Rentier Fiscal Crisis and Regime Stability: Business-State Relations in the Gulf*

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Are sectorally dependent states destined to regime instability as a result of chronic fiscal crisis? Literature emphasizing the importance of a country's sectoral endowment suggests that oil exporters in particular should exhibit similar policy stagnation and regime decay as a result of fiscal crisis. The cases of Kuwait, Qatar, and Bahrain in the 1980s and 1990s demonstrate that fiscal crisis outcomes are not uniform. This article develops the critique that structuralist assumptions about what drives business-state relations during crisis are flawed. Abstract logics tying exogenous price shifts to the character of business-state interaction neglect the historical and institutional grounding of those relations. It is variation in the historical and institutional crafting of business-state relations that best explains how these relations shape reform under crisis and how regime stability is affected.

Introduction

From early 1981 until late 1999, depressed oil revenues challenged the ability of the oil exporters to respond. Remittances to labor providing countries dropped accordingly. Therefore, across the Middle East, international and regional pressures imparted persistent fiscal crisis. Internally, demographic pressures on job creation and the inability of states to absorb new workforce entrants pushed unemployment to alarming levels. Predictions from observers inside and outside the region commonly tied fiscal crisis to impending regime instability (Al-Rumaihi 1996; Al-Ebraheem 1996; Roberts 1987; Sick 1998; Hunter 1986). Despite the depth and persistence of this situation, political ramifications were comparatively subdued. Why did chronic fiscal crisis not translate into regime instability in a region popularly known for revolution, crisis, and conflict?

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Of all the oil-exporting Arab countries, Kuwait is perhaps the most curious in this respect. Historically, Kuwait has long experience with elected representatives, a vibrant political opposition, and currently possesses one of the best-organized and funded Islamic opposition networks in the Middle East. Due to its oil dependence Kuwait has endured some of the most dramatic shocks of any Arab country in the last two decades: severe financial dislocations in the early 1980s and significant reduction in public reserves and rent revenue in the 1990s. Finally, the invasion and occupation of Kuwait represents the kind of social and political shock that is often equated with regime instability and decay. However aside from a reinstitution of parliament (no more powerful than its predecessors in the 1960s and 1970s), the Kuwaiti state and monarchy have weathered these storms without any significant threat to regime survival. Moreover, during the crisis Kuwait moved forward with one of the most successful economic reform and privatization programs in the region at the same time elected parliaments were reestablished.

Outcomes in this specific case as well as similar trends among the Gulf oil-exporters in the 1990s and 2000 provide useful insight into a prominent debate within the field of comparative political-economy. The question is to what extent are a state's policy choices free or constrained during economic crisis. An influential strain in the literature contends that excessive dependence upon a leading economic sector (especially oil export) "prestructures" those choices because state institutional design is geared exclusively toward leading sector demands (Shafer 1994; Karl 1997; Frieden 1991, 1996; Rogowski 1989).[1] The expectation is that such an inflexible institutional design will limit a state's ability to respond to crisis arising from sectoral downturns. The political result should be regime instability, decay, and, perhaps, collapse. After well over two decades of fiscal downturn, none of the Gulf oil-exporting countries have conformed to the expectation of regime decline.

The argument of this article is that an explanation of fiscal crisis politics requires relaxing some of the assumptions underlying structural approaches to allow theorizing about important social groups and how their actions shape policy making and implementation. This position follows recent work on several Arabian Peninsula countries, which acknowledges that changing sectoral fortunes do bring about crisis but that crisis outcomes are shaped by previous political struggles, sequences of state formation, and contingency in political alliances (Chaudhry 1997; Gause 1994; Herb 1999; Tétreault 2000). Understanding how commodity booms bias state structures is critical, but once fiscal conditions reverse, appreciating how rapidly changing domestic arrangements affect regime choices requires an appreciation of the historical and institutional evolution of leading social actors. In the case of Kuwait and the Gulf oil exporters, business and its relationship with the state is that key. Patterns of business-state interaction across the region do not conform neatly to structural characterizations; in other words, historical and institutional trajectories are crucial to explaining crisis politics. In the case of Kuwait, business elites—though politically marginalized during the 1960s and 1970s—maintained a cohesive institutional base that afforded them political advantages *vis-à-vis* the state and other political actors during the crisis. During the 1980s and 1990s business elites limited their political rivals, the Islamic opposition, and forged an enduring alliance with the state. This alliance provided public officials flexibility in responding to chronic crisis and augmented weakened state capacities in implementing policy. While Kuwait is the most pristine case for how business-state relations can alter the trajectory of fiscal crisis, evidence from the other Gulf countries supports and qualifies this approach.

The article proceeds by first discussing sectoral and rentier-theory positions on politics during fiscal crisis. Second, it discusses the path of business-state relations before and after the economic bust of the 1980s to demonstrate how private sector elites profoundly shaped the direction of crisis politics in Kuwait. The final section provides a brief comparative review of Qatar and Bahrain to support and qualify the Kuwaiti findings.

Structural/Statist Approaches to Oil Dependent Fiscal Crisis

Theories about the rentier state and sectoral approaches (I collectively term these structural/statist) have been well debated and tested regarding the effects of commodity dependency during boom times. What has received less attention, and what is at stake here, are predictions about outcomes once prices decline. At the core of these structural expectations is an abstracted characterization of domestic business, its organization, and how it is expected to interact with the state during times of fiscal crisis. Once these assumptions are relaxed, we are better able to account for what appears to be counter-intuitive crisis outcomes among the Gulf oil exporters.

At its most fundamental, the structural/statist approaches follow Joseph Shumpeter's argument that the nature of a state's resources should be a focal point for social and political analysis.

> Most important of all is the insight which events of fiscal history provide into the laws of social being and becoming and into the driving forces of the fate of nations, as well as into the manner in which concrete conditions, and in particular organizational forms, grow and pass away. The public finances are one of the best starting points for an investigation of society, especially though not exclusively of its political life. (Shumpeter 1954: 7)[2]

In much the same way that state structure conforms to sectoral needs or dominant revenue needs, social forces—particularly business—are expected to follow suit. In the oil economy, the state is the locus of wealth creation, and thus the private sector is squeezed into enterprises which pursue that wealth. Their interests mirror state interests, reliance and continuance of exogenous revenue. The distribution of that revenue domestically creates multi-tiered rentier economies that further enforce sectoral dependence. Shafer and Karl argue that this compels formation of strongly organized interest groups due either to the Olsonian idea that fewer firm numbers make collective action easier (Shafer 1994: 39-42), or that the reduction of zero-sum social conflict streamlines access strategies (Karl 1997: 57). Rentier state theory derived from study of the Gulf cases charts the creation of an "oil social compact," business abandons political involvement for state mediated profits (Crystal 1990). Taken together, the view of business is rather negative. It is non-productive, afflicted with a rentier psychology, and though links with the state are robust, domestic business is hardly autonomous and not in possession of varied institutional skills.

This generally ahistorical depiction of domestic business (with the exception of Crystal) is an important element in predicting what should transpire from a reversal of structural fortunes. Drawing on the rather clean hypotheses of neo-classical trade theories (Frieden 1991; Rogowski 1989), Shafer and Karl conclude that oil-dependent states should display similar pathologies and regime pressures during fiscal crisis. A consequence of this logic is the judgment that structural legacies of oil export make it nearly impossible for the state to alter its development trajectory away from oil. Given the size of Gulf oil reserves, this prediction is rather bland. Much variation remains short of a developmental reversal that requires explanation. Some states respond more effectively to crisis than others. Some undergo rapid political change, while others change more slowly. Shafer, on the other hand, paints a more singular trajectory.

> sectors have an optimal, or at least typical, *economic* organization and pose distinct economic challenges to all producers and states, and that states with similar sectoral bases face similar *political* constraints when they address these challenges, do so from similar institutional positions, and arrive at similar policy outcomes. (Shafer 1994: 22)

Crisis policy outcomes are, therefore, overdetermined: inflexible state institutions are unable (and unwilling) to affect policy change while oil dependent social actors effectively resist any nascent moves for reform. Business can offer no assistance toward reform or crisis management, rather it can be expected to resist change in line with structural interests. Crisis begets stagnation. Karl goes further by suggesting such stagnation leads to regime decay and decline. “Only prolonged fiscal crisis is likely to provoke change, and adjustment, when it comes, will be especially abrupt and severe.” For the oil exporters of the Middle East, the expectation is a “deleterious combination of economic deterioration and political decay” (Karl 1997: 241). Of course, the actual outcomes have not been so neat. Since Karl acknowledges contingency as interacting with structure, termed “structured contingency,” we should recognize outcomes as not deterministic. Thus, “paradoxes can be resolved and development trajectories can be altered” (Karl 1997: 242). Investigating these possibilities requires moving beyond just a structural focus or extrapolation of interests from revenue bases. Instead, if we are to make sense of how contingency and contexts respond to one another, an appreciation of how business-state relations are historically constructed and how business organizes its interests is required. In some cases, a top-down, structural logic linking state and business may indeed be accurate. In the cases of Libya and Tunisia, Lisa Anderson found the economic elite to essentially be “creatures” of the state, much like Shafer and Karl would argue business is the creation of structural processes. The crucial difference is that Anderson's conclusions are generated from a comparative historical treatment of each country. Her ultimate lesson is to take seriously, "the political and economic history of the process of the peripheral regions' integration into the world of the bureaucratic state and capitalist"(Anderson 1986: 278). Specific to business-state relations shaping crisis politics, the need is to move past depictions of business as solely rent-seeking and capture the institutional evolution of business and its historical role during state formation; that is incorporate the larger "substantive political economy" (Chaudhry 1999: 334, 1992). This provides a much wider lens with which to observe different political trajectories from seemingly similar structural bases (oil in this case).

While the position of this article is that Kuwait and the other Gulf Arab cases are useful in testing and developing answers to these questions, there are, however, some concerns. In comparison with some other regions of the developing world, Kuwait and the other Arab Peninsula states come up quite small and sparsely populated. Their societies are marked by tribal and family affiliations. Consequently, can such cases of family-based states ruling over small populations help modify statist/structural arguments—based originally on evidence from larger countries—or is fiscal crisis politics in the Gulf better placed in its own box? (Shryock and Howell 2001).[3] Karl, for instance, explicitly excludes the Gulf countries from her work because they are "capital surplus"countries that ostensibly face less pressure to reform in the face of crisis (Karl 1997: 17-19). Clearly, geography and demographics shape state power (Herbst 2000), but it would be a mistake to bracket the Gulf cases (or any small dependent states such as those found in Sub-Saharan Africa and the Caribbean) as their own analytic category. Family and tribal affiliations mark politics in both small and large developing countries, and thus are common to late-late developers. Rather, it is because of their particular socio-historical evolution in addition to their similar connection to international capitalism and structural dependence that make them interesting cases from which to learn. Moreover, scholars working on the various impacts of resource dependence have successfully integrated the Gulf cases (and other small states) into quantitative and qualitative research projects (Yates 1996; Chaudhry 1997; Ross 2001; Clark 1997; Collier and Hoeffler 1998). In this comparative light then, it seems more useful to consider the small Gulf oil-exporters as a subset of commodity dependent states, cases whose unique features offer variations on themes found in larger (or perhaps less dependent) commodity exporters. For purposes here, perhaps the most compelling reason for using the Gulf cases to assess structural arguments comes from Karl, who concluded: "Finally, this approach should have some capacity to predict the future prospects of oil exporters...and it should be more widely applicable to the capital-surplus countries that were not included in this study" (Karl 1997: 241).

Business and State Formation in Kuwait

For all of the Gulf states, the 1960s and 1970s were years of unparalleled windfalls. Kuwait's development during these decades followed much of the structural/statist account of sectoral dependence. State institutional design followed oil concession, collection, and distribution. Private sector development as well grafted itself to the oil wealth and rent distribution schemes. However, before and after the oil boom the institutional and political evolution of Kuwait's business community diverged in crucial respects from the sectoral account.

In the latter half of the 1960s oil revenue to the state averaged about 270 million Kuwaiti Dinar (KD) annually. In 1974, oil revenue had jumped to over two billion KD (State of Kuwait 1990). Public expenditure increased by an average of 26 percent annually from 1967 to 1977. Kuwaitis employed in government service comprised more than 75 percent of the total citizen population by the mid-1970s (El Mallakh 1979: 79-80; State of Kuwait 1990). The portion of private sector employment correspondingly declined, so that by 1977 only 12 percent of the private sector work force was Kuwaiti (Longva 1997: 27). Though the state expanded in all directions, the Ministries of Finance and Commerce/Industry and the Kuwait Petroleum Corporation (KPC) managed the truly important political-economic functions. The KPC, a holding company formed in 1980 to manage all of Kuwait's nationalized oil companies, collected the oil rents while the Ministry of Finance essentially developed and implemented distribution ranging from land purchases to massive infrastructure projects. The Ministry of Commerce and Industry became a locus of private sector/state interaction controlling import licenses and negotiating public purchases of private corporations. This biased institutional design mirrored the state's economic interests. Rates of direct taxation remained negligible and efforts to develop a tax base in the 1970s were quickly abandoned (EIU, no. 1, 1978; MEED December 31, 1976: 31; *The Arab World Weekly* February 3, 1979: 11). Likewise, plans for any industrialization outside the oil sector were shelved (EIU, no. 4, 1976: 20).

The centralization of oil wealth in the hands of state officials and the Al-Sabah monarchy significantly altered private sector development. However, to understand these changes elements of the historical and institutional development of the Kuwaiti business community require analysis. Prior to the arrival of significant oil rents, Kuwait's merchant elite, loosely referred to as the *asil* (original), played a prominent political role (Ismael 1982; Gavrielides 1987; Assiri and Al-Monoufi 1988). Jill Crystal's influential study of Kuwait was the first to demonstrate the political importance of Kuwaiti merchants' early social organization and political activism. In the 1920s and 1930s, these merchant elites pioneered the region's first democratic movement advancing nationalist demands for an elected assembly. Though the assembly ultimately failed, it afforded them invaluable organizational experience and social capital through the formation of autonomous educational and municipal councils (Crystal 1990; Ismael 1982). By the 1950s many of the institutions created by or staffed with merchants—such as the City Municipality and the Development Board—were either weakened or disbanded by state officials. Just prior to Kuwait's political independence in 1961, the core of the *asil*, Abdul Aziz al-Sagr, Hamoud al-Zaid al-Khalid, and Mohammed Yousef al-Nisf, established the Kuwaiti Chamber of Commerce and Industry (KCCI). The institution embodied two crucial lessons from the previous decades of merchant-ruler interaction.

First, the on-again-off-again character of representative institutions in Kuwait confirmed to merchants the necessity of fully independent institutions. Previous institutional achievements at the national and municipal levels ended with al-Sabah/state sequestrations. If merchants were to maintain and develop institutional capacities, they would have to create institutions fully separate from state control or largess. Thus, the KCCI operated only on membership dues and freely elected a 24-member executive board every four years. Second, merchant elites concluded that control of such an institution outweighed the desire to court broader public support. Merchant efforts in the 1930s to broaden their public appeal outside the ranks of the business community generally failed (Al-Jasim 1980; Crystal 1990). Notably, the bedouin and the Shi´i minority rarely abandoned support of the al-Sabah in favor of the Sunni merchant elite. Consequently, the merchant elite organized the KCCI in a manner in which the largest merchants controlled a plurality of votes. In this way the KCCI institutionalized merchant-elite cohesion and organizational expertise.

Though the KCCI was a product of elite cohesion, its presence reinforced that cohesion and served to coordinate intra-merchant interests. Delegation and monitoring of import licenses and public contract bidding through the executive board eased internal conflicts concentrating more market power in the hands of the elite. Service on the executive board also became an important mechanism for the recruitment and socialization of younger merchants. Leadership authority was not only secure but purposeful. Using the Chamber as their institutional voice during the initial phases of state building, these elites successfully pressed state elites for policy access that further entrenched their elite status. Consequently, during the boom the Kuwaiti state faced a business community self-defined as the loyal opposition, with a history of collective action and in possession of autonomous institutional capacities.[4]

This situation gave rise to what Crystal documented as the merchant-ruler pact. In return for state mediated profits, *asil* merchants essentially opted out of the type of political involvement that had resulted in the 1938 Majlis Movement. By extension, members of the al-Sabah ruling family would refrain from business involvement. Kuwait's land deals were the most well-known expression of this unwritten pact, but the establishment of public-private shareholding companies proved the most crucial for private sector capital development. In less than 10 years (1968-1977), the authorized capital for Kuwait's joint-sector more than tripled. From the 1950s until 1968, 18 such joint companies had been established, and from only 1970 to 1977, 22 such companies were created (Al Sabah 1980: 70-71). Powerful business interests, thus, did coalesce around the maintenance of these ties with the state. This rent-seeking relationship, however, did not obviate the institutional autonomy and cohesion which business elites had built previously. Merchant organization had supplanted profits as a mark of social prestige. Indeed, during the boom of the 1970s business elites reinvested rent profits back into institutional development. Elites established public relations and foreign relations departments within the KCCI. The staff was expanded and management experts outside Kuwait were recruited to serve as permanent advisors (interviews, Kuwait City). The Chamber moved to diversify its revenue base by investing more Chamber finances into real estate and development projects in Kuwait. In perhaps their most shrewd public relations move, business elites started a national newspaper, *Al-Qabas*, in 1970. Four of the original investors in the newspaper sat on the KCCI's board. With the paper, the KCCI had a respected media outlet with which to press its claims. For instance, the president's annual economic statement, which had gained notice in the 1960s, was regularly published by *Al-Qabas*. Because of these advantages, the Kuwaiti monarchy and state openly enacted political strategies to minimize the business elite.

In the 1975 parliamentary elections, half of those elected were new to parliament. Owing partly to state gerrymandering, the number of *asil* (KCCI loyalists) dropped from around 20 to 14, tribal elements realized 2 more seats, and Shi'i representatives rose to 12. The result was a curious alliance among, tribal, Shi'i, and Sunni fundamentalists whose voting block could assure the state of opposition to any "legislation sponsored by the liberal urban merchants" (Gavrielides 1987: 164; Crystal 1990: 91-92). Direct government subsidies, more lenient licensing guidelines, and weak enforcement of excessive stock speculation lured new ranks of merchants into the private sector. One former official in the Prime Minister's office in the 1970s, Isa Majed *Al*-Shaheen, recalls that:

> Lists for invitees to official functions at the Prime Minister's office began showing new names. The richest of the new businessmen began calling on the Prime Minister and showing up at meetings, whereas before only the Sunni elite of the Chamber [KCCI] had been present.

Correspondingly, the government cabinets of the 1970s saw an increase in non-*asil*, non-Sabah ministers. Prominent Shi'i and non-*asil* Sunni representatives increased their share of cabinet posts from about 30 percent in 1965 to over 40 percent in 1975 (an increase of two to three posts), while the *asil* of the KCCI dropped from 38 percent to a steady 33 percent in the 1970s (Assiri and Al-Monoufi 1988).[5]

It was also in this period that Kuwait's Islamists were cultivated as state clients to offset the merchant opposition. The most obvious example of this was the creation of the Kuwait Finance House (KFH) in 1977, a multi-service banking and investment entity. State ministries took a 49 percent share in the bank and appointed four of the nine board members. The bank was run according to Islamic principles and allowed a wide purview to operate in all economic facets, from commercial banking and consumer lending to retail sales. Moreover, it was exempted from normal Central Bank regulations and oversight. The KFH was immediately successful receiving over 5,000 deposits in its first two months of operation (*Business Week* November 6, 1978: 83). It became a principal source of support for the growing Islamic political movement in Kuwait. In hand with the KFH, the state approved and subsidized the formation of several non-profit, Islamic charitable societies, such as the Sanabil Project. This well-organized fiscal and social network began expressing itself in the late 1970s and 1980s as a basis for political mobilization.

In hand with the growth of these rivals, merchant elites saw their policy influence with the state drastically decline. KCCI proposals to establish a free trade zone, revamp foreign labor regulations, and restrict Kuwait's illegal stock trade were either ignored or not implemented by state officials (interviews, Kuwait City). Consultation was also abandoned when the Prime Minister appointed well-known business rivals to head the Ministries of Finance and Commerce and Industry. The culmination of the merchant's political neutering came with the suspension of parliament in 1976. Protests by the *asil* merchants were muted, and the state committee created to take over the legislative role of the Finance Committee in parliament was formed without representation from the KCCI (EIU, no. 4, 1976: 19). Curiously however, the evolution of business representation was not adversely affected. A strictly interest-based interpretation would expect business leaders to abandon their collective organization in favor of individual rent pursuit. Instead, the historical importance of the KCCI as a base of independent merchant organization and social prestige meant that service in the Chamber became more important than ever. In a time when even civil servants were becoming rich, merchants only had the KCCI to mark their status and preserve their communal identity.

In sum, evidence from the boom era supports some of the pattern laid out by sectoral and rentier approaches, but its characterization of business is inaccurate. Oil revenue created an institutionally biased state structure. Business responded to this change in a typical rent-seeking manner, but Kuwaiti business was not created by oil; it had a pre-oil history of institutional autonomy and capacity that survived through the boom. This historical fact shaped state strategies; buy off business elites and cultivate their political rivals.

Fiscal Crisis and the Basis for a New Relationship

By the mid-1980s, groups that state authorities had cultivated in the 1970s asserted themselves. At the same time, exogenously caused and endogenously exacerbated fiscal crises left state officials indecisive about how reform should proceed. In these respects, then, it appeared that the political expectations of sectoral dependency were expressing themselves. This section discusses how the merchant elite anchored within the leadership of the KCCI brokered a new relationship with the state during crisis. Leveraging its considerable institutional capabilities, merchant elites proved useful allies to the state in responding to persistent fiscal crisis. This dynamic alliance proved a two-way street; business elites leveraged access with the state to shape economic reform, and the state used the Chamber to generate policy options, implement reform, and limit the power of political rivals. Regime stabilization, not decay, was the result.

In a manner, Kuwait's fiscal and economic crisis was both perilous and fortuitous. It was perilous in respect to the size and magnitude of the fiscal downturn. In 1982 an informal stock market, the Souq al-Manakh, crashed, crippling Kuwait's financial system to the tune of roughly $92 billion US in debt, more than 17 times the foreign reserves of Kuwait and four times that of Saudi Arabia (Darwiche 1986: 50). To date, this crash and its ramifications remain the most significant in the region. The crisis dovetailed with a 15 percent decline in world oil prices from 1981 to 1983 (Kaboudan 1988: 46). Consequently, oil revenue as a percentage of the state budget fell from a high of 97 percent in 1974 to below 85 percent in 1985 (State of Kuwait 1990).[6] Deficit spending took place for the first time in 1981. Perilous as well was the Iraqi invasion, which ended any hope for a short-term solution and involved further reduction of the government's financial reserves (MECS, vol. 17, 1993: 496).[7] Despite these bleak circumstances, the nature and timing of the crisis was to prove oddly fortuitous. The abruptness of the downturn and the fact that the sector most in need of reform was banking and finance meant state officials could not be idle. Moreover, the nature of a fiscal crisis in general simply creates more shared public-private interests towards its quick and efficient resolution (Frieden 1991).[8]

This combination of fortune and peril dictated the need for significant private sector involvement, if not to contribute economic solutions, then to share some of the political heat. However, the structural/sectoral aspects of a crisis do not axiomatically translate into smooth public-private coordination. While state vulnerability promised opportunities for business involvement, it was not the sole recipient. Elections to parliament in 1985 and its reinstitution in 1992 allowed well-organized Islamic organizations and monarchy loyalists to compete in the domestic political arena.

Access to state decision making that had stagnated during the 1970s multiplied during the 1980s and 1990s. The most obvious of these openings was parliament. Unlike its predecessors of the 1960s and 1970s, assemblies of the 1980s focused far more on domestic political and economic issues. Heated debate about ministerial corruption and financial impropriety seemed to suggest elements of regime decay or even democratization. Especially during the Souq al-Manakh debates, the finance committee in parliament was a key venue for amending legislation. The return of parliament also produced problems for the private sector. Owing to previous gerrymandering and the skill of Islamic and tribal elements in parliamentary politics, merchant elites could maintain only one overt parliamentary representative, Jassim al-Sagr, brother of KCCI president Abdul Aziz al-Sagr from the 1980s until the late 1990s. Not only had the Islamists replaced the *asil* as the loyal opposition, but they were as well organized and funded as the business community. The prospects of clashes between each camp were great.

In hand with the return of parliament, the press surfaced as an important venue. Al-Sagr's annual economic report as president of the KCCI proved an authoritative and politically useful tool. The editorial direction of *Al-Qabas* was decidedly middle of the road. Unlike the more sensational and partisan Islamic newspaper, *Al-Mujtama*, or the nationalist *Al-Anaba*, *Al-Qabas* sought to antagonize few. It was a calculated strategy that gave *Al-Qabas* the profile of a sober, professional newspaper. Accordingly, the paper proved a useful political tool for business throughout the crisis period. Every major government proposal or draft law was printed along with the Chamber's response or expert commentary. To be sure, *Al Qabas* was not the only media outlet comprising Kuwait's rancorous press of the 1980s and 1990s, but it was prominent and effective.

In the mid-1980s, the Chamber's research department was significantly upgraded with a computerized database and staff expansion. Just as the Kuwaiti government and financial institutions were known to recruit the Arab World's best and brightest, the KCCI augmented its staff with well-educated Palestinian, Lebanese, and Syrian professionals. By the mid-1980s, the KCCI possessed a respected team of Gulf economic analysts (interviews, Cyprus). Given that board members owned some of Kuwait's largest companies and financial institutions, the Chamber could count on the support of their staff resources as well.[9] Consequently, from their secure institutional position at the Chamber, merchant elites could draw on an array of impressive resources.

The most visible expression of the evolution of a new business-state relationship was the creation of institutional mechanisms for public-private coordination. Arising from state and private sector initiatives, the Prime Minister's office created a series of ad hoc and permanent committees either to generate policy options or oversee implementation. In every case, business representatives from the KCCI were present. In 1985, the Prime Minister established the Supreme Planning Council as a venue to review economic policy. Of ten independent members, seven were appointed from the private sector by the KCCI (EIU, no. 1, 1986: 7). In 1986, an initiative by KCCI President al-Sagr resulted in the creation of the Economic Reactivation Committee, a high-level advisory board of KCCI board members and state technocrats. Additionally, the state reversed its controversial personnel decisions of the 1970s by appointing KCCI loyalists and eventually the director-general of the KCCI to head economic ministries.[10] From these shared venues, a coalition between business elites and state officials evolved. Two issues in the 1980s and 1990s exemplified this new alliance, the decade-long struggle to resolve the debt crisis and a joint political effort to weaken Kuwait's Islamic opposition.

As mentioned earlier, timing in crisis is important for the politics to follow. Not all sectoral downturns are of the same character. The crash of the Souq al-Manakh stock market in 1982 occurred at a crucial juncture, just as oil prices began their two decade plummet. It provided for a first step in a new business-state relationship. A formal stock exchange trading in unregulated companies, the Manakh had existed outside legal boundaries since the late 1970s. Business leaders had consistently warned against the market's excessive speculation and option payment with post-dated checks. A few days after the crash, once the byzantine network of debt became apparent, Crown Prince Saad met with business leaders to discuss a way out of the crisis. On 17 August, the Minister of Commerce and Industry held a press conference during which he stressed urgent measures, "in collaboration with the private sector," to address the situation (*Al-Anba* August, 18, 1982). On 21 August, resolution 21 from the Council of Ministers made official the government desire to work closely with the private sector.

An official KCCI position did not immediately crystallize. Instead, the first opinion to surface in public debate was the hard line. Finance Minister Abdul Latif al-Hamad personified this position.

> Those who have debts must repay them or they will be sent to prison. To honour one's obligation is the only way to restore confidence. Those who keep their word have noth-

> ing to fear. I have no regrets in adopting this harsh attitude because the reputation of Kuwait can only be restored if we are strong. (*The Economist* December 4, 1982: 86)

Though al-Hamad represented only a faction within the government and monarchy, it was the loudest voice and was firmly supported by the Islamic opposition in parliament. A second group, composed of the largest debtors and some Al-Sabah family members, argued for a full government bailout of the debts. Between these two extremes, the state was not only indecisive about a policy direction, but it was institutionally unprepared to test or implement any solution. Neither the distributionally powerful Ministry of Finance nor the Ministry of Commerce and Industry managed the resources or skills needed to gather information on the details and the extent of the debts.

Through the KCCI, business's first policy statement came in December 1982. Concluding, "All traders in this market should bear a large part of the responsibility," but admitting, "that it is impossible to find a solution which satisfies all parties," the Chamber proposed premiums on the debts be reduced from 50 to 25 percent to facilitate payment. Though the KCCI cautioned against excessive reliance on the public treasury, it nevertheless called for the government "to provide funding...to facilitate the payment of dealers liabilities" (*Al-Qabas* December 15 and 16, 1982). The intent was to strike a balance by avoiding the Finance Minister's laissez-faire attitude but still require repayment. Given the government's limited administrative capabilities, the Chamber suggested that a clearing house be set up, under its tutelage, to register and sort out the outstanding checks. The Prime Minister appointed Hilal al-Mutairi (KCCI general-secretary and future cabinet Minister) to head the Kuwait Clearing and Financial Settlements Company (KUCLEAR). An impressive institutional advantage for the KCCI leadership, this state agency worked closely with the Chamber's own arbitration department and experts at the National Bank of Kuwait (owned by the KCCI leadership) to sort out, and where possible, settle the debts. Perhaps the most crucial achievement was the ability of the KCCI to convince the majority of debtors to sign over power of attorney to Chamber negotiators. This collective action—coupled with the fact that the Chamber was tasked with carrying out public policy—made the business community and its representatives integral to the implementation of any solution.

Throughout the next decade, the ebb and flow of public debate about the debts made this the most contentious domestic issue anywhere in the Gulf. At first, opposition groups succeeded in convincing the Emir to submit new legislation before parliament, effectively obviating the KUCLEAR process (Crystal 1990: 99). By 1984 however, business leaders began to regain control of the legislative agenda, prompting Finance Minister al-Hamad to resign the previous year. Business-state coordination also generated a series of proposals to strengthen the official market. Returning to Chamber proposals first advanced in the late 1970s, some closed-shareholding companies were allowed into a newly created parallel market and an entirely new circulation system was introduced (KCCI 1977). The Committee also integrated some of the Manakh's more legitimate shares into the official market, so that by November 1984 the

Souq al-Manakh could be closed. The official stock market recorded some recovery and renewed trading, but overall Kuwait remained mired in a recession.

Stemming from meetings between KCCI leaders and the Prime Minister in April 1984, the government began considering macro-policies to reactivate the economy and address creditors' problems. Leveraging its position on the Supreme Planning Council and later the Economic Reactivation Committee, the KCCI leadership coordinated its policy approach (*Al-Qabas* November 11, 1985). These committees allowed KCCI representatives to work with state officials—in isolation from public or opposition pressure—to fashion a complete package of reforms. Some of the policies that resulted conformed to rent-seeking expectations of the sectoral argument. Among the enacted measures that did not require approval by parliament were new protection for local industry; new priorities for awarding government contracts to local contractors; and a return to public purchasing of land. However, protecting its access to a shrinking revenue pie captures only part of the role Kuwaiti business played during the crisis. Business was neither fully supine nor blindly intransigent as structural/statist accounts might suggest. As private sector involvement in economic policy increased, the institutional capacity of the state to respond to the crisis expanded accordingly. Instead of stagnating reform, business-state interaction during crisis actually enabled reform. The 1990 Iraqi invasion of Kuwait ended any further implementation of reform.

Political Islam and Business-State Strategies in the 1990s

During the Iraqi occupation of Kuwait, merchant leaders remained active. Some reportedly remained in Kuwait and supported the resistance (Tétreault 2000: 76-100). In Saudi Arabia, KCCI president Abdul Aziz Al-Sagr led the opposition's struggle (including the Islamists), persuading the Emir to reinstate parliament after liberation. Despite this prominent role, merchant representation in parliament remained limited to Jassim al-Sagr. Islamic and tribal opposition to al-Sagr's subsequent bid for Speaker of the Assembly promised little chance for rapprochement between business and the opposition. One high-placed KCCI official described the merchant dissatisfaction with parliament.

> The majorities in parliament do not understand economic issues. They are more interested in government employment and benefits. We have difficulty communicating with them to reach any compromise. We work closely with the government because they have people that understand the issues. The problem is with parliament since the government must turn around [after fashioning legislation] to deal and compromise with parliament.

This common private-sector displeasure masked the opportunity that an Islamic dominated parliament presented to business representation *vis-à-vis* the state. Specifically, an institutionalized opposition meant state and monarchy had to continue to rely on merchant input to solve renewed debt problems, plan for economic reform, and provide assistance against parliamentary resistance.

In the aftermath of liberation, debt from the war and efforts at economic reform dovetailed with the politics of a reinstitution of elected parliament. Several more years of intense policy debate followed. Initial legislative success by the opposition in parliament was eventually amended through intense business lobbying. By 1995, final debt legislation reflected a clear return to business aims set out in 1982 and a clear victory for a new business-state alliance.

Though outmaneuvered on the debt and reform issues, Kuwait's Islamic organizations remained a potent political force in the 1990s. The Islamic opposition was composed primarily of two camps: the Ikhwan (brothers, usually referred to as the Brotherhood), moderately orthodox and tied to other Ikhwan parties in the Arab World, and the Salafiyyin (from *salaf* meaning ancestors), considered more strictly orthodox and generally concentrated in Kuwait and the Gulf region. By the 1980s, the Islamists collectively had taken over the merchant's image as the most powerful opposition. Even regionally, Kuwait's Islamists had taken over a role once the domain of the merchants. For instance, whereas al-Sagr and other *asil* merchants were among the first Arabs to organize relief supplies for Palestinians in the 1930s, Brotherhood and Salafiyyin associations were the new Kuwaiti players in 1990s Arab politics.[11] Moreover, the Islamic leadership was professional and well received in *asil* society; they were not outsiders. Consequently, the relationship between the more secular KCCI leadership and Islamists is hardly black and white. One can find evidence of some KCCI board members sympathetic to the Islamic movement, while some Islamists support such pro-business ideas as privatization and public sector reform. Neither desires open conflict with the other; KCCI leaders do not wish to be viewed as anti-Islamic, and Islamic leaders do not want to alienate the private sector.[12] Still, clashes between each camp have been persistent, multifaceted aspects of Kuwait's crisis politics and will likely remain so into this new boom period.

One of the most prominent arenas of business, state, and Islamist conflict has been Kuwait's cooperative movement. The cooperatives, essentially strip-mall grocery-store outlets, were established in every Kuwaiti district in the 1960s. With government subsidies, the cooperatives sold basic goods at below or near-market prices and were governed by an elected body from the local district. At first in the mid-1970s, the state allowed cooperatives to import goods on their own. Then, state supervision of the cooperatives was relaxed and certain cooperatives that could turn a profit did so without state oversight (Khouja and Sadler 1979: 131). By 1980 there were 25 cooperatives in Kuwait with over 100,000 shareholders (State of Kuwait 1990).

Kuwait's Islamic organizations actively campaigned for the leadership of these cooperatives in the 1980s. These institutions became extremely important in post-war Kuwait (Tétreault 2000: 88-89).[13] Cooperative elections were excellent bellwethers for the way a district would vote in parliamentary elections. In a more concrete sense, candidates that won cooperative seats could then direct cooperative resources back into the district to support potential future runs for parliament (personal interviews, Kuwait City). Since Salafiyyin and Brotherhood candidates began winning elections in the most important cooperatives in the mid-1980s, they maintained vital electoral and funding bases outside state control. Economically, the cooperatives occupied a significant slice of Kuwait's consumer market. Operating with virtually no overhead, cooperatives accounted for roughly 80 percent of foodstuff sales, representing a KD300 million market annually (interviews, Kuwait City). In light of this market control and purchasing power, merchants complained of wide spread corruption. In the mid-1990s KCCI representatives and state officials coordinated strategies to limit the financial and political power of the Islamic opposition. Reports first surfaced that reform of the cooperatives would entail increased state control of the cooperative boards and more fiscal oversight. In 1998 the government presented legislation to Parliament designed to bring the Kuwaiti Finance House under the control of the Central Bank. That legislation would restrict the KFH from involvement in trading, contracting, manufacturing, and retail sales (MEED October 9, 1998), all sectors the business community has long complained about Islamist advantages. These efforts further solidified post-war economic recovery and addressed long-standing private sector concerns about the "unfettered" practices of Islamic banking.[14] Politically, these moves reinforced the stability of the Kuwaiti state and monarchy.

These coordinated policies were followed by the appointment of KCCI board member Abdul Wahab al-Wazzan to head the important Ministry of Commerce and Industry. This was the second direct appointment of a KCCI official to head the Ministry in the 1990s. Despite the fact that al-Wazzan had been a vocal critic of government economic policies; his appointment continued the business-state coalition that had been forged in the 1980s. Throughout the summer of 1999, the Emir released a string of decrees (which would require future parliamentary approval), among them the now famous extension of suffrage to women in 2003. Collectively, these decrees advanced issues, which the liberal business elite could exploit during the next elections.[15] Those elections in July 1999 marked a two decade reversal of Islamist political advancements. A new party combining business and old liberal interests, the National Democratic Grouping (NDG), won 16 of 50 seats while the Islamic groups accounted for roughly 15 seats. In debate over the next speaker of the parliament, Islamic deputies were again defeated as government and NDG deputies combined to elect Kuwait's richest businessman, Jassem al-Khourafi (MEI August 20, 1999; EIU, no. 3, 1999). Not since 1961 when KCCI president Abdul Aziz al-Sagr was the first elected speaker, has an *asil* businessman held the post. This was the fruition of the new coalition; a parliament comprised of a government/business majority and practiced institutional coordination across a spectrum of policy areas.

Variations on State and Business in the Gulf: Qatar and Bahrain

On the one hand, the unique strength of Kuwait's Islamists and the institutional cohesion of business elites have made this case the sharpest example challenging structural logics. On the other hand, despite similar fiscal pressures throughout the Gulf, regime stability has been put to the test only in Bahrain. A brief comparative examination of Bahrain along with Qatar provides broader evidence for the role business-state relations have played and how these relations are historically and institutionally constructed.

Like Kuwait, Qatar is a small oil exporter that has been subject to the same boom and bust cycles of the last decades. As well, Qatar defied structural expectations of regime decline during a sustained period of fiscal downturn in which major reductions in oil revenue in the 1980s was followed by reductions in public expenditures in the 1990s. The most notable political change of the last two decades was the assumption of power by Emir Hamad bin Khalifa al-Thani from his father Khalifa bin Hamad al-Thani in a bloodless coup in 1995. The new emir has hinted at movement toward greater political openings, but progress has been slow. Business-state coordination has been an important factor in regime stability, however, not in the same manner and not for the same historical reasons as in Kuwait. Again, abstract assumptions of business in such oil dependent situations fail to capture the actual politics of fiscal crisis.

A prominent comparative feature is that Qatar does not share Kuwait's pre-oil history of merchant activity and representative institutions. Qatar did not serve as an important trade center as Kuwait City did prior to the arrival of oil. What small trading community that did operate in Qatar in the 1920s migrated in the wake of the 1930s depression (Crystal 1990: 117). This pre-oil social situation left the ruling al-Thani family with far fewer domestic political rivals than was the case for the al-Sabah in Kuwait. Given the large size of the ruling family (estimates of the Qatari ruling family run from one-fifth to one-half of the population), there evolved no movement like the 1930s Kuwaiti *majlis* movement to challenge al-Thani political control. Early experimentation with political representation did not take place; consequently, what small business community that did exist prior to oil, failed to establish any autonomous institutions as Kuwaiti merchants had in the 1920s and 1930s. The only analogous Qatari experiment came in 1963 with the establishment of an elected municipal council, but it lasted for only several years and left no institutional wake (Bahry 1999). Indeed, when the Qatari Chamber of Commerce was established in 1963, it operated more like a government agency than an independent social association. The emir appointed the leadership of the chamber and ruling family members actually sat on the executive board, features in sharp contrast to the more militantly independent KCCI.

Oil certainly changed society and politics in Qatar, yet again structural abstractions fail to capture what actually transpired in business-state relations and how this is key to understanding subsequent regime stability. A weak, institutionally bereft Qatari business community lacked leverage to negotiate the type of oil pact Kuwaiti merchants had achieved. Qatari business was certainly enriched through many of the typical distribution mechanisms found elsewhere in the Gulf, but a political quid pro quo did not follow. Since Qatari merchants could not exchange political acquiescence for oil profits—having never engaged in political activism—the ruling family was not restricted to purely political careers. Crystal put it this way: "Compared to Kuwait, Qatar's Shaikhs were merchants first, and rulers second." What took shape was a business community heavily populated by ruling family members at the top, overshadowing a community of expatriate Indians and Pakistanis at the lower levels. The contrast with Kuwait's political terrain is significant. Without a history of political representation and facing no autonomous merchant interests, the Qatari state did not need to cultivate other political groupings. Organized political Islam did not evolve with the same state-supported strength as it did in Kuwait. Therefore, business-state politics in Qatar was less an artifact of structural interests translating into political action and more an expression of intra-ruling family disputes about distribution. This overlap between business and the state determined how the fiscal crisis was addressed and regime stability assured.

The suddenness of Kuwait's unofficial stock market crash and the vested political interests involved helped facilitate early and intense business-state coordination. In Qatar the crisis evolved more gradually and without such added shocks (most obviously no invasion). When oil prices dropped precipitously in 1985 and 1986, the Qatari government responded by slashing spending and suspending private/public infrastructure projects. In the 1990s this trend continued as public-private coordination resulted in reduced capital expenditures, halted development projects, and tightened financial regulation, all while social welfare provisions were maintained (Rathmell and Schulze 2000; MEED August 28, 1998). Lacking the kind of independent financial community in Kuwait that traded in the doomed Souq al-Manakh, additional domestic debt was avoided in Qatar because a stock market was not established until 1997. Moreover, the business-state coordination underlying these policy responses was not institutionally based as in Kuwait. The coordination is best analyzed in terms of Michael Herb's characterization of bandwagoning among ruling family members. Based on practiced historical precedents, ruling family members in the Gulf opt toward consensus on policy issues that effect family rule (Herb 2000: 47-48). Since the overlap between business and state is so great in Qatar, much of the government's policy reactions can be seen in this light. For example, to finance chronic budget deficits, the Qatari government has most often drawn on domestic banks, many of them controlled by ruling family members. Likewise, cuts in government spending, ostensibly cutting private sector investment, is in many respects a shifting and a balancing of intra-ruling family resources. Therefore, while Qatar did not struggle through decades of public debate over debt reform, the avoidance of regime instability took place much as it did in Kuwait. This trend, however, is unlikely to endure. What small, independent business community Qatar began with has expanded and grown past the confines of the ruling family. In 1998 for instance, emiri appointment of the executive board of the chamber of commerce was ended and free elections by the rank and file were allowed (Rathmell and Schulze 2000: 53), the first genuine democratic elections in Qatar's history. The creeping autonomy of Qatar's business community suggests movement toward the Kuwaiti model; more institutionally autonomous business representation affording greater policy flexibility and implementation. Qatari state officials are likely learning what their Kuwaiti counterparts learned a decade previous; implementation of effective, long-term economic reform requires coordination with those most in contact with the domestic market.

A discernible pattern therefore emerges; one in which different types of historically constructed business-state interaction mediates the political effects of fiscal crisis on structurally bound states. But, it would be a mistake to conclude that business has grabbed the state or that Gulf regimes have ceded economic policy making to private actors. The case of Bahrain provides important observations on the limits of business-state relations as a force for political stabilization.

Owing to a large financial sector and more modest petroleum reserves, Bahrain is not as excessively dependent upon oil export as Kuwait and Qatar. However, with oil and gas concessions accounting for well more than 50 percent of government revenue throughout the 1980s and 1990s, Bahrain can fairly be considered a commodity-dependent state (Sick 1998). Similar to Kuwait, Bahraini business elites maintain well-organized associational representation and have managed close relations with state officials since political independence (Lawson 1989: 75-77). Despite this close affiliation, popular pressures on Bahrain's ruling Al-Khalifa family in the last decade fall more in line with standard fiscal crisis expectations. Since 1994, public unrest has been a constant feature of crisis politics in Bahrain. In 1996, small-scale bombings, strikes, and mass demonstrations prompted drastic (by Gulf standards) reactions by government officials resulting in mass arrests, expulsions, and some deaths. Institutionalized coordination, such as the Higher Council for Economic Development, and numerous policy consultations between business elites and the state have failed to enhance regime stability or address underlying socio-economic problems fuelling the discontent (MEED December 17, 1999). Rather than an exclusive focus on how commodity dependence should explain these outcomes, what makes sense of these divergent trends in Bahrain is an account of historical and social evolution before and after state formation.

In stark contrast to the ascension of the Al-Sabah to political rule in Kuwait (by consensual tribal agreement), the rule of the Al-Khalifa family in Bahrain was accomplished by invasion in the 18th century. The conquest nature of Bahrain's history has made sectarian divisions politically salient. An estimated 70 to 80 percent of Bahrain's population is comprised of Shi'i Arabs (termed Baharina) who are commonly presumed to be the original inhabitants of the island and are predominately lower class and rural. The ruling Al-Khalifah family and much of the private sector elite (termed Hawla) is Sunni. Bahrain's financial boom in the 1970s served to strengthen this elite stratum. While significant Shi'i populations (around 20 to 30 percent) can be found in Saudi Arabia and Kuwait as well, only in Bahrain does the division roughly correspond to Donald Horowitz's ideal-type of a ranked ethnic system where socio-economic divisions intersect with ascriptive loyalties (Horowitz 1985).[16] Consequently, recent regime instability is not without historical precedent. Periodic revolts and sustained dissidence have marked Bahraini politics in nearly every decade since the 1920s (Peterson 2001). Since the 1980s, repercussions from the Iranian revolution amplified by decades of fiscal pressure have resulted in unrest that is not easily addressed by more intense business-state interaction. Whereas Kuwaiti business could resist, bargain, or ally against the mostly Sunni Islamic opposition, the same could not be said of Bahrain's business elites vis-à-vis its Shi'i opposition.[17] Indeed, some of the sectarian complaints are directed at the favoring of Sunni merchants over Shi'i merchants by the state (Bahry 1997: 50). In the context of sectarian or ethnic divisions where business itself is divided, a business-state alliance provides very limited support toward crisis stability. Clearly then, material interests smoothly translating into political action does not explain Bahrain's crisis politics.

Conclusion

Sectoral arguments yield a generalizable framework for studying the effects of oil dependency on the Gulf States and speculating on the ramifications of future crisis. But this framework is only a first step. In Kiren Aziz Chaudhry's words: "External capital flows are not of a piece. Their effects depend on a host of historically constituted relationships" (Chaudhry 1997: 314). Likewise, social actors, such as business, are not of a piece. Sectoral dependency and weak state institutions do not generate a singular trajectory for the role domestic business will play in regime survival during crisis. Three claims summarize the wider critique: a defense of the Gulf oil exporters as relevant cases, the importance of context during crisis, and appreciating how the historically constructed nature of business-state relations shape crisis outcomes.

First, there is little reason to exclude the small oil exporters of the Gulf from the wider political economy literature. The evidence here and a growing literature on differences among oil exporters (Crystal 1990; Chaudhry 1992, 2001; Herb 1999; Gause 1994) demonstrate that bracketing the Gulf countries from the theoretical discussion is a mistake. In Qatar and Kuwait, business-state coordination enhanced policy responses to fiscal crisis, yet this coordination was not institutionally similar nor did it evolve through similar historical stages. Conversely, business-state coordination in Bahrain actually exacerbated regime instability by feeding sectarian divisions. These are all sectorally dependent states, yet, different types of business-state coordination evolved leading to different political outcomes.

Second, not all fiscal crises of a sectoral nature are similar, and this carries importance for business-state relations that follow. Shafer's idea and the broader Frieden/Rogowski model that posit patterned state responses to exogenous shocks are inaccurate because they ignore the domestic context and sequence of fiscal crisis (Chaudhry 1999: 339). The fact that the decline in oil prices in Kuwait was magnified by the collapse of an illegal stock market created early conditions for effective business-state cooperation. The impact and perception of fiscal crisis did not appear with the sudden oil price drop in 1982 but were predicated upon pre-crisis domestic political struggles. The lack of any business-state struggle in pre-crisis Qatar and the less abrupt nature of the fiscal downturn cleared the political terrain of the type of opposition battles that defined Kuwait's crisis politics. In Bahrain, the crisis was not of a purely fiscal nature as sectarian disputes intersected and magnified popular discontent. Fiscal crises, therefore, must be examined part and parcel of a country's entire political experience.

Third, the assumptions of business-state relations underpinning structural-statist approaches need to be unpacked and subjected to empirical evaluation. The result most often will be that ahistorical logics joining material interests with organizational and political outcomes will fail. This is because business-state relations are not rendered solely by exogenous price shifts but are rooted in social and political dynamics prior to and during state formation. In Kuwait, the business elite not only maintained a pre-oil identity and cohesion, but they built a network of institutional and information gathering capacities centered on their Chamber of Commerce. State strategies during the first oil boom to cultivate Islamic and rural rivals to merchant organizations created the incentive for a business-state alliance once the bust came. In Qatar, politically effective business-state coordination was cut from a wholly different historical and institutional cloth. Though a well-institutionalized and independent business elite lacked in Qatar, the fact that ruling family and business elites overlapped to a great extent still allowed for coordinated policy responses to fiscal crisis. Intra-ruling family coordination worked as a form of regime stabilization. In Bahrain, a well-organized, independent business elite did exist; however, owing to its biased sectarian evolution during state formation, increased coordination with the state hardly contributed to regime stability. In sum, the institutional power of business and political Islam in Kuwait, the weakness of Qatari business, and the sectarian division of Bahrain's business elites prove integral explanatory variables to an accurate analysis of crisis outcomes. In none of these cases do structural assumptions of rent-seeking, reform resistant business suffice.

By now, it should be obvious that the domestic politics of the Gulf Arab States impact the national security interests of the West like no other region. A more accurate understanding of these politics requires analyzing the social bases of regimes and examining how state-society relations have been historically crafted. In other words, analysis needs to get closer to these cases, not farther away.

Notes

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1. The literature stressing external structural constraints on states is varied; however, this article seeks to address the recent works of Shafer (1994) and Karl (1997). These two works represent the most recent follow-up to Rogowski (1989) and Frieden's (1991 and 1996) neo-classical approaches and orient themselves more overtly to the oil-exporting cases.
2. Terry Lynn Karl put it this way: "Simply stated, the revenue a state collects, how it collects them, and the uses to which it puts them define its nature" (1997: 13).
3. One problem with this anthropological approach is the confusion over what exactly is explained through a focus on household/family politics.
4. It is important to note that despite this self-identification as "the opposition," business was not the sole political opposition in the 1960s and 1970s. A liberal, middle-class presence apart from the business elite has marked Kuwaiti politics. Individuals such as Ahmad al-Khatib and Abdulla Nibari have represented these interests in parliament. A key distinction, however, is that in periods when the Emir suspended parliament, the merchant opposition still maintained an institutional presence. The middle-class liberal opposition was more reliant on parliament for its expression.
5. The change in these numbers may appear insignificant, but in small- and medium-sized developing nations even slight cabinet shifts carry political meaning.

6. Beginning in 1987, returns from Kuwait's overseas investments began to outpace oil revenues.
7. To fund costs of the war and post-war repairs, reports suggested that the Kuwaiti government reduced its foreign investment portfolio, estimated at $100 billion US, to the range of $15 to $35 billion US.
8. A structural interpretation to be sure, shared interests in financial reform do not axiomatically result in coordination.
9. The research resources of the National Bank of Kuwait—the country's first bank and controlled completely by the merchant elite—alone surpassed most Kuwaiti ministries.
10. Two of the most notable were Jassim al-Khourafi at the Finance Ministry and Yousef al-Nisf at the Ministry of Social Affairs and Labor in 1985, as well as Director-General of the KCCI, Ali Hilal al-Mutairi, to head the Ministry of Commerce and Industry in 1994.
11. Kuwaiti Islamist groups were reported to be one of the main benefactors of Hamas in the mid-1990s. Arafat's occasional complaints of foreign meddling in Palestinian affairs were as much aimed at these Kuwaiti groups as at Iran.
12. In general, while conducting research on business-state relations in the Gulf Arab states is rarely connected to controversy, exploring the interaction between business and Islamists (or Islamic business) is a more sensitive area (Gause 1994: 156-158).
13. During the Iraqi occupation, cooperatives remained the only source of food supplies for many Kuwaitis and provided assistance to the resistance movement (Tétreault 2000: 88-89).
14. An interesting aside attesting to the complex relationship between Islamists and business is the fact that in the wake of this new legislation, a number of applications for creation of new Islamic banks were filed. Most likely, these came from the same business and financial personalities whose complaints resulted in the legislation.
15. The conventional wisdom is that allowing women to vote would increase votes for liberal and merchant candidates at the expense of Islamic and bedouin candidates.
16. Horowitz predicts that conflict in a ranked system will resemble a social revolution from below. Events in Bahrain, while short of such an overturn, do conform to this model more closely than other parts of the Gulf.
17. This is not meant to imply that there are no elite Shi'i businessmen in Bahrain. Numbers are important however. Overall, the sectarian division in Bahrain is one in which the majority of Shi'i are lower working class and the business and political elite predominately Sunni. In contrast, the smaller number of Kuwaiti Shi'i have been historically viewed as pro-regime.

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