonomous Development, was launched in 2001 to stimulate local business creation, ownership, and employment. While it is included in most discussions of entrepreneurship support in the country, its activities have traditionally been more closely akin to microfinancing and training for micro and small businesses. The types of projects financed are more often "foodstuff" sale shops, textile sales, flower selling, car washes, etc. Until this past year, the maximum funding was 5,000

⁴⁷ Interviews with Sharakah management, Oman, October 23, 2011; and interviews with other stakeholders between September 2011-July 2012. See also "Fund for Development of Youth Projects Website," accessed October 31, 2012, <http://www.youthfund.com.om/sharakah/>.

OMR per applicant.⁴⁸ This was insufficient to even cover working capital for the first few months of operation. Applicants were, however, able to combine the 5,000 OMR loan with up to four others involved in the same project for a maximum of 25,000. During 2011, funding was increased to 50,000 OMR, and allocated on a per-project rather than per-applicant basis. Despite this, programme participants seem to have retained unfavourable opinions of Sanad, including its training and support services.⁴⁹

It was the last two development plans that really earmarked innovation on the development agenda. The relatively newly created Research Council of Oman has been tasked with developing and drafting an innovation strategy to be used by government institutions. Established in 2005 by Royal Decree (No. 54/2005), the Research Council has already drafted a National Research Strategy and is expected complete the innovation one in the near future. It may be publicly available by the middle of 2013. Without this however, there is no coherent document on which to base innovation or entrepreneurship policy direction save Oman Vision 2020 and subsequent five-year development plans. These vaguely suggest developing Oman into an innovation centre and building excellent national research capacity as part of resource diversification efforts and private sector and human resource development.⁵⁰

The innovation programmes operated under the auspices of the Research Council seem to comprise the closest attempt to the Metcalfe definition of national systems of

⁴⁸ Equivalent to \$13,000 USD. The Omani rial is pegged to the U.S. dollar at \$2.60. Sulayman Al-Qudsi et al., "Trade Volatility. The Dollar Peg and Inflation in the GCC Countries: Some Preliminary Findings," *The Arab Bank Review* 10, no. 1 (June 2008): 16.

⁴⁹ Interviews with multiple Sanad beneficiaries and program administrators, September to December 2011.

⁵⁰ Oman Vision 2020.

innovation mentioned above.⁵¹ The innovation division functions as an umbrella over three-pronged project branches: Education and Academic Innovation Assistance, Community Innovation Assistance, and Industrial Innovation Assistance. Mindful of state goals to enhance the private sector, the objectives surrounding each of these seem primarily tasked with the commodification of innovativeness. The first branch is aimed at fostering an innovative and entrepreneurial culture and climate in educational institutions and among educators with the aim of eventually commercialising the output. The second targets community and cultural organizations and associations with the objective not just of raising awareness among community initiatives but also of transforming individual and community ideas to commercial products and services. The final branch, Industrial Innovation, strategically positions itself as the main initiative building research and innovative capacity to address the shortfalls of industry in SMEs. Both interesting and ambitious, this project has gained significant speed over the past year.

As a joint initiative with the Public Establishment for Industrial Estates (PEIE) and the MOCI, the Research Council (TRC) has set up the Industrial Innovation Centre (IIC) in 2010 based at the Rusayl Industrial Estates near Muscat, Oman. A large part of their work involves connecting industry with academia and providing the needed funds to encourage research and development (R&D) within the industrial sector and in SMEs in particular. In the late 1990s, when a survey revealed the dearth of R&D activity in the Omani landscape, the idea to develop an innovation centre was first given birth. Initial activities were modelled after the Canadian Innovation Centre (CIC). Some suggest, however, that the variance between the Canadian and Omani market was so vast that it retarded earlier

⁵¹ Metcalfe, "Technology Systems and Technology Policy in an Evolutionary Framework," 38.

endeavours.⁵² New consultants and experts were brought in to try to develop a more indigenous or localized approach suitable to the regional industrial context. These new attempts are still rather embryonic, in their first few years of operation, so it is difficult to assess their effectiveness.

The targeting of industry, working with industrial authorities and policy makers, and connecting industry actors with academic ones seems to hold promise. Development scholars have learned from the experience of Japan during its time developing its national innovation system in the 1970s and 1980s that targeted industrial policies, as fostered under the guidance of the Ministry of International Trade and Industry (MITI), to facilitate development and industrialization. MITI strategically allowed corporations and research institutions to enter the market, but ensured that their programmes and participation in national R&D projects coincided with national objectives.⁵³ Amsden and Chu also elucidate similar practices in their 2003 work on development policies in Taiwan.⁵⁴ While the national contexts are certainly differentiated, the practice of having government involved in targeting industrial projects and developments has a history of working in cases of late industrialization. With a very Listian flare, a national system of innovation in developing contexts features consistency in state strategy toward coordinating long-term policies for the economy and industry.⁵⁵

⁵² Interviews with various consultants and directors at TRC, Oman, September 2011 – July 2012.

⁵³ Johnson, *MITI and the Japanese Miracle*; Carlsson, "Internationalization of Innovation Systems," 60.

⁵⁴ See Alice H. Amsden and Wan-Wen Chu, *Beyond Late Development: Taiwan's Upgrading Policies* (The MIT Press, 2003).

⁵⁵ Freeman, "The 'National System of Innovation' in Historical Perspective," 6–7; List, *National System of Political Economy*.

In addition to their tangential role in the IIC, the MOCI has recently created a directorate general for small and medium enterprises (DG SME). Initiated in 2007 by royal decree, the DG SME began by connecting with the Ministry of Foreign Affairs to look into other country experiences in supporting entrepreneurship and SME development. The organizing idea was to develop a unit that facilitates increased collaboration and coordination among the various projects and programmes throughout the country.⁵⁶ Toward the end of 2012, they relocated their offices and launched a centre that is to act as a “one-stop-shop” for SME start-up and support. This seems to be the first major step toward targeting the lack of collaboration across government institutions. Still within the early days of operation, it remains unclear if this will transpire. If anything seems constant in personal interviews across the government bodies, it is that they each acknowledged policy coordination and cooperation problems and speak of potential future moves, databases, and initiatives to target these. Yet at the same time, many seem oblivious to the plans and programmes of other government institutions.

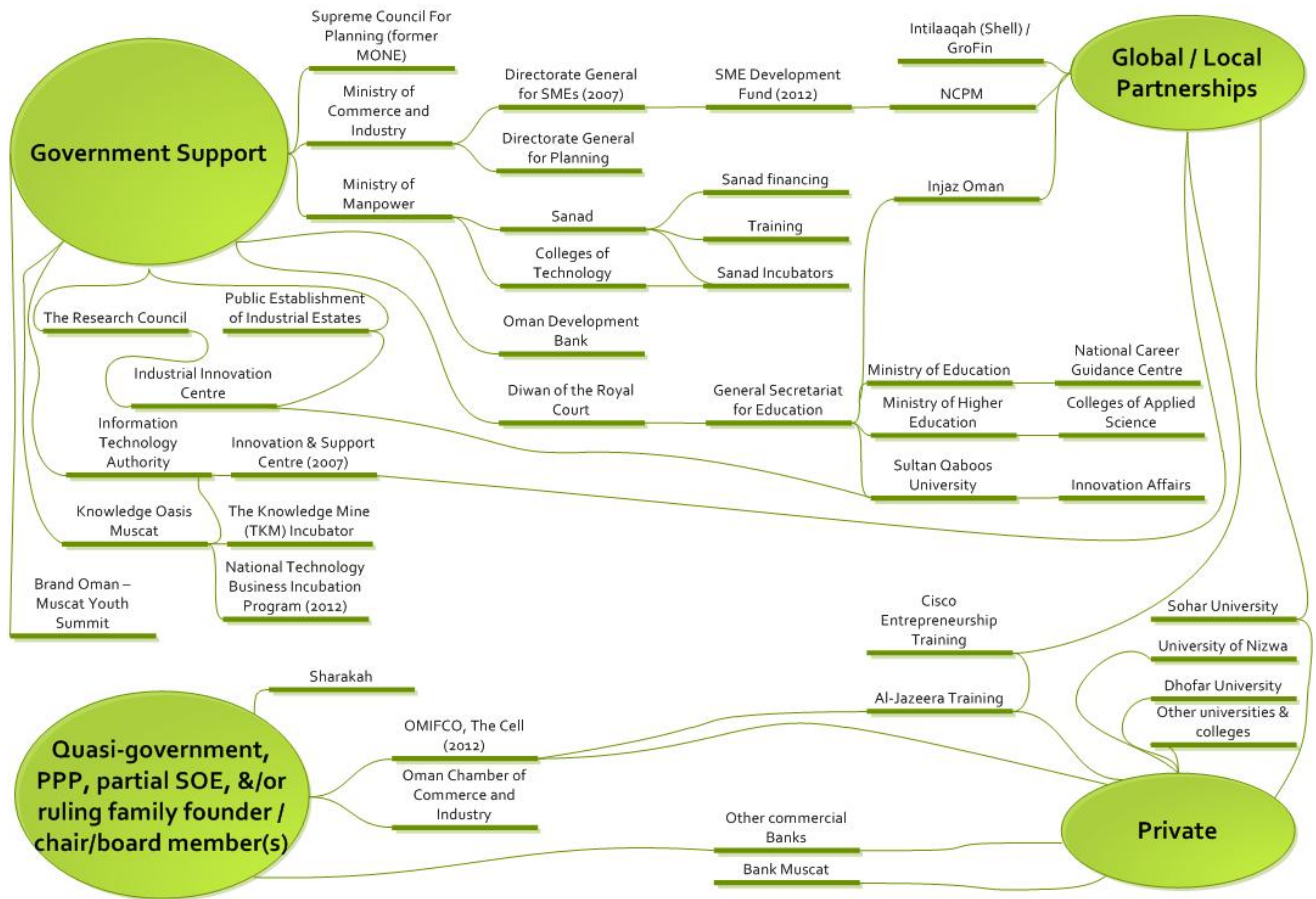
Knowledge Oasis Muscat (KOM) is a fairly recent invention of the Ministry of Commerce and Industry (MOCI). Managed by the PEIE, it is a technology park which serves as a location for international IT companies to set up with 100% foreign ownership. It also hosts The Knowledge Mine (TKM), a business incubator for local entrepreneurial projects. Fostering the creation of in-country knowledge, TKM supports technology-dependent start ups by providing them affordable office space and free or highly-subsidized services like internet and phone lines. This allows new start ups to dedicate their capital to research and development and the enhancement of their market. It also provides training, advice and

⁵⁶ Interview with senior official, DG SME, MOCI, October 25, 2011.

support to new entrepreneurs. TKM is seen as quite helpful to young, aspiring entrepreneurs. Winners of competitions like Start-Up Weekend are extremely grateful for their awarded office space and connectivity services. Still many others report difficulty in acquiring meetings or submitting applications for such space, with others located at TKM bemoaning the lack of actual incubating support. Several suggested, in fact, that TKM offered little more than an attractive office space. They wanted training, mentoring, and business guidance.⁵⁷ A KOM expansion promises to attend to space limitations and there does seem to be an awareness of some of its more substantive shortcomings. However, the recent opening of the Information Technology Authority's (ITA) own incubation centre on the same grounds risks further institutional competition rather than healthy cooperation.

⁵⁷ Interviews with multiple TKM beneficiaries and managers, Muscat, Oman, September 2011 – July 2012.

Figure 3.2: Oman’s Entrepreneurship Support Ecosystem



Some of the other active initiatives across the country are those connected with international bodies. Intilaaqah, for example, is based on the Shell Live Wire programme. It was initially created in 1995 as a training body, but filtered out that role and in the last five years and modified its mission to function primarily as an enterprise financier. GroFin, a multinational microfinance and SME financing organization, has been appointed fund manager as of 2010. It now provides loans between 20,000 and 380,000 OMR to Omani SMEs. *Injaz Oman* is another interesting example that has historically been quite collaborative. It is part of the international Junior Achievement World Wide, which in its regional manifestation is known as *Injaz Al-Arab*. The MENA office of Injaz, meaning achievement, was founded in 2003. Since its inception it has expanded into 15 countries in

the MENA, with 20,000 corporate volunteers reaching 1 million Arab students. In Oman, it has reached more than 87 schools since its start in the country in 2006. Initially initiated under Sanad, it later delivered its programmes through the Ministry of Education and the Ministry of Higher Education. In 2012, Injaz switched gears to focus more on exit points, targeting high school graduates and colleges students. It also focused its student competitions at the college level, and participated in local and regional competitions. Out of seven student companies that competed in one of these competitions, two turned into start ups and one is in transition with an investor waiting.⁵⁸ Injaz has also signed a memorandum of understanding with the Internet Technology Authority to participate in its programmes like its incubator and its hosting of an innovation camp for students.⁵⁹

There are a variety of other international initiatives and training programmes offered through local partners or branches. Ernst & Young, for instance, organizes annual “entrepreneur of the year” awards. As well, the Cisco Entrepreneurship Institute’s training programme is offered in Oman. Initially, it was delivered through the local AMIDEAST branch, but more recently has been available through a local consultancy owned and operated by an Omani entrepreneur, Sharifa Al-Barami. Sharifa has become quite the powerhouse in the local entrepreneurial ecosystem, inspiring many young Omanis to pursue their passions and embark upon entrepreneurial endeavours. In addition to delivering the Cisco training programme, she convenes regular support meetings called “Entrepreneur Jams,” at local cafés. These serve the dual function of therapeutic sessions

⁵⁸ Injaz Oman reports and presentations from 2011 and 2012; Other information provided in accounts from Injaz management.

⁵⁹ “ITA Signs MoU with Injaz Oman on IT Entrepreneurship,” *Oman Daily Observer*, May 3, 2012, <http://main.omanobserver.om/node/93499>.

where local entrepreneurs can share their difficulties and challenges as well as idea workshops where business opportunities, techniques, and strategies for success within the Omani business environment are shared. Sharifa is, in fact, an example of how civil society and social entrepreneurs can take (and are taking) more prominent roles in transforming the social milieu and pushing for bureaucratic changes from the grass roots up.

Among the many programmes Sharifa is also involved in is a project conducted in the South Sharqiya region. She, in partnership with an expatriate consultant, has been contracted by the Oman India Fertiliser Company (OMIFCO) to run its business accelerator / incubator project, the Cell. The Cell is one of OMIFCO's major corporate social responsibility (CSR) initiatives, and was only launched in 2012. It targets employment challenges across the country but primarily in South Sharqiya where its manufacturing plant is based. Oman Oil Company, wholly owned and operated by the government of Oman, has a 50 percent stake in OMIFCO, and thus has a keen interest in encouraging its state-owned enterprises to join the broader state-led entrepreneurial push. Even the Muscat Youth Summit, run by royal family member Sheikh Faisal bin Turki Al-Said, is for the second year in a row focusing on entrepreneurship.

Along with the more economically-rooted initiatives, the various government bodies responsible for education are also participating in the promotion of entrepreneurship. These include: the Education Council,⁶⁰ the Ministry of Education (MOE), the Ministry of Higher Education (MOHE), the Ministry of Manpower (MoM), and Sultan Qaboos University (SQU). There is frequent identification in each of these

⁶⁰ The Education Council was established in September of 2012 (Royal Decree No. 48/2012), and replaced the Higher Education Council (RD No. 65/1998) under the Diwan of the Royal Court. (ONA)

institutions of a perceived lack of entrepreneurial culture and instinct among young people in the country, who have grown up with the hope and expectation of a job in the security apparatus or elsewhere in the vast government bureaucracy. Change has to occur from an earlier age. In recognition of this, the MOE's National Career Guidance Centre has been working on an initiative to reform primary and high school curriculum as well as train teachers to allow for an earlier inculcation of entrepreneurship as a viable and desired career path. The NCGC was established in 2008. A 2003 Canadian consulting project designed its structure and this was blended with ideas from both Vision 2020 and a regional Arab symposium in 2005 to create the NCGC. Through the centre, career guidance counsellors are located throughout the country. Students are able to access training and learn of career possibilities through these counsellors. As well, booklets have been developed as curriculum addendums for grades six through 11, which help orient students to the various options available post-graduation. In addition to finding ways to integrate business competency training in secondary school curriculum, another major project under construction is a national job demand database. This latter initiative may be more of a pipe dream, as even between ministries, organizations seem to encounter problems with data transparency and information sharing. More positive however, was the NCGC team's high consciousness of female enfranchisement and the imperative of providing equal opportunities to female students, graduates, teachers, and ministry staff.⁶¹

The MOE is only responsible for primary and secondary education, leaving the Ministry of Higher Education (MOHE) to oversee most tertiary education across Oman. The MOHE manages the country's six Colleges of Applied Science, all of which are located

⁶¹ Meeting with NCGC team, September 20, 2011.

outside the national capital. Initially set up as teacher's training colleges, they were converted to Colleges of Applied Science in 2007. In the last couple of years, these colleges have been offering courses on entrepreneurship through their business programmes but open to the wider student body. As well, students, mostly through the initiative of instructors, have participated in workshops and competitions on business creation and entrepreneurship. A recent conference hosted by the MOHE in cooperation with the Research Council, called *Moving Mountains: Entrepreneurship Through Higher Education*, brought together many experts, academics and practitioners alike. It simultaneously ran a business plan training programme / competition with student teams from a variety of institutions across the country. The conference boasted wide participation from academia, government, and civil society.⁶²

The Ministry of Manpower manages the Higher College of Technology in Muscat, which is the second largest academic institution in the country by enrolment, as well as six other Colleges of Technology located in other regions. Vocational training is an important objective for these colleges. As such, *On-the-Job Training* in collaboration with local industry and business as well as *Enhancement Practical Training* within the colleges are important components of the educational programming. Outside of Muscat however, the regional colleges have historically had a difficult time finding placements for their students. In Sohar, for example, a great deal of effort was spent by the staff at Shinas College of Technology to secure partners in the industrial area. The unwillingness of industry to host

⁶² This was one of the workshops where I engaged in participant observation. For the workshop schedule, see: *Moving Mountains - Entrepreneurship Through Higher Education Workshop Programme* (Muscat: Ministry of Higher Education, The Research Council, and The Central University of Finance and Economics in China, March 17, 2012), <http://mohe.gov.om/userupload/Workshop%20Programme.pdf>.

student placements is perhaps telling of the job climate graduates face.⁶³ The MoM's Sanad programme also operates business incubators at the Muscat and Nizwa colleges, where graduates who are awarded a placement can use the space without cost for a period of one year to get their business off the ground. Programme beneficiaries however, seem to find the locations inconvenient for starting a business. Some complained the customers and business meeting guests would often be denied entry to the college grounds by security, making it difficult to conduct an interactive business.⁶⁴

3.2 The Entrepreneurship and Innovation Support Ecosystem in the State of Qatar

Qatar's national development strategy, its first development plan or vision for the economy, places entrepreneurship front and centre of the agenda. It uses the terms entrepreneurship and entrepreneurial 21 times and speaks of innovation and innovations some 48 times. The term "knowledge economy" occurs in 36 instances throughout the strategy.⁶⁵ Despite the inconsistencies and contradictions that will be mentioned in more detail later, the strategy demonstrates a genuine desire to transition to this knowledge economy and a very real sense of the challenges confronting the Qatari economy. For instance, the strategy pragmatically notes that "the success of Qatar's efforts to graduate from an economy based on non-renewable resource inputs to one in which productivity growth and eventually innovation underpin prosperity will require fundamental policy

⁶³ This was witnessed by observation and engagement during my time working with Shinas College of Technology and the Ministry of Manpower in 2006 and 2007.

⁶⁴ Interviews with Sanad programme beneficiaries and Sanad staff, 2011- 2012.

⁶⁵ General Secretariat for Development Planning, *Qatar National Development Strategy 2011-2016: Towards Qatar National Vision 2030* (Doha: General Secretariate for Development Planning, June 2011).

shifts that alter the incentives facing its citizens.”⁶⁶ Despite its lack of previous development planning, earlier scholarship suggests that even in the 1970s and 1980s, Qatar demonstrated awareness in the finiteness of oil and the importance of industrial diversification.⁶⁷

The policy push for entrepreneurship, however, only began in 2008 following the release of Qatar National Vision (QNV) 2030 by the General Secretariat for Development Planning (GSDP). It did not comprise a significant part of the development discussion prior to this. The push for research and innovation, however, predates QNV 2030 and can be tied to Qatar’s education overhaul. Revamping the education landscape began in 2001 with the inception of the reform programme *Education for a New Era*.⁶⁸ The programme was developed by RAND, a non-profit American policy institute, and highlighted several significant weaknesses in the education structure and academic outcomes. It included a major overhaul of the education system starting at primary school levels. It also initiated the establishment of the Supreme Education Council (SEC) in 2002, major reforms at Qatar University (Qatar’s public university), and the inauguration of Education City in 2003.⁶⁹ The changes the RAND initiative brought have been surrounded by controversy, resulting in broad policy incongruity and several reversals. Policy recommendations were implemented abruptly, with little to no explanation or local consultation. In fact, the instantaneous implementation of policy change has been a thorn in the side of educational

⁶⁶ Ibid., 11–12.

⁶⁷ Ragaei El-Mallakh, *Qatar: Energy and Development* (London: Croom Helm, 1985), 45; Looney, *Industrial Development and Diversification of the Arabian Gulf Economies*, 70:121–146.

⁶⁸ Dominic J. Brewer et al., *Education for a New Era: Design and Implementation of K-12 Education Reform in Qatar*, Monographs (Santa Monica: RAND Corporation, 2007).

⁶⁹ Emiri decree No. 37 (2002); Ibid., 27–29; Khodr, “The Dynamics of International Education in Qatar,” 577; See also, “Supreme Education Council: About the SEC,” accessed October 29, 2012, <http://www.english.education.gov.qa/section/sec/>.

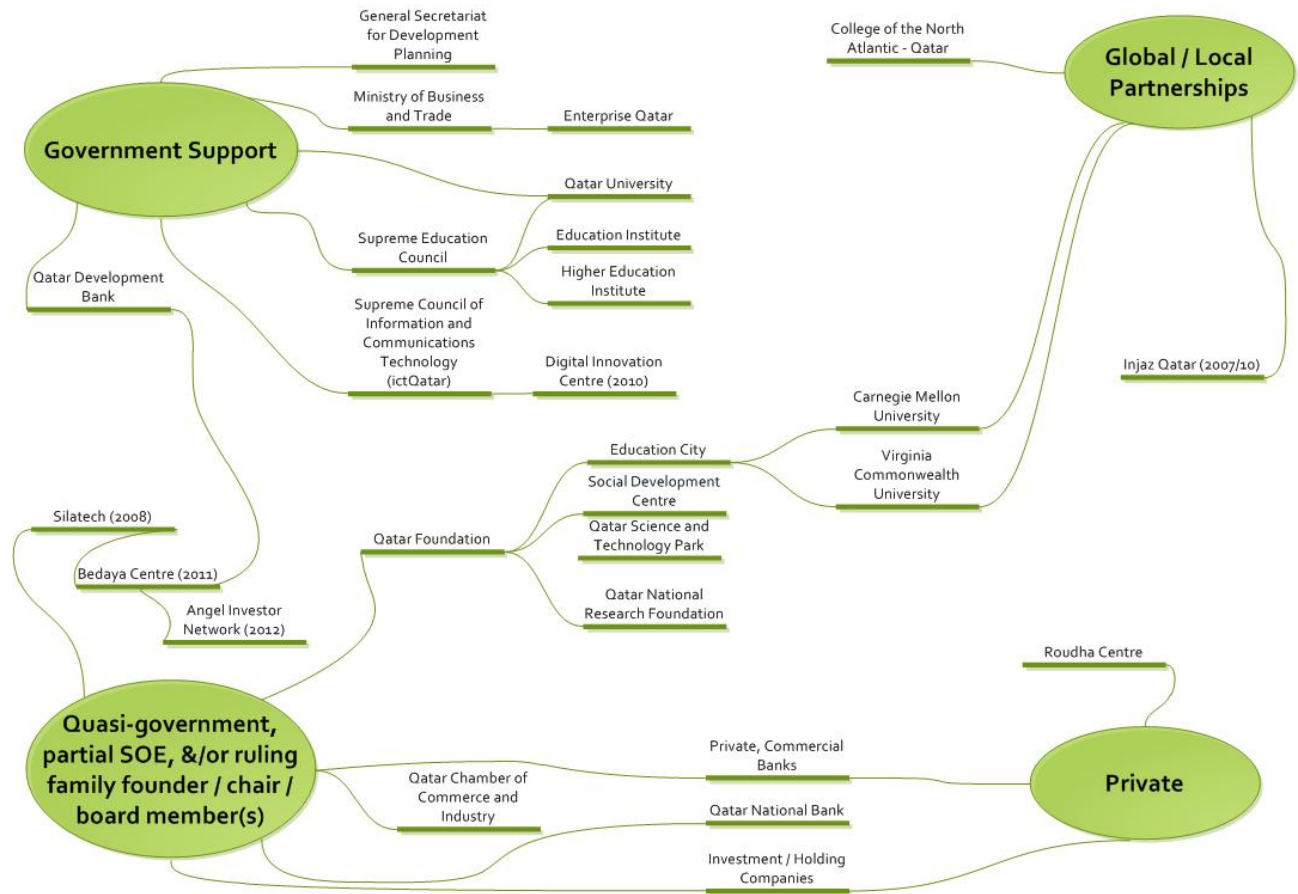
reform, resulting in cultural backlash due to its hastiness, absence of communication, and a conspicuous lack of clarity.⁷⁰

Rather than being managed by the SEC, Education City was built under the auspices of the Qatar Foundation for Education, Science and Community Development (QF), founded in 1995 by the Emir, Sheikh Hamad bin Khalifa Al-Thani. QF's chairperson and "driving force" is Sheikha Mozah, the wife of the Emir and mother of the Crown Prince, Sheikh Tamim bin Hamad Al-Thani.⁷¹ The goal of Education City is to serve as a bridge between research and policy, and train and develop young generations of Qataris for the future. To this end, it houses campuses of several international universities like Georgetown, Carnegie Mellon (CMU), and Virginia Commonwealth (VCU) for example. Attracting leading international universities to Education City is part of a broad drive to educate and train the necessary talent for future knowledge workers. More directly related to entrepreneurship promotion, CMU, VCU, Qatar University, and the College of the North Atlantic - Qatar all have devoted professors of entrepreneurship or specific centres designed to inspire, support and educate aspiring Qatari entrepreneurs.

⁷⁰ An excellent example of this policy confusion rests in the kerfuffle around the medium of instruction. In early 2012, the Supreme Education Council announced that Qatar University would switch to using Arabic as a medium of instruction for a majority of its programmes, effective the very next semester. Meanwhile, a switch several years earlier of a majority of public Ministry schools to Independent (Charter-type) schools (as part of the RAND policy plan) brought with it a change in the medium of instruction at the primary and secondary levels to English for all maths and sciences. Dominic J. Brewer et al., *Education for a New Era*; Gail L. Zellman, Louay Constant, and Charles A. Goldman, "K-12 Education Reform in Qatar," *Orient* 1 (2011): 55–60; Jenifer Fenton, "Qatar Cuts down on Lessons in English," *Financial Times*, July 9, 2012, <http://www.ft.com/intl/cms/s/0/c7a87610-c9ac-11e1-bf00-00144feabdc0.html#axzz2EkVaWZhp>.

⁷¹ "About Qatar Foundation | Qatar Foundation - Unlocking Human Potential.," accessed December 12, 2012, <http://www.qf.com.qa/discover-qf/about-qf>.

Figure 3.3: Qatar’s Entrepreneurship Support Ecosystem



There are four key origins of entrepreneurship and innovation support: government, quasi government, private, and global/local partnerships. The first, government, is actually difficult to separate from the others. The state in Qatar is deep, and as both the arbitrator of the permissible and the centre of financial resources, most programmes and initiatives are at least tangentially connected if not outright affiliated with a government institution or quasi-government body. Government support comes in several forms. Of course, there are the educational components as outlined above. These come in two forms. Those affiliated with the SEC, which include primary and secondary school, public vocational and technical training centres and colleges, and other public

higher educational institutions. As well, it includes those under the umbrella of the Qatar Foundation. Although QF is considered a non-profit non-governmental organization, its close affiliation with the royal family makes it difficult to distinguish.

In addition to Education City, the Qatar Foundation founded the Qatar National Fund (Q NRF) in 2006. As well, Qatar Science and Technology Park (QSTP) is located in Education City. Both of these were instituted as part of a broad drive to improve research and innovation capacity in the country and fulfill the Emir's 2006 announcement that the country would spend 2.6 percent of its GDP on research.⁷² QSTP is geared not only toward carrying out research but also in delivering commercialized technologies and products. Similar to KOM in Oman, QSTP operates as a science park that acts as a hub for large international corporations like Microsoft, Exxon, and Tata. It also tries to promote collaboration between university researchers and smaller companies.⁷³ MNCs like European Aeronautic Defence and Space Company, General Electric, Microsoft, and Rolls-Royce to name a few have committed investments in the millions of dollars toward R & D and its commercialization in QSTP.⁷⁴

The Social Development Centre (SDC) also operates under the umbrella of the Qatar Foundation. SDC is involved in activities that have to do with community development. Through this lens then, SDC's entrepreneurship support is more similar in scope to Sanad in Oman with an actual focus on self-employment and microenterprises. Its funding is

⁷² Zamila Bunglawala, "Nurturing a Knowledge Economy in Qatar" (Brookings Doha Center, September 2011), 4, http://www.brookings.edu/~media/research/files/reports/2011/9/qatar%20bunglawala/09_qatar_bunglawala; "Qatar Science and Technology Park," accessed February 12, 2012, www.qstp.org.qa.

⁷³ interview with senior staff, QSTP, February 20, 2012; Bunglawala, "Nurturing a Knowledge Economy in Qatar," 4.

⁷⁴ N Janardhan, *Boom Amid Gloom: The Spirit of Possibility in the 21st Century Gulf* (Reading: Ithaca Press, 2011), 82–83, <http://site.ebrary.com/id/10480937>.

offered through a project called *Rasameel*, while its training and advice is given through *Tanmia*. SDC is, however, quite active and has seen some success with their beneficiaries. A focus group with SDC beneficiaries revealed a great deal of appreciation toward the centre and its team, who provided them with a fair amount of support in the form of hand holding and guidance.⁷⁵ Women, in particular, seemed to benefit from advice and microfinancing for small, independent businesses. In fact, across Qatar women seem to be popular beneficiaries of the promotion of entrepreneurship. Most organizations and initiatives indicate a high degree of interest from aspiring female entrepreneurs. Even university programmes mentioned strong interest and performance by female students. Working for oneself or having the flexibility of making your own hours is especially appealing to women who recently started their own families or who live in particularly conservative ones.⁷⁶

The Roudha Centre was actually set up for this very purpose. It responds to a need for an exclusively female entrepreneurship training and support organization. The two co-directors of the project are local women, Shareefa Al-Fadhel and Ayesha Al-Mudehki, entrepreneurs themselves. The inspiration for Roudha came out of the results of a research project in cooperation with Carnegie Mellon University and was introduced as a proposal in 2009 to QF, QSTP, and Qatar Financial Centre (QFC). After not receiving any sponsors at the outset, they launched on their own and have become a go-to focal point for local women to receive support in the form of advice or training at any point in the business process. Although they struggled to get it off the ground, the project's success can be attributed to

⁷⁵ Focus Group, Social Development Centre, Doha, Qatar, February 22, 2012.

⁷⁶ Interviews with entrepreneurs, aspiring entrepreneurs, initiative and organization directors and staff, and university professors, Qatar, February to May 2012.

both the motivation and hard work of the cofounders as well as the very real need within the country for a women's entrepreneur support centre.

Although not verifiable, organizations and initiatives that were not birthed within the Qatar Foundation or do not ultimately come under the patronage of Shiekha Mozah seem to face additional difficulties in the commencement and expansion processes. For instance, the Junior Achievement Worldwide, *Injaz Al-Arab* branch in Qatar, *Injaz Qatar*, was slow to get off the ground. It took them five years to receive a commercial license. *Injaz Qatar*, directed by Roudha co-founder Ayesha Al-Mudehki, has also been active at the primary, secondary, and post-secondary levels much like its sister in Oman. Since its inception in 2007, *Injaz Qatar* has run programmes in 20 independent schools and reached over 5,000 students at Qatar University. This was made possible through a wide network of 25 corporations and 250 corporate volunteers.⁷⁷

Similar in some ways to QSTP, and perhaps fueling some organization competition, the Supreme Council of Information and Communication Technology (ictQatar) is also in the business of supporting technology entrepreneurship and innovation. Through their initiative, the Digital Innovation Centre, ictQatar has two key projects. The first is a technology incubation centre which provides both logical and facility support for their hosts. The Centre also provides training and workshops. The Innovation Theatre held at QITCOM each year is their signature event. It serves as an entrepreneurial hub, particularly focused on women and youth, to promote their media, gaming, internet, mobile or Arabic content business activities. The second project of the Digital Innovation Centre is the development of a digital content industry in Qatar. To this end, ictQatar is supporting

⁷⁷ *Injaz Qatar* report and brochure, 2011.

quality ideas that contribute to the enrichment of Arabic content on the web. Given the small size of the country, ictQatar would do well to help projects under the Digital Innovation centre to move beyond a domestic focus and seek a broader MENA end user market.⁷⁸

Given its nature, the Ministry of Business and Trade (MBT) in Qatar is central to the entrepreneurial ecosystem. Naturally, it is one necessary stop (and more frequently several) for registering a business. Although not yet well-delineated, it is the centre of many required business set up procedures. A lack of clarity, of course, results in much bureaucratic confusion that tends to confound new business hopefuls and dissuade some from the pursuit. Tangentially related, though administered separately, Enterprise Qatar (EQ) was founded to respond to these problems and serve as an overarching organization for SME development. A 2008 announcement by the prime minister, Sheikh Hamad bin Jassim bin Jaber bin Muhammad Al Thani, publicly committed the government's support to the creation of institutions and initiatives to support SME development and entrepreneurship among the young in Qatar. The announcement notes,

H.E. The Prime Minister has created a steering committee chaired by H.E. the Minister of Business & Trade and been given a mandate for the creation of a new, independent authority, whose goals will be to foster diversification of the Qatari economy through SME development and the creation of a new breed of young entrepreneurs.⁷⁹

⁷⁸ The experience of the Taiwanese software industry may provide an interesting example to the commercialization of this and other projects in Qatar and the region. Although Taiwan is broadly lauded as a developmental success, policies which led to remarkable outcomes in its hardware industry preformed less spectacularly in the software one. Breznitz partially attributes this failure to the fact that the industry is primarily domestic. Breznitz, "Development, Flexibility and R & D Performance in the Taiwanese IT Industry," 168–176.

⁷⁹ Mohammed Abdul-Rahman J. Al-Thani, "SME Support Policy, Qatar - 3rd Meeting of the MENA-OECD Working Group on SME Policy, Entrepreneurship and Human Capital Development" (OECD, October 26, 2009), <http://www.oecd.org/dataoecd/7/6/43982279.pdf>.

EQ was then announced in 2008 by the Emir with a two million Qatari riyal funding package. Not only was EQ to offer a full range of training and business support services, it was to aid SMEs in finding and accessing financial products like venture capital, grants, and loan guarantee programmes. Losing momentum after the death of a Sheikh who was especially passionate about the project, it was not until 2010 that a contract was awarded to Capitas Group International to design the structure and strategy for EQ.⁸⁰ Its official establishment did not materialize until March 2011 when an Emiri decree announced EQ's official launch. By 2012, everyone knew of EQ but no one could point to concrete projects or outcomes. Internally, the organization itself seemed caught in a web of constant reinvention. Insiders seem pessimistic about the whole project. They attribute EQ with starting what they see as a trend, but not following through. Crippled by infighting and conflicting interests at the board of director's level, competition between different state agencies wanting the limelight in this new niche rendered them ineffective. The whole landscape has become "about what you can buy rather than what you can achieve," one individual noted.⁸¹

Institutional competition seems to come in the strongest form from the Qatar Development Bank (QDB). QDB has become an active actor in the entrepreneurship scramble in the country since it opened its SME division in 2011.⁸² In cooperation with the International Financial Corporation (IFC) of the World Bank, QDB launched an online SME toolkit in April 2012 to help smaller businesses and new start ups navigate bureaucratic

⁸⁰ Interviews with EQ staff in Doha, February – May 2012; "Capitas Group Wins Deal to Establish Enterprise Qatar," *Arab News*, November 5, 2010, <http://www.arabnews.com/node/359650>.

⁸¹ Interviews with past and present employees and others involved in EQ projects or related initiatives. Doha, primarily on February 12 and 18, 2012 and April 16 and 29, 2012.

⁸² Interviews with senior staff, QDB, Doha, Qatar: February 13, 2012.

processes and improve their overall performance.⁸³ It also instituted Al-Dhameen, a credit guarantee scheme that cooperates with 12 different financial institutions throughout the country by providing an 80 to 85 percent guarantee for SME loans.

A final project, but increasingly prominent and central to the entrepreneurship ecosystem, is the Bedaya Centre. Launched in 2011 as a joint initiative between QDB and Silatech, the Bedaya Centre focuses on entrepreneurship and career development. Its mission is to provide career counselling to youth, with a particular focus on developing entrepreneurial skills and knowhow. Bedaya hosts monthly networking sessions, talks, workshops, and has recently launched an Angel Investor Network. Its parent organization, Silatech, is particularly active in the Arab world on issues of youth empowerment. While based in Doha, Silatech focuses on the wider MENA region with its training, investment, and research activities. It aims to make an impact on the mélange of issues surrounding job creation, employability, and the creation of opportunities for young people. Moreover, it seeks to inculcate the policy space by cultivating an enabling mindset and programmatic environment for these projects to flourish.⁸⁴

3.3. Rallying for Entrepreneurship and Innovation for Development

At this early stage in the development of innovation policies and strategies, the Gulf cases could learn from the experiences of earlier developmental states. One such lesson indicates that industrial and innovation policies oriented toward public research

⁸³ Riham Mustafa, "IFC Helps Support Smaller Business in Qatar with New Web Platform," *International Finance Corporation*, April 3, 2012, <http://www.ifc.org/IFCExt/pressroom/IFCPressRoom.nsf/0/A0B0CF70C3F5FB6B852579D5004BCA32>.

⁸⁴ Interviews with Silatech and the Bedaya Centre staff members and managers, Doha, February 12 and 19, and April 8 and 17, 2012.

institutions helps private development and growth when these public research bodies expand interaction with private industry and when the research body itself builds rather than competes with the industry.⁸⁵ In this light, Qatar and Oman would do well to intensify efforts around institutions and initiatives like QSTP, KOM, and IIC toward the goals of building research capacity and stimulating innovation. Of particular interest are those efforts aimed at strengthening ties between researchers and industry.

As was noted earlier, one of the advantages Gulf governments have in their developmental aims is the ability to galvanize actors across multiple areas to focus their activities toward national development agendas. This can come in the form of inexpensive products from some SOEs to others or the provision of logistical and infrastructural support like airports and sea ports.⁸⁶ This ability is a product of the nature of governance in the countries. Together developmentalism and authoritarianism provide what has been suggested is a crucial leeway in directing or coordinating efforts toward development objectives. This type of manipulation and channelling of resources to achieve desired results was an early characteristic of developmental states like Korea and Taiwan.⁸⁷ Other than fairly obvious concerns with authoritarianism, the developmental outcome of this governance behaviour in the Gulf is still something of a question mark. Outside of the Dubai

⁸⁵ William Lazonick, "The Innovative Enterprise and the Developmental State: Toward an Economics of 'Organizational Success'" (presented at the INET Annual 2011 Conference: Crisis and Renewal: International Political Economy at the Crossroads, Bretton Woods, NH: Institute for New Economic Thinking, 2012), 1–51, <http://fiid.org/wp-content/uploads/2012/11/Lazonick-Innovative-Enterprise-and-Developmental-State-20121117.pdf>; Breznitz, "Development, Flexibility and R & D Performance in the Taiwanese IT Industry."

⁸⁶ Hertog in Seznec and Kirk, *Industrialization in the Gulf*, 21–22.

⁸⁷ Eun Mee Kim, "Contradictions and Limits of a Developmental State: With Illustrations from the South Korean Case," *Social Problems* 40, no. 2 (May 1993): 228–249, doi:10.2307/3096924; Ann Sasa List-Jensen, *Economic Development and Authoritarianism - A Case Study on the Korean Developmental State*, DIIPER Research Series (Denmark: DIIPER and Department of History, International and Social Studies, Aalborg University, 2008), http://vbn.aau.dk/files/13994106/DIIPER_wp_5.pdf; Kim and Huang, "Dynamics of State Strength and Policy Choices."

experiment and other pockets of economic activity, early efforts have only been marginally effective at diversification, and seem to be short on cohesive coordination, and long-run consistency.

Despite this, the policy push toward indigenous SME support is gaining government attention. Increasingly, the state seems to be channeling institutional efforts toward this current major policy shift. As was demonstrated above, governments in both cases are funnelling resources and a considerable amount of policy language toward the support of entrepreneurship. Oman is taking this a step further. It is assembling the business and trade arms of the government for external knowledge transfer support and export development as well as prompting business leaders from the Omani business dynasties to support the state's SME push.

With regard to the former, for example, the Ministries of Foreign Affairs and Commerce and Industry are reportedly exploring and encouraging trade by new SMEs with emerging economies, especially India.⁸⁸ A foreign affairs delegation recently visited India with the purpose of establishing contacts for knowledge, know-how, and technology transfer toward the development of Oman's SME sector. The goal is to explore "new methods that can be implemented by Omani youth to help them set up commercially viable SME projects in manufacturing products, which can be marketed across the world."⁸⁹ As well, MOCI in collaboration with Omantel, the national telecommunications company, began sending groups of Omani entrepreneurs to Singapore in 2012 as part of a training

⁸⁸ "Cooperation Between GCC and Indian SMEs Vital for Bilateral Sustainability," *Al Bawaba Business*, June 17, 2013, <http://www.albawaba.com/business/gcc-smes-sustainability-499937>.

⁸⁹ Dabasish Mitra, "Oman Seeks Indian Expertise in Developing SME Projects," *Times of Oman*, June 24, 2013, <http://www.timesofoman.com/News/Article-18547.aspx>.

programme organized between the Omani and Singaporean governments.⁹⁰ In a similar vein, the Public Authority for Investment Promotion and Export Development (PAIPED) launched a seminar series introducing Omani SMEs to ways of expanding into and competing in the global market.⁹¹ Along with this, MNCs like Ericsson, a leading global technology provider, are launching training programmes in the ICT field.⁹²

The government is also keen on galvanizing support from the merchant dynasties in the country. The Zubair Group, for example, has launched a centre to support small enterprises.⁹³ The Zubair family has been very close to decision making circles since the beginning of Qaboos' reign, and even before with the earlier Sultans of Muscat. Given its history, one could expect that the family's corporate side would join the state-led push.⁹⁴ Zubair Group managing director, Khalid Al-Zubair, noted, "In accordance with the vision and wise leadership of His Majesty Sultan Qaboos bin Said, the private sector has been asked to step up and play a pivotal role in the development of SMEs, to further aid the transformation of the economy in the Sultanate."⁹⁵ Likewise, the Bahwan trading family, close to the Sultan since he unseated his father, provides a similar example. They are exclusive agents for companies such as Ford, Toyota, IBM, and Pepsi-Cola with activities across a wide array of sectors from agriculture and motors to public works, travel, and recruitment. Despite bearing the brunt of accusations around market monopolization

⁹⁰ "Commerce and Industry Ministry Inaugurates SME Program in Singapore," *Oman News Agency*, June 5, 2012, www.omannews.gov.om/ona/english/newsDetails_inc.jsp?newsID=130411.

⁹¹ Times News Service, "Trade Up Seminar Series for SMEs Kicks Off," *Times of Oman*, June 23, 2013, <http://www.timesofoman.com/News/Article-18542.aspx>.

⁹² "Ericsson Attracts Omani Talent by Launching an ICT Training Programme," *Al Bawaba Business*, June 27, 2013, <http://www.albawaba.com/business/pr/ericsson-ict-training-502479>.

⁹³ "Small Enterprise Centre to Help Omani Businesses Take-Off," *Oman Daily Observer*, January 27, 2013, <http://main.omanobserver.om/node/142797>.

⁹⁴ Valeri, *Oman*, 44, 115.

⁹⁵ "Small Enterprise Centre to Help Omani Businesses Take-Off."

from entrepreneur interviewees, the media has recently lauded the Bahwan's support of "national priorities," namely SME development.⁹⁶ The Khimji Ramdas group, a primary wholesaler in Oman and agent for companies ranging from Rolex and Compaq to Marlboro, is another such example. Khimji Ramdas is presented in the media as being supportive of the Sanad programme.⁹⁷

In the case of trading families like these, "oil not only strengthened inherited economic and social positions, through the conversion of trade dynasties to rent wealth; it led to a profound disruption of the boundary between politics and economy."⁹⁸ For this reason, real, beneficial support toward SME development is difficult to elicit from these embedded corporations. As will be discussed, their growth priorities combined with their privileged position in the economy means their objectives are necessarily at odds with the needs of new start ups. In comparison to Qatar, Oman appears to be more successful at rallying the business elites. At least in the last year, they have been able to extract verbal support of SME efforts with some more active engagement.

The privileging of SME support at the expense of innovation and industrial development may be partially attributable to the role of IOs and international consultancies in emphasizing private enterprise and entrepreneurship. Along with appealing to human capital and employment concerns, it promises to pave the way to knowledge economy and a sustainable future which may not be as attainable without

⁹⁶ It is worth noting that the Bahwan trading group split in the early 2000s between two brothers, Saud and Suhail, to form the Saud Bahwan Group and the Suhail Bahwan Group. It is the former which is featured in this article. Times News Service, "Saud Bahwan Group Felicitates 131 High Performing Omani Entrepreneurs," *Times of Oman*, February 9, 2013, <http://www.timesofoman.com/News/Article-8056.aspx>.

⁹⁷ Times News Service, "Khimji Ramdas Honoured for Supporting Sanad," *Times of Oman*, December 30, 2012, <http://www.timesofoman.com/News/Article-4978.aspx>.

⁹⁸ Valeri, *Oman*, 107.

sufficient focus on other areas. This pattern also stems from the nature of governance and policy making in the Gulf, whereby decision making rests in the hands of the elite who find the promotion of entrepreneurship politically expedient. Managed in a certain way, it can prove to have a minimal political cost and still maintain the appearance of addressing major socio-economic problems. Although reframed, rentier practices can still be engaged. As well, this policy move speaks to the impact of both global and domestic pressures on the choices Gulf rulers make. Should the focus on stimulating innovation become of central importance, it could crucially change this assessment. The cooption of innovation, and the culture it creates, is much more difficult than widening the social net or reconstituting wealth distribution mechanisms to a certain mass of entrepreneurial nationals. Importantly, the practice of innovation and its concomitant technological and socio-economic changes may bypass the usual rent-seeking patterns, making the revision of rentierism more difficult.⁹⁹

4 The Contradictions of Entrepreneurship Promotion in Rentier Political Economies

Notwithstanding the considerable amount of development policy making wrapped in entrepreneurship promotion in recent years, policy statements and initiatives are rife with contradictions and inconsistencies. These are present in both cases but vary in severity from case to case. This final section discusses four such problématiques: (1) institutional competition and lack of cooperation, (2) policy disconnect from realities on

⁹⁹ This discussion is explored further in the final chapter.

the ground, (3) absence of differentiation between innovative entrepreneurship and self-employment, and (4) the segmented labour market

4.1 Institutional competition and lack of cooperation

Although much ado is made of the importance of intergovernmental cooperation, each government body seems more inclined to brandish their own name and claim contribution toward development with the “new” catch phrase than actually contributing to sustainable development and change. There is a dearth of cooperation and collaborative strategizing, with no coherent unifying strategy in existence. It still remains to be seen whether Oman’s Research Council by virtue of its contribution to an innovation policy or Qatar Foundation by its sheer convening power will remedy this deficiency.

In the Omani case, the Ministry of Commerce and Industry and the Ministry of Manpower are not the only ministries involved in entrepreneurship support. Virtually every Ministry and major government institution is involved somehow – yet not in unison. Those ministries serving the educational sector are a case in point. Officially initiated in 2006, the National Career Guidance Centre (NCGC) at the Ministry of Education grew out of a project targeting educational challenges in the country. A task force and a Canadian consultancy helped develop the project which was propelled into full operation in 2008.¹⁰⁰ Its main aim is to stimulate an entrepreneurial culture at an early age and develop awareness of different career paths available to young Omanis. The Ministry of Higher Education has some of its own programmes, requests entrepreneurship education (courses) in its educational institutions, and participates in conferences on the subject. Its

¹⁰⁰ Official presentation from Ministry of Education and team meeting 20 September 2011.

activities seem rather devoid of creativity and lack the willpower and urgency demanded by the necessity of inter-institutional cooperation and strategy. Without the energy of a few of their very motivated staff, even fewer meaningful activities would transpire. Moreover, the lack of communication between ministries dealing with education, which also includes the MoM for their technical colleges and training institutions, has led to a rather disjointed approach to revamping and improving quality. This can have serious ramifications for development as “variations in levels of education across societies are deeply consequential for late-late industrialization because they influence not only the productivity of the work force but also the capacity to absorb existing technology and to innovate.”¹⁰¹

In addition to the scramble for budget funding and recognition, a sense of impotence and limited meaningful consultation with mid-level / front-line bureaucrats may contribute to this difficult cooperating environment. With a few exceptions, interviews in both cases revealed that even at the level of director general bureaucrats do not seem to feel like they are making a significant contribution to informing policy. They belong to committees, often multiple, and they discuss the challenges and issues of the time. Yet still, it is their overseer, the undersecretaries and those with ministerial rank, who are perceived as holding the ability to make decisions. Some suggest they are consulted from time to time, others not. Many in Oman indicated that at times they had proposals put forward, and that limited intra and inter-ministerial collaboration occurs. Still, decision making remains concentrated in the hands of a few. Interviews in Qatar were indicative of even tighter top-down control of policies, ideas, and processes. In the development of

¹⁰¹ Kohli, *State-Directed Development*, 371.

knowledge and innovation policies, “one finds hierarchy in the machinery of government but that is often not for the good of developing coordination.”¹⁰²

There are a few signs that this situation is gradually evolving in the Omani case. In the shadows of the 2011 protests, there seems to be a growing awareness of the implications of this lack of coordination. Several events over the last year indicate attempts at enhancing coordination. There is a new impetus for enhanced governance, necessitated by the acknowledgement that if things do not improve soon the next round of civil unrest could be more severe. The SME Symposium at the beginning of 2013 is representative of a more concerted government effort to harmonize entrepreneurship promotion. The Forum was preceded by the launch of Sultan Qaboos’ “meet the people” tour in the ad-Dakhiliyah region, when the Sultan announced the upcoming symposium and several new policies and SME funding opportunities that would follow.¹⁰³ Along with assembling a variety of government bodies in support of the agenda, it began a renewed and broader policy push which responded to some of the recent criticisms of current practice.¹⁰⁴

Given the presence in both cases of hierarchal governance levels like an absolute ruler or ruling family, cabinet, ministries and agencies, and a plethora of horizontal governance levels, political coordination needs to be “designed and promoted” rather than left to “an evolutionary process.”¹⁰⁵ Ad hoc committee creation or policy measures will not

¹⁰² Dietmar Braun, “Lessons on the Political Coordination of Knowledge and Innovation Policies,” *Science and Public Policy* 35, no. 4 (May 2008): 292.

¹⁰³ “His Majesty the Sultan Announces New Measures to Boost SMEs,” *Muscat Daily*, January 28, 2013, <http://www.muscatdaily.com/Archive/Oman/His-Majesty-the-Sultan-announces-new-measures-to-boost-SMEs-202a>; “Oman’s Sultan Qaboos Begins Annual Meet-the-People Tour,” *Middle East Online*, January 20, 2013, <http://www.middle-east-online.com/english/?id=56560>.

¹⁰⁴ This micro-level policies are discussed throughout the next several sections and the conclusion.

¹⁰⁵ Braun suggests that “political coordination cannot be the outcome of an evolutionary process.” Braun, “Lessons on the Political Coordination of Knowledge and Innovation Policies,” 291.

suffice in the long run and lead to institutional competition. This was well-demonstrated by the case of EQ and QDB in Qatar discussed above. Hints at a more concerted effort in Oman may appear positive, but without sustained coordination are likely to face similar outcomes. Indeed, “spontaneous policy coordination is very unlikely and even mechanisms specifically designed to improve external coordination will fail as long as there is no general strategy that has been decided at the highest level of politics and that demand coordination efforts from ministries.”¹⁰⁶ Although overarching strategies are present in both cases, the means of implementation are left open to interpretation at various bureaucratic intervals. At present, ad hoc policy measures or the Qatari “rule by whim” style, prevail.¹⁰⁷ Added to this, what little coordination does exist is often negative. Negative coordination describes coordination that occurs only to ensure that any new policy initiative will not interfere with the policies, practices, and interests of other government units.¹⁰⁸ Negative coordination is possibly better than no coordination because at the very least it ensures some level of information exchange. However, this base-level coordination is only complicated by the prevalence of rent-seeking behaviour, whereby individual and ministerial unit actors are pursuing access to resources as well as recognition.

¹⁰⁶ *Ibid.*, 297.

¹⁰⁷ “Rule by whim” is a term coined by David Roberts in reference to Qatar. “‘Rule by Whim’: More Thought Needed in Qatar,” *MidEastPosts.com*, July 2, 2012, <http://mideastposts.com/2012/02/rule-by-whim-more-thought-needed-in-qatar/>.

¹⁰⁸ Fritz W. Scharpf, “Games Real Actors Could Play Positive and Negative Coordination in Embedded Negotiations,” *Journal of Theoretical Politics* 6, no. 1 (January 1, 1994): 38–40, doi:10.1177/0951692894006001002.

4.2 Policy disconnect from realities on the ground

A common charge by entrepreneurs in a variety of sectors levied against government actors is the accusation that they are disconnected from the reality of the business environment. Without actually functioning in the business world, there is a broad lack of awareness of the difficult tedious bureaucratic steps from business registration, set up procedures, and access to finance.¹⁰⁹ A 2011 World Bank study on the ease of doing business suggested the same. It ranked Oman 57 and Qatar 50 out of 183 countries.¹¹⁰ It further reported no positive reform in business regulation in either Oman or Qatar in the last several years. In contrast, it stated Qatar had further complicated the start up process by requiring an additional procedure for tax registration and obtaining a company seal.¹¹¹ In Oman, the Ministry of Manpower seems to inspire the most resentment, with livid accusations levied against it for burdensome labour regulations. A majority of interviewees, especially those entrepreneurs not connected to the long-dominant large business families, point to favouritism and personal connections as complicating issues and discouraging potential new start ups.¹¹² This sentiment was also reflected in interviews with Qatari entrepreneurs. Although they remained slightly less concerned with regulations from Qatar's Ministry of Labour, the weight of nepotism, favouritism, and personal connections within the ministries was considerable.

Access to finance is another commonly raised concern as a key challenge facing new business entrants.¹¹³ There are some signs that this is improving and that governments

¹⁰⁹ Confidential interviews with Omani and Qatari entrepreneurs, September 2011 to July 2012.

¹¹⁰ International Financial Corporation, *Doing Business 2011*, 42–43.

¹¹¹ *Ibid.*

¹¹² Confidential interviews with Omani entrepreneurs, September 2011 – July 2012.

¹¹³ *Ibid.*

have identified it as a stumbling block. Whereas in 2010 the World Bank ranked Oman 127 and Qatar 135 out of 183 for ease of obtaining credit, this figure went up to 98 for both countries by the 2012 reports.¹¹⁴ Meetings with banking officials indicate as much.¹¹⁵ There is a broad, though understandable, unwillingness for commercial banks (and even the Oman Development Bank following its retooling after years of near bankruptcy) to fund new start ups. 78 percent of GCC banks indicate that their collateral requirements are higher for SMEs than for larger corporations and claim that SME lending is 82 percent more risky than large corporate lending.¹¹⁶ Problems financiers point to include weak educational preparation, inadequate business planning, a lack of commitment, “part-time” entrepreneurship, and a lack of risk taking.¹¹⁷ Possibly even more problematic, funding programmes claiming to target youth and young entrepreneurs in practice do not. While lauded in the media as programmes designed to facilitate youth employment, an entrepreneurial youth culture and private sector development, programmes such as Intilaaqah and Sharakah often do not in practice. While they claim to not specifically try to alienate youth applicants, they find many of them demonstrate a lack of preparation and

¹¹⁴ International Financial Corporation, *Doing Business 2010: Qatar* (Washington: The International Bank for Reconstruction and Development / World Bank, 2009), 25–26; International Financial Corporation, *Doing Business 2012 - Economy Profile: Qatar* (Washington: The International Bank for Reconstruction and Development / World Bank, 2012), 51–52; International Financial Corporation, *Doing Business 2010: Oman* (Washington, D.C.: The International Bank for Reconstruction and Development / World Bank, 2009), 25–26; International Financial Corporation, *Doing Business 2012 - Economy Profile: Oman* (Washington: The International Bank for Reconstruction and Development / World Bank, 2012), 50.

¹¹⁵ Interviews with public and commercial banks in Oman and Qatar between October and July 2012.

¹¹⁶ Roberto Rocha et al., *The Status of Bank Lending to SMES in the Middle East and North Africa Region: The Results of a Joint Survey of the Union of Arab Banks and the World Bank*, Financial Flagship (The World Bank and the Union of Arab Banks, June 2010), 35 and 41.

¹¹⁷ Interviews with initiative managers, funders, and bankers, Oman and Qatar, September 2011-July 2012.

commitment. Thus, despite language targeting youth, young entrepreneurs and new business entrants are deemed financially risky by all financiers.¹¹⁸

Compounding this, the systemic weakness of protection for borrowers and lenders reduces the willingness on both sides of the equation to enter a loan agreement. The weakness or absence of collateral and bankruptcy laws has Qatar ranked 3 and Oman 4 out of 10 on the strength of legal rights index in the context of credit.¹¹⁹ Not only this, but the market lacks a private credit bureau leaving credit information restricted within banking institutions.¹²⁰

Even in Qatar with its seemingly unlimited resources, young start ups and aspiring entrepreneurs complain about the difficulty accessing finance. If they do not self finance or have generous family members offer to grant or loan them money, they are put in the difficult position of pitching their business plan at financial institution after financial institution, and often end up discouraged and ultimately quit the process.¹²¹ This does little to encourage full time, local entrepreneurship, particularly among the youth. Rather, it facilitates the existing model whereby individuals who decide not to quit the process instead settle for the path of less resistance. They opt for part-time or “hobby” entrepreneurship, dabbling in small business endeavours during after-work hours. If they continue on this route, they are likely to resort to the conventional model of hiring expatriates for operational management and outsourcing most of the work and creative

¹¹⁸ Ibid.

¹¹⁹ International Financial Corporation, *Doing Business 2011: Making a Difference for Entrepreneurs*, 16–17.

¹²⁰ Sharifa Al-Barami, “Defining Small and Medium Enterprises in Oman,” *Wamda*, April 25, 2012, www.wamda.com/2012/04/defining-small-business-in-oman.

¹²¹ Interviews with entrepreneurs, members of large business families, and aspiring entrepreneurs, Doha, Qatar, February – May 2012.

design to others. This only serves to reproduce the same problems underlying the Gulf economy.

Some incremental change is occurring on this front. In Oman, for instance, the eighth five-year Development Plan (2011-2016) includes a retooling of the Central Bank to develop its capacity for supporting and granting loans to SMEs and for the state to stimulate the private sector's investment and development of SMEs.¹²² Moreover, several commercial banks have recently set up divisions specifically for SMEs. Bank Muscat, one of the leading commercial banks in the country, began a pilot study in late 2011 with new, perhaps easier, lending options for SMEs. The idea is to be specifically helpful to new, young entrepreneurs by offering simpler requirements and a range of support and guidance. Other banks are also starting to open SME divisions.¹²³ The same is true in Qatar. Bank Doha, for example, became the first commercial bank to open an SME division in the country. As well, it introduced a corporate credit card specifically for SME clients. This is in contrast to previous practice which has the same loan requirements for SMEs as they have for larger commercial firms, necessarily complicating the lending process and potential for accessing start-up financing.¹²⁴

Within a national context, Chambers of Commerce are often considered the crux of entrepreneurial support and SME development since they can draw on their long experience in supporting the domestic business community. This has long been the case throughout the EU, where SME development is prioritized because of the high contribution of SMEs to GDP. Whereas in Europe SMEs contribute roughly 55 percent to GDP, they only

¹²² Oman Development Bank, *Future Anticipation Annual Report 2010*, 2010.

¹²³ Interview with senior manager, Bank Muscat, November 2, 2011.

¹²⁴ Interview with official, Bank Doha, April 24, 2012.

contribute between 15 and 23 percent in Oman and Qatar despite comprising roughly 90 percent of the number of businesses in each case.¹²⁵ The Chambers of Commerce and Industry in Oman and Qatar claim to be promoting entrepreneurship and indeed sit on boards or tangentially participate in various initiatives.¹²⁶ Nonetheless, their primary constituency remains the large, family business empires whose interests more often than not conflict with those of new, smaller start ups. An expert at GSDP suggested much the same. In the expert's view, the Chamber has a fairly skewed view of what government support should entail, mostly just wanting protection for their large, corporate interests.¹²⁷ In both cases, the chambers only play a marginal role in the support of entrepreneurship, and their primary function as the champion of business interests in the country remains focused on the merchant elite and government ones.

Indeed, the monopoly that the large business dynasties of Oman and Qatar have over the market is a known impediment to new business entrants. Not only do these families enjoy the protection of government, but rules often work in their favour. When this fails, their personal connections and strong cash flow smooth the way. Often, rather than searching for competent small businesses within the market, larger companies will open their own subsidiaries to serve the needs of their business. It doubles as a good way

¹²⁵ Interviews with senior officials at the Ministry of Commerce and Industry, Oman, October 25, 2011 and July 24, 2012; unpublished MOCI studies; and Santhosh V. Perumal, "SMEs' Contribution to Qatar's Non-oil GDP Is Lower, Says QDB Official," *Gulf Times*, June 3, 2012, http://www.gulf-times.com/site/topics/article.asp?cu_no=2&item_no=50; "16pc of GDP Is from SMEs," *Oman Observer*, April 2, 2012, <http://main.omanobserver.om/node/89237>; Steffen Hertog, *Benchmarking SME Policies in the GCC: a Survey of Challenges and Opportunities*, The EU-GCC Chamber Forum (Brussels: Eurochambres, 2010), http://www.europolitique.info/pdf/gratuit_fr/270047-fr.pdf.

¹²⁶ Interviews with officials at the Ministry of Commerce and Industry, Oman, October 25, 2011 and July 24, 2012; officials at the Oman Chamber of Commerce and Industry, October 16, 2011; senior official at the Qatar Chamber of Commerce and Industry, April 11, 2012.

¹²⁷ Interview with expert at the General Secretariat of Development Planning, April 26, 2012.

to give a son a stake in the family inheritance. So rather than opening a market for logistics, transportation, and other service or product, they create their own supply chain. As well, the tender boards maintain rules about the category of the company and financial standing required in order to bid on government projects. Traditional big business leaders or international corporations fit these standards and have a longer history and reputation to draw upon. Even when smaller companies have a chance at a larger project, they must give pause because without early or timely pay, they may not have the liquidity to purchase necessary materials.

What is particularly intriguing is how the governments in each case are responding to these challenges. On the one hand, Qatar has little necessity to do anything at all. Yet the Chamber of Commerce has an annual face-to-face between sectoral directors at the chamber with the prime minister and the cabinet. This is viewed as an opportunity for the business community to raise pressing issues facing the private sector. Despite this, the kinds of regulatory changes or the support that larger companies would require are quite different than what smaller ones require. Often times they clash. As mentioned, larger companies are commonly perceived by SMEs to be monopolizing the market or blocking their entry into it. Thus the balance between these various needs is tenuous, and debatably non-existent. Moreover, there is broad acknowledgement of a preference for contracts to be awarded to foreign corporations because of a perceived lack of local expertise.¹²⁸ This is arguably even more troubling when one realizes the affinity for foreign, and particularly Western, expertise pervades all layers of government and economy.

¹²⁸ Interview with senior staff, Qatar Chamber of Commerce and Industry, April 11, 2012.

In practice, Oman has struggled with much of the same malaise: a fondness for foreign expertise, a tender board equally geared toward big business, and competing pressures for regulatory changes. In the wake of the 2011 protests however, several noteworthy changes occurred. A large cabinet shake up in February saw Mohammed bin Nasser al-Khasibi replace Maqbool bin Ali Sultan as Minister of Commerce and Industry. Not even a month later, he too was replaced by Sa'ad bin Mohammed bin Said Al-Mardouf Al-Sa'adi – just one among 12 other ministerial changes through royal decree that also disbanded the Ministry of National Economy and ousted long-standing Minister, Ahmed bin Abdunabi Macki.¹²⁹ With another reshuffle a year later, Ali bin Masoud bin Ali Al-Sunaidi, former Minister of Sports Affairs, was appointed the new Minister of Commerce and Industry. Prior to his role at Sports Affairs, Sunaidi had been the undersecretary at MOCI.¹³⁰ In fact, American embassy staff seemed to hold a positive assessment of his acumen for business and economic affairs, even considering him as one of their “key economic interlocutors.”¹³¹ Though young, he was brought back in to lead the Ministry. His enthusiasm for entrepreneurship and the support of SMEs was evident from the beginning. Soon after his appointment, he released a definition for SMEs, inaugurated a loan guarantee

¹²⁹ “Oman Shuffles Cabinet Amid Protests - Middle East,” *Al-Jazeera English*, February 26, 2011, <http://www.aljazeera.com/news/middleeast/2011/02/201122620711831600.html>; Nour Malas and Angus McDowall, “Oman Removes Powerful Economy Minister,” *The Wall Street Journal*, March 8, 2011, <http://online.wsj.com/article/SB10001424052748703386704576186422382605668.html>; Ravindra Nath, “Sultan Qaboos Names New Minister,” *Khaleeji Times*, February 27, 2011, http://www.khaleejtimes.com/DisplayArticleNew.asp?xfile=/data/middleeast/2011/February/middleeast_February782.xml§ion=middleeast.

¹³⁰ Sunil K. Vaidya, “Qaboos Names Three New Ministers in Cabinet Reshuffle | GulfNews.com,” *Gulf News*, February 29, 2012, <http://gulfnews.com/news/gulf/oman/qaboos-names-three-new-ministers-in-cabinet-reshuffle-1.988362>.

¹³¹ *New Sports Minister On The Ball, But Off Economic Team* (Embassy Muscat (Oman): Wikileaks, November 23, 2004), <http://cablegatesearch.net/cable.php?id=04MUSCAT2030>; *Ambition, Vision, And Frustration: Omani Commerce Official Speaks Out* (Embassy Muscat (Oman): Wikileaks, December 5, 2004), <http://cablegatesearch.net/cable.php?id=04MUSCAT2112>.

programme, launched a new SME development fund with the National Company for Projects and Management, and initiated a discussion on tender board policy amendments.¹³² Subsequent policy adjustments were announced following the 2013 SME Symposium. which, when implemented, will have the tender board reserve 10 percent of business for SMEs and banks allocate five percent of their credit to SMEs.¹³³

In ways, the Qatari and Omani approaches to entrepreneurship policy specifically, and economic policy more broadly, are similar in their seemingly improvised nature. The Qatari habit of ‘throwing’ money at problems or goals and the recent propensity in Oman to hasten efforts to do something to address what the government may mistakenly imagine to be only economic concerns could be cast as necessary, but fumbling steps to vitalize a crippled private sector. Both approaches are ad hoc with unclear outcomes.

4.3 Definitional Confusion

Sunaidi’s institution of a standardized definition for microenterprises and SMEs (MSMEs) is a timely step. Here, microenterprises are defined as those business entities with fewer than five staff members and annual sales less than 25,000 OMR; small enterprises are defined as having between five and nine employees with annual sales between 25,000 and 250,000 OMR; and medium enterprises are those with 10 to 99 employees and annual sales between 250,000 and 1.5 million OMR.¹³⁴ Still, all it serves to

¹³² Gulam Ali Khan, “MOCI Revises Definition of SMEs - Muscat Daily,” *Muscat Daily*, June 29, 2012, <http://www.muscatdaily.com/Archive/Business/MoCI-revises-definition-of-SMEs>; Claire Valdin, “Oman Launches US\$260m SME Development Fund - Banking & Finance,” *Arabian Business*, April 24, 2012, <http://www.arabianbusiness.com/oman-launches-us-260m-sme-development-fund-455140.html>.

¹³³ Hamoud Sangour Al-Zadjali, *Central Bank of Oman Circular: Small and Medium Enterprises (SMEs)*, Circular BM1108, 2013, <http://www.cbo-oman.org/circulars/2013/BM1108SME.pdf>.

¹³⁴ Khan, “MOCI Revises Definition of SMEs - Muscat Daily.”

do is standardize the points of reference within the Ministry and the Chamber of Commerce. Other actors, including banks and financial lending institutions, continue with their own definitions.¹³⁵ A lack of definitional clarity also pervades the Qatari entrepreneurial ecosystem. Although EQ uses a general working definition of 250 or fewer employees with annual turnover at 100 million QR or less to apply to all SMEs, different institutions and initiatives use others.¹³⁶

Along with this lack of definitional clarity, the difference between the terms SME, entrepreneurship, self-employment, and microbusiness are often blurred. There was a broad sense within civil society and even state entrepreneurship initiatives that decision makers do not understand the differences between an entrepreneur and a business person, entrepreneurship as a concept and SMEs, or innovation and entrepreneurship. Terms are used almost synonymously throughout the policy realm, conflating definitions and obscuring the meaning behind the terms. Rather than creating entrepreneurs who can contribute to the innovative, knowledge economy, government programmes were accused of merely creating business owners working in oversaturated, “copy cat” business types.¹³⁷ An Omani entrepreneurship promoter attributes the problem to the fact that the idea does not begin with the individual. Instead, it starts with the organization. Programmes like Sanad give aspiring entrepreneurs a list of businesses they are willing to fund to choose from. The same person accuses these programmes of being “the biggest killer of entrepreneurship, because at the end of the day, if you are not encouraging innovation and

¹³⁵ The policy intention, though, would seem to be the introduction of a universal definition.

¹³⁶ Interviews with staff at EQ, Doha, April 29, 2012. 100 million QR is equivalent to approximately \$274,668 USD. The Qatari riyal is pegged to the U.S. dollar at 3.64 QR for \$1:00 USD. Al-Qudsi et al., “Trade Volatility. The Dollar Peg and Inflation in the GCC Countries: Some Preliminary Findings,” 16.

¹³⁷ Interviews with initiative actors and entrepreneurs, Oman and Qatar: September 2011 – July 2012.

creativity, then who's going to start thinking out of the box?"¹³⁸ Rather than promoting innovative entrepreneurship then, they are making a job. Entrepreneurship is generally more about employment than innovation. A Qatari initiative director noted, "some other colleagues would look at self-employability as entrepreneurship... I don't see self-employability as a second-class citizen. I just think it is different, and I think we need both."¹³⁹ Reversing this trend will involve a re-examination of language usage. Of course, if employment is the actual goal, building an ecosystem that supports both self-employment and entrepreneurship is not negative by itself. It will, however, limit the extent to which innovation is adequately integrated into broader ambitions of becoming knowledge economies.

4.4 Segmented labour market

One of the staunchest challenges besetting Gulf development remains the segmented labour market. The challenge began with the arrival of petroleum-led development, when, with the sudden onset of rapid development and job growth in a new industry, local labour was deemed unqualified and inexperienced. Foreign labour had to be imported both at the expert and labourer levels. While this developed out of an early necessity, a certain path dependency ensued. As noted above, despite widening unemployment and widespread underemployment, the economy remains heavily dependent on foreign labour and expertise.

¹³⁸ Interview with an entrepreneurship initiative leader, Muscat, Oman, October 26, 2011.

¹³⁹ Interview with initiative directors, Doha, Qatar, February 19, 2012.

The nature of the rentier system has meant that expectations of meaningful employment have remained rather disjointed, with a significant proportion of nationals holding onto expectations of guaranteed jobs in the public sector despite its saturation.¹⁴⁰ Population growth during the boom years combined with the expansion of education has translated into youthful populations that, while ready to enter the labour market, find uncertain and inhospitable conditions. Misplaced incentive structures also perpetuate preferences that consider certain job categories undesirable. Remaining economically inactive, therefore, remains more attractive than working in these generally low-paying and insecure positions.

Equally problematic, the private sector is generally an unwilling or reluctant employer of Gulf nationals, who, along with higher salary expectations, remain stereotyped as ill prepared, unproductive and/or inefficient. This is combined with abundant local sentiment that expatriates are sitting in positions that could be filled by locals. In recognition of this, the government has been undertaking various labour market and educational reforms as a means of encouraging local participation in the private sector.¹⁴¹ Educational reform is an important part of this and both cases have made huge strides in educational attainment throughout the last several decades. Much more has also been done following the UNDP Arab Development Report and World Bank report on education. Recent reforms, however, have tended to be ad hoc and inconsistent resulting in

¹⁴⁰ Interviews with students, aspiring entrepreneurs, and academics. See also Richards and Waterbury, *A Political Economy of the Middle East*, 24; Askari, Nowshirvani, and Jaber, *Economic Development in the Gcc*, 65–66.

¹⁴¹ *The Road Not Traveled: Education Reform in the Middle East and North Africa*; Kamel Mellahi and Said Mohammad Al-Hinai, "Local Workers in Gulf Co-operation Countries: Assets or Liabilities?," *Middle Eastern Studies* 36, no. 3 (July 1, 2000): 177–190. See also, Ennis, C.A. Labour Market Nationlization in the GCC: The Case of Oman," *Al Jisr*, 2011 forthcoming.

immeasurable outcomes and popular confusion. A limited amount of cooperation between the various government bodies responsible for education as well as relying on competing consultancies and think tanks to provide solutions has only compounded this effect.

Added to this, labour market reforms, especially in Oman, have focused on quota systems and complex regulations serving to micromanage the labour market while at the same time encouraging back-door practices to circumvent them. Labour market reform is a prime example of the inconsistent, short-term and inappropriate policy measures rife with endemic contradictions. The repercussions of the (un)employment dilemma, especially in the Omani case, are only compounded by the expansion of female representation in the labour market. It is important to recognize the important role of labour market problems and attempted policy solutions in understanding the challenges surrounding entrepreneurship and innovation throughout the region. Indeed, the usual neglect in IPE of “labour issues hinders thorough analysis because they are intrinsically connected to issues of transformation and stability.”¹⁴²

Private companies in most industrialized economies are vital components of national innovation systems. Their motivation “is to improve profitability through product and process innovation, by creating technology of an essentially proprietary nature.”¹⁴³ Herein lies a twofold problem confronting the push for innovation in our cases. First, historically many of the incentives for technological breakthroughs stem from liberating manual labour. There is little incentive to do so in the Gulf where the (primarily South and South East Asian) labour supply is seemingly endless and inexpensive. The opportunity

¹⁴² Robert O’Brien, “Labour and IPE: Rediscovering Human Agency,” in Palan, *Global Political Economy*, 89.

¹⁴³ Metcalfe, “Technology Systems and Technology Policy in an Evolutionary Framework,” 39.

cost for pursuing innovative change is high when presented with a large supply of cheap, replaceable labour. As well, since the labour is foreign, both corporations and governments accrue immediate savings by not incurring future pension, healthcare, and other retirement costs. Resource wealth seems to stymie innovation, and the development of capital-intensive manufacturing in particular, especially when coupled with a large, elastic labour pool.

Business opinion and widespread practice notwithstanding, public opinion across the region seems to support mechanizations to replace foreign labour with local labour. This is especially true where national unemployment is perceived to be a problem, and where citizens form minority populations. Dubai's chief of police, for example, famously warned of the impending marginalization of Gulf citizens in the face of rising expatriate populations.¹⁴⁴ Along with this, there is growing concern expressed in conversations and in media around a perceived erosion of local culture due to overwhelming foreign populations. As Ahmed Kanna notes in his work on biopolitics, foreign workers are not only viewed with suspicion across the Gulf but are assumed to be threatening to *khaleeji* culture.¹⁴⁵ A note in an editorial reflects this sentiment. "This Asian tide that is increasing day after day despite the desire of some to reduce it, has become a threat to Arab / Gulf identity," it notes.¹⁴⁶ Many of these opinions border on the xenophobic, and one can expect

¹⁴⁴ Habib Toumi, "Dubai Police Chief Warns of Expats' Threat to Gulf Identity," *Gulf News*, December 26, 2010, <http://gulfnews.com/news/gulf/bahrain/dubai-police-chief-warns-of-expats-threat-to-gulf-identity-1.736096>.

¹⁴⁵ Ahmed Kanna, "The Arab World's Forgotten Rebellions: Foreign Workers and Biopolitics in the Gulf," *South Asian Magazine for Action and Reflection (SAMAR)*, May 31, 2011, <http://samarmagazine.org/archive/articles/357>.

¹⁴⁶ Asim Al-Shedi, "Influence of Expatriates on the Cultural Environment of Arab Countries," *Oman Daily Observer*, October 21, 2012, <http://main.omanobserver.om/node/117053>.

these to intensify.¹⁴⁷ Indeed, the importation of labour at existing rates is unsustainable from both employment and cultural perspectives.

At various times, efforts in both Oman and Qatar have been undertaken with the intention of targeting the directionality of the demographic imbalance. One such attempt has been labour nationalization quotas.¹⁴⁸ These, logically, face similar challenges to those confronting the innovation drive insofar as the incentive system does not align with the intention of many policy changes. One particular attempt however seems to hold promise. The Industrial Innovation Centre in Oman is attempting to inject new incentives into the mix, by partnering with both industrial actors and university researchers and sponsoring innovative projects. Where Qatar may not be actively partnering with the industrial sector in the same way, they do have a variety institutes/organizations with programmes designed to support such innovation, particularly via ictQatar and QSTP. These government and quasi-government bodies liaise with both universities and industry, but do not take it upon themselves to coordinate innovation exercises. It tends to be more of a competition-driven or application-reliant process.

Internationally competitive industries in the petroleum sector have been provided with a strong advantage by WTO accession. They have both the resources and, perhaps misconstrued, CSR motivation to employ (and educate to employ) graduates of elite educational institutions. The oil sector is known to be the most well-paying in Oman and Qatar, and can thus attract the *crème de la crème* of local graduates with the added bonus of fulfilling labour nationalization quotas. Given the salary differentials inherent in a

¹⁴⁷ See figures 4.1 and 4.2 in Section 4.6 of the next chapter for data on the rates of expatriate population increase.

¹⁴⁸ See section 6 of chapter 4 for a more thorough description.

segmented labour market as manifest in the Gulf, local companies outside the scope of petroleum competitiveness suffer because not only must they ensure a certain percentage of their workforce is local, they are not able to attract the more capable graduates. Even those less capable prove difficult to retain. This problem is particularly acute in the Omani case. In Qatar, the absence of a strong constraint on public sector employment spending, coupled with the presence in government of a desire to encourage local SME start ups, has resulted in a tendency among officials to not enforce labour nationalization quotas.¹⁴⁹

Although this competitiveness problem remains a challenge outside of the hydrocarbon industry, it has been helpful in terms of innovation within the sector. Where entrepreneurship and innovation may be off to a tepid start in other sectors, they are performing much better in the familiar oil context. An observation supported by Lundvall. Innovation, he claims, “must be rooted in the prevailing economic structure,” since technological advancements are more likely to occur where the national economy “is already engaged in routine activities.”¹⁵⁰ This notion seems particularly true in Oman, where several entrepreneur interviewees, who had their start in the oil industry, were developing industry-specific innovative processes or products. Launching their own enterprises, they created competitive businesses by bringing their technical knowhow and managerial experience to the table. Some have even expanded throughout the region and hold international expansion plans.¹⁵¹

¹⁴⁹ Interviews.

¹⁵⁰ Lundvall, *National Systems of Innovation*, 10.

¹⁵¹ Interviews with Omani entrepreneurs across Oman between September 2011 and July 2012.

4. Conclusion

The experiences of promoting entrepreneurship and innovation in Oman and Qatar can be cast within the bounds of the genuine, the necessary, and at times even the trend. The very real need of diversification and of building opportunities for young adults in the countries is a strong galvanizing force, especially given the regional tumult so clearly linked to youth frustrations. Oman's own experience with protests, especially those which were primarily youth-based in the industrial city of Sohar, ultimately intensified the urgency policy makers placed on entrepreneurship promotion. Policy makers in Qatar also point to a need to find fulfilling opportunities for youth. Indeed, the dual promotion of entrepreneurship and innovation holds the promise of responding to the lack of prospects for youth, employment challenges, and economic diversification needs. Yet the policy experience has been far from ideal. Although both countries have highlighted the importance of entrepreneurship and innovation in their overarching visions and development plans, the actual implementation has been less well crafted. Ad hoc and rife with inconsistencies, entrepreneurship and innovation promotion efforts confront a multitude of systemic challenges. Indeed the very nature of the rentier system, so hegemonic within the socio-economic and political system shaping the Gulf, results in a series of contradictions that are difficult to correct. Thus, with the aim of determining

... what governments should do in order to promote innovation, it is useful to know the specific systemic context in which a national government intervenes. Otherwise, government policies might either reproduce weaknesses of the national system or introduce mechanisms incompatible with the basic logic of the system.¹⁵²

¹⁵² Lundvall, *National Systems of Innovation*, 5.

Policy efforts to date have often done one or the other or both. The competition, lack of cooperation, political disconnect from the realities of the private sector, and the considerable obstacles which result from the segmented labour market all must be addressed. Yet identification of the problems has done little to initiate meaningful change, where competing interests are endemic and especially while hydrocarbon revenues continue to surpass the breakeven point. What remains intriguing is how both Oman and Qatar, despite their differences, are announcing similar policy pushes. Given Oman's already rising breakeven oil price point, how the country fairs as it approaches a post-oil future will provide lessons to its GCC neighbours. Oman's mounting spending constraints, growing political uncertainty given the lack of a transparent succession plan, and changing socio-political mood make it a fascinating and underrated) test case for Gulf reform – both economic and political.

Chapter 4:

Millennials and the State of Entrepreneurship

1. Introduction

As noted in the last chapter, the promotion of entrepreneurship in the Gulf predates the stressors from the so-called Arab Spring. Many of the causal mechanisms underlying the eruption of the uprisings across the region have constituted part of the same cluster of pressures underlying the development of entrepreneurial and innovation initiatives. It is apparent, however, that the emphasis on entrepreneurship and innovation since the beginning of the uprisings has intensified. This chapter analyzes the real state of entrepreneurship in Qatar and Oman, particularly among Gulf millennials. It examines how the demographic bulge influences entrepreneurship and innovation activities and policy measures and how the environment in turn influences young people in the Gulf. Finally, it discusses what these symbiotic activities reveal about the evolution of the social contract in the region. This chapter demonstrates that the rentier nature of Gulf political economy has created structural incongruencies with entrepreneurship and innovation promotion, leading to policy, practice, and behavioural contradictions that are difficult to resolve. Indeed, the state's promotion of entrepreneurship will not prove the panacea to Gulf employment challenges as long as inconsistent expectations endure and the segmented labour market with its dual-wage structure persists.

The last chapter outlined the major entrepreneurship initiatives in each case study, drawing an image of the complementary and competing actors and interests that comprise

the respective ecosystems. The sections that follow further describe the business environment and demarcate the outcomes and roadblocks facing the new generation.

2. Defining Millennials

The demographic makeup of the Arab Middle East is skewed in favour of youth. This demographic reality extends to the Gulf where more than 50 percent of the population is under the age of 35. With a view of Oman and Qatar, the percentage of the population under the age of 35 is 78.4 and 60.87 percent respectively.¹ In this work, I use the term millennials to refer to young people both preparing to enter the work force and in the early stages of their labour market participation. The term millennials is used globally to refer to the demographic born between 1980 and 2000, and often includes those born in the late 1970s.² I use the term loosely in this study in terms of year. The empirical focus remains on those who are new labour market entrants or in the early stages of their participation in the workforce. That is, those over 18 years of age and usually under the age of 35 were the primary interview respondents.

While the term millennials is more commonly used in reference to this generation in the West, its use in this study is a fitting beyond the basic demographic figures. There is a general sense that the Western millennial generation differentiates itself from previous

¹ Qatar Statistics Authority, *Qatar Census 2010*; Mshroo' al-t'daad al-'aam l-lskaan w-al-mnsaaakn w-almnshaat 2010, *Census 2010*, 68 and 120.

² There is no clear consensus on the years of the millennial generation. For instance, Howe and Strauss suggest that millennials refer to anyone born after 1982, whereas Twenge includes those born in the 1970s. Neil Howe and William Strauss, *Millennials Rising: The Next Great Generation* (Random House LLC, 2000), 4; Jean M Twenge, *Generation Me: Why Today's Young Americans Are More Confident, Assertive, Entitled--and More Miserable Than Ever Before* (New York: Free Press, 2006), 1–15.

ones largely because of the economic and technological repercussions of the Internet.³ Some writers suggest a greater civic-mindedness and strengthened sense of community at both local and global levels in comparison to previous generations.⁴ These broad characteristics are applicable to the Gulf millennials as well. More specifically however, comparisons can be drawn between how previous generations in the West (e.g. “baby boomers” and “generation X”) depict millennials. Particularly criticized are the millennials’ alleged sense of entitlement, high expectations held for the job market, and an apparent need for praise and affirmation.⁵ Jean Twenge’s suggest that “childhoods of constant praise, self-esteem boosting, and unrealistic expectations did not prepare [millennials] for an increasingly competitive workplace and the economic squeeze,”⁶ In the workplace, Western millennials are criticized for “demanding too much too soon” and wanting to be “CEO tomorrow.”⁷ Along with expecting higher pay, flexible work schedules, rapid promotions, and more vacation and personal time, there is a prevailing perception that millennials “desire to shape their jobs to fit their lives rather than adapt their lives to the workplace.”⁸ Many of these latter statements could easily be read of the Gulf millennials. Personal interviews in both cases with individuals from earlier generations often shared similar sentiments. Business managers often claimed that millennials frequently changed jobs “in pursuit of higher salaries,” wanted to “get a profit fast” without working

³ See, for example: William August Draves and Julie Coates, *Nine Shift: Work, Life and Education in the 21st Century* (River Falls: LERN Books, 2004).

⁴ Howe and Strauss, *Millennials Rising*.

⁵ Ron Aslop, “The ‘Trophy Kids’ Go to Work,” *The Wall Street Journal*, October 21, 2008, <http://online.wsj.com/article/SB122455219391652725.html>; Twenge, *Generation Me*.

⁶ Twenge, *Generation Me*, 7.

⁷ Aslop, “The ‘Trophy Kids’ Go to Work.”

⁸ Ibid.

particularly long or hard, and retained excessively high expectations for pay, job title, and flexible working hours.⁹

Many interviewees suggested that higher levels of education came with a sense of entitlement to better jobs despite lacking practical experience. Everyone spoke of how technology had changed the mode of communication, connectedness, and social openness.¹⁰ I do not want to stress the similarities too much. There are significant differences and definitely diverse historical paths which led to the types of expectations as well as the perceptions of the older generation toward the millennials. Despite this, I find the use of the term millennials useful in the Gulf cases because it coincides well with the generational divide I speak to in section 3.2. As well, its use seems apt in the Gulf cases as the age and common depictions attributed to the Western millennial generation are not in reality that far removed.

It should also be reiterated that I am looking specifically at the Gulf national population throughout this dissertation. The impact of the bifurcated labour market in Oman and Qatar, where 59.3 and 94 percent of labour force is comprised of expatriates, plays a significant role in this development narrative.¹¹ Yet, the question of how to both encourage millennials into the private sector and make them competitive within it, although intricately and intensely influenced by the two-tier labour market and dual-wage structure, remains distinct though complementary to the broader question of private sector development. In fact, the two are often at odds with each other. The default mode of

⁹ Interviews with business managers and policy makers: Muscat: October 25 and 25, 2011, January 8, 2012; Doha: February 20, 2012, April 9, 22, and 30, 2012, May 7, 2012.

¹⁰ Ibid.

¹¹ Mshroo' al-t'daad al-'aam l-lskaan w-al-mnsaaakn w-almnshaat 2010, *Census 2010*, 87; *Qatar's Third National Human Development Report*, 56.

private sector enhancement in the Gulf includes a concoction of foreign direct investment, cheap foreign labour, and global expertise. In reality, this has only contributed to the difficulty in addressing local education, labour, and sustainability problems.

Approximately 60 individuals across the two cases participated in interviews and focus groups as part of the interview category entitled entrepreneurs or aspiring entrepreneurs. Representatives of large business families and the older generation of businessmen were also interviewed. The lessons learned from the fresh labour market entrants have implications for the younger generations and economic and labour market policy decisions. Indeed, although the label millennials is employed loosely in terms of year of birth, its use is intentional. It draws a line between the generation who remember the social and economic transformation resulting from oil and those who were born into a world with certain welfare expectations. It is the ternary evolution and intersection of oil wealth levels, demographic imbalance both in terms of age and expatriate levels, and millennial expectations rendering this discussion of pressing concern to policy makers and theorists of rentier state behaviour.

3. The Cultural Critique and Generational Divide

3.1 Culture, business, and history

A litany of articles indicates cultural deficiency behind the Gulf's lack of entrepreneurial spirit and adroitness at innovative business.¹² Many decry the region's failure to turn out someone like Steve Jobs while others blame rampant nepotism and rent

¹² "Putting the Gulf to Work," *Arabian Business*, October 26, 2010, <http://www.arabianbusiness.com/putting-gulf-work-358224.html>.

seeking. True as it may be, it would be inaccurate to blame this on an alleged history or culture inhospitable to business. A longer view of Gulf history reveals a record of international trade spanning centuries. Jill Crystal spent a great deal of time outlining the merchant activities in Kuwait and Qatar whilst others like Sugata Bose and J.C. Wilkinson look at the long history of trade and merchant activities in Oman as part of a wider Indian ocean economy.¹³ In fact, by the eighth century Omani merchants had “commercial colonies in Basra, Siraf, Daybul (Sind) and Aden” and were involved in China, India, and East Africa trade.¹⁴ Sohar, one of Oman’s port cities, is now the ‘stuff’ of legends – believed to be the birthplace of Sinbad the sailor. By the nineteenth century, Oman was a maritime empire under the leadership of Said bin Sultan al-Busaidi, the great – great – great grandfather of Sultan Qaboos.¹⁵

Although the merchant community in Qatar was small and weak before oil, especially in relation to Oman, neither country is a stranger to business and trade.¹⁶ Their strategic locations at the edge of the Arabian Peninsula have long etched the thoroughfares of trade coming across the Indian Ocean. The British had protracted imperial strategic interests in the region, with much contestation among the various colonial powers vying to control the trading ports and passageways.¹⁷ Following the decline of the pearling industry in the 1920s, the Great Depression, and the near isolation of Oman in the early to

¹³ Crystal, *Oil and Politics in the Gulf*, 1995; Sugata Bose, *A Hundred Horizons: The Indian Ocean in the Age of Global Empire* (Harvard University Press, 2006); J. C. Wilkinson, “Oman and East Africa: New Light on Early Kilwan History from the Omani Sources,” *The International Journal of African Historical Studies* 14, no. 2 (1981): 272–305, doi:10.2307/218046.

¹⁴ Wilkinson, “Oman and East Africa,” 177.

¹⁵ Rosemarie Said Zahlan, *The Making of the Modern Gulf States: Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman*, Revised edition (Ithaca Press, 1999), 12.

¹⁶ Herb, *All in the Family*, 110–111; Crystal, *Oil and Politics in the Gulf*, 1995, 113.

¹⁷ For example, see Sultan Muhammad Al-Qasimi, *Omani-French Relations 1715 - 1900*, trans. B.R. Pridham (London: Forest Row, 1996).

mid 1900s, it was the advent of the oil age that really transformed the political economy of the region.¹⁸ Oil solidified the rule of particular families in the region and freed them from economic reliance on the merchant class. As Jill Crystal noted,

The development of oil in the postwar years has led to the withdrawal from formal political life of the merchants, the group which historically pressed its claims most effectively on the state. Merchant claims have not been put forward because of a tacit arrangement between the rulers and the trading families: a trade of wealth for formal power. In effect, the merchants renounced their historical claim to participate in decision-making. Where economic elites once entered politics to protect their economic interests, after oil, merchants left the realm of formal politics to preserve those interests.¹⁹

So while this arrangement served the interest of the rulers, it also entrenched particular merchant families into the business landscape.

In both Qatar and Oman, there are a handful of large business families that dominate various segments of the market. Many of them can trace their business heritage back for generations. What is important for this discussion however is that despite a merchant community's relative strength or weakness, oil is responsible for the transformation of its relationship with rulers. Outside of international business, very little evolution of the local business communities has since occurred. Oil allowed the state to shift labour structures to the current model where the vast majority of national populations are dependent on state employment. As well, the distributive welfare capacity of these new rentier states combined with their swift development resulted in populations whose gratitude combined with a sense of indebtedness for the newfound prosperity. This, in fact, is a major reason the GCC states are used as *modèle exemplaire* of rentier state behaviour.

¹⁸ Mohamed Bin Musa Al-Yousef, *Oil and the Transformation of Oman: The Socio-economic Impact* (London: Stacey International, 1996), 21; Crystal, *Oil and Politics in the Gulf*, 1995, 39.

¹⁹ Crystal, *Oil and Politics in the Gulf*, 1995, 1.

3.2 Cultural Divide

There is a sense from the younger and older generation that a cultural divide exists between the generations. Some interviewees divide into two groups, others three. The major delineation in the first division is between those who grew up in the pre-oil era and witnessed the rapid transformation of the state and those who were born after the major infrastructural changes with all the trappings of wealth along with institutional and technological modernity blossoming around them.

The second, tripartite, demarcation is slightly more nuanced. The categories are as follows. The first generation are those who represent the hard-working merchant, trading, or pearling communities as the case may be. Entrepreneurs would point back to this as the generation proving that business intelligence and an entrepreneurial spirit were not foreign to the region, but very much integral to it. The second category refers to the generation that worked through the oil transformation. These were those who participated in the transformation of the economy away from private and familial entrepreneurial interests to the pursuit of wealth that centred on the new commodity, oil. Economic activity shifted toward the state, and earning a living was provided by direct state employment or business proximity to the value chains attached to oil activities.²⁰

The final generation, then, were those born into this new reality. A strong welfare state was in place, families allotted prestige to employment in the government or oil industry, and other business activities dwindled or eventually fell under the auspices of expatriate labour and business classes. As well, this generation was more instantly connected to the outside world than ever before and grew up along with rapid changes in

²⁰ Interviews with officials, initiative actors, and entrepreneurs in Oman and Qatar: September 2011 – July 2012.

technology. The millennial generation, then, expected more. Many attributed the generational difference almost exclusively to technology. Others suggested that millennials also offered more dynamic visions, new operating methodologies, and the aspiration to innovate. It has not only been technology which has changed, but also education. The newer generation has received a more dynamic education than was offered before and this impacts business strategy and management behaviour.²¹ No matter which division you choose to engage, the message is consistent. The millennial generation is different than its predecessors not only in terms of its technological capabilities and the “globalization effect,” but arguably more significantly in terms of its divergent expectations.

4. The Entrepreneurial Landscape and Gulf Millennials

The World Bank neither has data on entrepreneurship nor on new business density in Oman and Qatar. A Gallup Poll has suggested that four percent of young men and two percent of young women across the Middle East are opportunity-driven entrepreneurs.²² Census data in Qatar estimates that 2.5 percent of Qatar’s economically active population are entrepreneurs, but entrepreneurs here are cross-defined with employers.²³ Specific data on entrepreneurship is difficult to attain, with Chambers of Commerce and various government bodies often hesitant to release particular figures. The absence of a government culture of transparency partially explains this reluctance. Uncertainty explains the remainder. This uncertainty has two root causes. First, overlapping spheres of

²¹ Interviews with officials, initiative actors, and entrepreneurs in Oman and Qatar: September 2011 – July 2012.

²² Dalia Mogahed and Lymari Morales, “The Rare (But Powerful) Opportunity-Driven Young Female Entrepreneur,” *The Edge*, June 26, 2011.

²³ *Qatar Information Exchange Database* (Doha: Qatar Statistics Authority, 2012), <http://www.qix.gov.qa>.

responsibility across government bodies combined with swift changes in government appointments in effect institutionalizes ambiguity. Rapid changes in government and ministerial responsibilities results in a lack of clarity over responsibilities and often direction. This was especially evident in Oman with a series of changes implemented following the unrest of 2011. This ambiguity is compounded by institutional competition, with many outfits scrambling to be the next “big thing” in entrepreneurship support.

Second, the preponderance with which various government bodies hold different figures on the same topic contributes to uncertainty. Indeed, the lack of definitional clarity and consistency lends to confusion. Different institutions may use different criteria in their assumptions and data collection, which contributes to the inconsistency. The establishment of the Qatar Statistics Authority (QSA) is an attempt at rectifying this tendency. It is designed to function as the exclusive central data bureau in the country. All requests for statistical information must be processed through the QSA. The creation in 2012 of the National Centre for Statistics and Information under the auspices of the Supreme Council for Planning in Oman may also improve the situation there. Yet despite these changes, underlying economic realities make even available data difficult to navigate.

According to a World Bank study, a key indicator of entrepreneurship is the entry rate of new firms as a percentage of lagged total registered firms. Developing country averages are between seven and nine percent.²⁴ Even though data on new business registrants is available from the Chambers of Commerce and the Ministry of Commerce and Industry or the Ministry of Business and Trade, it fails to accurately capture the business

²⁴ Leora Klapper and Manuel Quesada Delgado, *Entrepreneurship: New Data on Business Creation and How to Promote It*, Viewpoint (Washington: The World Bank Group, Financial and Private Sector Development Vice Presidency, August 2007), http://rru.worldbank.org/documents/publicpolicyjournal/316Klapper_Delgado.pdf.

environment. First, the information does not disclose the rate of failure or number of businesses which never became operational. This is a clear informational deficit. Second, and equally problematic, there is no mechanism within the available datasets to differentiate between the businesses which are genuinely locally owned and operated or those which are simply using the name of a citizen for official records but in reality owned and operated by an expatriate. Without a clear differentiation, it is impossible to know with any degree of confidence the number of local business people who are merely utilizing one of the available ways to access rent from those who are legitimately engaging in entrepreneurial business endeavours.

These datasets are also unable to reveal whether entrepreneurship is “opportunity driven” or “necessity based” – an important differentiation according to some studies.²⁵ Opportunity-driven entrepreneurs are believed to contain certain socio-economic change potential. Recent studies claim that Arab youth are increasingly entrepreneurially minded.²⁶ The results of the 2011 Arab Youth Study suggest that Gulf Arab youth are even more likely to have entrepreneurial aspirations than young people in the rest of the region.²⁷ What this survey does not disclose are the underlying motivations to these aspirations. The judgement on whether entrepreneurs are opportunity or necessity driven is better ascertained through interviews and focus groups with entrepreneurs and aspiring entrepreneurs. The answer proved mixed, with aspiring Omani entrepreneurs more often driven by necessity than Qatari ones. This could be expected. Young people, often from

²⁵ Mogahed and Morales, “The Rare (But Powerful) Opportunity-Driven Young Female Entrepreneur.”

²⁶ Imelda Dunlop, *Business and Youth in the Arab World: Partnerships for Youth Employment and Enterprise Development* (International Business Leader’s Forum, 2006), <http://www-dev.iblf.org/docs/BizYouthArab.pdf>.

²⁷ *3rd Annual ASDA’A Burson-Marsteller Arab Youth Survey*, White Paper (Dubai: ASDA’A Burson-Marsteller, March 2011), 11.

families in a weak socio-economic position, when confronting the prospect of unemployment turn to alternatives like self-employment to sustain a living.

5. Structural Challenges: the persistence of labour market woes

The challenges millennials experience in the labour market are not necessarily unique from those faced by other labour market participants. What is different, however, is the effort the state now dedicates to promoting alternatives to state employment to this generation. These alternatives include private sector jobs and self-employment, but have, for the last several years, centred on entrepreneurship in particular. The overall emphasis on the importance of innovation along the path to a knowledge economy is difficult to avoid. Despite this, the underlying structures of the economy remain the same. Along with the overarching rentier character of the political economy, employment options and labour market trends more broadly are constituted by the segmented labour market and dual-wage structure. This section highlights the particular difficulties this reality presents, especially in relation to its significant contradiction with entrepreneurship and innovation policy aims.

Where the state has been the main source of employment in the oil age, it is over saturated. In Oman, the state no longer has the capacity to hire as many new graduates as the school system turns out each year. In both cases, even when gainful employment can be secured, the state often fails to provide a stimulating or challenging environment for those who need it. Many young people are under-employed within these agencies, or, because of the bloated nature of the public sector, find they have little to nothing to do in their roles. Other graduates find they do not have the skills or applicable education

required for available jobs. Indeed, the under-utilization and, prior to that, the under-education of local human resources remains a challenge.

As the extraordinarily high percentage of expatriates in the labour market indicates, there is demand for labour in the economy. Yet even when local labour is qualified for the position, the dual-wage structure has a two-pronged hindering effect. Citizens are more expensive to employ and difficult to fire. At the same time, private sector jobs are perceived as low paying, less secure, and offering fewer benefits than the public or oil sectors.

These rather long-standing labour market challenges motivated the development of labour nationalization strategies. These policies, known as Omanization and Qatarization, preceded the push toward entrepreneurship and were its precursors. Omanization and Qatarization refer to government policies to promote their citizens' employment in the workforce and encourage local instead of expatriate hiring. Labour market nationalization, or localization as it is sometimes known, was the initial channel through which local participation in the labour market was encouraged. Through quota systems and enhanced education and training opportunities, localization seeks to reduce reliance on expatriate labour and increase local economic opportunities. These positive discrimination policies can be understood as similar in intention to affirmative action, only rather than targeting specific minorities they target the wider national population.

Omanization was first introduced as policy in 1988, but little attention was paid to it until the mid-1990s. Political emphasis on Omanization was intensified in the Oman Vision 2020 which dictates an increase of Omanization percentages from their 1995 levels of 68 percent in the public sector and 15 percent in the private sector to 95 and 75 percent

respectively by 2020.²⁸ Labour market indicators show that the public sector had achieved 82.7 percent by 2005.²⁹ Banks and the oil and gas industry have also been rather successful at reaching targets.³⁰ The percentage of Omanis in the private sector, however, only reached a 22.5 percent Omanization ratio by 2005 and actually decreased to 15.6 percent by 2010.³¹ It should be noted though that this was primarily due to the increase in expatriates added to the private sector and exaggerated by the push of economic liberalization that deepened after 2005.³²

Qatar introduced its own localization policy about a decade after Oman. The government officially adopted Qatarization in 1997 toward the goal of increasing the percentage of Qataris in the total workforce to 20 percent.³³ It received more attention in 2000 with the introduction of the Strategic Qatarization Plan for the Energy and Industry Sector. This plan aimed at a 50 percent Qatarization ratio for that sector.³⁴ Like the rest of the region, Qatar combined quotas, incentives, and preferential hiring to encourage progress.³⁵ Qatar has been far less successful at reaching its localization goals than Oman, as suggested by earlier figures. To date, only six percent of the total labour force is Qatari.³⁶

²⁸ *Vision 2020*, 94.

²⁹ *Seventh Five-Year Development Plan (2006-2010)* (Muscat: Ministry of National Economy, 2006), 185.

³⁰ "Omanisation Percentage Per Sector," *Ministry of Manpower*, 2011, http://www.manpower.gov.om/en/omanisation_sector.asp.

³¹ *Facts & Figures 2010* (Muscat: Ministry of National Economy, June 2011), 21; *Seventh Five-Year Development Plan (2006-2010)*, 185.

³² See the first half of section 2.1 in chapter 3.

³³ Dell Felder and Mirka Vuollo, *Qatari Women in the Workforce*, SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, November 16, 2008), 5, <http://papers.ssrn.com/abstract=1291424>.

³⁴ "Qatarization - What Is Qatarization?," *Strategic Qatarization Plan for the Energy and Industry Sector*, accessed March 3, 2013, <http://www.qatarization.com.qa/Qatarization/Qatarization.nsf/40278ec4e9ade91c4325725d003bc463/f6d73500302675e7432574500040a8c5?OpenDocument>.

³⁵ Justin Williams, Ramudu Bhanugopan, and Alan Fish, "Localization of Human Resources in the State of Qatar," *Education, Business and Society: Contemporary Middle Eastern Issues* 4, no. 3 (2011): 200–201, doi:<http://dx.doi.org.proxy.lib.uwaterloo.ca/10.1108/17537981111159966>.

³⁶ Qatar Statistics Authority, *Qatar Census 2010*.

Qatarization, in fact, would be viewed as an abject policy failure had deadlines not been dropped. Reflecting the reality of the Qatari labour market, quotas are now widely viewed as “unrealistic.”³⁷ They are generally considered goals worthy of aspiration, but are neither enforced nor used as a means of holding up foreign labour recruitment.

Obstacles to labour nationalization efforts in the private sector can be organized into two main categories, the relative preference of nationals for public sector positions and the hesitation of the private sector to hire nationals. The private labour market is less appealing because it is perceived to offer less secure, lower paying jobs than the public sector. As well, the psychological association of an imported, marginalized labour class, dominating certain labour-intensive sectors further reduces the attractiveness of particular job categories. As a result, jobs in labour-intensive or service industries are widely viewed as undesirable or beneath the dignity of the local workforce. While this is widely true in Qatar, the situation is slightly different in the lesser-wealthy Oman. Omanis, particularly those from outside the capital area, are in fact willing to work in lower-level occupations rejected in the *Khaleeji* norm. Taxi drivers, for instance, while remaining the prerogative of foreign labour in Qatar is a completely Omanized occupation. The same is true for clerical positions, drivers, and security guards.³⁸ Oman, in fact, first nationalized lower-level occupations and incrementally expanded quotas up the job scale in an attempt to better reflect educational and experience capabilities at the time. In addition to this, Oman has been particularly successful in the public and banking sectors reaching

³⁷ Mehran Kamrava, “Royal Factionalism and Political Liberalization in Qatar,” *The Middle East Journal* 63, no. 3 (2009): 407, doi:10.3751/63.3.13.

³⁸ “At a Crossroads,” *Oman Economic Review*, September 2003.

approximately 85 and 92 percent Omanization ratios respectively.³⁹ In contrast, like many other wealthy Gulf states, Qatar's application of job nationalization in the private sector has primarily involved appointing Qataris to senior managerial positions of companies or on the board of directors.

Over the years, some attempt has been made at countering this trend and enhancing the overall appeal of the private sector to Gulf nationals. Oman's institution of a minimum wage is one such endeavour. Nevertheless, this tends to further reduce private sector interest in hiring nationals since expatriates are not subject to the same minimum wage requirements. Moreover, given the majority-expatriate status in many industries, the problem is reproduced as expatriate managers seem to have a predilection for hiring fellow countrymen. They are also often accused of failing to support or train local hires who are viewed as threats to their job security.

Aside from this, minimum private sector wages remain below public sector averages. While this is not a problem for job categories with high educational demands that tend to pay well, it is particularly challenging for low-level positions. Other attempts have also largely failed to change these perceptions. For example, the Omani government implemented a social security law in 1992 to offer retirement security to permanent private sector employees.⁴⁰ Despite these efforts, graduates continue to see the salaries, retirement plans, social security, compensation, education assistance, vacations, sick leave and working hours of private sector employment as inferior to the public sector. The

³⁹ *Seventh Five-Year Development Plan (2006-2010)*, 185; "Omanization in the Banking Sector," *Al-Markazi*, December 2004, 19.

⁴⁰ Salma Al-Lamki, "Barriers to Omanization in the Private Sector: The Perceptions of Omani Graduates," *The International Journal of Human Resource Management* 9, no. 2 (1998): 384.

necessity to use English as the medium of communication also serves as a deterrent to many graduates. This is particularly true outside the capital region in Oman despite having completed post-secondary education by means of the English language as well as for graduates of Arabic-language programmes in Qatar.⁴¹ Language is an even greater obstacle for those without higher education. Likewise, it is not uncommon to hear expressions of discomfort or feeling overwhelmed in foreign-dominated work environments.

A further problem is the continuation of a system which requires majority ownership of business by a national. Other than separate arrangements made with large multinationals, the standard 51% ownership share guarantees a level of local involvement or income from a business. In many cases, the perpetuation of shadow ownership arrangements further complicates the picture. The motivation to be independently productive or develop an innovative enterprise is reduced when one can simply receive an income by being a name on a business deed which is for all intents and purposes owned and operated by a non-national. This is just one more example of the many ways rent seeking has pervaded the economic foundation of the state and represents why it remains so difficult to alter.

Thus, the problem with labour market nationalization endeavours is that it detracts from the reality of the segmented labour market. As the name implies, there are essentially two labour markets resulting in labour that is not exchangeable and labour market actors that do not in reality compete with each other. In order to truly address these challenges, the underlying structures and inequality that pervades them must be addressed. The variety of incentive mechanisms that have been initiated over the years have failed to

⁴¹ *Ibid.*, 388–391; interviews, meetings, and focus groups with students across both cases.

resolve the problem. As the Omani case demonstrates, raising the minimum wage for Omanis only serves to further reduce private sector interest in local hiring. As well, minimum wage increases consistently lag behind public sector averages. The private sector continues to be viewed as the employment of last resort. Even those who initially take up private sector jobs, do so to bide their time until a public opening becomes available.

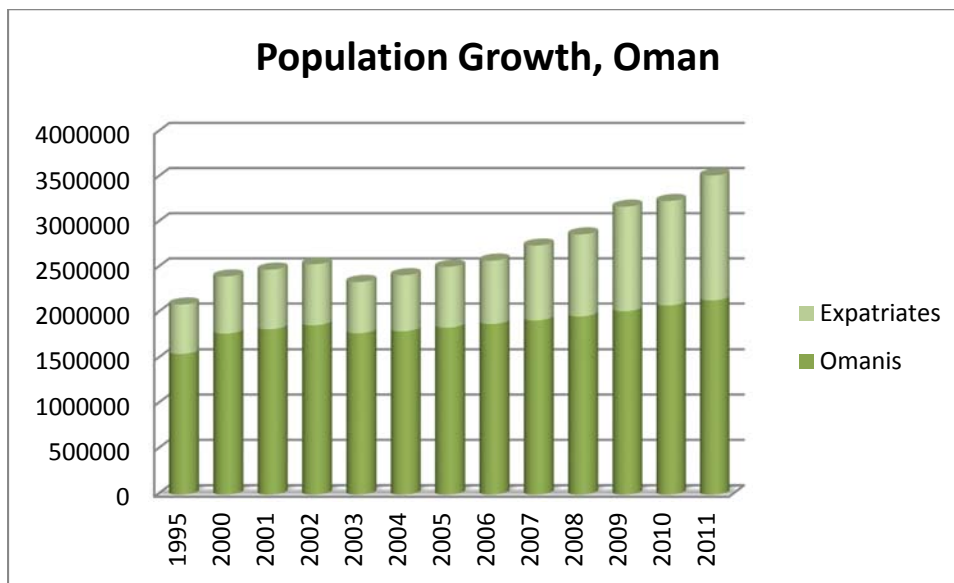
The jobs and salaries provided by many state and even private corporations are simply to fulfill nationalization quotas or an obligation to contribute to local employment. This obligation may be the result of government inducement or form part of a corporate marketing strategy. In fact, many multinational companies hold distorted views of national labour quotas. Some perceive it as an expression of government taxation, holding that the necessity of hiring local labour is merely part of the cost of doing business in the country. Others view it as a form of corporate social responsibility, perversely suggesting that providing employment to local job seekers is a way of “giving back.”⁴² This presentation of colonial atavism is suggestive of a condescending view of local needs disconnected from a broader, genuine development imperative. The lesson though, is important to the broader message. The structure of Gulf political economy is difficult to disentangle from the broader global structures and flows of capital and labour that underpin it.

Hence, despite the policy language over the years aimed at limiting immigration, building indigenous human resources, and nationalizing private sector jobs, the ratio of citizens to non-national population continues to decrease. (See figures 4.1 and 4.2) Efforts

⁴² Both these views were voiced repeatedly during this field research from September 2011 to July 2012, as well as during a research trip to Oman in 2009 examining labour market nationalization.

to attract investment and brand the country pro-business reduce the state's desire to directly intervene in the labour market and enforce quotas.⁴³ Pledges for the Omanization and Qatarization of private sector jobs and immigration control are negated by heavy investment projects, infrastructure development, and the courting of FDI. These increase demand for expatriate labour. As shown in figures 4.1 and 4.2, the expatriate population continues to expand against the citizen one. This is even more heavily reflected in their disproportionate representation in the labour market.

Figure 4.1: Population Growth, Oman



Source: Department of Health Information & Statistics, Ministry of Health, Oman⁴⁴

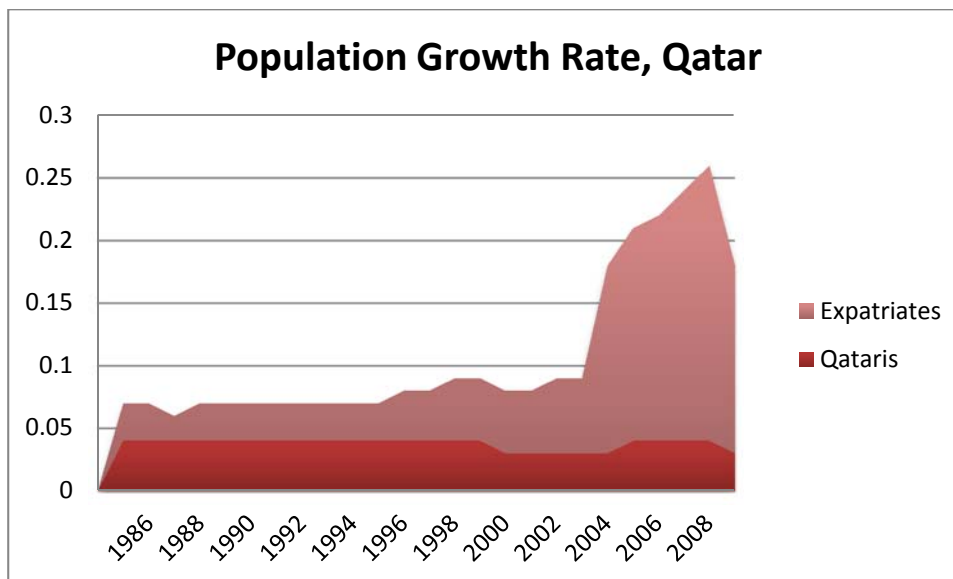
As evident in the graphs, the situation is more acute in Qatar. On a political economy level, this is less problematic given the much lower national demand for private sector jobs. On a politico-cultural level, the general malaise spurred by a perceived onslaught of

⁴³ Forstenlechner and Rutledge, "Unemployment in the Gulf," 44.

⁴⁴ *Annual Health Reports* (Muscat: Department of Health Information and Statistics, Directorate General of Planning, Ministry of Health, 2012), http://www.moh.gov.om/en/nv_menu.php?o=stat/ahr.html.

foreigners is of particular local concern. The heavy presence of foreigners is viewed by some as a cultural threat, another unwelcome imposition by the new realities of globalization. It is the suddenness of the increase which heightens local concern. The sharp increase in expatriate numbers was prompted by developments in the lead up to the 2006 Asian Games. It was accompanied by high levels of inflation as well, rising from 3 percent prior to 2004 to 11.8 percent in 2006, 13.6 in 2007, and 15.2 in 2008.⁴⁵ There is a great deal of concern that there will be an even starker increase in the numbers of foreigners and inflation in the expected construction boom in the lead up to FIFA 2022. Early projections warn that inflation could average 18 percent per annum over the coming decade.⁴⁶

Figure 4.2: Population Growth Rate, Qatar



Source: Qatar Statistics Authority

⁴⁵ *Qatar Economic Statistics at a Glance*, 17; "Record Inflation," *Qatar Financial Centre Authority*, 2007, <http://www.qfc.com.qa/en-us/Media-center/Media-news-detail.aspx?sNewsID=68524c59-13f6-4d6f-8f73-3d0a8c64fb02>.

⁴⁶ "Qatar 'Must Be Wary' of Construction Inflation," *The Peninsula*, March 27, 2013, <http://thepeninsulaqatar.com/business/230782-qatar-%E2%80%98must-be-wary%E2%80%99-of-construction-inflation.html>.

Indeed, the contradictions that confront the current push for entrepreneurship are part of the same broader constructs which have encumbered labour market remedies and diversification strategies for the last several decades. Structural change is difficult and requires a great deal more political will than lip service commitment to the ideals of entrepreneurship. Conflicting social pressures also run deep. On the one hand, this desire exists for a reduction in the presence of foreign workers so as to lessen a perceived cultural threat. On the other hand, and this is especially true in the business community, there is a broad unwillingness to relinquish reliance on foreign labour.

The role of entrepreneurship initiatives at creating genuine employment opportunities has been questioned by stakeholders. This was especially true of financial, training, and incubation support initiatives like Sharakah, Injaz, programmes through Enterprise Qatar, QSTP, and the Bedaya Centre. Despite the state's apparent drive behind entrepreneurship promotion, initiative directors expressed skepticism that the government and larger corporations would even be willing to change their procurement policies and establish contracts with small, local companies to accommodate entrepreneurship support. If they already have a reliable vendor, "they are not going to prioritize the local entrepreneur."⁴⁷ It is not simply a matter of encouraging people to initiate start ups, the opportunities need to be available and the established structures require both the incentive and opportunity to be altered.

⁴⁷ Interviews with Qatari initiative directors, February 19 and 22, 2012; and official at Qatar Science and Technology Park, February 20, 2012. Omani initiative directors expressed the same concern, which may be slightly assuaged after recent government policy announcements which should force 10 percent of contracts at the tender board to be allocated to SMEs.

If incentives for imported labour, reliance on foreign expertise, and international corporations persist, a dynamic, independent, local private sector will be difficult to stimulate. Should the government's desire to promote entrepreneurship and a broader national commitment to innovation be genuine, it must design suitable strategies to restructure the economy and transform the existing incentive structures. Borrowing from the playbook of the East Asian developmental state and its industrial development strategies including infant industry protection and special requirements around foreign capital and investment may be one approach. Of course, the Gulf states face particular resource-centred challenges which render its development status unique. Crafting any industrial innovation policy will require specific attention be paid to the broad mantle of rentier political economy and the underlying structural challenges which accompany it like the segmented labour market.

6. Cognitive Dissonance and Millennial Expectations

By and large, Gulf millennials have grown up in times of plenty. They are the first generation to have never known dire scarcity. Although poverty and inequality does exist among the national population, even the relatively economically-deprived millennials have grown up with certain expectations of what the government provides. Along with education and healthcare, this often includes real estate and employment. As new economic realities set in, it is becoming increasingly evident that the status quo cannot be maintained indefinitely. The idea that the governments' primary role is provider and caregiver along with commander and rule giver is difficult to supplant. The government's failure to fulfill expectations can have dangerous consequences. The first of which were

arguably evident in 2011 Oman. Indeed, Oman represents a test case for Gulf states as it tackles socio-economic change.⁴⁸ This section assesses the convergence of millennial expectations in Oman and Qatar and suggests that the nexus of conventional rentier expectations with new global ones are difficult for the state to meet in the current governance context.

Not only do young people expect public sector jobs, but they have come to prefer them. Professors and other educators at higher education institutions in both cases frequently mention how their students cite government jobs as their first employment preference post graduation. Others indicate oil companies. A recent Silatech survey found that more young Qataris favour government employment to alternatives.⁴⁹ A variety of initiatives like those delivered through *Injaz* or designed by local educational ministries are attempting to change this predilection at the school level. This type of cultural shift through education, if successful, will take time to materialize. Until the younger generation comes through the system and broader socio-cultural shifts take place, school leavers will still be likely to favour state employment.

In focus groups and interviews, students who were aspiring entrepreneurs either participating in entrepreneurship classes, working groups, or volunteer societies often expressed the same preference. Even several of the interviewees in Oman who self identified as entrepreneurs and were attempting their hand at a new start up suggested that they would give up their business for a government job if the opportunity arose or

⁴⁸ Although it could be argued that Bahrain provides a better test case, I dismiss it as an exemplar. Its economic and political development has been riddled by sectarianism and violence, particularly acute in the last several years. Its consumption by these issues makes it an impracticable model and a weak comparator.

⁴⁹ *Qatar's Rising Entrepreneurial Spirit* (Doha: Silatech and Gallup, Inc., February 2012), 4, <http://www.gallup.com/poll/153011/qatar-rising-entrepreneurial-spirit.aspx>.

attempt to manage both.⁵⁰ Many Qataris, in fact, tend to treat entrepreneurship as a part-time occupation or hobby with a majority of the new, young entrepreneurs interviewed holding on to positions in the public sector or state-owned enterprises (SOE).⁵¹ To some extent, this reflects some degree of pragmatism; that is, test running a business idea before full commitment. In many cases, however, this is how independent endeavours will remain. What it really suggests then, is an aversion to risk taking which is necessary for an entrepreneurial sector to develop. It also stymies possible innovation as those engaged in business will be too preoccupied with other work commitments to dedicate the creative capital necessary. This can also reinforce, or lead to a return to, the default hiring of expatriates to manage operations. Without real financial investment, these managers are unlikely to have the creative drive to innovate.

Nevertheless, as much as these preferences continue within the millennial generation, new desires and hopes are burgeoning. It could be that entrepreneurship promotion is already paying off to some degree, but more young people seem to consider entrepreneurship worthy of exploration. In fact, one study suggests that levels of youth entrepreneurship in Qatar rose from 24 percent in 2009 to 33 percent in 2011.⁵² Although both Omanis and Qataris may prefer to keep them as hobbies or as part time endeavours, the idea has been implanted. Many who have tasted the beverage find it difficult to turn away from. In response to whether they would consider government or corporate employment, one young female Qatari entrepreneur team declared, “No, we can’t work.

⁵⁰ Focus groups in Oman, Qatar, interviews with professors, aspiring entrepreneurs, and entrepreneurs, September 2011 – July 2012.

⁵¹ Interviews with Qatari entrepreneurs and business men, February – May 2012.

⁵² *Qatar’s Rising Entrepreneurial Spirit*, 5.

Are you kidding? It is impossible. After running this organization, we can't give up our freedom or ideas."⁵³

Freedom, in fact, was an oft-cited reason for both pursuing and remaining in entrepreneurship. It seemed to particularly strike a chord with millennial entrepreneurs, both aspiring and practicing. One response to the motivation behind pursuing entrepreneurship is well-captured by the following quote by a young Omani entrepreneur:

I never wanted to work in the government. The economy is growing and I want to be part of the growing economy. Myself, and people like me, want to participate in the development of our country. As well, and this is very important, we want to make our own private income. The main reason however, is to get freedom and be free in thinking and free in movement. This freedom is what you will hear everyone tell you that is like me and wants to work independently and operate our own business. We want to develop our skills and provide new things for society.⁵⁴

Young people in both cases seemed to sense something different about the current environment, one that was more evocative of change. Several interviewees pointed to a difference in enterprise and individual independence. They spoke of the "closed minds" of earlier generations where "everyone worked for the government and came home early" in contrast to the more convoluted reality of today.⁵⁵ The present was representative of change. Along with globalization and the increasing presence of international companies, there is also greater "gender mixing" in various facets of social and economic life.⁵⁶

Although the regional "spring" of uprisings only touched Oman and failed to reach Qatar at all, the Arab uprisings may function as a silent game changer in both. Entrepreneurial-minded millennials express a desire to be part of the regional change

⁵³ Interview with Qatari entrepreneurs, April 22, 2012.

⁵⁴ Interview with Omani entrepreneur, October 31, 2011.

⁵⁵ Interviews with Qatari entrepreneurs, February 20, April 22, 29, 30, and May 7, 2012.

⁵⁶ Ibid.

narrative, even if only through economic development and social innovation. Despite frequent admission that social and youth engagement are nascent concepts in the region, many young people point to a growing presence. In fact, social entrepreneurship, and volunteer culture more generally, seemed to be on the rise. This was especially true in Qatar where several young entrepreneurs had developed or were in the process of developing organizations or business concepts that had strong social contribution components. Those who had formed organizations found plenty of young people willing to volunteer and dedicate time to worthwhile causes.⁵⁷ The IloveQatar and Sanad society are just two examples. In Oman, where there seemed to be somewhat less active volunteerism among young people, millennial interviewees almost universally expressed an overwhelming desire to ultimately give back to society through various forms of contribution ranging from donations, to training, to future social organization plans.⁵⁸ In both cases, increasing numbers of social initiatives are able to galvanize local interest in participating. Initiatives like distributing drinking water to construction workers on hot days have grown in popularity.

In Qatar, many initiatives are inspired and directed by millennials and are quickly becoming part of a new and growing reality. This evidence is in line with expectations one might have of countries at varying wealth levels. Once basic needs are fulfilled, a certain degree of comfort allows more flexibility in pursuing formal social initiatives. Several studies have suggested a correlation between higher wealth levels and formal

⁵⁷ Interviews with Qatari entrepreneurs, February 20, April 17 and 22, 2012.

⁵⁸ Relief efforts in the aftermath of Cyclone Gono (June 2007) mobilized a large number of volunteers, which arguably promoted a spirit of volunteerism.

volunteering.⁵⁹ In both cases however, bureaucracy often hinders the establishment of social organizations. Nonprofit registration proves extraordinarily tedious, and organizations in both countries often opt for commercial registration instead. These hassles only compounded the broader, general political disapproval of and constraints around autonomous associational life. If more flexibility were granted to civil society, the mood suggests that initiatives would blossom.

The regional effect also seemed to influence who young entrepreneurs model themselves after. Young people have a regional outlook. They referred to events and activities beyond their borders, more commonly to regional ones than global. There was an evident affinity with an Arab narrative as millennials repeatedly spoke of “our changing region.” Millennial entrepreneurs involved in purely business activities frequently pointed to the United Arab Emirates, and Dubai in particular, as models for business growth. Others found business leaders in Dubai and other parts of the Middle East as inspirational role models. Social entrepreneurs looked to Dubai as well, but while praising the government’s support for initiatives decried its necessary hand in controlling them. Several pointed to Kuwait and Bahrain as having started social initiatives earlier while managing to maintain organizational autonomy. Young women especially pointed to strong, influential female role models in Kuwait and Yemen as paving a particularly stirring path. The desire and even expectation for freedom seems to be lingering in the air, with millennials witnessing

⁵⁹ See, for example K. Praveen Parboteeah, John B. Cullen, and Lrong Lim, “Formal Volunteering: a Cross-national Test,” *Journal of World Business* 39, no. 4 (November 2004): 431–441, doi:10.1016/j.jwb.2004.08.007; and Evert Van de Vliert, Xu Huang, and Robert V. Levine, “National Wealth and Thermal Climate as Predictors of Motives for Volunteer Work,” *Journal of Cross-Cultural Psychology* 35, no. 1 (January 1, 2004): 62–73, doi:10.1177/0022022103260379.

it from a distance or even experiencing elements of it firsthand through their engagement in independent projects.

More tangibly in Oman, the regional wave saw what has been called an “Omani Spring” with protests calling for an end to corruption, labour law changes which include a response to employment challenges, providing more job opportunities, and raising wages, as well as increased legislative powers to the Council of Oman.⁶⁰ For the purposes of this discussion, the impact here is more clearly linked to triggering a protest culture in the country, and along with that rising populism and the politicization of the mundane.⁶¹ One might connect a more active, inquisitive youth base, such as those seeking out entrepreneurial opportunities, with the shift in civic engagement. Although the majority of young people still hope, and in many cases bide their time for, state employment, university and college environments seem ripe with a higher degree of diversity in dreams and goals than even the last decade.⁶² It seems as though a residual ‘Arab Spring’ effect has inspired a sense of empowerment and a belief that change can occur.

At the same time however, the regional unrest has prompted a number of responses from the governments which directly contradicts their stated aims of increasing the

⁶⁰ Said Sultan Al-Hashimi, *The Omani Spring: Towards the Break of a New Dawn?*, Arab Reform Brief (Arab Reform Initiative, November 2011), <http://www.arab-reform.net/sites/default/files/Omanenglish.pdf>.

⁶¹ There exists a variety of administrative rules in Oman that, in earlier years, people seemed to accept. For example, there is an approved list of colours for the exterior of homes which is in many cases strictly enforced. These include whites and a small variety of off-whites. There are reported cases where public utilities are not turned on until an approved colour is used. What was once a minor bureaucratic hassle in conversations, in late 2011 was framed in politicized terms. One Sohar resident disparaged the nerve of the government for having the audacity to control the colour of their personal home. The government was now viewed as having too long an arm, demonstrating pervasive, controlling behaviour and impacting private choices.

⁶² This is based on comparative observation, from working in Omani higher education in the mid-2000s as compared to the environment witnessed during the field work for this project through focus groups with young people, classes, and interviews, meetings, and informal exchanges with academic and teaching staff across a wide range of institutions.

participation of nationals in the private sector which is, as mentioned, part of the shift toward promoting entrepreneurship and innovation. Not only was Oman granted a share of a \$20 billion aid package from the GCC to divide with Bahrain, but the Sultan also announced a series of royal decrees aimed at quelling dissent.⁶³ Aside from ministerial changes, the economic reforms included the abrupt creation of 50,000 state jobs, an increase of the minimum wage from 140 to 200 OMR, the establishment of a monthly unemployment benefit of 150 OMR, and raising the living allowance, pensions, and social security allowances for government employees, among others.⁶⁴ Just under two years later, the minimum wage for the private sector was again increased to 325 OMR per month.⁶⁵ In response to a question about the creation of new government jobs, a senior official noted that this solution was not entirely problematic during times of high oil prices. It becomes more concerning, of course, when the price of oil is low. “The government basically did this to freeze the problem so as to avoid a ‘Tunisia’ situation,” he noted. “But listen, 61,000 high school students will sit for their final exams this year. Many of those won’t move on to college or university and will need jobs – but the government will not be able to accommodate them... it was a short term solution.”⁶⁶ Truly, this was a solution which proved to reinforce existing employment preferences and heighten expectations of public sector employment.

⁶³ Caryle Murphy, “GCC to Set up \$20bn Bailout Fund for Bahrain and Oman,” *The National*, March 11, 2011, <http://www.thenational.ae/news/world/middle-east/gcc-to-set-up-20bn-bailout-fund-for-bahrain-and-oman>; Al-Hashimi, *The Omani Spring: Towards the Break of a New Dawn?*, 5.

⁶⁴ Sunil K. Vaidya, “Heavy Security Prevents Friday Protests in Sohar, Oman,” *Gulf News*, April 8, 2011, <http://gulfnews.com/news/gulf/oman/heavy-security-prevents-friday-protests-in-sohar-oman-1.789074>; Al-Hashimi, *The Omani Spring: Towards the Break of a New Dawn?*, 5–6.

⁶⁵ “Council of Ministers / Statement,” *Oman News Agency*, February 2, 2013, www.omannews.gov.om/ona/english/newsDetailsPrint.jsp?newsID=160144.

⁶⁶ Interview with senior official at the then de-commissioned Ministry of National Economy, January 15, 2012.

Qatar, despite experiencing no domestic unrest during the 2011 uprisings, also implemented surprising reforms. In September, an Emiri decree announced an astounding 60 percent salary increase for Qataris in the public sector and a 120 percent increase for military officers. This was accompanied by pension increases as well.⁶⁷ This naturally only complicates the ability of the private sector to attract local labour and unsurprisingly frustrates efforts aimed at promoting the entrepreneurial path.

The necessity of shifting the employment burden away from the state is quite high across the region. An IMF report in 2012 encouraged the GCC states to reduce the national reliance on public sector employment by developing a vibrant private sector and reforming the wage and benefit discrepancies.⁶⁸ In a speech at the opening session of the Council of Oman, Sultan Qaboos implored Omani youth to work in the private sector:

Remember that work, as much as it is a right, it is a duty as well. Everyone who has completed their education or training has to take up any useful profession which fulfils their sense of being and through which they can strive to achieve their ambitions, rather than wait to get a government job. The state, with all its civil, security and military institutions, cannot continue to be the main source of employment, as this calls for a capacity beyond its reach and a mission that the state cannot sustain forever.⁶⁹

Thus through a combination of speeches, programmes, and policies on the one hand, the state is encouraging a shift to the private sector and the development of SMEs. On the other hand, it is simultaneously incentivizing the population to remain in the public sector.

⁶⁷ Habib Toumi, "Public Sector in Qatar Gets 60 Per Cent Pay Rise," *Gulf News*, September 7, 2011, <http://gulfnews.com/news/gulf/qatar/public-sector-in-qatar-to-get-60-per-cent-pay-rise-1.862595>.

⁶⁸ *Economic Prospects and Policy Challenges for the GCC Countries*, Annual Meeting of Ministers of Finance and Central Bank Governors (Saudi Arabia: International Monetary Fund, October 5, 2012), 20–21.

⁶⁹ Sultan Qaboos bin Said Al-Said, "Speech Before the Annual Session of the Council of Oman," *Ministry of Information*, November 12, 2012, <http://www.omanet.om/english/hmsq/hmsq12.asp>.

The expectation of public sector employment is not an isolated socio-political challenge. Rather, it is the convergence of expectations which makes the millennials, and youth more broadly, a particular generation to be reckoned with. The millennial generation expects more. Along with the usual welfare offerings, the promise of globalization and a new intoxication with freedom converges into a new reality of expectations that are difficult to contend with. As Marc Valeri presciently noted of Oman in 2009, the young generations “are reluctant to guarantee the perpetuation of a system in which they feel excluded from political and economic decisions that engage the country for a new era in which oil will necessarily play a more restricted role. They do not agree any more to be regarded as politically incapable, nor to abdicate, like their parents, their right to take part in the national debates in the name of socio-economic welfare.”⁷⁰ It is the multiplicity of expectations which is particularly dangerous. The gratitude for basic socio-economic welfare earlier generations felt is no longer relevant to the millennials. Memories of an impoverished past are now mere historical tale. As a middle-aged Qatari business person asserted, the “young generation is impatient – they want instant benefits. They have more opportunities but they want outcomes right now.”⁷¹ The belief that everything should be taken care of combined with newer expectations of freedom and rights promises to challenge the very core of the Gulf ruling bargain.

⁷⁰ Valeri, *Oman*, 259.

⁷¹ Interview with Qatari entrepreneur, May 7, 2012.

7. Navigating the Formal and Informal

Although change is demonstrably necessary, it is difficult to break free of deeply embedded structures and patterns. It is not simply the economic underpinnings which pose a challenge, but also the established practices of economic and political life. Equally important to this discussion, then, is understanding how a system structured by rentierism impacts even routine social and business behaviour and the interface of state and society.⁷² Indeed, while hydrocarbons financed the Gulf state and fashioned its rentier character, the practice of clientelism fastened various segments of society to it. Where wealthy merchant families became linked with the ruling family or state apparatus, other social groups sought avenues of access to the state's allocative mechanisms and political clout. The commercial and familial linkages between the ruling and merchant families are characteristic of Gulf states.⁷³ Qatar's Al Thanis, and the families that married into them, are well established in the commercial sector. In Oman, the old merchants and trading families are well-represented across state institutions. The state, in some regards, positioned itself at the centre of social relations. Its provision of all types of welfare and administrative assistance shifted social focus away from the tribe or family to the state, thereby depoliticizing other social groupings and empowering the bureaucracy.⁷⁴ Both the tribal and other social groups that secured economic or political significance as well as patterns of access and rent seeking acquired a certain path dependence that continues to the present. The current

⁷² Hertog, "The Sociology of the Gulf Rentier Systems," 284.

⁷³ Mehran Kamrava, "Structural Impediments to Economic Globalization in the Middle East," *Middle East Policy* XI, no. 4 (Winter 2004): 100; See also Luciani, *The Arab State*; and Crystal, *Oil and Politics in the Gulf*, 1995.

⁷⁴ See Marc Valeri, "High Visibility, Low Profile: The Shi'a in Oman Under Sultan Qaboos," *International Journal of Middle East Studies* 42, no. 02 (2010): 251–268, doi:10.1017/S0020743810000048.

practices of economic life form a combination of challenges to attempts to retool the private sector.

The millennial generation along with others pushing for employment or seeking more meaningful work through embracing the push toward entrepreneurship are confronted by an unfriendly business environment riddled with bureaucratic hurdles and beset with nepotism and favouritism. The last chapter detailed some of the specific bureaucratic and financial hurdles facing new business entrants. This section discusses the nexus of social and bureaucratic behaviours that entrepreneurs must navigate.

The term *wasta* best captures part of the informal mechanisms utilized to both navigate bureaucracy and access items, individuals, and action. For those who have spent any length of time in the Middle East, the term is no doubt familiar. It is somewhat comparable to the notion of having a 'connection' or an 'in.' As Barnett et al note, "one is said to 'have *wasta*' when those from whom one can request assistance are in positions of power that make it possible for them to grant the requested assistance."⁷⁵ Those with *wasta* can then bypass red tape, have access to jobs, resources, government contracts and business opportunities while those without can find themselves crushed under poorly defined bureaucratic processes, long wait times, burdensome regulations and anti-competitive measures. Interviewees and focus group participants across both cases frequently pointed to *wasta* as vital to achieving success.

Although *wasta* has long been a social feature of the region, some suggest that it was the colonial powers that reinforced it as a socially-constructed norm through economic

⁷⁵ Andy Barnett, Bruce Yandle, and George Naufal, "Regulation, Trust, and Cronyism in Middle Eastern Societies: The Simple Economics of 'wasta'," *The Journal of Socio-Economics* 44 (June 2013): 41, doi:10.1016/j.socec.2013.02.004.

incentives and access to economic and political power.⁷⁶ Steffen Hertog calls individuals who have *wasta* brokers. “Brokers,” he suggests, are “intermediaries who hold privileged positions and can make such resources available to nationals and foreigners who are not as well connected. Such brokers are a defining feature of state-society relations in rentier states.”⁷⁷ Brokers are not only people who have *wasta*, but also those who have been prescribed particular roles as intermediaries. In many cases, this represents the modern state’s appropriation of societal network norms by the formalization of employable roles to facilitate state-society relations through patron-client networks. In some instances, the state “deliberately created regulations that encourage the emergence of brokers, and in many cases have made mere citizenship an important base for brokerage of state resources to non-nationals.”⁷⁸ The requirement for company public relations officers to be citizens is a case in point. In Oman, this also doubles as a way to guarantee additional local employment.

Although *wasta* is often conflated with corruption and bribery (and sometimes rightly so), it is not always viewed in negative terms. As a social norm, young entrepreneurs look for ways to use it in their favour. Young men in particular would point to the *majlis* as remaining very central. In basic terms, the *majlis* is “an informal social gathering of men” held on a regular basis in a special room (or tent).⁷⁹ There is a variation in the level of *majlis* formality, from social gathering places to more formal ones where average citizens can

⁷⁶ *Ibid.*, 44.

⁷⁷ Hertog, “The Sociology of the Gulf Rentier Systems,” 283.

⁷⁸ *Ibid.*

⁷⁹ Herb, *All in the Family*, 41.

present requests or complaints to important members of society and government.⁸⁰ Some young people would tell stories of purposely scoping out particular *majalis* (plural for *majlis*) where certain prominent business men were rumoured to frequent. Several Qataris noted that the “*majlis* is where all contracts and business networking takes place.”⁸¹ It is evolving though, some would note. Whereas in the last decade it was central to any business endeavour, the format of the *majlis* is evolving with business. Some young people have been trying to replicate the networking side by hosting “modern” *majalis* at trendy cafés.

Naturally, *wasta* is viewed more negatively by those who lack access to advantageous networks. In fact, millennials are increasingly unhappy with bureaucratic systems that favour “personal connections over fairness.”⁸² This sentiment was written of Kuwait, but it is easily applicable to any Gulf state. When one is not the beneficiary of *wasta*, the sense that it represents the only way to get things done and bypass arduous regulations leaves young people frustrated and disenfranchised. “Bureaucracy is a big problem: it is supposed to take one day, but sometimes it takes two to four weeks,” commented one Omani entrepreneur of basic business registration paperwork.⁸³ “The start up process is one of the most complicated things,” stated a Qatari entrepreneur.⁸⁴ Although he hailed from one of the large, established business families, he found the bureaucratic procedures long and tedious. “The steps, the time, the money required – the barriers to entry are quite

⁸⁰ Ibid. The term *majlis* is also included in the institutionalized variety *Majlis al-Shura* - Consultative Council. In Oman, there is the *Majlis Oman*, which is akin to a bicameral parliament, and houses the *Majlis al-Dawla* or State Council and the elected body, the *Majlis al-Shura*.

⁸¹ Interviews with Qatari entrepreneurs, April 30, 2012.

⁸² Elizabeth Dickinson, “Youth Take up Battle Against Bureaucracy in Kuwait,” *The National*, March 3, 2013, <http://www.thenational.ae/news/world/middle-east/youth-take-up-battle-against-bureacracy-in-kuwait>.

⁸³ Interview with entrepreneur, Muscat, Oman, October 16, 2011.

⁸⁴ Interview with entrepreneur, Doha, Qatar, May 3, 2012.

high. You know, you need 200,000 QR just to register. In Dubai, it takes one day. Here, it takes anywhere from two weeks to two months.”⁸⁵ One would never know how long they might have to wait or what new hoop they would have to jump through. In most cases, the requirement to have a physical office prior to registration would be enforced, even for those starting training programmes or e-commerce businesses that could easily be operated from home.

Almost all millennial interviewees would bemoan the lack of information and transparency of regulations. Rules were unclear and, it seemed, left too much discretion to front desk officers. It was not only entrepreneurs who complained, members of the bureaucracy also noted the unclear procedures leading to conflicting advice.⁸⁶ Several Qataris remarked that front desk personnel at the business registration desk do not even know the rules. Those who had no complaints readily admitted “knowing people” who would “take care of” what seemed to them an easy process.⁸⁷ These complaints prevail despite the alleged efforts of various government bodies at streamlining processes and raising awareness.

As noted in the last chapter, there is a significant political disconnect from the realities of engaging in entrepreneurship and the day-to-day difficulties of setting up a business. This has led many to feel as though they are caught in a web of entrenched government and elite business interests and swimming upstream against the strong, privileged monopolies. With particular families controlling each sector, it is difficult for a

⁸⁵ Ibid.

⁸⁶ Interviews with an official at the Ministry of Business and Trade, Doha, Qatar, February 15, 2012 and officials at the Ministry of Commerce and Industry, Muscat, Oman, October 25, 2011.

⁸⁷ Interviews with entrepreneurs and aspiring entrepreneurs in Oman and Qatar, September 2011 to July 2012.

new entrant to break into a market. Bureaucratic delays and complicated procedures further impede business hopefuls. Without addressing these difficulties, the state's efforts to push millennials toward entrepreneurship only to be wedged between a fight for space in local monopolized market segments and competition against international companies and brands must be questioned.

Likewise, commercial agency regulations compel foreign companies to sell through local companies.⁸⁸ The rationale is ensuring local representation, a form of nationalizing the market and creating another type of intermediary. By granting exclusive agency licensing to certain family businesses however, this practice has additionally privileged these organizations to the disadvantage of new SMEs. It further perpetuates a system whereby it is both easier and more immediately lucrative to serve as an agent of an international brand than develop a local, innovative one. The perpetuation of this form of rent seeking and the facilitation of various types of intermediary practices like the government relations officer propels the current organization of the market and increases rigidity to attempts at change. "Today, [the government] is trying to ease it, but they are still miles away," remarked an entrepreneur with regard to recent entrepreneurship promotion efforts in Qatar. "The changes are only on paper now. I don't see any real outcomes to all the discussions. The will is there and the people are there, but it is not yet established. Nothing is happening in reality. Ask anyone on the street, what does Enterprise Qatar do? No one knows. Really, they probably don't either."⁸⁹

⁸⁸ Hertog, "The Sociology of the Gulf Rentier Systems," 294.

⁸⁹ Interview with entrepreneur, Doha, Qatar, May 3, 2012.

It is clear that the practice of economic life also contributes to the combination of challenges confronting millennial entrepreneurs. What is particularly problematic is that these practices are not simply cultural norms, but have become embedded with the mechanisms of government. This makes it especially difficult to change and move the promotion of entrepreneurship, and private sector reform more broadly, beyond the language of government. As it stands, the availability of state employment and unfriendly environment reduces the drive toward innovative business ideas. Millennials become frustrated, opt for the security of a government job if available, or succumb to family pressure.

8. Entrepreneurship: Female and Family Dynamics

Along with socio-economic practices, socio-cultural expectations can also prove challenging to entrepreneurs. Familial and societal norms and expectations play a role in the lives of those who wish to engage in entrepreneurship. Although, as one would expect anywhere, the role can be positive, the pressures are often difficult. Young female entrepreneurs in particular find these to be an additional hurdle to overcome. In spite of this, entrepreneurship is becoming increasingly popular among young Gulf women. Millennial entrepreneurs, and women in particular, are often confronted by both socio-cultural norms that frown on their independent business aspirations and fear of family or societal reaction to potential failure.

Most entrepreneurship initiatives in both Oman and Qatar point out, with a mixture of surprise and pride, that a majority of their clientele are women. In fact, they often suggest that not only are women better prepared, more detail-oriented in their business

and financial planning, but that they achieve success more often than their male counterparts. This should not be particularly surprising. Attitudes toward women working in the Gulf have been evolving for some time. According to one survey, monetary independence, a sense of achievement, and ambition are among the strongest reasons Gulf women choose to work.⁹⁰ These attitudes are reflected in rising female labour force participation rates in Oman and Qatar. These rose from 17 percent in 1990 to 27 percent in 2010 in Oman. In Qatar, female labour market participation increased sharply from 14 percent in 1986 to 52 percent in 2010.⁹¹

As well, micro-businesses are becoming a popular choice for women from low-income families, those who live in conservative households, and divorcés.⁹² By most standards, few women in Qatar are needy. Despite this, divorced women comprise a segment of the Qatari population that especially benefits from entrepreneurship initiatives. In a still heavily patriarchal society, women rarely remarry and micro-entrepreneurship becomes an attractive venue for economic independence.⁹³ Oman is beginning to adjust to this reality, recently allowing certain types of micro-businesses permission to operate from the home. Although this ruling is not female-specific, it targets micro-enterprises primarily associated with women in the country.⁹⁴ Qatar, on the other

⁹⁰ *The Rising Ranks of Women in the Middle East Workplace* (Bayt.com and Yougosiraj, April 2007), 14, <http://www.bayt.com/en/research-report-1661/>.

⁹¹ *Labor Participation Rate, Female (% of Female Population Ages 15+)* (The World Bank), accessed March 29, 2013, <http://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS>; Felder and Vuollo, *Qatari Women in the Workforce*, 11.

⁹² Repeated in focus groups and interviews with initiative directors and workers across both cases, September 2011-July 2012.

⁹³ Interview with faculty at the College of the North Atlantic – Qatar, April 11, 2012, and *Qatar Information Exchange Database*.

⁹⁴ Mahmoud Al-Riyami, "Omanis Can Operate Businesses from Home: MOCI," *Muscat Daily*, May 2, 2011, <http://www.muscatdaily.com/Archive/Stories-Files/Omanis-can-operate-businesses-from-home-MOCI>.

hand, has not made the shift. Entrepreneurs and support organizations were highly critical of this lack of responsiveness. “How are you pushing for entrepreneurship but then not allowing people to open a business from home? If you continue having high capital requirements and demand only certain types of businesses, it only becomes an elite project.”⁹⁵ Individuals within the Social Development Centre and the Roudha Centre have been putting forward proposals to change the regulatory environment in favour of small home business.

Young millennial women have new expectations for themselves, and these transfer into their entrepreneurial ambitions. As mentioned earlier, the young have an increasing desire to participate in the regional change narrative. This is combined with the aforementioned desire to for economic independence and freedom. From high school students to college graduates to women in their early-career stages, every young female entrepreneur interviewed pointed to an aspiration for freedom as a primary driver toward entrepreneurship and self-employment. In Qatar, many pointed to the Emir’s wife, Sheikha Moza as a strong role model.

I’ve been working for 12 years. Before 2000, it was rare to find women interactive in business or women in the business environment. Now you find it all over. Society and business has become more open. I think this is primarily because of Sheikha Moza – she is a great role model for working women. She works hard, for long hours. I came in contact with her several times. She was really involved and working hard.⁹⁶

The same sentiment was repeated time and time again. Many felt that, despite criticism she may receive in private for her domination of certain sectors and activities, she was

⁹⁵ Interview with Qatari entrepreneur, Doha, Qatar, May 3, 2011.

⁹⁶ Interview with female Qatari entrepreneur, May 7, 2012.

transforming norms in the country concerning accepted and appropriate behaviours for Qatari women.

Legally, there are no constraints on women registering businesses in Oman or Qatar. Culturally, however, can be another story. This is particularly true of rural Oman and common throughout much of Doha. Several women noted the surprise they saw in expressions as they registered their business at the Ministry. Others noted their discomfort at being in such heavily male-dominated spaces. Even young social entrepreneurs were greeted with cultural challenges. “We are facing some social problems,” noted one team. “People have spoken ill of us and our goal, speaking about our dream to work independently... But we do not mind. We also have a lot of support.”⁹⁷ Social initiatives in particular came under pressure. Societal concerns around “the mixing of genders” in volunteer activities were often the subject. Although they continued to push boundaries, many responded by ensuring some degree of gender segregation in their activities. The sheer volume of young people engaging in the initiatives young Qataris, often women, have initiated is evidence of change. In focus groups, entrepreneurial meetings, and in these volunteer organizations and events, discussions pushing against gender norms and the boundaries of the acceptable for both women and youth were regularly discussed and challenged.

This is no small change. As in many Middle Eastern societies, the family unit is central and of critical importance to social relations.⁹⁸ For several decades, Gulf women in particular have faced a contradictory environment reflective of other changes occurring in

⁹⁷ Interview with Qatari entrepreneurs, April 22, 2012.

⁹⁸ Khalid Al-Azri, “Change and Conflict in Contemporary Omani Society: The Case of Kafa’a in Marriage,” *British Journal of Middle Eastern Studies* 37, no. 2 (2010): 137, doi:10.1080/13530191003794707.

the region. On the one hand, governments have encouraged literacy, education, and bureaucratic environments amenable to female progress. At the same time, however, they “fostered sociocultural climates that were hostile to women fulfilling the roles for which they were trained.”⁹⁹ The oil state, in fact, ‘liberated’ society from the financial imperative for women to work. So, at the same time as women became better educated and equipped for the labour market, there were countervailing cultural forces encouraging their return to the home in the role of mother and wife.¹⁰⁰ Many of these pressures continue to exist. A recent study found that 59 percent of young Gulf men think that the primary role of women in society is to be a wife and mother, with only 22 percent of young women in agreement.¹⁰¹ That these roles are being increasingly challenged, and that millennial women are emerging as strong participants in entrepreneurship, holding more advanced levels of education and more willing to work in non-traditional occupations than men, is of socio-cultural and economic significance.¹⁰²

The desire to please family is still paramount though. This contributes to the lingering, if latent, risk aversion of the earlier generation. It is not specifically the fear of failure, one interviewee noted, but the “fear of being judged. It is about how I will appear.”¹⁰³ The common term *fasheltna* best encapsulates this sentiment. Derived from *fashel*, the word for failure, it is used to say “you have made us look bad,” but means “you are making us failures.” This interviewee continued, “We are creating a generation that is

⁹⁹ Foley, *The Arab Gulf States*, 181.

¹⁰⁰ *Ibid.*, 180–184.

¹⁰¹ Mona Almunajjed and Karim Sabbagh, *Youth in GCC Countries: Meeting the Challenge* (Booze & Company, 2011), 39, <http://www.booz.com/media/uploads/BoozCo-GCC-Youth-Challenge.pdf>.

¹⁰² See, for example, Chapter 5, “When Only Women Will Work,” in Foley, *The Arab Gulf States*, 167–210.

¹⁰³ Interview with entrepreneur, Doha, Qatar, May 3, 2012.

afraid of being judged... It is all about what people are going to say about you. So it becomes about trying to control what is around them to try to impress others rather than express themselves. And this also applies to starting a new business. So unfortunately, it is not only about policies, it is about our culture."¹⁰⁴ Young entrepreneurs repeatedly brought up a desire to not disappoint their family.

Many millennials do face a difficult time trying to overcome their family expectations. Often these expectations come in the form of a push to take a traditional government job rather than risk going out on your own. For women, it is often this combined with pressure for more 'female appropriate' business activities. There were frequent mentions of family pressure to not quit jobs and risk going into business full time, which naturally perpetuates the practice of hobby entrepreneurship and stifles the innovation a full-time commitment inspires. Others face dismay from an older generation, still reminiscent of days past and grateful for the development changes witnessed in their lifetime.

The new generation are forgetting their fathers. They do not want to learn from the earlier generations and think themselves better because of their education or their modern thinking. The new generation, yes, they are more serious with work but they have no experience and want to make projects with their study only. Book learning is different from life ... They are asking heavy questions and making heavy requirements on the budget which is not healthy. They want increased salaries, than what of the roads? Health care? They should support the government to support their future and their families' future. They cannot eat everything and have everything.¹⁰⁵

Moving beyond the concerns of embedded patrimonialism and government loyalty, the young generation has mixed expectations. They desire both freedom and facilities. These

¹⁰⁴ Ibid

¹⁰⁵ Interview with business man, Muscat, Oman, January 8, 2012.

discussions “suggest both an awareness of tensions between traditional culture and social and economic development and an appetite for cultural renewal and genuine reform.”¹⁰⁶ It is a new, daunting mix for the government to respond to. With the state’s ready support of entrepreneurship, one could argue that it is partly of its own making.

9. The Folly of a Consumption Economy

One of the remaining trials confronting millennial entrepreneurs is the trap of consumption. If the Gulf economy has been shifting anywhere in the last decade or two, it is toward a consumption economy rather than a productive one. Luciani’s useful dichotomy of productive versus allocative states now needs the addition of consumption economy, where a state dedicates more resources to both distribution and consumption than production.¹⁰⁷ Indeed, the expansion of the retail space in all Gulf states in the recent past is remarkable. If the size of the new malls is any indication, these states have opted into the flash of the Western model – another form of capitalism and consumerism.

Aside from the obvious lack of movement into the production space, innovation is particularly challenged by the consumption economy. In fact, a good portion of the micro and small enterprises young people initiate feed into cycles of consumerism rather than innovation. The sale of cupcakes, decorative chocolate products, and self-embroidered fashion items are all popular business items.¹⁰⁸ Young people, and women in particular,

¹⁰⁶ Al-Azri, “Change and Conflict in Contemporary Omani Society,” 137.

¹⁰⁷ See Luciani in Beblawi and Luciani, *The Rentier State*.

¹⁰⁸ Interviews with entrepreneurs, aspiring entrepreneurs, and initiative workers and directors. Oman and Qatar. September 2011 – July 2012.

facing the prospect of unemployment turn to simple, trendy consumables.¹⁰⁹ It is less surprising when considering statistics on female unemployment. With youth unemployment already high in the Gulf, female unemployment is even higher than males.¹¹⁰ It readily becomes “all too all too easy to succumb to the temptation of catering to the population's excessive tendency to consume as opposed to engaging in innovative entrepreneurship with an exportable added value.”¹¹¹ One interviewee mused, “Look at how easy it is to take a loan to get a car and compare it to how difficult it is to start a business. It shows you how much we are pushing society to be consumers rather than producers.”¹¹² Even in light of all the entrepreneurship and innovation promotion and support, governments are stimulating consumption rather than innovation and production.

While today's generation may have to fight the lure of consumption, it is in reality only an extension of the common traps which began in earlier years. These include contracting as well as asset bubbles like property and equities. They are again part and parcel of the broader distributive ailments of a rentier economy, where circulating petroleum revenue through the economy is more compelling than innovating. These categories of work provide swift income for little effort. In the case of property bubbles, Dubai may have learned the hard way but it is still unclear if the region has observed the lessons. A small contracting business was long the default business model. With work and management often left to expatriates, local owners would earn income based on contracts

¹⁰⁹ Hasan Tariq Alhasan, “The Gulf's Cupcake Entrepreneurs,” *The Guardian*, October 3, 2012, sec. Comment is free, <http://www.guardian.co.uk/commentisfree/2012/oct/03/gulf-cupcake-entrepreneurs>.

¹¹⁰ Almunajjed and Sabbagh, *Youth in GCC Countries: Meeting the Challenge*, 41.

¹¹¹ Alhasan, “The Gulf's Cupcake Entrepreneurs.”

¹¹² Interview with entrepreneur, Doha, Qatar, May 3, 2012.

from sectors like construction. As discussed earlier, the merchant classes benefited from an inexpensive, flexible, imported labour class as well as little to no taxation. The mass development of malls is an extension of this trend and comprises “an important part of the formation of the Gulf capitalist class around the commodity circuit.”¹¹³ The same large Gulf conglomerates that are active in contracting and serve as agents of foreign companies or owners of hypermarkets are the owners of the ever-expanding numbers of malls.¹¹⁴ Real estate companies, often state-owned or public-private partnerships, also play a significant role in the growth of the mall/retail model. The shift to or expansion of consumption then, is an outgrowth of earlier traps and suffers from similar path dependencies.

Investing in equities may also be risky, but the work-reward scale provides a strong enough incentive. The commodities market exchange in the region is big business, and part of a broader financialization of the Gulf. As Samer Abboud demonstrates, Gulf states have been rather successful in developing a financial service sector, which is particularly appealing because of its substantial value-added activities and its complementarity with the organization of resource-driven economies.¹¹⁵ Indeed, there exists a deeply contradictory regulatory environment where the state is encouraging entrepreneurship on the one hand while still making other wealth-generating activities easier to engage. For example, it is simpler to be a 51 percent owner of a company operating in a silent partner capacity and earn income from someone else’s business. Likewise, it is easier to consume

¹¹³ Hanieh, *Capitalism and Class in the Gulf Arab States*, 131.

¹¹⁴ Ibid.

¹¹⁵ See Samer Abboud, “Oil and Financialization in the Gulf Cooperation Council,” in Legrenzi and Momani, *Shifting Geo-economic Power of the Gulf*, 91–107.

than be innovative and produce. In this context, then, society becomes adept at the consumption of both products and ideas.

In fact, the ease with which a consumption-based economy latched onto existing allocative patterns of rent recycling lends to an argument of how neoliberal growth complements the authoritarian nature of rentier states. Michelle Buckley makes a convincing case that among the central aims of “neoliberal urban policies” is the marshalling of urban space into an “an arena both for market-led economic growth and elite consumption while securing order and control amongst marginalized groups.”¹¹⁶ A cynical reading would suggest that fostering consumption-based businesses, even if it clashes with larger aims of building a knowledge economy, may not directly contravene the state’s political survival aims. Whatever the case may be, the path toward innovation is of high resistance and comprises an admittedly weak case in contrast to the incentive to consume and rent seek.

10. Conclusion

Private sector reform, and the promotion of entrepreneurialism, cannot be resigned to language only. More specifically, it cannot be implemented in a way that only serves to find a means to extend or retool rentierism so as to fortify the state’s position vis-à-vis business and society. It has to be developed in a way that actually allows business to succeed autonomously, and encourages innovative activities rather than only commercial ones. As it stands, the promotion of entrepreneurship and innovation in the Gulf is

¹¹⁶ Michelle Buckley, “Locating Neoliberalism in Dubai: Migrant Workers and Class Struggle in the Autocratic City,” *Antipode* (2012): 7, doi:10.1111/j.1467-8330.2012.01002.x.

confronted by significant structural obstacles. If the ad hoc policy making is any indication, governments seem stuck between a rock and a hard place. They may genuinely desire to foster a vibrant entrepreneurial class, or at least like the way it sounds in policy memos and status reports, but at the same time need to secure their own position with respect to society. The distributive networks, patterns of bestowing favouritism, and co-optation have been serving leaders well over the past four decades. Reframing the status quo, even if only at the economic level, will entail significant costs to governance mechanisms. Exploiting entrepreneurship promotion as a new mode of state patronage is both more appealing and less demanding than the structural change. Yet the promise of entrepreneurship seems to have resonated with some of the millennial generation. The hope of freedom and independence combined with the expectation for government support and services may further destabilize an already questionable social contract. Entrepreneurship may not ultimately be the economic elixir some have hoped, but its promotion will likely have wider reaching and unintended consequences.

Chapter 5

Conclusion: The Paradox of Entrepreneurship Promotion in Gulf Economies

1. Introduction

The explosion of a new policy agenda promoting entrepreneurship across the Gulf Cooperation Council is as palpable as it may seem peculiar. Despite a claim of responding to crucial regional challenges of economic diversification and the weak participation of nationals in the private sector, entrepreneurship as a key component of each country's quest for a knowledge economy seems paradoxical in its ostensible inconsistency with the Gulf rentier status quo. In response, through the insights acquired through in-depth case studies on Oman and Qatar, this research provides an explanation of the motivation for this policy move and posits on its role in impacting the Gulf social contract.

The examination of entrepreneurship and innovation promotion in the Gulf is also an examination of transition. It is an incredibly policy rich story which provides scholars and policy makers alike a window into the saga of development during a time of transition and rapid transformation. It also speaks to particular theoretical insights scholars have garnered from the examination of hydrocarbon-dependent economies and their political and economic development trajectories. This dissertation, then, has traced an interval in the development paths of the Gulf states through an exploration of these policy moves.

This conclusion serves two purposes. First, it offers an overview of the theoretical insights this project provides to the re-evaluation of rentier state literature. Throughout

this chapter, the discussion points to the contributions of the research to broad debates on the role of the state and the market, and the role of rentierism on Gulf governance. Second, it address how this dissertation unlocks a specific policy debate occurring in the region and at the margins of policy and consultancy circles; that is on the role and the benefits of entrepreneurship, innovation, and specifically SME support. After addressing this level of analysis and connecting the core insights of the dissertation, this conclusion ends with a discussion of specific interventions and alternative policy recommendations.

2. Tales of Transition

This dissertation answers two broad questions on the phenomenon of entrepreneurship and innovation promotion in the GCC countries. The first asks about the character and motivation of these strategies in the Gulf, and what such reveals about the evolution of policy making practices. The second asks about the role of the millennials and regional transformation. These questions encompass a broader set of subsidiary ones concerning the role of innovation, entrepreneurship, youth and ideational change, authoritarian government, and political and economic reform. The answers have been explored in some detail in the third and fourth chapters.

Unlike the story of transition in other emerging economies, the desired transition of the Gulf states from hydrocarbon-dependent economies to knowledge-based ones is shaped by rather anomalous conditions. The dependence of the economy on hydrocarbons on the one hand and the deeply ensconced segmented labour market on the other has created an unusually distorted economic environment and an insidious set of challenges which affect all development choices. Entrepreneurship promotion is no exception.

Although the state's entrepreneurship push encapsulates a desire to respond to these problems, it is simultaneously constrained by them.

With development being primarily state-led and the line between the public and private sector opaque, it is no surprise that GCC countries are not strangers to market intervention. A history of preparing development strategies and plans, each with an emphasis on a particular developmental focus from infrastructure to human capital development, has generated a set of expertise and a history of networking with foreign specialists. The recent push for a transition to knowledge economy through the focus on entrepreneurship and innovation has manifested in all six GCC countries and is accompanied by an apparent fervency expressed through media outlets and government announcements.

Previous attempts to diversify the economic base and reduce reliance on foreign labour have met limited success. The promotion of SMEs may hold promise, but it may also not be much different. Indeed, the constraints and contradictions explored throughout this dissertation have illustrated the difficulties encountered in this process. It seems Qatar expects quick transformation, as it has grown used to swift change given its propensity to dedicate vast financial resources to new projects. Even without heavy resource dependence, the shift to innovation-driven knowledge economies took over twenty years in the East Asian cases known for their rapid industrial transformation.¹ Structural impediments in the Gulf will make effective rapidity difficult and unlikely.

¹ Robert Wade, *Governing the Market : Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990), 3–5; Schwab, *The Global Competitiveness Report 2012-2013*.

Throughout this work, I have argued that Gulf governments are utilizing a revised rentierism, a 2.0 version if you will, in an attempt to both respond to pressing socio-economic needs whilst simultaneously securing their own position vis-à-vis society. This revised rentierism is not the classic rentierism so clearly typified in the literature. Although it draws on a similar playbook, it has had to undergo a strategic revision. It is a deceptive revision which, as outlined in chapter two, incorporates many of the behaviours and practices of developmental states. Yet, as I argue throughout the dissertation, continues to be plagued by path dependencies resulting from hydrocarbon dependence and how this has structured the underlying economic system.

Whereas economic well-being and the employment of Gulf citizens has been the purview of the state, the demographic imbalances and changing economic conditions discussed throughout this thesis are challenging this status quo. In some cases, economic constraints mean it is difficult to rely substantially on the state purse to solve domestic concerns. In other cases, where additional wealth distribution alone would seem a sufficient solution, the state still finds it necessary to respond to both social concerns and international pressure. Involving the private sector in the restructuring of economic opportunities available to the citizen population has become an essential ingredient. This is enormously difficult in the Gulf states because of existing networks of privilege and the cost disparity present in the segmented labour market. The hope is that encouraging indigenously created and operated small and medium enterprises will be the key to shifting more nationals into the private sector. In the recent past, other emerging economies found that they “could not easily combine the promotion of local capital with

the realities of deep reliance on transnational capital.”² The Gulf too is experiencing this same dilemma. The requirement of transnational capital combined with the monopolization of local markets by domestic, privileged capital and the reliance on foreign labour is all the more complicating.

3. Multilevel Motivations and Politics

The state continues to hold the developmental reins, and make the calls on direction and reform. Indeed, regardless of wealth levels and hydrocarbon reserve longevity, it is the nexus of domestic, regional, and global pressures which converge as the motivational force behind the shift to pursuing a knowledge-based economy. Although the specific recipe varies the quantities between cases, those three levels contain the necessary ingredients.

The case studies have demonstrated that despite the differences between them, both Oman and Qatar have chosen the active pursuit of entrepreneurship promotion as a key policy shift. Although the evident path dependency in both case studies suggests a particular causal path, there is some variance in the combinations of factors. The motivations of such a move evolve from multiple levels, local, regional, and global. At the local level, demographic challenges are a key pressure point. The presence of a large youth bulge combined with a widening disparity between the numbers of expatriates and citizens all have particular labour market repercussions. With declining hydrocarbon reserves and growing unemployment, the economic imperative is stronger in Oman. Qatar’s financial cushion allows it additional flexibility and time to respond to the economic concerns posed

² Evans, *Embedded Autonomy*, 127.

by these dual demographic imbalances. Social and cultural concerns, however, are not as easily addressed by financial resources. In both cases, concerns over culture and heritage deterioration are widespread and can be expected to grow. Moreover, and arguably more significant at this stage, the millennial generation brings a host of new challenges to the status quo. As shown in chapter four, this generation has a new set of expectations. These include the maintenance of the government's economic benefits, but also a stronger voice in socio-economic and political affairs. Unemployment, and even underemployment and boredom, are unacceptable outcomes of the system. Naturally, the continuance of these challenges can spark civil unrest, as witnessed in Oman in 2011.

This is one point where local challenges intersect with regional ones. The changes, both positive and negative, that began sweeping the region at the beginning of 2011 impacted the psyche of all and did not escape the Gulf millennials. The global connectedness, rising political awareness, and sense of shared history all combined in a desire to be part of a regional change narrative – even if that narrative is not currently revolutionary. Omani and Qatari millennial entrepreneurs repeatedly expressed a desire to contribute to society, to make an impact, to experience freedom, and be part of their changing region. Millennial entrepreneurs believed business and social entrepreneurship was one way to accomplish this. The ultimate outcome of this trend may be an unintended consequence of the rhetorical encouragement of the individual, of enterprise, and of innovation despite the state's best attempts to manage and co-opt the process.

The beginning of this reform intersecting with the breeze of change and a new set of expectations promises to contest the existing social contract. The “nature of economic

reform,” like Steven Heydemann indicates, can be conceptualized “as a *social process*.”³ While Gulf rulers continue to manage the trajectory of development and economic change tends to be elite-driven, this does not imply that social change does not occur. In fact, evidence indicates that economic change is leading to contestation from below, particularly driven by millennials and labour market conditions and challenges. In the last several years, Jill Crystal has noted how changes among this generation impact the style of politics in the Gulf. Higher levels of education have accompanied revised networks among millennials that cut across family and tribal lines. Accordingly, policy makers tend to cast their announcements, strategies, and reforms in generic policy terms rather than patrimonial ones.⁴ The atavism evident in those still told with patriarchal undertones speaks louder to earlier generations, with clearer attachments to, and gratitude for, past transformation. It is clear that the youth dimension is affecting decision making and the policy-making process in the region.

What is particularly interesting is how ideational shifts are occurring. Of course, measurement of ideational movement is difficult to attain with any quantifiable degree of accuracy. Nevertheless, evidence from personal interviews was suggestive of ideational movement on several fronts. There is recognition by both policy makers and entrepreneurs of the need for a cultural or mentality change which distances the citizen from both reliance on the government and from the expectation that the government should perform the basic provision function and act as the centre of economic life. Despite this acknowledgement even on the bureaucratic side, entrepreneurship and innovation initiatives, when

³ Emphasis in original. Steven Heydemann, *Networks of Privilege in the Middle East: The Politics of Economic Reform Revisited*, 1st ed. (Palgrave Macmillan, 2004), 13.

⁴ Crystal in Teitelbaum, *Political Liberalization in the Persian Gulf*, 48.

operating successfully, are often serving to perpetuate these very patterns they are meant to counter. They are more often than not re-configuring a nanny-state approach. The programmes supposedly aimed at working against these classically ‘rentier mentalities,’ actually serve to reinforce them, perpetuating the conventional rentier sense that it is the government’s responsibility to support and aid all types of productive activity.⁵ In combination with a pervasive lack of risk taking, several of these programmes mould dependency and continue to foster the expectation for government support and ‘hand holding.’⁶

The global impact on the motivation for entrepreneurship promotion is multifaceted. On one hand, the international flows of labour and capital play an important role in this story. On the other hand, and even more directly related to this specific policy story, is the impact of global norms, expertise and advice. As noted above, Gulf millennials are more connected to the region and the world than ever before. For example, studies suggest that youthful Gulf populations are among the world’s most active users of social media. As well, Twitter penetration in most of the Gulf countries is the highest of the MENA.⁷ Thus, the state cannot manage information through its control of media as it once did. The influence of technology and media ensures exposure to a variety of international ideas and expectations with regard to economic well-being and political representation.⁸

⁵ It is worth mentioning that Gulf countries have a tendency to reject the term rentier, and thus would not label these rentier mentalities.

⁶ The Sanad programme in Oman is a prime example of this, as discussed in chapter three.

⁷ Jane Kinninmont, *To What Extent Is Twitter Changing Gulf Societies?* (London: Chatham House, February 2013), <http://www.chathamhouse.org/sites/default/files/public/Research/Middle%20East/0213kinninmont.pdf>.

⁸ It is also worth noting that international ideas are not synonymous with liberal or secular ones. See collection of pieces in Alanoud Alsharekh and Robert Springborg, eds., *Popular Culture and Political Identity in the Arab Gulf States*, SOAS Middle East Issues (London: Saqi Books, 2008); Some media reports indicate that Gulf youth consider increased public participation as extremely important. See “Arab Youth Vote Overwhelmingly for

Caught between conflicting sources of culture and identity, young Gulf adults are influenced by local mores, technological innovation, nascent national identity, and Western media. Drawing on Scholte, I view globalization here as not just international economic integration, but also the supraterritorial spread of connections between people.⁹ In this regard, technology has changed how information is transferred and connectedness has impacted behaviours, social engagement, and expectations of opportunities. It is not just international competition which impacts start ups in the region, but also the norms and ideas which affect entrepreneurs.

International advice and expertise has also been part of the global-level ingredients that constitute the motivation for state-led entrepreneurship promotion throughout the region. International financial institutions like the IFC repeatedly make positive economic claims about entrepreneurship. They suggest that “SMEs play a key role in economic development and make an important contribution to employment and GDP.”¹⁰ In addition, the US actively endorses and encourages the promotion of entrepreneurship through public announcements and embassy programmes and partnerships in the region.¹¹

By combining the urgency of necessity with the allure of prestige, Gulf governments view entrepreneurship as a pragmatic, and suitable policy alternative that is responsive to the multilevel pressures articulated above. The same combination of prestige and urgency

Democracy,” *Maktoob News*, March 7, 2010,

http://business.maktoob.com/20090000443478/Arab_youth_vote_overwhelmingly_for_democracy/Article.htm

⁹ Jan Aart Scholte, *Globalization: a Critical Introduction* (Palgrave Macmillan, 2000), 59.

¹⁰ *SME Finance Policy Guide*, 9.

¹¹ See, for example, Joe Biden’s comments on entrepreneurship and the US Ambassador to Oman’s editorial advocating a shift to entrepreneurship in the following two articles: Mark Marich, “Global Entrepreneurship Summit Moves to GEW 2012,” *Global Entrepreneurship Week*, December 7, 2011, <http://www.unleashingideas.org/ges2012>; Greta C. Holtz, “Entrepreneurship, an Engine for Employment,” *Times of Oman*, December 15, 2012, <http://www.timesofoman.com/Columns/Article-687.aspx>.

makes the entrepreneurial lifestyle potentially attractive to millennials. As its prominence is heightened in the media, and pushed by state and non-state actors, it may just grow more popular. If real innovation is injected into the mix, it could lead to many positive externalities. However, the perpetuation of excessive consumption, labour market inequalities, and ongoing connection to state resources will only reproduce existing economic dilemmas.

4. Characterization and Contradiction

Entrepreneurship and innovation promotion in the Gulf countries is characterized by its nascence. As was shown in the third chapter, 2008 can be identified as the magic commencement year in Qatar. The introduction of Qatar National Vision 2030 that year first thrust knowledge economy on the development agenda, translating into a more easily traceable history of Qatar's entrepreneurship support ecosystem. Oman's was more difficult to trace, reflective of its more complicated relationship with economic growth and national employment. Its earlier promotion of labour nationalization strategies and self employment programmes merged into the narrative of entrepreneurship and SME advocacy. If one must pinpoint a particular year of significance, it would have to be 2011 when the promotion of entrepreneurship and SMEs went into overdrive.

The language of entrepreneurship promotion is visionary and developmental. The announcements are cast in developmental and nationalistic terms, emphasizing indigenous support, employment, and national pride in growth. The practice has been less straightforward. Implementation has been ad hoc with endemic inconsistencies. Government promotion through interventions is in danger of duplicating weaknesses in

the system because the logic of interventions are not often designed with the systemic challenges of the Gulf in mind. Thus, entrepreneurship support and promotion are met with contradictions endogenous to the political economy. Many of the mechanisms introduced demonstrate a political disconnect from the realities of the GCC private sector. As well, it has created conditions promotive of institutional competition rather than encouraging of cooperation. Primarily, rentier path dependencies and labour market bifurcation have perpetuated incentive structures which obstruct SME growth, innovation, and entrepreneurialism. Only through addressing these can genuine progress be made.

In both cases, entrepreneurship and innovation promotion is characterized by an elaborate ecosystem of programmes and initiatives, nearly all connected to varying degrees with the government.¹² Those initiatives which were truly independent struggled immensely to emerge and/or were eventually absorbed in or connected to the state apparatus. This demonstrates the state's ability to manipulate the process in a way so as to remain pervasive in new 'private' activities. By incorporating private actors into the state process, it can co-opt the narrative to its own end. This is different from cooption techniques of the past, although those remain. Rather than the individual, they seem to be aimed at co-opting and owning the narrative of innovation and entrepreneurship. Moreover, state grants and loans as well as government-prompted loans or contracts, reconstitute distributive mechanisms and provide a novel mode of allocating wealth among citizens.

Scholars must ask, however, whether the state can succeed in co-opting innovation. It seems unlikely. Entrepreneurship may be able to be coopted, absorbing millennials and

¹² This is illustrated in figures 3.2 and 3.3 in chapter three.

others into new forms of patronage networks – whether via lending or integration into supply chain networks. Still this cooption is limited. Since it is so integrated with state capacity, it faces the same shortfalls as other mechanisms of state patronage. Instead, when genuine entrepreneurship is produced, it creates socio-business classes independent from the state, resulting in a series of downstream unintended consequences. Consumption patterns change, and are importantly no longer tied to state revenue.¹³ This will inevitably impact the degrees of loyalty associated with state as employer and provider. As well, new jobs cycles are created. Still, it remains to be seen how effective this will be or how far down the road it is. Innovation, on the other hand, is more disconnected from the state. Although successful innovation in any country requires the long-term vision national planning allows and investment facilitates, its autonomy and development will eventually create new economic sectors no longer as reliant on the primary state resource for survival.

Entrepreneurship promotion is thus indicative of the ways the rentier state is trying to reinvent itself. It has shown flexibility in the past to both external trends and domestic pressures, but the promotion of entrepreneurship and innovation extends this one step further. In many ways, these efforts invigorate the Gulf's developmental tendencies. New linkages throughout society promise to promote better regulatory mechanisms, and vitalize institutions, lending to Evan's mutual embeddedness. In other ways, attempts at reshaping political economy through revising and invigorating the private sector recasts

¹³ Hertog has previously noted the consumption and demand implications of shifting some of the economic growth and employment burden from the public to the private sector. These changes will not only necessarily affect state-business relations but also state-society relationships, potentially unbalancing the social compact. See his chapter in Legrenzi and Momani, *Shifting Geo-economic Power of the Gulf*, 55–74.

the government's role, aims at further embedding and co-opting the state in society, and in essence gives a fresh face to rentier tendencies.

5. Policy Implementation and Alternatives

Much like previous economic reform attempts, the promotion of entrepreneurship has to be accompanied by the appropriate governance or “policing” at micro-policy levels in order to facilitate implementation.¹⁴ As noted above, contradictions emerge because of an inherent incongruence between the logic of policy and the structural logic of the economy. Policy makers are, however, cognizant of what needs to be done even if an inability or unwillingness remains. In the Omani case, there is a growing sense of urgency and somewhat higher political will since 2011. This is evidenced not just by the flurry of royal decrees, but more recently by a series of lower level policy changes helping to facilitate the implementation of entrepreneurship promotion. In Qatar, attempts at implementation are occurring as well, but they tend to be limited to the proliferation of trendy initiatives.

In early 2013, various entrepreneurship support endeavours in Oman joined together in a concerted government effort to promote the development of Omani SMEs. This SME forum not only rallied various factions to participate in different avenues of the SME support agenda, but also marked the beginning of a concentrated government push to release policies intended to facilitate this process.¹⁵ Serious moves began with the financial

¹⁴ The term “policing” is borrowed from Peter Evan’s use of the term in his work on promotion and policing in chapter five of *Embedded Autonomy*, 99–127.

¹⁵ For a discussion of the topics covered at the SME forum, see: Bader Al-Kiyumi, “Establish New Laws,” *Oman Daily Observer*, January 23, 2013, <http://main.omanobserver.om/node/141039>.

sector, where in the second quarter of 2013 the Central Bank of Oman announced a minimum lending requirement to SMEs. As such, all licensed banks should allocate a minimum of five percent of their credit to SMEs.¹⁶ As well, the tender board has been asked to allocate 10 percent of contracts to local businesses. The SME forum and the subsequent policy announcements are the first real evidence of the state trying to 'get its ducks in a row' on entrepreneurship, which was preceded by the key appointment of Ali Al-Sunaidi as Minister of Commerce and Industry last year, and prefaced by the Sultan's speech to the Majlis Oman in 2012.¹⁷ In addition to evoking senses of nationalism, these policies demonstrate the government's genuineness to the population. Nevertheless, they are still crafted in such a way that they do not significantly address the deep structural contradictions of the labour market. Without addressing these, SMEs will only temporarily help redistribute wealth to a wider network beyond entrenched monopolies, but will not alleviate real national employment problems. SMEs will only create new jobs for expatriate labour, as previous private sector moves have done.¹⁸

Although we have yet to see as many similar micro-level policy adjustments introduced in Qatar, there continue to be new initiative announcements and ongoing language confirming the importance of entrepreneurship to development. For example, QDB recently announced a deal with Qatar Shell which would provide supply chain

¹⁶ Al-Zadjali, *Central Bank of Oman Circular: Small and Medium Enterprises (SMEs)*.

¹⁷ See chapter three.

¹⁸ The Omani government seems in some ways to be floundering to respond to some of the problems confronting these moves. If the fact that the development plan that began in 2011 still has not been published is any indication, it seems as though the activities of the last few years since the unrest have been so removed from the plans and targets that the government does not wish to release the original plan. Only the second part, the investment programme for civil ministries, has been made available.

opportunities for local SMEs.¹⁹ Deals such as this are presented with similar tones of nationalism and framed as the part of the state's promotion of local content.²⁰ As well, QDB's relationship with the IFC, and its partnership in the construction of a tailor-made SME tool kit, has provided Qatar with a steady stream of neoliberal international financial advice on SME policy development.²¹

Numerous reports offer policy suggestions for supporting the growth of SMEs, including even some government interventions provided they are geared to correct market failures. Establishing credit rating agencies and providing government-sponsored credit guarantee schemes are among examples. It is worth noting here that the rationale behind the policy prescriptions which advise entrepreneurship and SME support diverges between international financial institutions and GCC governments. For instance, IFIs would support opening debt markets to expand the borrowing potential of SMEs, and include non-nationals. They are thinking of GDP growth and the expansion of the private sector. State interventions that are recommended include credit guarantee programmes like Qatar's al-Dhameen programme, primarily because this form of intervention is viewed as less distortionary than others.²² Such policies are perceived as correcting market failures,

¹⁹ "Shell, QDB Sign Deal to Develop SMEs Sector in Qatar," *Al Bawaba*, May 12, 2013, <http://www.albawaba.com/business/shell-sme-qatar-490931>.

²⁰ Significantly, the encouragement of local content in Qatar has remained verbal and has not be formalized in policy legislation.

²¹ See Qatar Development Bank and International Financial Corporation, "Learn About Business Startup, How to Write a Business Plan, How to Start a Business, Business Forms, SME," *SME Toolkit Qatar*, accessed May 24, 2013, <http://qatar.smetoolkit.org/qatar/en>.

²² *SME Finance Policy Guide*, 78; and section on the "role of loan guarantees" in Equinox Management Consultants Ltd, *Gaps in SME Financing: An Analytical Framework* (Ottawa: Industry Canada, February 2002), 28–29, [http://www.ic.gc.ca/eic/site/061.nsf/vwapj/FinancingGapAnalysisEquinoxFeb2002_e.pdf/\\$FILE/FinancingGapAnalysisEquinoxFeb2002_e.pdf](http://www.ic.gc.ca/eic/site/061.nsf/vwapj/FinancingGapAnalysisEquinoxFeb2002_e.pdf/$FILE/FinancingGapAnalysisEquinoxFeb2002_e.pdf).

brought on by market monopolization by SOEs or other large companies.²³ GCC governments are utilizing this as another way to redistribute wealth to citizens however, with the hope that the SME promise of fuelling employment will be fulfilled. It raises questions around the compatibility of economic nationalism with market-oriented reforms. The trouble is that neither is addressing the embedded structural problems.

The main concern of international economic institutions, indeed, is the reverse: to ensure that governments adhere to the norms of the global free market, rather than protect their populations from any damaging effects that follow from reliance on the market. The implications of the free market at the global level, therefore, are rather different – and socially more severe – than at the domestic level.²⁴

Thus the concept of entrepreneurship in the Gulf remains bound within the discourse of American-brand capitalism with the importance it attaches to individual enterprise and a strong private sector. In many ways, entrepreneurship can be viewed as the *mode du jour* following the footsteps of discussions on free-trade agreements and foreign direct investment which proliferated in the 1990s and 2000s in the GCC.

According to Robert Wade's assessment of East Asian economies, however, "creating" rents and "distorting" markets was an important way of incentivizing economic behaviours beyond those which could emerge from free markets alone. What had to be done however, and a lesson which could be taken for the Gulf cases, is the importance of "disciplining rent-seeking" in order to ensure it does not encourage unproductive activities or interrupt ones deemed useful and productive.²⁵ Policies and practices which occur

²³ To my knowledge, the Central Bank of Oman's institution of a five percent credit minimum to SMEs is an uncommon policy mechanism. Bangladesh is one other example of a country which instituted a minimum five percent SME bank loan portfolio. Md. Shamsul Alam and Md. Anwar Ullah, "SMEs in Bangladesh and Their Financing: An Analysis and Some Recommendations," *The Cost and Management* 34, no. 3 (June 2006): 62.

²⁴ Fox, Mourtada-Sabbah, and al-Mutawa, *Globalization and the Gulf*, 95.

²⁵ See Robert Wade's introduction to his 2003 edition: creating capitalisms: *Governing the Market*, xvii.

informally, although not often discussed because of their undocumented nature, were particularly helpful in the transformation of countries like Taiwan. Thus, unofficial policies which quietly prod foreign firms to develop domestic supply chains or develop market space for local innovative companies have been significant to encouraging innovation.²⁶ As a result of their embryonic state, the outcome of these practices identified in this study's findings are yet to be determined, but should not be ignored by future researchers.

It is clear from this project, however, that genuine economic transformation demands attention to the deep structural problems of Gulf economies. As well, more formal policy announcements need proper monitoring, and this policing requires not just enough state capacity, but also enough political will to implement consistently.²⁷ Despite policy makers being broadly aware of what really ought to be done, it is difficult and politically costly. Political will thus remains weak. Ultimately the segmentation of the labour market needs to cease. Early steps toward this end could include the introduction of a price mechanism on foreign labour visas to lessen incentives for foreign labour. Another, which at the same time as promising to be the most effective would also be the most politically difficult, would be gradual wage equalization. In lieu of this, and while state purses remain sufficient, a subsidy to the private sector to minimize the cost differential between expatriates and local labour is a possible step to begin chipping away at the dual-wage market.

Based on the findings of this research, secondary but also important policy recommendations include the continuation and intensification of investment in primary

²⁶ *Ibid.*, xxi; 284–286.

²⁷ See Evans again on promotion and policing for a discussion on state capacity: *Embedded Autonomy*, 126–127.

and tertiary learning. East Asian experiences demonstrate that a focus on technical training and higher education is important to successful transition and innovation.²⁸ As well, informal policies nudging the support of international companies and the introduction of local content rules or tender board requirements will likely prove facilitative of entrepreneurship as well. A note of caution is in order however. These are only likely to prove helpful if proper safeguards are put in place which monitor and limit the exclusionary effects of *wasta* and favouritism. The real challenge here, that seems unlikely to be able to be met at the current juncture, is forging a path which does not only privilege the existing elite or only slightly expand the wealth sharing network, but rather create an accessible business environment for the wider national population.

Other policies which require attention include the implementation of antitrust laws to limit monopoly, the institution of a bankruptcy law to lessen the high penalty of failure, and the dedication of resources necessary to support local patent offices which remain in varying states of disarray. In fact, although discussions often come back to an assumed cultural aversion to entrepreneurship, this research has discredited these assumptions. The challenge therefore, is not cultural aversion but distorted incentive structures. These structures create enticing conditions for public sector employment, reduce the value ascribed to labour, deter business start ups, and raise the cost of failure.

Already a narrative of the significance of entrepreneurship and SME development has been circulating for several years. If the government actually makes the necessary changes to support new establishments by implementing some of the recommendations

²⁸ Howard Pack, "Technological Change and Growth in East Asia: Macro Versus Micro Perspectives," in Stiglitz and Yusuf, *Rethinking the East Asian Miracle*, 122–125.

above, it may be just the remedy needed for the short term. Long-term solutions, however, require a massive overhaul addressing labour market challenges. Significantly, the real contradiction lies in balancing an international neoliberal agenda with a rent-buttressed authoritarian desire to manage and co-opt society and economy. The result has been a furious focus on entrepreneurship promotion without addressing the underlying structural impediments to private sector strength and employment woes. Indeed, as noble as entrepreneurship schemes may appear, SMEs will not be the elixir of Gulf employment challenges as long as the bifurcation of the labour market and two-tiered salary structure endures.

6. Contributions to the Advancement of Knowledge

The study of entrepreneurship and innovation promotion in the Gulf is a story of policy development and it is a story of transition. It speaks to three specific sets of literature: analyses of the rentier state, examinations of development and transition, and studies of innovation. The analysis of entrepreneurship and innovation promotion presented in this dissertation not only provides a fresh examination of a novel policy agenda in GCC countries, it unpacks the motivations, multiplicity of stakeholders and pressures, and sheds light on the multilayered practices of development choices and economic policy making. Its concern with the governance of development and policy making practices in the Gulf will be of interest to development academics and practitioners and scholars of the Middle East. Through the use of a structured, focused comparison methodology, this research examined the paired cases, Oman and Qatar, to provide a deep analysis of the policy and practice of entrepreneurship promotion in the region.

Overall, this research makes three contributions to the advancement of scholarly knowledge in Gulf political economy and development studies. First, empirically-rich case studies provide a detailed understanding of the prominent policy shift in the Gulf that has been largely ignored by other social science researchers. Given the prominence dedicated to entrepreneurship discussions in policy circles in the region, this absence was significant and presented an exciting research opportunity. It is my hope that this dissertation will be the first, and key, step toward unpacking the development of innovation policies in the region.

Second, although this is not the first study to engage literature on the developmental state in an analysis of the Gulf, it is one of a very small handful. Most of these have failed to engage in much detail beyond a token mention of the literature. Not only this, but this dissertation engages literature sets on development, innovation, and Gulf political economy with each other to broaden understandings of development and transition in the region. Incorporating analysis on innovation and entrepreneurship in relation to knowledge economies with reference to the Gulf experience is new and allows a more thorough assessment of these policy mechanisms than would be possible otherwise.

Finally, through interrogating the entrepreneurship policy experience in the case studies, this research extends beyond the often perfunctory assumptions gleaned from rentier state literature to investigate the unfolding of development policies in the current milieu. This project then has provided a window into transition and transformation, demonstrating the way rentier patterns and a combination of novel pressures interact and affect the practices of policy making and the Gulf ruling bargain.

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