Varieties of Capitalism in the Middle East & North Africa: A Comparative Perspective

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June 2017

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by

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A THESIS SUBMITTED TO THE GRADUATE SCHOOL OF SOCIAL SCIENCES AND HUMANITIES

IN PARTIAL FULLFILMENT OF THE REQUIREMENTS

FOR THE DEGREE OF

MASTER OF ARTS

IN

INTERNATIONAL RELATIONS

KOÇ UNIVERSITY

JUNE 2017

ABSTRACT

Middle Eastern studies do not generally keep pace with other regional studies. While emerging theories are quickly adapted and applied to specific contexts in Latin America, East Asia, and Eastern Europe, Middle Eastern studies often suffer from exceptionalism. This thesis is aimed at accomplishing two goals. Firstly, it incorporates the Middle East as a region into general discussions concerning comparative political economy, specifically the literature of comparative capitalism, by outlining justifications for why the Middle East should be treated as an integrated region. It evaluates the explanatory power of different concepts or ideal types of capitalism and their applicability to the Middle Eastern context and maintains that patrimonial capitalism, which is a 'non-market type of capitalism', generally fits the Middle Eastern context well. Since patrimonial capitalism is a modern phenomenon which explains sub-optimal economic performance in other settings such as post-Soviet countries, this designation helps challenge culturalist and essentialist theories regarding the underdevelopment of the Middle East. By comparing the Middle Eastern context with post-Soviet countries through cluster analysis of 23 countries and using comparative case studies (Tunisia, Qatar, Russian Federation, and Iran), this thesis argues that patrimonial capitalism is not a monolithic concept and rather has its own sub-types. The incorporation of the Middle Eastern context into this literature via cross-regional analysis will thus enhance our understanding of patrimonial capitalism. Secondly, this thesis acknowledges the high degree of diversity across the region by classifying Middle Eastern countries into various subgroups of patrimonial capitalism. As Middle Eastern studies are currently dominated by analyses focusing on regime types and degrees of authoritarianism, this thesis will contribute to the regional studies and to our general comprehension of variations in political economies across the region by differentiating between oil-rich regimes along lines of vital institutional domains such as corporate financing, industrial relations, and regulatory frameworks.

Keywords: patrimonial capitalism, comparative capitalism, corporate financing, industrial relations, regulatory frameworks, political economy of the MENA, underdevelopment

ÖZET

Ortadoğu çalışmaları, diğer bölge çalışmalarıyla aynı düzeyde ilerleyemiyor. Öne sürülen teoriler süratle Latin Amerika, Uzak Asya ve Doğu Avrupa'ya uyarlanıp uygulanırken, Ortadoğu çalışmaları istisnailikten mustarip. Bu tez, iki hedefi gerçekleştirmeyi amaçlıyor. Öncelikle bu çalışma, Ortadoğu'nun bütünleşmiş bir bölge olarak kabul edilebileceğini savunarak bölgeyi karşılaştırmalı ekonomipolitik genel tartışmalarına, özellikle karşılaştırmalı kapitalizmler literatürüne dâhil ediyor. Farklı kapitalizm ideal tiplerinin açıklama gücünü ve bunların Ortadoğu bağlamına uygulanabilirliklerini analiz ediyor. Bu analize göre, piyasa-dışı bir kapitalizm türü olarak patrimonyal kapitalizm Ortadoğu bağlamına genel olarak uyuyor. Patrimonyal kapitalizm, Sovyet bakiyesi ülkeler gibi başka alanlarda da gözlemlenen ve standart altı ekonomik performansa yol açan modern bir görüngü olduğu için; bu kavramsallaştırma Ortadoğu bölgesinin az gelişmişliğine dönük özcü/kültürcü teorilere karşı çıkılmasına yardımcı oluyor. 23 ülkenin kümeleme analizi ve dört ülkenin (Tunus, Katar, Rusya Federasyonu ve İran) karşılaştırmalı vaka analizi ile Ortadoğu'yu Sovyet bakiyesi ülkelerle karşılaştıran bu çalışma, patrimonyal kapitalizmin yekpare bir kavram olmadığını ve alt tiplerinin olduğunu savunuyor. Ortadoğu'nun bölgeler arası bir karşılaştırmayla bu literatüre dahil edilmesi, patrimonyal kapitalizme dair anlayışımızı güçlendiriyor. Ayrıca bu çalışma, Ortadoğu'da bölge-içi çeşitliliği de Ortadoğu ülkelerinin patrimonyal kapitalizmin farklı alt kategorilerine sınıflandırılmasıyla açıklıyor. Ortadoğu bölge çalışmalarında, rejim tipleri ve otoritarizm dereceleriyle bölge-içi çeşitliliği izah eden analizler hâkim konumdayken; bu tez, bölge çalışmalarına ve bölgedeki ekonomipolitik varyasyona dair anlayışımıza katkı sunuyor. Tez, özellikle petrol zengini rejimler arasındaki farklılaşmayı önemli kurumsal alanlar olan kurumsal finansman, endüstriyel ilişkiler ve düzenleyici çerçeveler üzerinden açıklıyor.

Anahtar Sözcükler: patrimonyal kapitalizm, kurumsal finansman, endüstriyel ilişkiler, düzenleyici çerçeveler, Ortadoğu & Kuzey Afrika ekonomipolitiği, az gelişmişlik

ACKNOWLEDGEMENT

I would firstly like to thank my thesis advisor Assoc. Prof. Murat Somer. I highly appreciate all of his contributions, his time and his illuminating guidance that has made this writing experience productive and intellectually stimulating. He always steered me in the right direction whenever he thought I needed it. Without his kind support, this thesis could not have been crafted. I am gratefully indebted to my thesis committee members, Prof. Ziya Öniş and Assoc. Prof. Zeynep Kadirbeyoğlu, for their insightful and helpful comments. I am also thankful to Prof. Mine Eder, who has always supported and encouraged me in my academic endeavors. I also would like to acknowledge the Scientific and Technological Research Council of Turkey (TUBITAK) for funding my graduate program.

I am immensely grateful to my fellow graduate students at Koç University, especially Ezgi Elçi & Erhan Arslan for their friendship and precious emotional support. Finally, I must express my profound gratitude to my parents, Lale & Selahattin, my sister Nemire, and my brothers Doğancan Karabaş & Burak Çelik, for their unfailing support and encouragement through the process of researching and writing this thesis. This accomplishment would not have been possible without them.

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CHAPTER I: INTRODUCTION

On June 23, 2008, a cable was sent to the U.S. State Department from the American ambassador to Tunisia, Robert F. Godec, which was later publicly released by WikiLeaks. Its subject was corruption and the conspicuous lifestyle being practiced by relatives of President Ben Ali. "Whether it is cash, services, land, property, or, yes, even your yacht, President Ben Ali's family is rumored to covet it and reportedly gets what it wants," Godec described. Tunisians called Ben Ali's inner circle 'the family', a quasi-mafia.[1] The extravagance was to such a degree that following the Jasmine Revolution, the Tunisian government earned half a billion dollars from the sale of assets confiscated from the ousted president.[2] These privileges were exclusively reserved for the inner circle of the family and a network of businessmen politically connected to the president. In a nutshell, cronyism and nepotism permeated across all social and economic spheres in Tunisia.

The Tunisian case has not been an isolated one – similar patterns can be observed in different countries across the region. In Egypt, at least 469 businesses were linked to Hosni Mubarak, just before he was toppled from power in 2011.[3] In the same year, law school graduates staged demonstrations in front of the High Judicial Court, protesting against what they deemed to be 'nepotism' in their appointment of graduates in judicial institutions, most of whom were

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[1] Ratnesar, Romesh. 2011. "Arab Regimes' Nepotism Problem". Bloomberg Business. March, 10. https://www.bloomberg.com/news/articles/2011-03-09/arab-regimes-nepotism-problem
[2] Al Arabiya. 2016. "Tunisia makes $500 million from ousted president Ben Ali's assets". February, 10. http://english.alarabiya.net/en/business/economy/2016/02/10/Tunisia-makes-500-million-from-ousted-president-s-assets-.html
[3] The Economist. 2014. "Crony Capitalism: Friends in high places". October, 9. http://www.economist.com/news/business/21623696-how-cronyism-undermines-growth-jobs-and-competition-friends-high-places

relatives of the judges.[4] The wealth of President Mubarak and his family was estimated to be anywhere between $40 to $70 billion, and thirty-nine of Gamal Mubarak's associates were alleged to have made, on average, $1 billion each (Kamravi 2014, 26). In Egypt, the incumbent National Democratic Party became 'the party of big business', with its top members including Ahmed Ezz, the steel magnate, and Taher Helmy, the president of the American Chamber of Commerce in Egypt. In Lebanon, politicians find employment for their constituents in exchange for votes. Three quarters of university students surveyed by the Lebanese Centre for Policy Studies thought political connections were important to find jobs; 20 percent said that they had personally used them.[5] This cronyism/patrimonialism (see Alley 2010, Rijkers et al. 2014, Chekir & Diwan 2015 among others) has arguably been one of the underlying causes for the underdevelopment of the MENA region.

One strand of literature postulates that the emergent political economy of the region, characterized by low governance quality, corruption, nepotism, and bureaucratic red tape, stemmed from the structural adjustment policies introduced in the 1980s. In contrast with neoliberal expectations, this structural adjustment did not entail a market economy, but instead a 'non-market type of capitalism' in the MENA region (Schlumberger 2008, 633). According to this line of argument, the liberalization process resulted in firm-specific policies that limited free-entry in the domestic market, effectively excluded certain non-privileged firms from government programs, insulated certain firms and sectors from foreign competition, and constrained economic performance (World Bank 2014). In other words, the rise of crony capitalists had significant structural consequences for the countries across the region, where the governing

[4] Egypt Independent. 2011. "Law school graduates protest against nepotism in judiciary". September, 27. http://www.egyptindependent.com//news/law-school-graduates-protest-against-nepotism-judiciary

[5] The Economist. 2016. "Lebanese cronyism: Hire power". July, 21. http://www.economist.com/news/middle-east-and-africa/21702473-political-connections-create-jobs-lebanon-only-some-hire-power

structure has been intertwined with an elite, composed of senior army officers, bureaucrats, and wealthy businessmen, through intricate webs of political and business relationships (Kamrava 2014, 25).

I argue that patrimonial capitalism, as a 'non-market type of capitalism', can capture the dynamics of Middle Eastern countries. In the context of patrimonial capitalism, power over the economy is highly personalized, and economic exchange is particularistic (see List 1). Even though there are considerable differences that signal intra-regional variation with respect to political institutions, economic structures, and resource endowments, the similarities allow us to detect a regional dynamic that is manifested in this particular 'non-market type of capitalism'. Yet, patrimonial capitalism is not a region-specific type of capitalism. It can also be detected in post-Soviet countries (see Van Zon 2001, Schlumberger 2004, Iankova 2010, Robinson 2013). This designation is instrumental for challenging the culturalist/essentialist explanations that elucidate underdevelopment in the MENA region through an emphasis on religion or culture (see Huntington 1993; Roy, 1994, 4; Hudson 1995). Patrimonial capitalism is a modern phenomenon that is present in different settings as well – it is not necessarily shaped by certain religions, cultures, or religious institutions.

Middle Eastern studies do not generally keep pace with other regional studies, in contrast to Latin American, Eastern European, and East Asian regional studies which adapt quickly to developments in the literature and indeed often foster ideas for new directions (see Esping-Andersen 1996, Huber 2002, Mesa-Lago 2003, Kwon 2005, Riesco 2007, Segura-Ubiergo 2007 among others). This research aims to incorporate MENA countries into the general literature of comparative political economy, by situating them within the framework of comparative capitalism (see Nölke and Vliegenthart 2009, Schneider 2009, Becker 2013, Nölke et al. 2013)

and comparing them with post-Soviet regimes. To that aim, I employ a multi-method approach (cluster analysis and comparative case studies) to scrutinize a total of 23 countries, including 17 countries from the Middle East & North Africa, and 6 countries from post-Soviet countries (see Table 9) with respect to three institutional domains of their political economies: financing, industrial relations, and their regulatory framework.

The quantitative clustering of political economies of MENA and post-Soviet countries can be considered a contribution to regional studies as well as comparative capitalism literature. It contributes to comparative capitalism literature by suggesting that patrimonial capitalism is not a monolithic concept – it has its own sub-categories what can be labeled 'non-oil industrializer regimes', 'oil-rich labor flexible regimes', 'oligarch regimes', and 'oil-rich underdeveloped regimes'. In other words, the incorporation of MENA countries into this general literature through cross-regional analysis enhances our understanding of different types of capitalism.

The scrutiny of the MENA context through the lens of the comparative capitalism approach is also fruitful for discerning any intra-regional variations, and for suggesting prospects for long-term economic development. While current theoretical frameworks that emphasize the predominance of Islamic institutions, resource endowments, and rentier states (see Beblawi 1987, Ross 2001, Kuran 2010 among others) fall short of stressing the institutional variations across the countries in the region [with the notable exceptions of Schlumberger (2004), Grossman (2007), Cammett (2013), Richards et al. (2014)], the comparative capitalism approach explores significant institutional domains of political economy which better enables the detection of varieties. In contrast to the monolithic approach of the rentier-state, this analysis yields the finding that oil-rich regimes also exhibit diversity in terms of several institutional domains such as financing, industrial relations, and regulatory framework. Since the literature is plagued with

studies that focus on rent revenues in the light of the literature on 'resource curse', this diversity can be construed as a contribution to the regional studies.

This thesis is organized as follows: Chapter II outlines the Middle Eastern exceptionalism in the comparative political economy literatures, and argues for the incorporation of the MENA countries into this general literature. The chapter also captures theoretical frameworks that try to account for underdevelopment in the MENA region, and elucidates why the comparative capitalism approach is instrumental for deciphering underdevelopment in the region. Chapter III provides an overview of the comparative capitalism literature, maps different types of capitalism observed in the developing context, and assesses their applicability to the MENA region to conclude that patrimonial capitalism best captures the political economy of the region. Chapter IV describes the two methods applied in this research, cluster analysis and comparative case studies, aswell as the variables and countries of interest. Chapter V is dedicated to the findings of the empirical analysis, which classifies countries of interest into four different sub-types of patrimonial capitalism (non-oil industrializer regimes, oil-rich labor flexible regimes, oligarch regimes, and oil-rich underdeveloped regimes) with respect to three vital institutional domains: financing, industrial relations, and regulatory framework. Chapter VI provides comparative case studies of each sub-type of patrimonial capitalism, and contextualizes the patterns of patrimonialism within the history of the political economy of the following countries: Tunisia, Qatar, Russian Federation, and Iran. Chapter VII concludes, and lays out policy implications with a future research agenda.

CHAPTER II: THE MIDDLE EASTERN EXCEPTIONALISM

Prologue

On March 16 and 17, 2016, the fourth Annual Sulaimani Forum was held at the American University of Iraq, Sulaimani, as participants joined commemorations for the 28th anniversary of the Halabja massacre. The forum is considered to be a microcosm for Iraqi and Middle Eastern politics – the representatives of numerous political parties and organizations were present at the meeting, despite the heated tension between these political figures in daily politics. Nechirvan Barzani, Prime Minister of the Kurdistan Regional Government, delivered the keynote speech, while Ibrahim Al Jaafari, Foreign Minister of Iraq was among the audience. The KRG leadership escalated the tension with the federal government, by signing contracts with foreign oil companies, such as Exxon-Mobil, and with the Turkish government to ship oil directly to Turkey through new pipelines without prior consultation with the central government. As a result, the central government in Baghdad stopped transferring national oil earnings to the KRG. Yet, 99 percent of Iraqi revenue is generated by the oil sector.[6] Hit hard by the global slump in oil prices, the KRG is on the verge of economic collapse. As of the time of writing, it has been six months since public employees have not received their salaries, and even the most basic public services have not been provided, which triggered mass protests in February 2016.

A clientelist mode of governance undergirds this economic setting. The overreliance on oil seems to be continuing with no prospects for diversification, since the private sector is largely owned by senior leaders of the two main political parties, the Kurdistan Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK), and the private sector operates based on nepotism.

[6] Source: UNDP, Iraq.

This issue was repeatedly highlighted during discussions in the Sulaimani Forum. This clientelist configuration of politics was evinced by an incident when the Kurdish security authorities of the Kurdistan Democratic Party (KDP) in Erbil prevented the Speaker of Kurdistan Parliament, Yusuf Mohammed Sadiq - the representative of the Gorran movement in opposition - from entering parliament last year in October. Sadiq was also present in the Sulaimani Forum. The Gorran movement has been relentlessly rebuking the Barzani family for hoarding wealth for the family instead of serving the general population.

The recent developments in Iraq depict the general trends in the Middle East & North Africa (MENA) to a certain extent, which has been experiencing an intense period of turbulence while facing major challenges. Growth rates have stagnated, and economic decline has plagued the region. In 2013, GNI per capita at the regional level corresponded to only $4,752,[7] a figure which is twice as high in Latin America. The regional average for unemployment rate is equal to 12.9 percent[8] - also more than twice the global average. The current economies cannot generate enough jobs for the 'youth bulge' in the region, and as such the demographic trend projections suggest even higher levels of unemployment for the future. MENA is one of the youngest regions in the world with more than 60 percent of its population under the age of 29 (Chaaban 2012). While the global youth unemployment rate was 13 percent in 2014, the Middle East region experienced one of the highest youth unemployment rates in the world, at 28.2 percent (ILO 2015). And a new crisis looms on the horizon. In order to absorb new entrants into the labor force, more than 4.5 million jobs need to be generated every year for the next 10 years (World Bank 2009, 11). Given the current projections for future years, this does not seem possible.

[7] Source: World Bank Data.

[8] Ibid.

The problem of unemployment and jobless growth does not just stem from the lack of supply but also from distorted incentives, which entails skills mismatch. Interestingly, the problem of insufficient job creation is not the result of too little investment. For example, Algeria relentlessly invested over one-third of its output for a generation, yet in the mid-1980s only one in five workers were employed. The problem did not result from the low level of investment, but from its ineffectiveness (see Richards et al. 2014). As the balance of the employment generation is tilted towards the public sector, there is a double negative impact – labor-intensive high-quality private sector jobs cannot be offered (see Karakullukçu 2014) nor can the workforce attain the high skills necessary for the private sector. The findings of World Enterprise Survey[9] indicate that 50.1 percent, 59.6 percent, 36.8 percent, and 34.2 percent of firms identify an inadequately educated workforce as a major constraint in Egypt, Syria, Algeria, and Iraq, respectively. Industrial and education policies are not aligned, and labor markets are too sticky (Ahmed 2012).

The institutional context, characterized by extensive corruption and patronage, is also not conducive for the private sector to work in. The private sector suffers from the lack of an adequate regulatory and legal framework to guarantee property rights and enforce contracts. This institutional deficit also entails an endemic capital flight – in the past decade, the region attracted only 3 percent of FDI worldwide (Bellin 2004, 4). Corruption and patronage also discourage investors from making long-term investments in the region (Roy-Mukherjee, 2015).

These issues are likely to persist in the near future. In order to shed light on the challenges that the region faces, the scholarship needs to have a refined understanding of the political economy of the region with a specific focus on the configuration of production regimes and the mode of governance surrounding these production regimes. To accomplish this goal, scholarship

[9] World Bank Enterprise Surveys (http://www.enterprisesurveys.org).

needs to incorporate the MENA regional studies into the general literature of comparative political economy, and discern different types of capitalism in the region.

Unravelling the Middle Eastern Exceptionalism

Middle Eastern studies often do not keep pace with other regional studies, since Latin American, Eastern European, and East Asian regional studies adapt quickly to developments in the literature and indeed often provoke new directions for scholarship to consider (see Esping-Andersen 1996, Huber 2002, Mesa-Lago 2003, Kwon 2005, Riesco 2007, and Segura-Ubiergo 2007 among others). For instance, as the regional varieties of capitalism approach becomes increasingly more popular, *Economy and Society* (Volume 38) published a special issue on Latin America in 2009 titled "Latin American Capitalism: Economic and Social Policy in Transition". In the same year, the *Asia-Pacific Journal of Management* (Volume 26) published a special issue on varieties of Asian capitalism (Andriesse 2014). Despite this global trend, Middle Eastern studies suffer from exceptionalism. Why does the current literature on comparative political economy not incorporate the Middle East and North Africa as a region?

The Regional Dynamic

There are two main reasons why scholars of comparative political economy have not focused extensively on the Middle East and North Africa as a region. Firstly, except for the significance of the oil reserves, the relative economic role of the Middle East in the global arena is relatively minor compared with other regions – while the high-income OECD, Euro-zone, East Asia & Pacific, and Latin American & Caribbean countries constitute approximately 60.5

percent, 17.4 percent, 27.1 percent, 8.14 percent of the world economy respectively (in terms of GDP at current prices, 2013), the Middle East & North Africa constitutes only 4.5 percent.[10]

Secondly, the regional dynamic does not manifest itself in a single political organization. Except for the Gulf Cooperation Council, which only represents a subset of countries in the region, which all have certain similar characteristics, the regional cooperation is not embodied in an institutional setting such as the MERCOSUR in Latin America. A functional regionalism (see Sentosa Roundtable 2009) is not achieved as in East Asia either. Çarkoğlu, Eder, and Kirişci (1998) scrutinize why regional cooperation has failed to take hold and argue that the cooperation among countries in the region can only be achieved by mobilizing domestic support from economic and social groups. Moreover, no dominant actor in the region can project its political economic model on the rest of the region, as in the case of post-Soviet countries. In other words, the lack of regional hegemon can be also construed as significant factor contributing towards this exceptionalism. But, regardless of this, it is still justifiable to treat the Middle East analytically as an integrated region.

Two significant features render the MENA an integrated region. Firstly, the Middle Eastern countries share a common legacy of Ottoman rule and colonialism, which entailed path-dependencies for their development trajectories. For instance, the pioneering works of Kuran (2004, 2010) suggest that Islamic institutions such as prohibition of *riba,* religious obligations like *zakat,* and inheritance laws inhibited capital accumulation in the Middle East. The British control over Iraq, Egypt, and Palestine, and French control over Syria, Algeria, and Tunisia also established different patterns for future trajectories (see Owen & Pamuk 1999). Secondly, labor migration is an important source of linkage for these countries – particularly remittance flows

[10] World Development Indicators, World Bank.

from oil-rich countries in the Gulf to poorer and labor-abundant countries such as Egypt and Morocco (Cammett 2013, 172).

This is not to argue that the Middle East is a coherent region – in fact, Middle Eastern countries exhibit diversity. In the Human Development Index, for instance, Saudi Arabia ranks 34th, while Yemen ranks 154th.[11] The region consists of some of the richest and poorest countries in the world (see Figure 1). Be that as it may, the intra-regional variation does not necessarily negate the argument that the Middle East can be treated as an integrated region. Saudi Arabia, Tunisia, Morocco, Turkey and Egypt are the top five countries supplying recruits to ISIS, which mainly operates in Iraq and Syria (World Bank 2016a). As a result of the Syrian crisis, dislocated young people are arriving en mass in neighboring countries such as Turkey, Lebanon, and Jordan without any prospects for political or economic integration. Most significantly, the act of one fruit vendor in Tunisia was able to spark waves of revolution throughout the region. Therefore, the region needs to be analytically incorporated into the general literature of comparative political economy and the intra-regional variations in institutional settings need to be examined in the light of this general literature in order to have an insight into different paths for economic development.

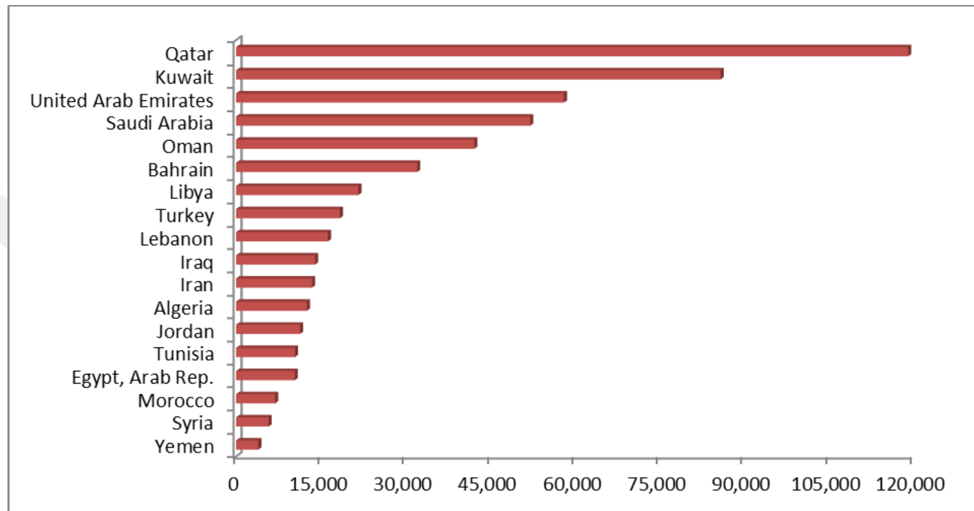
Why is it important to incorporate the MENA into this general discussion? Firstly, these countries are predominantly Islamic countries. Although general discussions in the current literature include cases such as Indonesia and Malaysia,[12] this set of countries have been excluded from our analysis. The incorporation of MENA context into this general literature through cross-regional analysis has the potential to enhance our understanding of different types of capitalism.

[11] UNDP, Human Development Report 2014.

[12] Carney & Andriesse (2014) claim that Malaysian political economy can be labelled as "personal capitalism", which is characterized by concentrated enterprise ownership, combined with a developmental state and liberal markets of development.

Secondly, the recent political turmoil and underdevelopment in the region, and its repercussions for various global issues, urge us to examine the political economy of the Middle East & North Africa in depth. Without doubt, this kind of analysis will have also policy implications.

Figure 1: GNI per capita, 2011 $ PPP



Source: UNDP Human Development Report 2014

Theoretical Frameworks

The current theoretical frameworks fall short of stressing this institutional variation across the countries in the region. In general, four theoretical perspectives can be pinpointed that try to shed light on the reasons for the underdevelopment of the Middle East (see Cammett 2013).

One strand in the literature traces the genealogy of the underdevelopment in the region to the "inherent features of Islam". According to this perspective, Islam is ill-suited for achieving participatory forms of governance due to its discriminatory treatment of women and non-Muslim minorities. Another similar point of view stresses the level of religiosity in the region, which is suspected to negatively affect political participation and development (see Huntington 1993,

Hudson 1995). However, these perspectives have mostly been discarded because of their orientalist and culturalist predispositions.

One set of institutionalist theories points towards *the predominance of Islamic institutions* in the region and how they hinder capital accumulation. Kuran (2010) highlights the role of inheritance laws that divide up inheritance among family members. This particular Islamic institution has historically put constraints on capital accumulation. Nevertheless, this *constant* cannot fully elucidate the variation across countries in the region and certain periods of economic growth.

Another account accentuates the *resource curse* as an underlying cause of economic underperformance (see also Ross 2001). This line of argumentation indicates that resource abundance entails a less competitive manufacturing sector and low level of human development. For instance, the endowment of a significant quantity of petroleum has stunted economic progress for women, as Ross' (2013, 12) comparison of Algeria, Tunisia, and Morocco attests to. Yet, the argument does not apply to all MENA economies, and resource endowment does not necessarily engender low records of economic growth, as Indonesia exemplifies.

Another theoretical perspective espouses a monolithic view of states in the region – the concept of the "interventionist-redistributive model" exemplifies this approach (See Yousef 2004), which had its intellectual roots in the concept of *rentier state*. This notion, according to Anderson (1987, 9), is "one of the major contributions of Middle East regional studies to political science". This concept was coined by Mahdavy (1970) and then refined by Beblawi (1987). The rentier-state arguments put forward the idea of a 'ruling bargain' (Brumberg 1990, 120; Kamrava 2014) – The state is assumed to provide either social welfare or limited political representation in exchange for obedience to the state (see Kamel 2001). Hence, in the course of economic reforms,

the state was considered to implement "political giveaways" (Waterbury 1983, 228), which indicates the allocation of resources designed to surmount political unrests. In other words, the patterns of expenditure were not subject to overarching economic strategies, but short-term political considerations and the maintenance of the political power of incumbent regimes (Heydemann 1992). In the eyes of the international institutions, the economic reforms were expected to engender the break-up of distributional coalitions and the establishment of functioning market economies, yet this did not occur, since different institutional settings yielded different outcomes. As Hibou (2004, 15) argues, privatization did not necessarily entail the retreat of the state but resulted in "constant negotiation between dominant actors, the constant redrawing of the frontiers between public and private, and the persistent hold of political relations". Therefore, this set of theories does not explain the variation in the "ruling bargains" in different settings (see Cammett 2013) and the variation in the outcomes of economic reform processes. Schlumberger (2008) argues that a different type of 'non-market capitalism' has emerged out of structural adjustments in the region.[13]

There are several scholarly works that fill this theoretical lacuna by scrutinizing the intra-regional variation in the political economies in different respects. Richards et al. (2014) provide

[13] The political economy of market transition literature treats developing countries as market economies, and suggests that their market development only differs in degrees, not in kind. In other words, the dominant view in this literature assumes a unidirectional / linear approach in market development & liberalization, which is exemplified by market transformation indexes such as BTI. On the contrary, this emergent political economy, called 'non-market type of capitalism', should not be analyzed in this fashion. Throughout this thesis, the conception of 'non-market capitalism' will be utilized to distinguish the emergent political economy from other competitive market formations observed in Europe, East Asia, and Latin America, yet always in quotation marks. One strand of the literature postulates that the structural adjustments and liberalizations of these countries did not entail a market economy with flaws, but a different type of 'non-market capitalism' (Schlumberger 2008). In general, I agree with the statement that this new emergent political economy cannot just be described as 'another form of market'. Be that as it may, it is also problematic to label these political economies as 'non-market'. This is an over-emphasis, since these political economies also involve market relations. Yet these market relations are not the dominant feature of these political economies. Given this analytical context, I will continue to use the term 'non-market' to differentiate this new emergent political economy from other market-based capitalisms, albeit with this terminological reservation.

economic taxonomy, which consists of the ‘coupon clippers’ (Libya, Kuwait, Oman, the UAE, Bahrain, and Qatar), the ‘oil industrializers’ (Iran, Algeria, and Saudi Arabia), the ‘watchmakers’ (Israel, Jordan, Tunisia, and Syria), the ‘newly industrializing countries’ (Turkey, Egypt, Morocco), and the ‘agro-poor’ (Sudan and Yemen). Yet their economic taxonomy does not correspond to their political taxonomy and the boundaries are elusive. On the other hand, Cammett (2013) propounds a typology of Middle Eastern countries with reference to oil endowment and regime types (see also Cammett & Posusney 2010). Furthermore, Grossman (2007) classifies these countries for the time period between the 1950s and 1980s into three groups - the redistributive-republican model (Egypt, Tunisia, Syria, Algeria, Libya, and Iraq), the residual pluralist model (Jordan, Lebanon, and Morocco) and the distributive oil-rich monarchical model (UAE, Kuwait, Saudi Arabia, Oman, and Bahrain). But he focuses on the welfare regimes, not the *production regimes* in these countries.

As far as I am aware, with the exception of Schlumberger (2004), with methodological limitations, none of the scholarly works on the Middle East have employed the comparative capitalism approach to situate the Middle East in this general literature and to put emphasis on the intra-regional variation. First, we need to justify the application of the comparative capitalism approach to the Middle Eastern context, since capitalism should not be conceptually stretched (Sartori 1970). It can be concluded that structural adjustment policies in particular have led to the transformation of the Middle Eastern economies and that today they are characterized by the capitalist mode of production (Schlumberger 2008, 633). Be that as it may, in striking contrast with the exclusive focus of the varieties-of-capitalism approach on market economies, Middle Eastern economies epitomize the ‘non-market types of capitalism’, while lacking prospects for developmental take-off (Henry & Springborg 2001).

While, on the one hand, given the current state of the literature on the Middle East, the comparative capitalism approach will help us discern the intra-regional variation and any prospects for long-run economic development, on the other hand, the scrutiny of the Middle Eastern context will contribute to the general literature on comparative political economy through an examination of the 'non-market capitalist mode' of production. How, then, should we situate the Middle East in the general literature on comparative capitalism? One strategy is to use the ideal types, while another strategy is to categorize inductively countries into distinct clusters (Jackson & Deeg 2006, 33). The following chapter will assess the applicability of different ideal-types to the Middle East as a region and assess their explanatory power to make sense of the Middle Eastern context.

CHAPTER III: COMPARATIVE CAPITALISMS

The Varieties of Capitalism (VoC) approach has been propounded and popularized by Hall and Soskice (2001). They located firms at the center of their analysis, and elucidated firms' strategic interaction. Firms encounter various cooperation problems, which they resolve with different techniques in their strategic interaction with different actors and institutions. Hall and Soskice (2001) offer an institutional explanation for cross-national differences in the micro-behavior of firms in four critical institutional domains: industrial relations, vocational training, corporate governance, and inter-firm relations. They argue that the variation in these different institutional settings entails *comparative institutional advantage*. The notions of 'complementarities' and 'system coordination' constitute the core of the VoC approach. Institutional domains shape the evolution of political economies and often mutually reinforce each other. The institutional structure of a particular political economy provides firms with advantages for engaging specific types of activities more efficiently. In turn, this comparative institutional advantage affects overall economic performance of the countries. Based on this theoretical framework, the authors distinguished two main ideal types of production regimes - liberal market economies (LME) and coordinated market economies (CME), along with a residual category of Mediterranean countries.

In time, the varieties-of-capitalism framework has been enlarged and extended to different countries and regions, including East Asia, Latin America, and Eastern Europe. In this process, the research agenda of the framework has been modified and calibrated to take into account the changing contexts. Firstly one of the most important critiques of the VoC approach was the fact that it underestimates the role of the state. This critique emerged when the approach was applied to contexts where the state plays a role greater than merely being a regulator (see Jackson & Deeg

2006). Hence, the state as an actor was incorporated into the analysis in the later applications of the approach (see Kang 2006). Secondly, the VoC approach assumes an integrated, fully established market economy. However, this assumption is not valid for some other contexts, particularly for transition economies and the Global South, in general (Leszczyński 2015). As a remedy, for instance, Drahokoupil and Myant (2015) analyze transition economies in Russia, Eastern Europe, and Central Asia, and identify five types of capitalism that explain the nature of economic integration characterizing in any given country - FDI-based market economies, peripheral market economies, order states, oligarchic (clientelistic) capitalism, and remittance or aid-based economies.

How, then, do we situate the Middle East as a *region* in the literature on comparative capitalisms? Based on a reading of the varieties of capitalism in the Global South, three conceptions in the literature might be applicable to the Middle Eastern context: dependent/hierarchical market economies (see Nölke & Vliegenthart 2009, Schneider 2009), state-permeated market economies (see Nölke et al. 2013) and patrimonial capitalism (see Becker 2013).

Dependent Market Economy

The ideal type of dependent market economy (DME) identifies the hierarchy within transnational corporations as the central mechanism for coordination and highlights the role of foreign capital for corporate financing (Nölke & Vliegenthart 2009, 677). The comparative institutional advantage of the DME emerges from the institutional complementarities between skilled and cheap labor, the transfer of innovation within transnational corporations, and the provision of foreign direct investment (Nölke & Vliegenthart 2009, 672). This ideal-type does not fully depict the Middle Eastern context. In the course of economic reforms, in striking contrast to

the trends in other emerging markets, FDI flows did not increase for the Middle East. This is often labeled "MENA exceptionalism" – for instance, in 2000, Morocco, Egypt, and Tunisia received US$422 million, US$1,235 million, US$779 million FDI respectively, while Mexico received US$18billion (Özel 2015, 181). While the FDI inward stock as a percentage of GDP in the case of dependent market economies (Czech Republic, Hungary, Poland, and Slovakia) corresponds to 65.7 percent on average, for Middle Eastern countries it is 34.56 percent (see Table 1).

Table 1: FDI Inward Stock (as percent of GDP)

	FDI inward stock (as percent of GDP)
Czech Republic	68.6
Hungary	83.8
Poland	48.8
Slovakia	61.4
DME Average	**65.7**
Iran	7.42
Yemen	9.39
Iraq	10.24
Kuwait	11.46
Algeria	12.27
Qatar	14.79
Turkey	17.59
Syria	23.08
Oman	24.52
United Arab Emirates	26.62
Libya	27.30
Saudi Arabia	27.95
Egypt, Arab Rep.	31.33
Morocco	47.84
Bahrain	55.30
Tunisia	70.74
Jordan	78.76
Lebanon	125.47
MENA Average	**34.56**

Source: UNCTAD Statistics, 2013

Hence, the role of FDI is limited for Middle Eastern countries, on average. One possible explanation for the relatively minor role of FDI in the region refers to the political instability of the region. Ahlquist (2006) argues that countries with more stable and democratic institutions attract more FDI. Yet there are notable exceptions for the general trend of FDI in the region. The countries exhibit certain degrees of diversity, such that FDI inward stock (as percent of GDP) ranges from 7.42 percent to 125.47 percent. The reasons for the high level of FDI in Bahrain and Lebanon can be attributed to the small sizes of these countries and their dependence on foreign trade to sustain their economies. On the other hand, Tunisia, especially after the Jasmine Revolution, began to attract foreign aid and investment, as a result of its portrayal as the only 'success story' of the Arab Spring.

As opposed to the low rates of market capitalization in the dependent market economies, market capitalization of listed companies (as percent of GDP) scores 41.86 percent, on average, for Middle Eastern countries. Although in DMEs, the stock market does not play a huge role as a primary means of investment, Middle Eastern countries achieved relatively higher degrees of capitalization (see Table 2). Furthermore, in contrast with the dependent market economies, the proportion of private foreign ownership in a firm does not exceed 5 percent on average for Middle Eastern countries.[14] In a similar vein, the restrictions on foreign firms entering the service sectors in MENA countries are among the highest in the world. These restrictions are generally larger in GCC countries relative to non-GCC MENA countries (World Bank 2014, 37).

[14] Source: World Bank Enterprise Surveys.

Table 2: Market capitalization of listed companies (percent of GDP)

	Capitalization
Czech Republic	18.0
Hungary	16.6
Poland	35.8
Slovakia	5.0
DME Average	**18.85**
United Arab Emirates	18.25
Tunisia	19.64
Egypt, Arab Rep.	22.07
Lebanon	23.83
Oman	25.95
Iran	28.02
Turkey	39.14
Saudi Arabia	50.87
Bahrain	52.23
Morocco	54.88
Kuwait	55.79
Qatar	66.41
Jordan	87.05
MENA Average	**41.86**

Source: World Bank, World Development Indicators.

One important dimension for the corporate financing is the ownership status of banks. Today state banks account, on average, for less than 50 percent of bank assets in most emerging regions (see Farazi et al. 2011). Be that as it may, in the Middle East, state banks still play a substantive role, despite their declining share (see Table 3). The variations across the countries in the region needs to be emphasized here: on one hand, in the Gulf Cooperation Countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and UAE), on average, the asset share of state banks constitute only 28 percent, as in Algeria, Libya, and Syria, the average score reaches 86 percent (Farazi et al. 2011).

Table 3: The Asset Share of Banks

	State Banks	Private Banks	Private Domestic Banks	Private Foreign Banks
GCC	28 percent	72 percent	52 percent	20 percent
Non-GCC Private-Led	29 percent	71 percent	48 percent	22 percent
Non-GCC State-Led	86 percent	14 percent	2 percent	13 percent

GCC countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and UAE. Non-GCC Private-Led countries: Egypt, Jordan, Lebanon, Morocco, Tunisia, and Yemen. Non-GCC State-Led Countries: Algeria, Libya, and Syria. Source: Farazi et al. (2011).

All in all, the hierarchical organization within MNCs as the coordination mechanism and dependence on FDI does not reflect the current status of the Middle East in general. In other words, the realms of corporate governance and financing do not show similar patterns with the ideal type of dependent market economies.

State-permeated Market Economies

One other alternative is the ideal type of state-permeated market economies. In brief, this model postulates that corporate governance is dominated by national capital through well-connected families; corporate financing is secured through internal funds and bank loans and protected against global volatilities through the state control of foreign capital inflows; a low wage regime is maintained via the segmentation of the labor market; the state-tolerated patent rights system supports technological catch-up for innovation; and that they can implement a selective opening-up process for market integration. For the Middle Eastern countries, 72.7 percent of investments are financed internally, 13.6 percent are financed through banking loans and 3.3 percent are funded through equity.[15] In terms of the institutional realms of corporate financing and high segmentation of labor markets, the ideal type of state-permeated market economy fits into the Middle Eastern context. Be that as it may, as opposed to state-permeated

[15] Source: World Bank Enterprise Surveys

market economies, Middle Eastern countries do not allocate many resources for innovation (see Table 4). On average, the BRICS reserve 1.18 percent of GDP for R&D, while this value is only 0.4 percent for the Middle Eastern countries. Similarly, the percent of firms with an internationally-recognized quality certification is only 10.9 percent for the MENA countries, while this score reaches 16 percent, 16.2 percent, and 23 percent in East Asia & Pacific, Latin America & the Caribbean, and Eastern Europe & Central Asia, respectively.

Table 4: R&D Expenditure as percent of GDP

	R&D Expenditure as percent of GDP
Brazil	1.21
Russia	1.12
India	0.81
China	1.98
South Africa	0.76
SME Average	**1.176**
Iraq	0.03
Algeria	0.07
Saudi Arabia	0.07
Kuwait	0.09
Oman	0.13
Egypt	0.43
Jordan	0.43
UAE	0.49
Morocco	0.73
Iran	0.75
Turkey	0.86
Tunisia	1.1
MENA Average	**0.432**

Last available year for each country. Source: World Bank.

MENA countries do not perform well in terms of upgrading skills. While managers in the state-permeated market economies are more willing to invest in education and to provide vocational training specific for certain sectors for the sake of long-term economic development, the relevant indicators for MENA countries suggest otherwise. While the percent of firms offering formal training corresponds to 17.7 percent in the MENA, this percentage reaches 32.8

percent, 44.3 percent, and 44.6 percent for Eastern Europe & Central Asia, Latin America & the Caribbean, and East Asia & Pacific countries respectively.[16] 20.4 percent of the firms in the Middle Eastern economies identify inadequately educated workforce as one of the major constraints for doing business.[17] Public expenditure on education as a percent of the total government expenditure exceeds 15 percent for Brazil and China, while on average, Middle Eastern countries only allocate approximately 8.4 percent of the government expenditure for education (see Table 5).

Table 5: Expenditure on Education as percent of Government Expenditure

	Expenditure on Education as percent of Government Expenditure
Turkey	2.86
Oman	4.2
Yemen	4.56
Syria	4.87
Saudi Arabia	5.14
Tunisia	6.22
Lebanon	8.42
Bahrain	8.95
Egypt	9.86
Algeria	11.43
Kuwait	13.37
Iran	17.05
Morocco	18.28
MENA Average	**8.4**

Last available year for each country. Source: UNESCO Institute of Statistics.

A comparison of the past industrial policies of MENA countries with East Asian countries also reveals the contrasts – by linking government support to measurable and verifiable performance, industrial policies in East Asia guaranteed equal access for all firms while in

[16] Source: World Bank Enterprise Surveys

[17] Source: World Bank Enterprise Surveys

MENA it often resulted in firm-specific privileges. Industrial policy in East Asia promoted and safeguarded competition in the domestic market and provided incentives for firms to compete in international markets, but this was not the case for the MENA countries (World Bank 2014). The opening-up policies (*infitah*) in the MENA only exacerbated clientelistic networks (for instance, see Blaydes 2011) and aggravated the concentration of capital (see Heydemann 2004, Richards et al. 2014).

To sum up, especially in terms of the skills upgrading and innovation, the ideal type of state-permeated market economies cannot fully account for the Middle Eastern context, since the state does not engage in selective incentives for market protection in order to ensure future market competition.[18] On the contrary, these opening-up policies served to engender firm-specific advantages and consolidated closer ties between certain firms and state officials.

Crony Capitalism & Patrimonial Capitalism

The regional studies that bring the underperformance of Middle Eastern countries under academic scrutiny trace the roots of this issue back to the 1980s, when a certain type of state-business relations emerged following liberalization & structural adjustment (see also Heydemann 2004, Owen 2004, and Cammett 2007). This literature claims that the *infitah* policies did not entail pluralistic economic and political systems. Instead, they produced "crony capitalism" (Henry & Springborg 2001), in which businessmen with close ties with the incumbent regime – known as *whales* in Egypt (see Sfakianakis 2004) - receive major contracts, and political connections are required for any major economic activity. In other words, the liberalization process resulted in firm-specific policies that limited free-entry in the domestic market,

[18] For a relevant analysis of Turkish case that compares Turkish development trajectory with East Asian experience, see Öniş & Bayram (2008).

effectively excluded certain non-privileged firms from government programs, insulated certain firms and sectors from foreign competition, and constrained performance and competition (see World Bank 2014).

The notorious case of Ahmad Ezz, a former Member of Parliament in Egypt, epitomizes this political context – his companies dominated the steel industry after 2000, and he was also accused of having improperly acquired the largest public steel corporation at an artificially low price (Chekir & Diwan 2015). Hence, according to this strand of literature, the emergent cronyism is the underlying cause for the underdevelopment of the region. For instance, Chekir and Diwan (2015) scrutinized the impact of crony capitalism in Egypt on the corporate performance and profitability of politically connected firms. Similar stories can be found in different parts of the region, such as in Tunisia (Rijkers et al. 2014), Lebanon (Diwan & Haidar 2016) and Yemen (Alley 2010), where politics exert influence over large chunks of the private sector. When a close connection between state officials and economic elites dominates policy making, crony capitalism emerges as a distinct institutional order characterized by the domination of informal elite groups (Sharafutdinova 2010, 2).

The concept of crony capitalism undoubtedly emphasizes the highly-personalized character of these economic systems. Yet the concept of cronyism does not reveal and signal the complex constellation of power structures embedded in these socioeconomic systems (see Schlumberger 2004). It also lacks conceptual clarity and the specific dimensions or criteria are not delineated by the concept. I argue that patrimonial capitalism is an overarching concept that can better elucidate the general dynamics of political economies in the Middle East (see Schlumberger 2008). This is not to argue that Middle Eastern countries do not have different features – indeed, they exhibit a certain degree of variety in terms of their resource endowments,

political regimes, levels of industrialization etc. There are certain subgroups of patrimonial type of capitalism, which these countries can be classified into. Yet, in general, the Middle East exhibits the features of patrimonial capitalism.

The notion of patrimonialism can be traced back to Max Weber (1972). Weber scrutinized pre-modern societies like Imperial China, the late Roman Empire and Tsarist Russia and argued that the main feature of patrimonialism is private appropriation of resources by those who hold political power and enjoy corresponding economic rights. Weber described the patrimonial state administration with reference to interpersonal rather than impersonal relations of authority and thus sharply demarcated it from the universalist/rational bureaucratic state.

Borrowed from this analytic tradition and applied to the political economy literature, patrimonial capitalism is a form of *non-market capitalism;* therefore it can be differentiated from state-permeated, dependent, liberal, and coordinated market economies. The relationship between the patron and client is decisive in this setting – this particular relation has been ingrained in the course of economic reforms. The hierarchical relationship between the patron and client is created and maintained through the networks of intermediaries, *wasta* (Arabic word for intermediation, see Cammett 2013, Schlumberger 2008). Patrimonial capitalism is an "emergent economic order" (Robinson 2011, 436) – power over the economy is highly personalized, and economic exchange is particularistic. According to one perspective, this economic system emerged when neo-patrimonial states underwent a process of economic globalization or structural adjustment due to the increasing pressure of the international markets and community.[19]

[19] One strand of the literature labels patrimonial capitalism as an emergent economic order, and traces its genealogy back to the structural adjustment policies. However, the question of why patrimonial capitalism emerged and whether it pre-existed structural adjustment period should be analyzed in depth. I suggest that treating the structural adjustment process as an exogenous variable is problematic in this strand of literature. But this research question is beyond the scope of this thesis.

The general common features of this type of 'non-market capitalism', which should be labeled patrimonial capitalism, can be summarized as follows (see List 1):

List 1: List of the General Common Features of Patrimonial Capitalism

(1) The incumbent does not try to ensure long-term economic development by incentivizing firms for international competition. Instead, the main thrust of the policy-making is to maintain the political power of the incumbent (see Heydemann 1992, Waterbury 1983). In patrimonial systems, the political-economic elite does not allow competition in sectors in which it operates.

(2) Corruption permeates the governance structures. The top political elites have a strong grip over the commanding heights of the economies. In order to "get things done", firms/people need to either have intermediaries or make bribes.

(3) The regulatory environment is not conducive for the competitive development of the private sector. Contracts and property rights are not fully enforced and the incumbent has the discretionary power in this regard. The legal and institutional framework brings about lower transaction costs in market economies, whereas it raises them in patrimonial capitalist systems, since it has to serve the particular interests of a narrow stratum of ruling elites (Schlumberger 2004, 235).

(4) The degree of informality is high for this type of non-market capitalism. As formal rules are more dominant in market-based capitalisms, informality dominates all economic transactions in patrimonial capitalism (Schlumberger 2004, 235). This is one of the mechanisms which maintains the low-wage regime.

The political economy of patrimonial capitalism is shaped by its external and internal tensions. In these settings, there is a triadic dilemma between regime maintenance and the domestic interests of elites, economic development, and integration into the global economy (Robinson 2011, 438). The elites struggle to contain the implications of global economy so that it will not be politically contentious or detrimental to their local interests. As a result, the developmental prospects for patrimonial capitalism are sub-optimal (see also Acemoğlu & Robinson 2013).

More than half of the firms in the Middle East conceive of corruption as a major constraint for doing business. 40.3 percent of the firms are reported to be expected to give gifts to secure government contracts. By the same token, the percent of public transactions where a gift or informal payment (bribery depth) was requested is more than 20 percent (see Table 6).

Table 6: Indicators for Corruption

	Bribery Depth	**Percent of Firms Expected to Give Gifts to Secure Government Contracts**	**Percent of Firms Identifying Corruption as a Major Constraint**
MENA	20.7	40.3	53.2
Eastern Europe & Central Asia	13.6	26.5	22.4
East Asia & Pacific	20.2	29.7	24
Latin America & Caribbean	7.1	20.9	44.9

Source: World Bank Enterprise Surveys

The regulatory frameworks do not facilitate business development, either. The World Bank Ease of Doing Business Ranking shows that the regulatory environment is not conducive to the development of the business sector, with the notable exception of Gulf countries (see Table 7). An economy's distance to the frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.

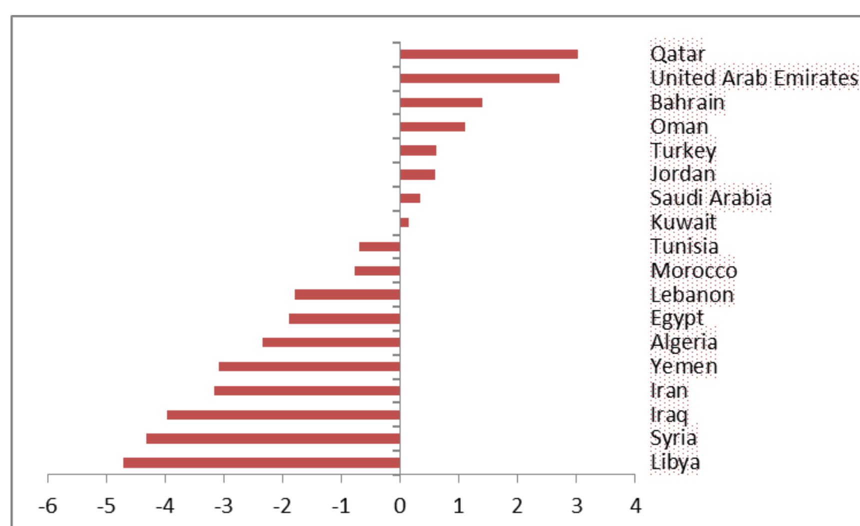
Figure 2 indicates the scores of a governance quality index that consists of the dimensions for the extent to which public power is exercised for private gain, including both petty and grand forms of corruption; the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development; the extent to which agents have confidence in, and abide by, the rules of society, and in particular the quality of contract enforcement and property rights. Except for the Gulf countries, MENA countries do not perform well in this index ranging from -7.5 to 7.5. In fact, the average score for the whole region corresponds to -0.93.

Table 7: Ease of Doing Business Indicators

	Ease of Doing Business Ranking	Distance-to-Frontier
Libya	188	33.35
Syria	175	46.51
Iraq	156	50.36
Algeria	154	50.69
Yemen	137	54.84
Iran	130	56.51
Jordan	117	58.40
Egypt, Arab Rep.	112	59.54
Lebanon	104	60.61
Kuwait	86	63.11
Morocco	71	65.06
Oman	66	66.39
Tunisia	60	67.35
Turkey	55	68.66
Bahrain	53	69.00
Qatar	50	69.96
Saudi Arabia	49	69.99
United Arab Emirates	22	76.81

Source: World Bank Doing Business Dataset

Figure 2: Governance Quality Index



Sum of control of corruption, regulatory quality, and rule of law scores, based on author's calculation.
Source: World Bank Better Governance Dataset.

The informality is widespread in the region - some countries in the region are among the most informal economies in the world and the typical country in the MENA produces about 27 percent of its GDP and employs 67 percent of its labor force informally (Angel-Urdinola & Kuddo 2010, 22). However, certain variations exist across countries – while the percentage of the labor force not contributing to social security is 67.2 percent for non-GCC countries, it is 6.4 percent for GCC countries.[20] Moreover, most of the MENA countries have flexible labor market arrangements. Only in Algeria, Iraq, Morocco, and Turkey, are fixed-term contracts prohibited for long-term jobs.[21] The termination of workers' contracts due to redundancy is legally authorized in all MENA countries. I created an index of 0-10 for measuring the difficulty of redundancy, which consists of information about whether third-party notification is required if 1 worker (9 workers) is (are) dismissed; whether third-party approval is required if 1 worker (9 workers) is (are) dismissed; whether there is a retraining or reassignment obligation before redundancy; and whether there are priority rules for redundancy and re-employment[22] (see

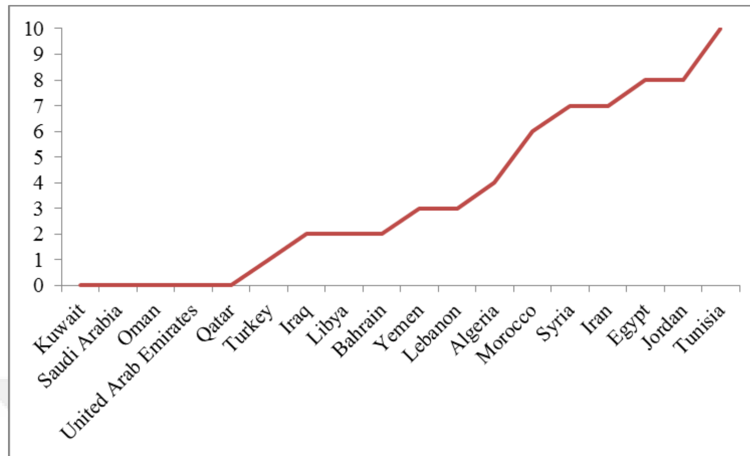
Figure 3). It is relatively more difficult to dismiss workers due to redundancy in Morocco, Syria, Iran, Egypt, Jordan, and Tunisia.

[20] Source: World Bank Enterprise Surveys.

[21] Source: World Bank Doing Business Labor Market Regulation Dataset.

[22] A higher score is assigned to the third-party approval for dismissing for the composition of the index.

Figure 3: Difficulty of Redundancy Index



Based on author's calculation. Source: World Bank Doing Business Labor Market Regulation Dataset

In sum, I argue that patrimonial capitalism, as a 'non-market type of capitalism', can capture the Middle Eastern dynamics. To recapitulate, even though there are considerable differences that signify intra-regional variation with respect to political institutions, economic structures, and resource endowments, the similarities allow us to detect a regional dynamic that is manifested in a certain 'non-market type of capitalism'. But, this is not a region-specific type of capitalism. Patrimonial relations also permeate, for instance, the Russian political economy too (see Becker 2013). This is also the case for most of the post-Soviet countries, including Ukraine (Van Zon 2001), Romania (Iankova 2010), Kazakhstan, Kyrgyzstan (Robinson 2013), Georgia, Belarus, and Azerbaijan (Schlumberger 2004). This designation is instrumental for challenging the culturalist and essentialist explanations that elucidate the underdevelopment in the MENA region with respect to religion or culture (see Huntington 1993; Roy, 1994, 4; Hudson 1995), and theoretical frameworks that state the predominance of Islamic institutions as the main determinant for the underdevelopment. On the contrary, patrimonial capitalism is a modern

phenomenon that is present in different settings – it is not necessarily shaped by certain religious, cultural, or religious institutions.

Russia epitomizes the defining features of patrimonial capitalism. Its main economic sectors – the *commanding heights* of the economy such as oil and metals sectors – are generally dominated by 'oligarchs' (see Yergin & Stanislaw 2002). Similar to most of the MENA countries, Russia was also an exception to FDI globalization and attracted relatively little foreign investment (Fabry & Zeghni 2002), which was coupled with low level of competitiveness in the global economy. When available data on FDI Inward Stock as percent of GDP are analyzed for post-Soviet countries, similar patterns to the MENA countries can be observed, even though post-Soviet countries exhibit certain levels of diversity (see Table 8).

Table 8: FDI inward stock (as percent of GDP)

	FDI inward stock (as percent of GDP)
Romania	2.4
Kyrgyzstan	17.3
Belarus	18.10
Russia	19.48
Azerbaijan	41.81
Kazakhstan	65.12
Ukraine	68.21
Georgia	89.68
Post-Soviet Average	**40.26**
MENA Average	**34.56**
DME Average	**65.7**

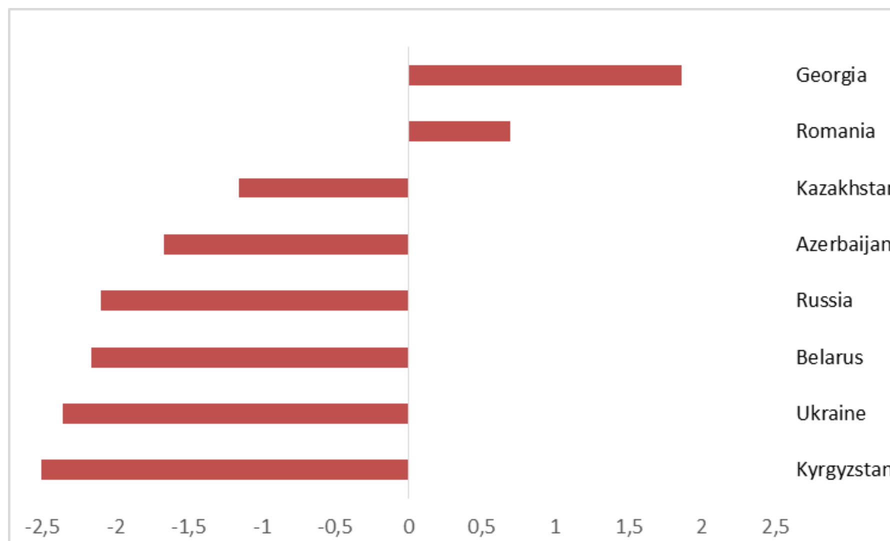
Source: UNCTAD Statistics, last available year

In Russia, trade concessions and privatization were not dictated by an agenda of economic development but of political interests, which in turn reproduced informal networks of power (see Robinson 2011). In the context of patrimonial capitalism, the incumbent elites prioritize regime maintenance over long-term economic development. Therefore, policy shifts and reforms are usually associated with "political giveaways" rather than economic considerations (Waterbury

1983, 228). In resource-abundant countries, these policy shifts are usually financed through rents, as exemplified by Egypt and Algeria. For instance, in the case of Kazakhstan, the marketization in the energy sector emanated from the needs of the political elite, and the ruling elite exploited the reform of the energy sector and energy profits in order to hold on to power (Robinson 2013, 143). As opposed to state-permeated market economies, patrimonial capitalism also suffers from an 'innovation gap', which has increased in the decade up to 2010 for Russia, while those of China and Brazil have narrowed (Becker & Vasileva 2017).

Figure 4 indicates the scores of a governance quality index for post-Soviet countries. Except for Georgia and Romania, post-Soviet countries do not perform well in this index, in striking similarity to the Middle Eastern non-Gulf countries. In fact, the regional average corresponds to -1.18, which also indicates another benchmark for patrimonial capitalism.

Figure 4: Governance Quality Index in the Post-Soviet Countries



Sum of control of corruption, regulatory quality, and rule of law scores, based on author's calculation. Source: World Bank Better Governance Dataset, last available year.

To sum up, situating the Middle East within this general category opens up opportunities for academic inquiries and cross-regional comparisons that will help us to have a better grasp of different sub-types of patrimonial capitalism. With that aim, I will employ a multi-method approach, cluster analysis and case studies, in order to shed light on the sub-categorization of patrimonial capitalisms in the next chapters.

CHAPTER IV: METHODOLOGY & DATA

The main aim of social scientists is to ensure internal, external, and ecological validity, hence strong research designs should unite both quantitative and qualitative researches. In this vein, Box-Steffensmeier et al. (2008, 29) highlight the significance of pluralism of methodologies. I will therefore employ two different methods, cluster analysis and comparative case studies, to examine the sub-categories of patrimonial capitalism.

Cluster Analysis

Cluster analysis is not a part of the mainstream toolkit of the social sciences, since it is mainly a descriptive tool. There is an aversion in social sciences to a pure description of data, which is seen as inferior to analytical thinking. However, as Amartya Sen argues, description is a vital scientific activity, and cluster analysis as an exploratory technique helps us to reduce the complexity of data into a few categories (Garip 2016, 182).

For identifying different types of capitalism, several alternative techniques have been applied, including multi-dimensional scaling and principal component analysis (Shaley 1999), non-linear principal component analysis (Wildeboer Schut et al. 2001), and face-value tabular analysis of descriptive statistics, among others (see Arts & Gelissen 2010, 575-576). Nevertheless, for constructing typologies, cluster analysis has proved to be one of the most effective and widely used techniques (see Powell & Barrientos 2004). It is a quantitative method which classifies cases into homogenous groups, which are as distinct as possible from each other. Two clustering techniques are commonly applied in the literature - k-means cluster analysis and hierarchical cluster analysis (See Gough 2001, Rudra 2007, and Franzoni 2008 among others). K-means approach is partitional clustering that determines an integer number of partitions that

optimizes a certain criterion function, while hierarchical clustering proceeds successively by either merging smaller clusters into larger ones, or by splitting larger clusters (see Halkidi et al. 2001).

Determining the optimal number of clusters, and assessing its validity are methodological challenges. In the former method, the number of clusters should be specified a priori by the researcher, while the number of clusters is data-determined in the latter. Gough (2001, 166) prefers trying different numbers of clusters and evaluates their empirical adequacy with respect to the final cluster centers and distance between clusters, while Powell and Barrientos (2004) utilize hierarchical cluster analysis to identify the number of clusters, which best reflect the structure of the data, and apply k-means cluster analysis using the information provided.

Agglomerative hierarchical cluster analysis begins with each case as a cluster on its own. At successive stages, similar cases are merged into the same cluster and the algorithm ends with bringing together all cases under the same cluster. The disadvantage of this technique is the fact that once two cases are joined in a cluster, they cannot be split again. On the other hand, in k-means cluster analysis, clusters are recombined through iteration and the final cluster centers are recomputed after each case is classified.

There are various linkage methods to form clusters, namely single linkage, complete linkage, average linkage, centroid method, and Ward's method. Each of these linkage methods measure the distance between pairs of clusters in different ways. For instance, single and complete linkage methods define the distance between two clusters based on the smallest or largest distance that can be found between pairs of cases, while the average linkage averages all distance values between pairs of cases from different clusters (Yim & Ramdeen 2015, 10). While the single linkage is based on minimum distances and tends to form one large cluster with the

other clusters containing only one or few objects, the complete linkage method tends to be affected by outliers, since it is based on the measurement of maximum distances (Mooi & Sarstedt 2011, 252). In this paper, Ward's method is preferred among the agglomerative linkage methods (see Şener 2006, Rudra 2007). Ward's method employs the squared Euclidean distance, which corresponds to the sum of the squared differences over all of the variables. Ward's method is designed to minimize the increase in the overall sum of the squared within-cluster distances. Since the thrust of this research is to find types - more or less spherical shapes with compaction(s) in the middle, Ward's linkage will be applied in the analysis. Ward's method aims at minimizing the variance within clusters, thus maximize the homogeneity within each cluster. In other words, it creates groups of observations which are similar to each other, while separating the very different observations.

In hierarchical cluster analysis, the output of the analysis can be considered to be the dendrogram. The dendrogram provides a visual representation of which clusters are combined at different stages in the case of hierarchical clustering. Vertical lines display joined clusters, while horizontal lines denote the distance between countries in the same cluster. The longer the lines are between merged cases, the greater the dissimilarity between them. Hence, dendrograms will be instrumental for specifying the number of clusters. There are certain stopping rules for clustering, a certain set of criteria about at which level the dendrogram should be cut, such as Duda et al. (2000) and Calinski & Harabasz (1974). The Calinski-Harabasz pseudo F calculates the sum of squared distances within the partitions, and compares it to that in the un-partitioned data, taking account of the number of clusters and number of cases. On the other hand, Duda and Hart's index quantifies the difference between two clusters that are merged at a given step. Thus, if the pseudo T-square statistic has a distinct jump at step k of the hierarchical clustering, then the

clustering in step k+1 is selected as the optimal cluster. The pseudo T-square statistic is closely related to this index (see Halpin 2016).

In cluster analysis, different scales of measurement, variables with numerically large values, might skew the results, since this analysis relies upon the computation of distance scores. In order to tackle this problem, according to one strand of the literature, the variables should be standardized (Kangas 1994, 357), and data should be checked for outliers. Moreover, Halkidi et al. (2001) claim that hierarchical cluster analysis is more efficient in dealing with noise and outliers than partitional algorithms. In addition, k-means analysis fails to capture non-convex or non-round-shaped clusters.

Cluster analysis is also sensitive to missing cases. Hence, the lack and unreliability of the available data complicated the process of estimator specification. To solve this problem and maximize the information obtained from the data, cases are 'excluded pairwise', which implies the assignment of cases to the clusters based on the distance that are computed from all variables with non-missing values.

To validate the clustering outputs, the criterion validity and face validity should be taken into account. I will focus on criterion variables that have a theoretically-based relationship with the clustering variables, but are not included in the analysis. If these criterion variables differ significantly, we can conclude that the clusters are distinct groups. Hence, alternative variables are introduced into the analysis for allowing different model specifications, which will also ensure robustness of cluster outputs. Secondly, I will also assess the face validity, which ultimately underscores the exploratory character of the method. Last but not least, interpreting clusters always involves the examination of the cluster averages. The clusters are expected to exhibit statistically significant differences in terms of averages in the variables of interest. I will

apply a one-way ANOVA on the clusters to check whether the differences among clusters in terms of variables of interest are statistically significant (Mooi & Sarstedt 2011, 261).

Different studies with different regional focuses employed cluster analysis for inductively constructing typologies for capitalism, either with respect to welfare regimes (see Wood & Gough 2006, Rudra 2007 among others) or production regimes (see Schneider & Paunescu 2012). For example, Witt and Redding (2013) applied cluster analysis for an institutional comparison of 13 major Asian business systems with respect to education and skills formation, employment relations, financial system, inter-firm networks, internal dynamics of a firm, ownership and corporate governance, social capital, and the role of the state, and found five major types of business systems: post-socialist, advanced city, emerging Southeast Asian, advanced Northeast Asian, and Japanese. Furthermore, McMenamin (2003) employed cluster analysis for a set of 22 countries on the basis of 52 measures of political institutions, social welfare regimes, and economic structures in order to assess and delineate the distinctiveness of East-Central Europe.

To sum up, cluster analysis will be instrumental for categorizing countries into distinct groups that will indicate the sub-types of patrimonial capitalism. In this analysis, hierarchical cluster analysis will be employed with Ward's linkage method and Duda and Hart's index will be used as the cluster stopping rule. STATA is the software used. Cases that represent each type will then be selected for comparative case studies.

Comparative Case Studies

A case study is an in-depth examination of a single case. Comparative case studies, on the other hand, cover two or more cases in a way that produces more generalizable knowledge about causal questions. Comparative case studies are undertaken over time and emphasize comparison within and across contexts (Goodrick 2014). To accomplish this task, comparative case studies envision comparison across three dimensions: a horizontal comparison that contrasts one case with another and traces social actors across these cases; a vertical comparison of influences at different scales, from the international to the national to regional and local; and a transversal comparison over time (Bartlett & Vavrus 2016).

Case studies have been abundantly utilized in the comparative capitalism literature. Case studies of national economies such as the United States, United Kingdom, Japan, and Germany have previously been used to illuminate the contrast between coordinated and uncoordinated market economies (Ebbinghaus & Manow 2001, 5).

If there are a limited number of country cases available for analysis, cross-sectional comparative studies of all varieties cannot avoid the risk of overestimating the evidence for the impacts of discrete causal mechanisms. One of the most promising ways of overcoming this challenge is to complement quantitative analysis with targeted historical and comparative case studies (Mandel & Shalev 2009, 1884). For example, Szanyi (2013) complements the cluster analysis of OECD and European transition countries with comparative country studies on Slovakia and Hungary, in order to provide a comprehensive view of government activities during transition.

Data

The country-level dataset consists of the latest available information for 23 countries, for each variable. There are 17 countries from the Middle East & North Africa, and 6 countries from the post-Soviet countries (see Table 9). Syria is excluded from the analysis because of the ongoing war; Palestine is excluded because of the ongoing occupation; and Kyrgyzstan due to a lack of data.

Table 9: Countries of interest

Middle East & North Africa		Post-Soviet Countries
Algeria	Morocco	Azerbaijan
Bahrain	Oman	Belarus
Egypt	Qatar	Georgia
Iran	Saudi Arabia	Kazakhstan
Iraq	Tunisia	Russia
Jordan	Turkey	Ukraine
Kuwait	United Arab Emirates	
Lebanon	Yemen	
Libya		

In contrast with market economies in Western Europe, the incumbent governments rely on external rents such as oil revenue to secure citizen support through generous welfare provision. Thus, in oil-rich countries, external rents constitute the crux of their political economies (Smith 2004). As an indicator of this phenomenon, oil dependency is introduced to the models with two variables: the ratio of fuel exports to total export earnings and oil rent as percent of GDP.

In order to examine the primary sources of investment in a developing context, Nölke and Vliegenthart (2009) utilize domestic credit to private sector as percent of GDP, the ratio of inward to outward FDI stocks, and FDI stock as percent of GDP. In addition to these indicators, I

will identify the sources of investment with two other variables to allow different specifications in the models: FDI net flows as percent of GDP, and trade openness index. Moreover, remittance earnings are also high in the Middle East – in 2010 remittances constituted a more important source of revenue in the Middle East than in other regions of the Global South with the exception of South Asia, and were higher than the global average (Cammett 2013, 172). The countries across the region also vary by the level of remittances inflow. For instance, Jordan is heavily reliant on this inflow, in contrast with Tunisia and Morocco (Cammett 2013, 197). To take this into account, remittance inflow as percent of GDP is incorporated into the dataset.

Industrial relations can be construed as a significant institutional domain for political economy configurations. To assess industrial relations, Nölke and Vliegenthart (2009) use indicators such as union density, level of wage bargaining and public social spending. Nölke et. al. (2013) refer to real average monthly wages to measure whether there is a low-wage regime in a given country. Schneider (2009) provides data on job tenure, rules of labor market regulation, and the extent of the informal economy. There is limited available data on these topics for the Middle East & North Africa. However, for instance, ILO statistics inform us about whether fixed term contracts are allowed in a country, which is an indicator for labor market rigidity. Besides, I construct an index of 0-10 that measures the difficulty of redundancy in a given country. The rigidity in a labor market increases, if a third party notification or approval is required when 1 worker or 9 workers are dismissed. In some countries, there are also retraining or reassignment obligations before redundancy and priority rules for redundancy. Based on these variables, this index of difficulty of redundancy is created. Secondly, instead of utilizing average monthly wages, I will introduce a ratio of minimum wage to value added per worker to analyze countries'

wage regimes, since this variable also takes into consideration the productivity levels of economies.

Actors operate under certain regulatory frameworks, which are also crucial for providing insight into the political economies of countries. The distance-to-frontier score helps assess the absolute level of a regulatory performance over time. It measures the distance of each economy to the 'frontier', which represents the best performance observed on each of the indicators across all economies in the Doing Business sample since 2005. One can see both the gap between a particular economy's performance and the best performance at any point in time and assess the absolute change in the economy's regulatory environment over time with the distance-to-frontier score. Furthermore, I construct an index of governance quality that consists of measurements of the rule of law, control over corruption, and the regulatory quality. In this index, the control over corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the 'capture' of the state by elites and private interests; regulatory quality captures the perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development; the rule of law captures the perceptions of the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.[23]

To sum up, in order to operationalize *corporate governance and financing*; oil dependency as a ratio of fuel exports to total export earnings (Cammett 2013), oil rent as percent of GDP, FDI stock as percent of GDP & FDI net flows as percent of GDP & the ratio of inward to outward FDI stocks, remittances inflow as percent of GDP, openness index of the economy,

[23] See World Bank Governance Indicators. http://info.worldbank.org/governance/wgi/

and domestic credit to the private sector (as percent of GDP) will be utilized. To measure *industrial relations*, the existence of fixed-term contracts, ratio of minimum wage to value added per worker, and difficulty of redundancy index will be used. In order to capture the *coordination mechanism / regulatory framework*, the governance quality index, distance-to-frontier score, and ease of doing business ranking will be used. HDI scores & ranking, and gross national income per capita will also be introduced to the models as control variables. Detailed descriptions of the variables and descriptive statistics are listed in the Appendix I: Descriptive Statistics & Metadata.

CHAPTER V: EMPIRICAL ANALYSIS

Overview

This quantitative clustering of the political economies of MENA and post-Soviet countries is the first scholarly work that clusters the contemporary MENA (and post-Soviet) countries by employing a quantitative method. The leading scholarship of this particular literature, Schlumberger (2004) and Grossman (2007), employed qualitative techniques to classify these political economies. Secondly, to the best of my knowledge, this is also the first academic endeavor to categorize different sub-types of patrimonialism as a 'non-market form of capitalism'. Hence, its cross-regional scope is also a contribution to the comparative political economy literature.

In this analysis, 23 countries from two regions are scrutinized with respect to three different institutional domains: financing, industrial relations, and regulatory frameworks. To that aim, hiearchical cluster analysis is applied with Duda and Hart's stopping rule and Ward's linkage method. Based on the pseudo-T square outcome, the analysis produces four sub-categories of patrimonialism (see Figure 5, Table 10, and Figure 6), which are stable with one exception over different model specifications, and what can be labelled as 'non-oil industrializer regimes' (Group 1), 'oil-rich labor flexible regimes' (Group 2), 'oligarch regimes' (Group 3), and 'oil-rich underdeveloped regimes' (Group 4). In order to ascertain statistically significant differences between means of variables of interest across clustering groups, a one-way ANOVA is applied (see Table 10).

The outcomes of this analysis are, by and large, consistent with the previous scholarship. Stevenson (2010) propounds a taxonomy of 12 countries in the Middle East & North Africa with

respect to private sector dynamism and economic outcomes that are measured by a private share of investment, credit, and employment; dynamics of entrepreneurship; and environment for business. The first quadrant of the positioning indicates countries that perform well on private sector dynamism and economic outcomes: Lebanon, Morocco, Jordan, Egypt, and Tunisia. Similarly, they are all included in Group 1 in the current analysis. By the same token, Grossman's (2007) classifications of residual pluralist model (Jordan, Lebanon, and Morocco) and distributive oil-rich monarchical model (UAE, Kuwait, Saudi Arabia, Oman, and Bahrain) are consistent with the findings of this cluster analysis. Moreover, Schlumberger's (2004, 84) typology of Arab states is also more or less consistent with the findings of this cluster analysis. He classified Jordan, Morocco, and Lebanon into the category of traditional resource-poor countries; Saudi Arabia, Bahrain, Oman, Qatar, and United Arab Emirates in the category of traditional resource-rich countries; and Iraq, Libya, and Algeria in the category of bureaucratic-authoritarian resource-rich countries.

Figure 5: Model Dendrogram

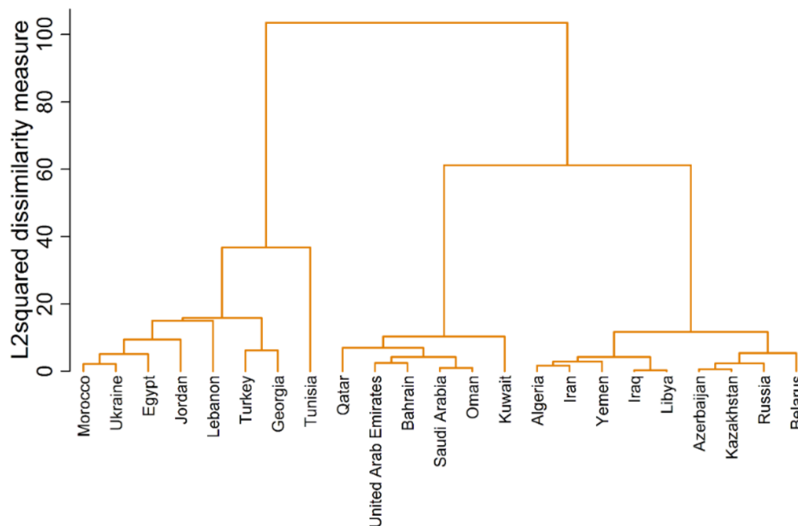
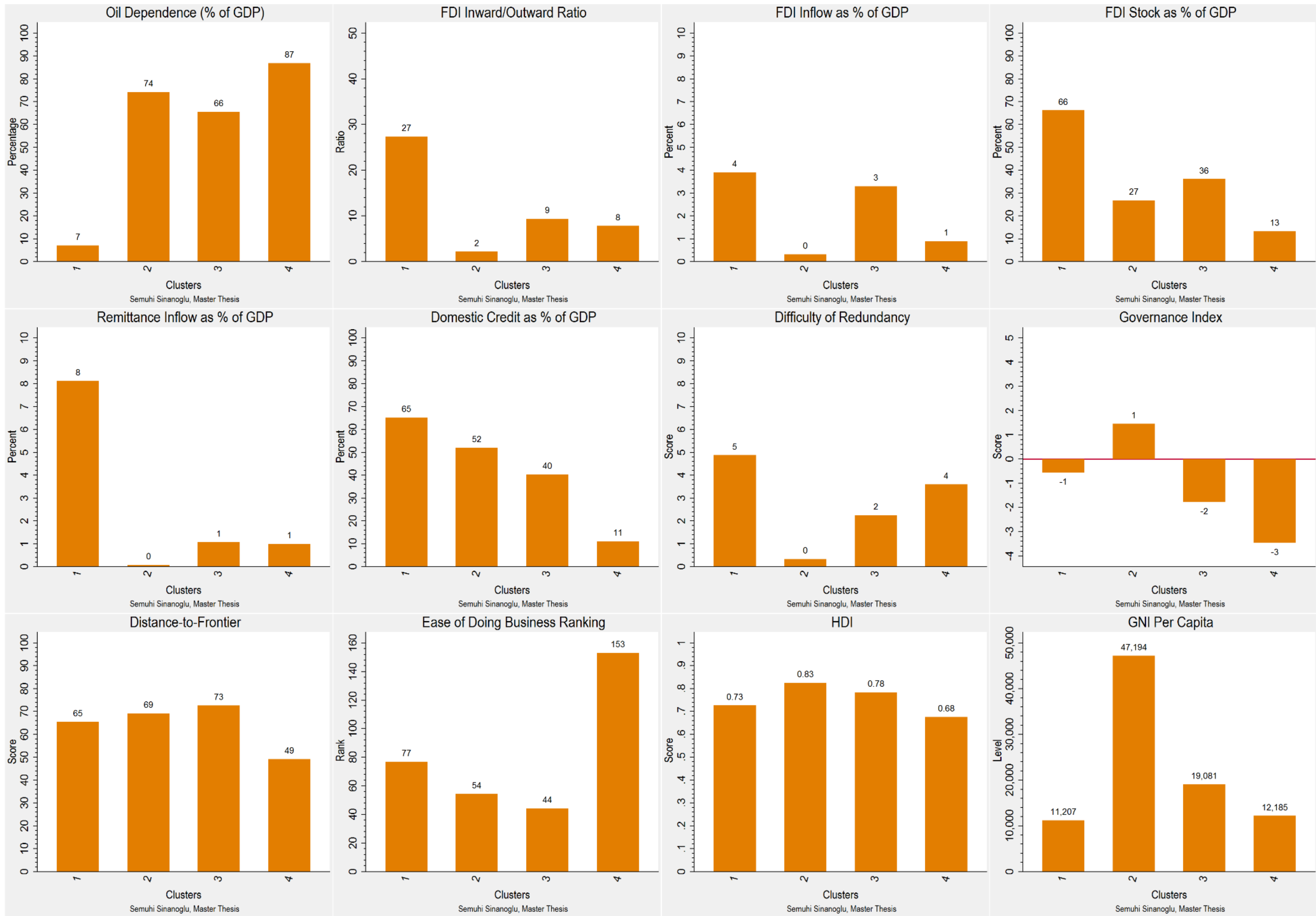


Table 10: Model Cluster Averages & Groupings

Cluster Averages	Group 1	Group 2	Group 3	Group 4		
Corporate Financing					*F-Scores*	*Prob >F*
Oil Rent as percent of GDP	7.13	74.17	65.5	86.8	28.74	0.000
FDI Inflow as percent of GDP	3.91	.32	3.3	.9	3.34	0.041
FDI Stock as percent of GDP	66.2	26.78	36.13	13.32	5.79	0.005
Remittance Inflow as percent of GDP	8.12	.07	1.08	1	8.24	0.001
Domestic Credit as percent of GDP	65.21	51.96	40.35	11.14	13.70	0.000
Industrial Relations						
Difficulty of Redundancy	4.88	.33	2.25	3.6	4.01	0.022
Regulatory Framework						
Governance Quality	-.56	1.45	-1.77	-3.46	16.9	0.000
Distance-to-Frontier	65.47	69.21	72.63	49.15	12.25	0.000
Ease of Doing Business	77	54	44	153	17.49	0.000
Level of Development						
HDI Score	.73	.83	.78	.68	6.87	0.002
GNI	11207.38	47193.5	19080.75	12185.4	10.25	0.000
Countries						
	Morocco	Qatar	Belarus	Algeria		
	Ukraine	Saudi Arabia	Azerbaijan	Iraq		
	Egypt	Oman	Kazakhstan	Iran		
	Tunisia	UAE	Russia	Libya		
	Jordan	Bahrain		Yemen		
	Lebanon	Kuwait				
	Georgia					
	Turkey*					

Figure 6: Cluster Averages



Financing

In order to measure financing, two dimensions can be taken into consideration – whether operations are financed through domestic sources or external income such as rent, remittances, and foreign direct investment.

Oil Rent

One of the defining features of the political economy of the Middle East is the region's oil endowment (Richards et al. 2014, 44) - 50 percent of global proven oil reserves are located in the region.[24] However, these oil reserves are not equally distributed across the region. 5 countries (Saudi Arabia, Iran, Iraq, Kuwait, and United Arab Emirates) constitute more than ¾ of regional oil reserves (see Table 11).

Table 11: Share of Total Proven Oil Reserves.

	Share of Total Proven Oil Reserves
Yemen	0.2 percent
Oman	0.3 percent
Qatar	1.5 percent
Libya	2.8 percent
United Arab Emirates	5.8 percent
Kuwait	6.0 percent
Iraq	8.4 percent
Iran	9.3 percent
Saudi Arabia	15.7 percent
TOTAL	50.0 percent

Source: BP Statistics 2016

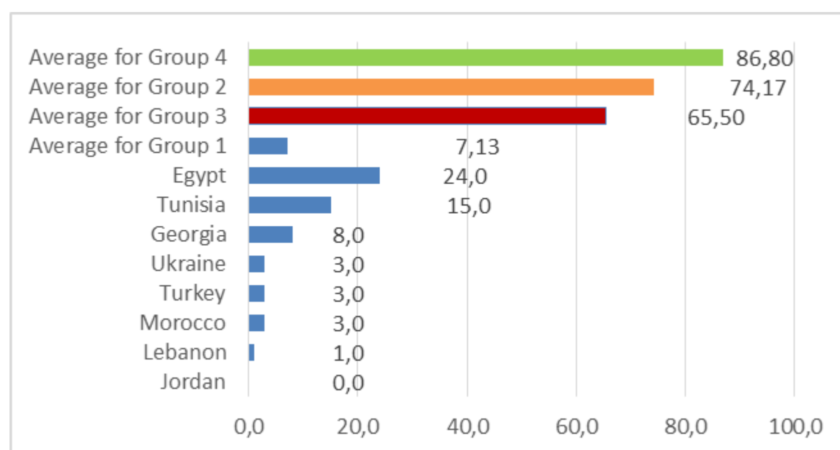
In this vein, oil endowment can be construed as one of the hallmarks for categorizing Middle Eastern political economies. For instance, Cammett (2013) propounds a typology of Middle Eastern political economies with respect to oil rent and regime types; Richards et al. (2014) put

[24] See BP Statistical Review of World Energy, June 2016.

forward the cluster of 'oil industrializers' (Iran, Algeria, and Saudi Arabia) in their economic taxonomy; Grossman (2007) argues for a cluster of political economies titled 'distributive oil-rich monarchical model', which comprises of UAE, Kuwait, Saudi Arabia, Oman, and Bahrain. Hence, oil endowment is one of the demarcation lines for understanding variation in the political economies of the region.

Group 1 countries (Egypt, Tunisia, Georgia, Ukraine, Turkey, Morocco, Lebanon, and Jordan) are significantly distinguishable from other clusters in terms of oil rent. Even though the oil rents of Egypt constitute 24 percent of its GDP, Egypt's proven total oil reserves only amount to 0.2 percent of global oil reserves.[25] Thus, it is justifiable to categorize Egypt in this cluster. In addition to MENA countries, Ukraine and Georgia are also clustered in Group 1, which is marked by its low level of oil endowment. As the average oil rent (as percent of GDP) corresponds to 7.13 percent for Group 1 countries, this amounts to 65.50 percent, 74.17 percent, and 86.80 percent for Group 3, Group 2, and Group 4 countries, respectively (see Figure 7).

Figure 7: Oil Rent as percent of GDP.



Source: World Bank

[25] See BP Statistical Review of World Energy, June 2016.

The records of economic liberalization since 1980s vary by oil endowments in the region. In comparison to non-oil economies, the low-population oil exporters were not compelled to introduce protectionist trades regimes or did not experience debt crises to the same degree (Cammett 2013, 195). The political economies of oil-rich countries are marked by a different kind of social contract – governments in oil-rich countries can guarantee citizen support through generous welfare provision and curtail political liberalization by relying on external rents (Kamel 2001, Desai et al. 2008). The sustainability of social contract hinges upon the sustained external income. The historical periods of war and prosperity in one of the Group 4 countries, Algeria, exemplifies this social contract. The decrease in oil revenues in the 1980s, high level of external debt, and a chronic deficit combined to exacerbate the food crisis, and this led to widespread riots in October 1988. In striking contrast with that time period, in January 2011, violent protests that began in Algiers and Oran, the two largest cities, were suppressed with much more ease thanks to new redistribution and welfare policies promulgated by the government. The financing of these policies was possible in part due to a budget surplus of $200 billion, thanks to increasing oil prices (Addi 2013, 438).

To recapitulate, oil endowment bifurcates this set of countries. However, my typology also indicates variation in the political economies of oil-rich regimes. As Middle Eastern studies are plagued with an overemphasis on the oil/non-oil distinction, this typology provides a unique insight into our understanding of the political economies of countries with a high level of oil endowment. While Middle Eastern countries establish two different oil-rich clusters (Group 2 and Group 4), oil-rich post-Soviet countries (Belarus, Kazakhstan, Russia, and Azerbaijan) construct another (Group 3). These clusters of countries differentiate from each other with respect to the other institutional domains of political economy.

Foreign Direct Investment

Foreign direct investment (FDI) is one of the vital sources of financing. As stock market and domestic credit are the primary sources of investment for liberal market economies and coordinated market economies, respectively, the provision of capital via FDI is a key feature of dependent market economies (Nölke & Vliegenthart 2009). In contrast with East European countries (Czech Republic, Hungary, Poland, and the Slovak Republic), the MENA region has been historically unsuccessful at attracting foreign direct investment (FDI) in sectors other than tourism and petroleum (Bellin 2004). This trend has been consistent from 1989 onwards (Stevenson 2010, 62). This underutilization can be attributed to the fact that restrictions on foreign firms entering service sectors in MENA countries are among the highest in the world (World Bank 2014, 54). Russia was also an exception to the FDI globalization over the past decade (Fabry & Zeghni 2002), signaling a lack of business opportunities, less lucrative and appealing local business environment, and higher risk perceptions. Despite this general trend in the MENA and post-Soviet countries of interest, there is a certain level of variation across countries in these regions.

Firstly, Group 1 countries (Morocco, Ukraine, Egypt, Tunisia, Jordan, Lebanon, Georgia, and Turkey) on average outperform other clusters of countries in terms of FDI attractiveness, measured by FDI inflow as percent of GDP, FDI inward/outward ratio, and FDI stock as percent of GDP (see Table 10 & Figure 6 & Figure 8). On the other hand, Group 4 countries (Algeria, Yemen, Iran, Iraq, and Libya) are the worst performing countries for attracting FDI. The reason for their underperformance is straightforward – as of the time of writing, Libya[26] and Yemen[27]

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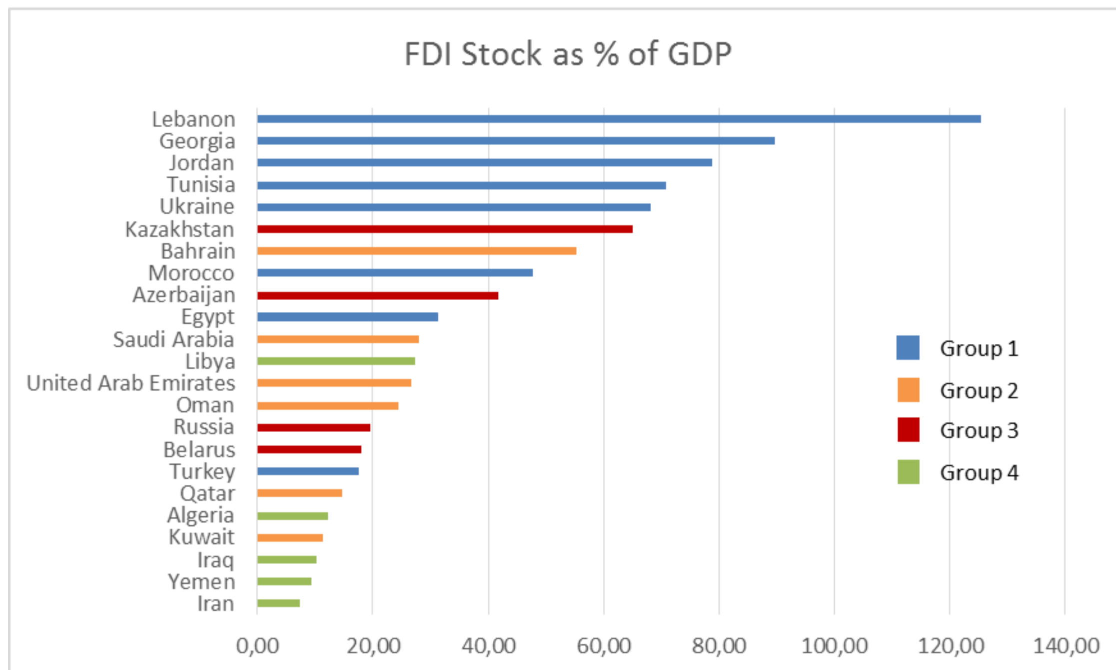
[26] See CFR Global Conflict Tracker, https://www.cfr.org/global/global-conflict-tracker/p32137#!/conflict/civil-war-in-libya

suffer from civil war; Iraq[28] struggles against ISIS; and Iran[29] is still experiencing the repercussions of the long-standing international sanctions which curb its FDI operations.

Figure 8: FDI Stock as percent of GDP (Clusters)



Source: UNCTAD

The success of Group 1 countries for attracting FDI can be linked to their legal and regulatory frameworks that facilitate foreign investment, and their historical genealogy of industrialization. For instance, Lebanon has traditionally been open to FDI. A foreign investor may establish a business, participate in a joint venture, or establish a subsidiary of their company under the same conditions as a Lebanese national without difficulty, except for land acquisition. However, even those restrictions for foreigners on land acquisition were eased and amended by Law. No. 296 in 2001 that aimed to encourage investment in Lebanon, particularly in the tourism

[27] Laub, Zachary. 2016. "Yemen in Crisis". CFR Backgrounders, April 19. http://www.cfr.org/yemen/yemen-crisis/p36488
[28] Malsin, Jared. 2014. "The Next War for Iraq". Time. http://time.com/isis-mosul/
[29] Morello, Carol, and Karen DeYoung. 2016. "International sanctions against Iran lifted". Washington Post, January 16.

sector, and permit foreigners to acquire up to 3000 square meters of real estate without any prior approval (Bureau of Economic and Business Affairs 2016).

Jordan is also largely open to foreign investment. Jordan's current investment law treats foreign and local investors equally, except for publishing, customs clearance services, and investigation & security services. With regards to ownership and participation in Jordan's major economic sectors, there is no legal discrimination against foreign participation. In fact, many Jordanian businesses actively seek engagements with foreign partners, which often lead to employment opportunities and positive spill-over prospects. The available evidence suggests that the Jordanian reform policies that removed restrictions to FDI in the service sectors generated employment growth and entailed spillovers for young firms (World Bank 2014, 56). However, the lack of discrimination against foreigners does not necessarily imply good governance. These foreign companies have reported hidden costs due to bureaucratic red tape and conflicting regulations (Bureau of Economic and Business Affairs 2016). In this vein, Jordan ranks 117th in the World Bank Ease of Doing Business Index.

Tunisia has historically encouraged export-oriented FDI – in the beginning of the 1970s, Tunisia initiated trade liberalization earlier than other Middle Eastern countries. From 1986 onwards, its structural adjustment program entailed a partial transition to export-oriented industrialization hand-in-hand with a liberalization of the economy (Cammett 2013, 197). Currently, more than 14,000 foreign companies operate in Tunisia, mostly in energy, electric & electronic industries, and finance. In addition to offshore incentives, Tunisia provides specific incentives to promote regional development, R&D, education, transport, and health (Bureau of Economic and Business Affairs 2016).

On average, Group 3 countries (Azerbaijan, Kazakhstan, Belarus, and Russia) perform better than other oil-rich countries, measured by FDI inflow as percent of GDP, FDI stock as percent of GDP, and FDI Inward/Outward Ratio (see Figure 6). Interestingly, Kazakhstan, Belarus, and Russia are the founding members of Eurasian Customs Union, which is a major constituent of regional trade.[30] Kazakhstan is usually considered to have one of the best investment climates in the region, as numerous international firms have established their regional headquarters in Kazakhstan, which ranks 35th in the World Bank Ease of Doing Business Index. The national trade law does not usually discriminate foreign investors against national investors (Bureau of Economic and Business Affairs 2016). Between 2005 and 2015, the country attracted USD 215 billion worth of FDI. China's ambitious policy to develop a new "Silk Road"[31] also plays an important role for the high level of FDI in Kazakhstan. Be that as it may, regional conflicts, sanctions imposed upon Russia, and corruption are still obstacles for FDI operations. As a consequence, FDI inward flow decreased from 10,321 million USD in 2013 to 4,021 million USD in 2015.[32]

Azerbaijan imposes above-average restrictions on foreign equity ownership, in comparison with Eastern Europe and Central Asia countries, and the government exerts extensive control over key sectors such as agriculture, communications, oil, and mining (Bureau of Economic and Business Affairs 2016). However, the government has been relentlessly encouraging foreign investment through certain reforms – foreign investments are under legal protection granted by the Law on Protection of Foreign Investment that stipulates equal treatment

[30] http://www.eurasiancommission.org/
[31] Frolovskiy, Dmitriy. 2016. "Kazakhstan's China Choice". The Diplomat, July 06. http://thediplomat.com/2016/07/kazakhstans-china-choice/
[32] Source: UNCTAD, 2016.

between foreigner and national investors. The biggest share of the foreign investment is directed to the oil and gas sector in Azerbaijan.

Group 2 countries (Qatar, Saudi Arabia, Oman, United Arab Emirates, Bahrain, and Kuwait) are on average outperformed by post-Soviet oil-rich countries (Group 3) and non-oil political economies (Group 1). For instance, even though Bahrain's FDI stock corresponds to 55.3 percent of its GDP, its FDI net inflow was negative in 2016. Bahrain has a liberal approach to foreign investment (Bureau of Economic and Business Affairs 2016), which is demonstrated by its regulation that permits 100 percent foreign ownership of industrial entities and a low level of tax regulations. However, FDI in Bahrain has been constrained by recent political instability in the country.[33] The conflict between the Sunni monarchy and Shia opposition (Al-Wefaq Party) is not a new development – for decades Bahrain's majority Shia population have accused Sunni rulers of discrimination in the hiring processes, housing sector, and political firmament. As the political tension between these sectarian groups exacerbates, it becomes increasingly challenging to ensure FDI inflow into Bahrain.

In order to achieve economic diversification, the government of Saudi Arabia has made certain progress in attracting foreign investment. There is significant foreign investment, especially in the downstream energy sector, exemplified by ExxonMobil's and Shell's investments with Aramco.[34] However, there are certain major limitations to FDI in Saudi Arabia. Firstly, the policy of Saudization, aka the *Nitaqat policy*, which was enacted in 2011, requires Saudi private-sector firms to meet specific employment quotas for Saudi nationals, and applies to all private sector firms with more than ten employees (Peck 2014). This policy is one of the

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[33] The Economist. 2017. "Bahrain is still hounding its Shia", January 19. http://www.economist.com/news/middle-east-and-africa/21715023-protesters-are-cowed-repression-carries-bahrain-still-hounding-its

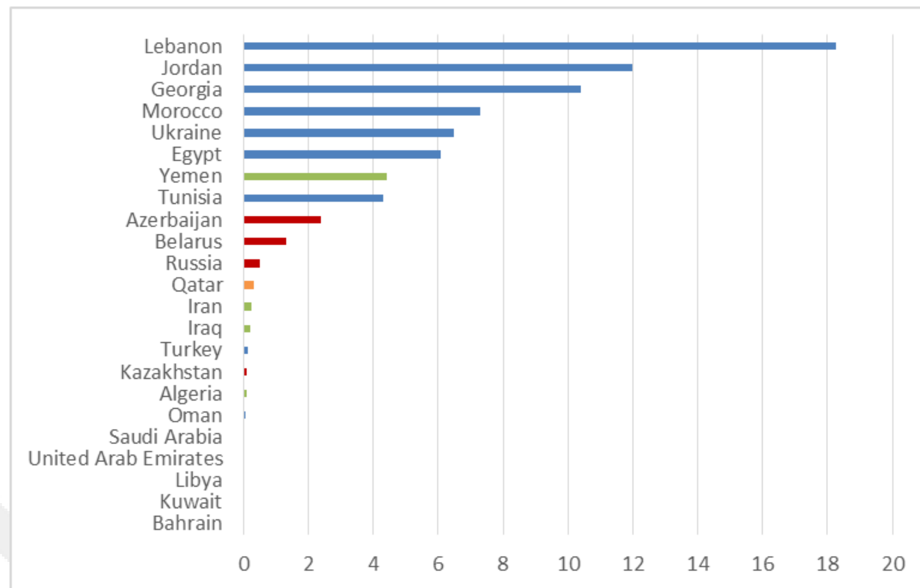
[34] See http://www.shell.sa/en_sa/about-us/who-we-are/sasref.html

factors that has curtailed FDI in Saudi Arabia. Secondly, the regulations exclude foreign investors from some economic sectors and place some limits on foreign control (Bureau of Economic and Business Affairs 2016).

Remittances

Remittance inflow provides an alternative source of financing, which can be construed as a hallmark for a certain set of political economies. For example, Drahokoupil and Myant (2015)'s analysis of transition economies in Russia, Eastern Europe, and Central Asia yield a distinct type of transition economy called 'remittance/aid-based economies'. In fact, remittances constitute a more important source of revenue in the Middle East than in other regions of the Global South with the exception of South Asia, and were higher than the global average (Cammett 2013, 172). In the region, remittances flow from oil-rich countries in the Gulf to the poorer and labor-abundant countries, which is a key dimension for understanding the variation in the political economies across the region. While Jordan and Lebanon are heavily reliant on remittances, this is not the case for oil-abundant countries such as Bahrain, Kuwait, and the United Arab Emirates (see Figure 9). This variation is also reflected in the clustering of MENA and post-Soviet countries' political economies.

Figure 9: Remittance Inflow as percent of GDP



Source: UNDP.

Group 1 countries (Morocco, Ukraine, Egypt, Tunisia, Jordan, Lebanon, Georgia, and Turkey), on average, outperform all other clusters in terms of remittance inflow. Therefore, remittances as a source of financing can be construed as a key defining feature of this type of political economy.

Lebanon ranks first regionally and 17th globally in terms of remittances inflow.[35] Remittances represent a significant portion of the country's GDP, and help the government to alleviate current account deficit,[36] which is one of the most challenging issues that Lebanon faces. In 2015, Lebanon's balance of payments recorded its largest deficit of the last decade.[37] There are approximately 400,000 Lebanese workers in the Gulf region, compared to the overall workforce in Lebanon of around 1.5 million workers. Lebanese workers in the Gulf countries

[35] Source: World Bank.
[36] Interestingly, the Syrian war has mixed impact on Lebanese trade. Cali et al. (2015) argue that the fall in Lebanese merchandise exports seems to have been caused by factors unrelated to the Syrian war.
[37] Blominvest Group. 2015. "Lebanon's BoP Registered the Largest Q1 Deficit in a Decade at $850.2M".

remit as much as $5 billion annually, and more than half of this amount comes from Saudi Arabia.[38] Needless to say, the plunging price of oil[39] has also had negative effects on the level of remittances. Furthermore, as Lebanon recently got caught in a proxy war between Saudi Arabia and Iran (see Ryan 2012), there is a growing concern among Lebanese officials that Saudi Arabia might expel Lebanese workers in the Gulf, which would be a major blow to the country's economy.[40] Moreover, construction mega-contractor Saudi Oger company, owned by former Lebanese Prime Minister Saad Hariri, currently faces multi-billion-dollar debt restructuring, which ultimately threatens the employment prospects for over 9,000 Lebanese workers in Saudi Arabia[41] as well as deteriorates Lebanon's expatriate remittance inflow.

Remittance inflows also demarcate oil-rich regimes – post-Soviet oil-rich regimes (Azerbaijan, Russia, Belarus, and Kazakhstan), on average, receive more remittances than other oil-rich countries. The linkages among these post-Soviet countries, as demonstrated by Eurasian Customs Union, are crucial for understanding remittance dynamics in the post-Soviet region. For instance, 90.2 percent of Belarusian labor migrants work in Russia – as a consequence, more than 57 percent of remittance inflows into Belarus came from Russia in 2011. By the same token, Russia absorbs 38.4 percent of the total remittances outflows from Belarus (Valetka 2013, 18). Hence, the remittance share of Belarusian GDP is highly associated with developments in the Russian economy. In 2015, Belarus' economy shrank by 3.9 percent because of recession in

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[38] Nadi, Sami. 2014. "Remittances key for Lebanon's economy", Al-Monitor, November 7. http://www.al-monitor.com/pulse/originals/2014/11/lebanon-expatriate-remittances-boost-economy.html#ixzz4b2MSjl8s
[39] See Krauss, Clifford. 2016. "Oil Prices: What's Behind the Volatility? Simple Economics". The New York Times, December 12. https://www.nytimes.com/interactive/2016/business/energy-environment/oil-prices.html?_r=0
[40] Solomon, Erika, and Simeon Kerr. 2017. "Saudi Arabia turns the screw on Lebanon's economy". Financial Times. https://www.ft.com/content/c8252d98-e200-11e5-9217-6ae3733a2cd1
[41] French, David, Tom Arnold, and Katie Paul. 2016. "Exclusive: Saudi Oger faces huge debt restructuring as rescue talks collapse". Reuters, September 8. http://www.reuters.com/article/us-saudi-oger-restructuring-idUSKCN11E153

Russia and low commodity prices (World Bank 2016b, 79). Moreover, the declining oil prices also had a negative impact on the remittance inflows into the post-Soviet countries, as was similarly the case for Lebanon. The decline in remittances ranges from 25 percent to 35 percent in Belarus, Ukraine, and Georgia (World Bank 2016b, 5).

Domestic Credit

Domestic credit to the private sector refers to financial resources provided to the private sector by financial corporations, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. The financial corporations include monetary authorities, deposit money banks, finance and leasing companies, money lenders, insurance corporations, pension funds, and foreign exchange companies.[42]

Access to domestic credit is essential for private sector development. Therefore, the level of domestic credit as a percentage of GDP is a widely-used indicator for measuring private sector development (see Nölke & Vliegenthart 2009). Usually economies with higher growth rates have also relatively high levels of private sector credits than economies with relatively low growth rates. The main reasons for low private sector credit are crowding out by the public sector and poor regulatory supervision of the banking system (Stevenson 2010, 119). Private investment in the MENA largely lags behind other regions and private-to-public investment ratios in MENA have also remained below world trends (World Bank 2003, 81).

The political economies of the countries in the MENA and post-Soviet regions largely vary by their level of domestic credit to the private sector (see Figure 10). On average, Group 1 countries (Morocco, Ukraine, Egypt, Tunisia, Jordan, Lebanon, Georgia, and Turkey) outpace other clusters of countries in terms of their domestic credit to the private sector, which on average

[42] Source: World Bank Data.

corresponds to 65.21 percent of GDP (see Table 10 & Figure 6). Lebanon, Tunisia, and Jordan largely outstrip other countries with respect to similar indicators such as domestic credit to the private sector by banks as percent of GDP, too, which corresponds to 102 percent, 75.4 percent, and 70.2 percent for Lebanon, Tunisia, and Jordan, respectively.[43] Lebanon has been experiencing a surge in domestic credit for the private sector. The growth of private sector credit was around 20 percent between 2008-2010 in comparison to an annual average of only 6 percent between 2005 and 2007. The Lebanese Central Bank played an important role in boosting the supply of domestic credit by introducing a new scheme that reduces reserve requirements for loans extended to certain sectors.[44]

State-owned banks can still be found in most of the countries, yet due to the privatization process of state-owned banks, they no longer account for the largest share. The banking sector in the region is usually characterized by the presence of family-controlled banks and the presence of company groups which include banks (see OECD 2009). However, the structure of the banking sector exhibits a certain level of diversity across the region, too. The differences among clusters with respect to domestic credit can be ascertained with the asset share of public and private banks as well, which largely reflects the clustering output of this analysis. As in non-GCC private banking-led countries (Egypt, Jordan, Lebanon, Morocco, Tunisia, and Yemen) the asset share of state banks constitute only 28 percent, the average score reaches 86 percent for a group of countries that comprises of Algeria, Libya, and Syria (Farazi et al. 2011).

Among oil-rich countries, Group 2 (Qatar, Saudi Arabia, Oman, United Arab Emirates, Bahrain, and Kuwait) has on average a relatively higher level of domestic credit to the private

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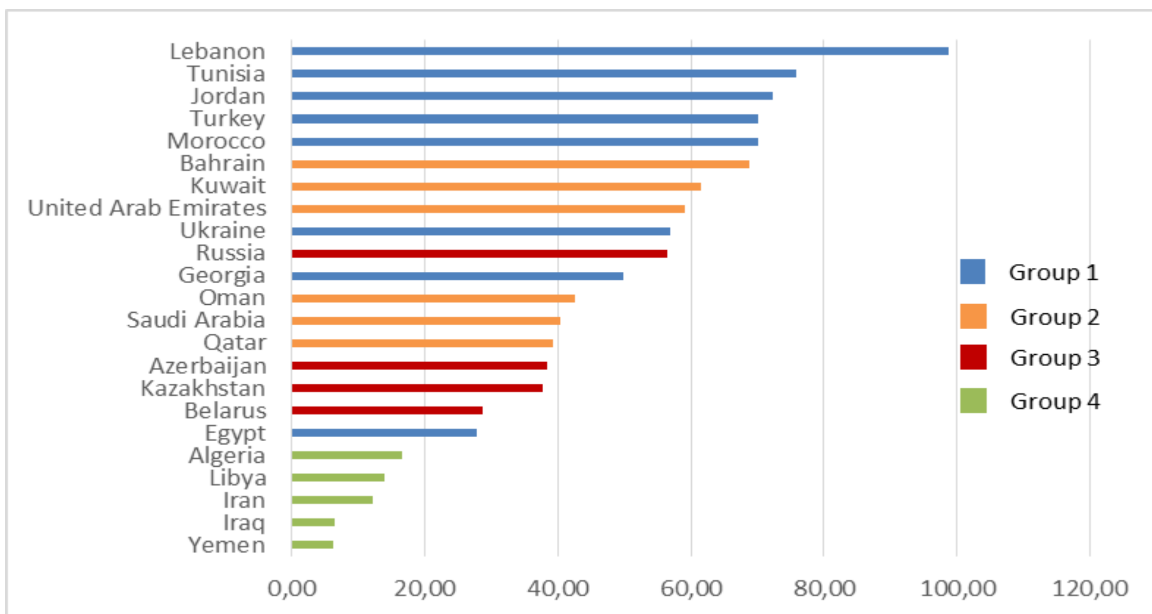
[43] Source: Ibid.
[44] Blominvest Bank. 2012. “IMF Selected Issues – Private Sector Credit Growth in Lebanon: Supply or Demand Driven”. March 3.

sector than the other clusters of oil-rich countries (see Table 10 & Figure 6). The recent trends in the Qatari private sector credit growth can be illustrative - in December 2015 loans to the private sector increased by 19.7 percent year-on-year, since the steady increase in government withdrawals has had a major impact on the country's loan-to-deposit ratio.[45]

Figure 10: Domestic Credit to the Private Sector as percent of GDP



Source: World Bank, last available year.

Industrial Relations

Industrial relations refer to coordination realms between state, employers & employer unions, and workers & trade unions. The level and mechanisms of wage bargaining, the level of labor market protection, the threshold of the minimum wage, and the hiring/working/firing conditions of the labor force is determined within this institutional domain, which in turn affects productivity levels and macroeconomic indicators (Hall & Soskice 2001). In other words, labor

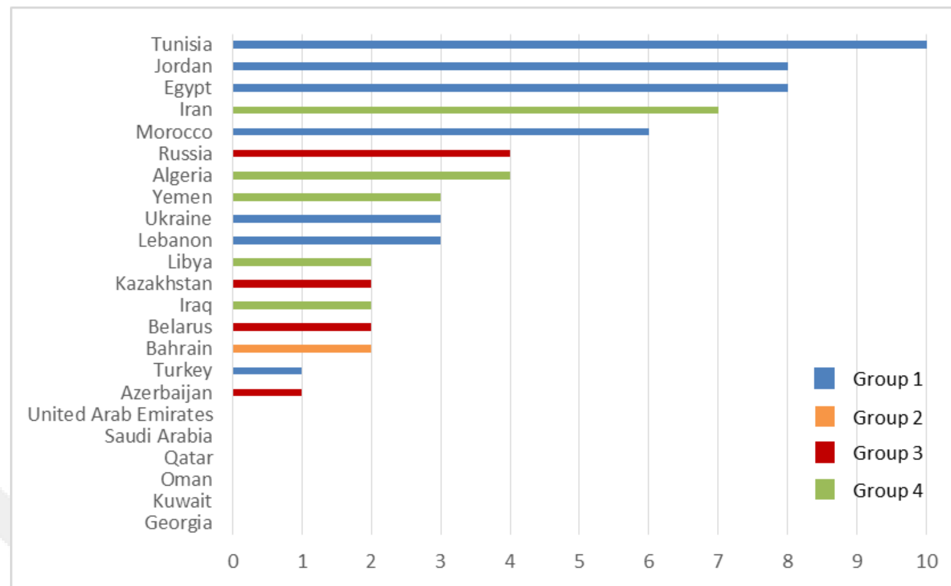
[45] Oxford Business Group. 2016. "Bank lending in Qatar is on the rise". https://www.oxfordbusinessgroup.com/analysis/larger-loan-book-bank-lending-particularly-private-sector-rise

regulation not only protects workers' rights, but also influences the flexibility within the labor market. The existence of fixed-term contracts, the requirement of advance notice, the provision of severance payments, and the high levels of minimum wage are key determinants for the degree of labor market rigidity. Protective labor legislation, particularly concerning worker's dismissal, is usually associated with higher levels of informality and youth unemployment, and lower levels of productivity (Angel-Urdinola & Kuddo 2010). Likewise, high wage levels also negatively affect employment and exacerbate informality (Chaaban 2013, 24).

The Middle East as a whole has the lowest levels of labor protection in the world (Cammett & Posusney 2010). But the sub-grouping of political economies exhibit wide variations. The clustering of countries suggests that Group 1 countries (Morocco, Ukraine, Egypt, Tunisia, Jordan, Lebanon, Georgia, and Turkey), on average, also differentiate from oil-rich countries with respect to the level of labor market protection (see Table 10 & Figure 6). While their average difficulty of redundancy score corresponds to 4.88 (out of 10), this score amounts to 0.33, 2.25, and 3.6 for Group 2, Group 3, and Group 4 countries (see Figure 11). For instance, in Egypt, Jordan, and Morocco, 13.3 percent, 13 percent, and 12.3 percent of firms identify labor regulations as a major constraint for their operations, respectively.[46]

[46] World Bank, Enterprise Surveys, Workforce. Last available data.

Figure 11: The Difficulty of Redundancy Index



Source: World Bank. Based on author's calculation.

An important insight into the variation among oil-rich countries is the fact that these countries with high levels of oil endowment also differ from each other with respect to the level of labor market protection. Group 2 countries (Qatar, Saudi Arabia, Oman, United Arab Emirates, Bahrain, and Kuwait) in particular implement relatively more flexible labor market policies compared to other oil-rich regimes, as indicated by their difficulty of redundancy scores. The Employing Workers Index (EWI) of the World Bank also supports this finding – mainly the GCC countries such as Saudi Arabia, Qatar, Oman, United Arab Emirates and Kuwait have very low EWI scores (Angel-Urdinola & Kuddo 2010), which also attests to the criterion validity of the difficulty of redundancy index employed in this analysis.

Trade union density rates also denote the differentiation among oil-rich countries. The trade union density rate refers to the number of employees who are union members divided by the total number of employees. While this score corresponds to 49.2 percent and 27.8 percent in

Kazakhstan and Russia, respectively, Kuwait has a trade union density rate of only 2.3 percent.[47] In terms of minimum wage requirements, the patterns are robust, too. While Qatar, United Arab Emirates, Bahrain, and Saudi Arabia have not promulgated any regulations for minimum wage in the private sector, the ratio of minimum wage to value added per worker[48] amounts to 0.54, 0.39, and 0.38 in Tunisia, Jordan, and Lebanon, respectively; and 0.3, 0.2, and 0.2 in Russia, Kazakhstan, and Belarus, respectively. The analysis of cluster averages in the ratio of minimum wage to value added per worker yields similar results – while the average ratio corresponds to 0.36 for Group 4 countries (Algeria, Yemen, Iran, Iraq, and Libya), this amounts to only 0.05 for Group 2 countries.

A similar variation among these political economies can also be observed with regards to the ratification of ILO conventions. The number of ILO conventions in effect reflects the institutional restrictions for the promulgation of laws related to labor issues. As Rudra (2007) claims, a low number of ratified ILO conventions might exhibit a low level of labor market protection. As illustrative cases, Oman, Qatar, United Arab Emirates, and Bahrain have respectively 4, 6, 9, and 10 ILO conventions in force, while Egypt and Russia have 63 and 54, respectively.[49] Yet a convention ratification does not necessarily imply full protection, since it is open to dispute whether they are really implemented and enforced. For instance, during the decades-long negotiations for the new labor law of Egypt that was finally promulgated in 2003, in order to address the issue of excess workers in the public sector, the early retirement scheme was introduced, which workers are supposedly able to take voluntarily. However, several complaints have been reported that workers are being "forced" to take this early retirement

[47] ILOSTAT Industrial Relations, last available data.
[48] World Bank, Doing Business, Labor Market Regulation 2015.
[49] ILO Normlex.

package (Pacynzska 2006, 57). Convention 87 exemplifies this point further – both Syria and Egypt ratified this convention, but they only allow for one trade union confederation, which directly violates the convention (Cammett & Posusney 2010, 259). As a consequence, in addition to the *de jure* aspect of labor market standards, their de facto implementation should be emphasized, too.

De facto labor standards are measured with the freedom of association; the right to bargain collectively; the right to strike; unfair labor practices; the murder of trade unionists; harassment, intimidation, detention, arrest, or the forced exile of trade unionists; violations of rights to union formation and/or collective bargaining in export processing zones (Stallings 2010, 147). While Group 1 countries' average of de facto labor standards corresponds to 46.33 percent, this amounts to 31.37 percent for Group 2 countries.[50]

Regulatory Framework

Better governance implies higher levels of accountability and inclusiveness. The former refers to transparency and accountability of governments, and the latter signifies an equal treatment by the government and participation of all stakeholders in relevant regulatory processes. Any measurement of governance usually comprises of several dimensions, such as the efficiency of bureaucracy, the protection of property rights, the level of corruption, and the quality of regulations.

When compared to other countries with similar incomes and characteristics, the MENA region ranks at the bottom of the index of overall governance quality scores (World Bank 2003, 5). In Egypt, for instance, 71.9 percent of firms reported that they are expected to give gifts to get an operating license, in comparison with a global average of 14.4 percent. In Morocco, 20.6

[50] Based on author's calculations. For details, see Stallings (2010) and Cammett & Posusney (2010).

percent of firms ranked corruption as the foremost obstacle to the flourishing of business environment. This is also the case for oil-rich post-Soviet countries. In Kazakhstan, 19.3 percent of firms ranked corruption as the top obstacle to the business environment. By the same token, in the Russian Federation, 33.1 percent of firms identified corruption as a major constraint for investment climate.[51]

Besides bureaucratic red tape and corruption; high administrative burdens, opaque and conflicting regulations and non-transparent tax authorities inhibit job creation and reduce growth opportunities. Since 1980, the average annual per capita economic growth of the MENA region as a whole has been 0.9 percent, even less than that of Sub-Saharan Africa. The World Bank (2003) argues that the governance gap in the region is the underlying reason for the growth gap, since governance quality ultimately influences the investment environment and private sector development. As an illustrative case, the World Bank (2014, 61) argues that this kind of negative regulatory framework is the major obstacle for job creation among Moroccan manufacturing firms. Moreover, the testimony of a former hotel owner in Morocco attests to the repercussions of extensive corruption and the opaque regulatory environment:

> *"To attract more clients, especially foreign visitors, I really needed a restaurant. The problem is that according to our laws, I needed a separate license for the restaurant. The hotel license was not enough. I eventually got it. I invested $200,000 in furniture and equipment. When I was ready to start, the whole venture collapsed: a representative of one of the four government agencies regulating the tourism industry visited the hotel, claimed that the license for the restaurant was not enough, and requested a large bribe for another license. I refused and decided to leave the hotel business. I am now leasing my property on a long-term contract—a line of business that is regulated by only one government agency"* (World Bank 2014, 62).

[51] World Bank Enterprise Surveys. See http://www.enterprisesurveys.org/

Despite this salient regional trend, the MENA also exhibits certain level of diversity with respect to governance quality. The results of the clustering of political economies in regards to governance quality have been mixed (see Table 10 & Figure 6). If the governance quality is measured by the governance quality index that measures corruption perceptions, regulatory quality, and rule of law (see Chapter IV), then Group 2 countries (Qatar, Saudi Arabia, Oman, United Arab Emirates, Bahrain, and Kuwait), on average, outstrip other clusters of countries, as the average governance quality score corresponds to 1.45, -0.56, -1.77, and -3.46 for Group 2, Group 1, Group 3, and Group 4 countries, respectively. If the governance quality is measured by distance-to-frontier scores and Ease of Doing Business Rankings, Group 3 countries (Azerbaijan, Kazakhstan, Belarus, and Russia) outperform other clusters on average. The average distance-to-frontier score corresponds to 72.63 for Group 3 countries, while this score is equal to 69.21, 65.47, and 49.15 for Group 2, Group 1, and Group 4 countries. In any case, Group 4 countries (Algeria, Yemen, Iran, Iraq, and Libya) are the worst performers in terms of governance and regulatory quality, which would be an important dimension to distinguish this set of countries from other clusters or types of political economies.

The case of Iraq illustrates the lack of regulatory quality and the extent of corruption in this cluster of countries. Iraq's governance quality score corresponds to -3.98, one of the worst performing countries in the MENA. Iraq also ranks 156th in the World Bank Ease of Doing Business Index, slightly better than Libya and Syria. Iraq also ranked 166 out of 176 on Transparency International's 2016 Corruption Perception Index[52]. Public corruption is a major obstacle to private sector development in Iraq, which is pervasive in government procurement, the awarding of licenses and concessions among others. Iraq's regulatory environment is

[52] See http://www.transparency.org/news/feature/corruption_perceptions_index_2016

relatively opaque due to unclear and conflicting regulations and high bureaucratic requirements (Bureau of Economic and Business Affairs 2016). Bin Ismail & Abbas (2015) conducted a survey about the perceptions of corruption among the employees of the Ministry of Agriculture, Ministry of Finance, and Ministry of Justice in Iraq. The findings are self-explanatory – more than 38 percent of the public servants claimed that the government had not enshrined any principles of good governance since 2003. Almost half of the respondents asserted that job satisfaction among employees in the public sector aggravated corruption.

A Hybrid Case: Turkey

Different model specifications with alternative variables have been tested for the cluster analysis to ascertain the stability and reliability of the clustering results. In order to operationalize FDI, the FDI stock as percent of GDP; FDI inflow as percent of GDP; and FDI inward/outward ratio have been incorporated into the models interchangeably. Similarly, alternative specifications are implemented for measuring governance quality with governance quality index, distance-to-frontier score, and ease of doing business ranking. The level of development is also measured differently with different model specifications via the HDI ranking, HDI score, and GNI per capita. The cluster outputs proved to be stable with the notable exception of Turkey. While Turkey is classified into the Group 1 cluster in certain modifications, it is categorized in Group 3 in others. This presents an intriguing hybrid case.

It may be contentious to make a comparison between Turkey and post-Soviet and MENA ‘non-market economies’. Şener (2006) compared the case of Turkey with other European countries to situate it within the families of European welfare regimes. Bölükbaşı (2012) claims that Turkey should be compared with advanced industrial economies, and the analytical categories such as mixed market economies, state capitalism, and the South European model

might be useful for this kind of academic scrutiny. Moreover, the Bertellsmann Transformation Index (BTI) examines 129 countries' state of economic transformation with respect to their level of socioeconomic development, organization of the market and competition, currency and price stability, private property, welfare regime, economic performance, and sustainability. Turkey meets the BTI criteria for a functioning market economy.[53] In fact, Turkey is the only country that satisfies those criteria among the countries of interest in this analysis.[54]

I argue that Turkey can still be compared with MENA and post-Soviet countries' 'non-market types of capitalisms'. Firstly, the Ottoman legacy is one of the benchmarks of studying Turkey along with the MENA countries. Secondly, the Turkish political economy has already been extensively studied with reference to the literature on developing contexts, including Latin American (see Öniş 2006) and East Asian political economies (see Öniş 1998). Hence, Turkish political economy constitutes a "crucial case", which would allow conceptual borrowing from different bodies of literature and hypothesis testing for different contexts (Bölükbaşı 2012, 342).

The Turkish political economy has been shifting its grounds since 2011. Its governance quality has deteriorated in time – Turkey ranked 55th in the World Bank Ease of Doing Business Index in 2015, while it ranked 69th in 2016. The trust in institutions has also languished. In 2013, less than half of the urban population expressed confidence in the national government and judiciary system.[55] Moreover, according to the findings of World Bank Enterprise Surveys, 18.6 percent of firms expected to have to give gifts in order to secure government contracts to proceed

[53] See Bertelsmann Transformation Index 2016. https://www.bti-project.org/en/index/status-index/
[54] However, BTI treats all these countries as market economies, and states that their market development only differs in degrees, not in kind. In other words, the index assumes a unidirectional approach in market development & liberalization. Yet, the structural adjustments and liberalizations of these countries did not entail a market economy with flaws, but rather a different type of "non-market capitalism" (Schlumberger 2008). One reservation is warranted – "non-market" is an over-emphasis, since this form of capitalism also involves market relations.
[55] Sonnenschein, Jan. 2013. "Urban Turks' Trust in Major Institutions Drops Sharply". Gallup, August, 15. http://www.gallup.com/poll/163979/urban-turks-trust-major-institutions-drops-sharply.aspx

with their operations. The networks of patronage have become increasingly entrenched due to the 15-year rule of the AKP government, which is brilliantly and meticulously portrayed by the Network of Dispossessions.[56] This is a website that exposes partnerships of private corporations and governmental institutions in Turkey via mega projects such as hydroelectric power, urban transformation projects, and the third airport. Özcan and Gündüz's (2014) analysis is particularly intriguing in this vein. They examine the impact of the political connectedness of firms to the incumbent government on their industry rankings in Turkey between 2003 and 2011. They measured 'political connectedness', by noting whether one of the company's shareholders or top managers was a member of parliament for the AKP, a minister or the head of state, or whether the company is affiliated with MUSIAD or TUSKON. Their findings show that, under the AKP rule, firms with political connections have, on average, recorded abnormal performances compared to non-connected firms in terms of increase in sales, value added and profit rate.

By the same token, Somer (2016b) examines the recent 'authoritarian turn' in Turkey and argues that shifts in the political economy have generated a new kind of state-society relationship, in which political power becomes more particularistic, personalized, and mass-based. Turkey's political economy of transition, characterized by counter-elite enrichment and transformation of ownership under AKP rule, can be detected in different sectors in particular, including communications, construction, energy, mining, and media. The emergent networks of patronage stemmed from selective and crony privatizations, and lucrative tenders in an unprecedented fashion.

In terms of its economic redistribution patterns, the political economy of the AKP era can be construed as a "social and regulatory neoliberalism" (see Öniş 2012). On the one hand, the

[56] See http://mulksuzlestirme.org/about/

AKP has promoted a particularistic form of redistribution that only favors insiders close to the party's networks. This new welfare model engenders a new form of social exclusion, in which benefits are believed to hinge upon the association with the incumbent government, instead of impersonal state institutions (Somer 2016b, 10). Concomitantly, the clientelistic patterns of economic distribution have been examined in the literature (see Tekeli & Kaplan 2008, Yavan 2012, Aytaç 2013). Simultaneously, government expenditures in health and education through formal channels have also significantly increased. All in all, it is justifiable to situate Turkey's recent political economy into patrimonial capitalism sub-categories.

The findings for the clustering of Turkish political economy in regards to financing have been mixed. If oil endowment is taken into account, Turkey should be categorized with Group 1 countries (Egypt, Tunisia, Georgia, Ukraine, Morocco, Lebanon, and Jordan), which can be distinguished from other clusters with respect to their low levels of oil rent. Turkey's level of domestic credit to the private sector is also more attuned to Group 1 clustering. While Morocco's, Jordan's, and Tunisia's domestic credits to the private sector constitute 70.17 percent, 72.33 percent, and 75.74 percent of their GDPs, respectively, this amounts to 70.19 percent for the Turkish economy. However, in terms of foreign direct investment and remittance inflow patterns, Turkey is closer to Group 3 countries (Azerbaijan, Russia, Belarus, and Kazakhstan). For instance, while Russia's and Belarus' FDI stock as percent of their GDPs correspond to 19.48 percent and 18.10 percent respectively, this amounts to 17.59 percent for the Turkish economy.

Regarding the industrial relations as a constituent institutional domain for the business environment, the results have also been mixed for Turkey. On the one hand, Turkey's ratio of minimum wage to value added per worker is as high as 0.54. Moreover, the number of ILO

conventions in force in Turkey corresponds to 52.[57] The level of these indicators designates Turkey as a Group 1 country. On the other hand, Turkey's trade union density is 6.3 percent, which is considerably lower than Egypt (27.5 percent), Kazakhstan (49.2 percent), and Ukraine (42.1 percent) density rates.[58] In addition, its difficulty of redundancy score is equal to 1 out of 10, which is much lower than the average of Group 1 and Group 3 countries. In this regard, Turkey does not fit into any cluster.

All in all, Turkey should be treated as a special case in this clustering. But, for the purpose of this analysis, and based on the demarcation line between oil-rich and non-oil regimes, Turkey is cautiously classified as a Group 1 country.

[57] ILO Normlex.

[58] ILOSTAT Industrial Relations, last available data.

Sub-Types of Patrimonial Capitalism

The cluster analysis has produced 4 sub-types of patrimonial capitalism (see Table 12). This finding has important scholarly implications. Firstly, it indicates that patrimonial capitalism is not a monolithic concept – it has its own sub-categories. Related to this, the cross-regional comparison yielded an important insight into the dynamics of patrimonial capitalism – that it is not a region-specific form of capitalism which is only relevant for the Middle Eastern context. Different forms of patrimonial capitalism can also be detected in post-Soviet countries. Secondly, the patrimonial political economies are not necessarily endowed with external rent revenues. In fact, the analysis demarcates between oil-rich countries and non-oil countries. Thirdly, and more importantly, oil-rich regimes also exhibit diversity in terms of several institutional domains such as financing, industrial relations, and regulatory framework. As the literature is plagued with studies that focus on merely rent revenues in the light of resource curse literature, this variation attests to the diversity across oil-rich regimes with regards to their institutional settings.

Table 12: A Summary of Cluster Features in Comparative Perspective

	Points of Divergence	
	Group 1 Countries *Egypt, Tunisia, Georgia, Ukraine, Turkey*, Morocco, Lebanon, and Jordan*	**Other Clusters**
Financing	Low level of rent income Relatively high level of FDI Relatively high level of remittances Relatively high level of domestic credit to the private sector	High level of rent income Relatively low level of FDI Relatively low level of remittances Relatively low level of domestic credit to the private sector
Industrial Relations	Relatively high level of labor market protection	Relatively low level of labor market protection

	Points of Divergence		
	Group 2 Countries *Qatar, Saudi Arabia, Oman, United Arab Emirates, Bahrain, and Kuwait*	**Group 3 Countries** *Azerbaijan, Kazakhstan, Belarus, and Russia*	**Group 4 Countries** *Algeria, Yemen, Iran, Iraq, and Libya*
Financing		Relatively high level of FDI among oil-rich regimes	Relatively worst-performing cluster for FDI attractiveness
	Relatively low level of remittances	Relatively high level of remittances among oil-rich regimes	
	Relatively high level of domestic credit to the private sector among oil-rich regimes		Relatively worst-performing cluster for domestic credit to the private sector
Industrial Relations	The lowest level of labor market protection		
Regulatory Framework			Relatively worst-performing cluster for governance quality and regulatory framework
Level of Development	Relatively highest level of development		

The sub-categories of patrimonial capitalism can be labeled as follows: 'non-oil industrializer regimes' (Group 1), 'oil-rich labor flexible regimes' (Group 2), 'oligarch regimes' (Group 3), and 'oil-rich underdeveloped regimes' (Group 4).

Non-oil Industrializer Regimes (Group 1)

The cluster of non-oil industrializer regimes comprises of Egypt, Tunisia, Georgia, Ukraine, Turkey*, Morocco, Lebanon, and Jordan. This sub-category is the cluster with the most differences to the other clusters of patrimonial capitalism with respect to financing and industrial relations. Its distinguishing feature is its low level of rent income that is measured by oil rent as percent of GDP, in striking contrast to the other clusters. As a stylized statement, it is important to note that countries with low level of oil endowment can also display the characteristics of patrimonial capitalism. In terms of diversification of financing sources, non-oil industrializer regimes outperform other clusters. These regimes have relatively high level of FDI inflow, a high level of remittance inflow, and high level of domestic credit to the private sector compared to other clusters. In terms of labor market rigidity and protection, non-oil industrializer regimes also outstrip other clusters with relatively high levels of labor market protection.

Oil-rich Labor Flexible Regimes (Group 2)

The category of oil-rich labor flexible regimes consists of Qatar, Saudi Arabia, Oman, United Arab Emirates, Bahrain, and Kuwait. This sub-category is distinguishable from other clusters in terms of its level of development, labor market flexibility, private sector credit development, and level of remittance inflow. As measured by HDI scores and GNI per capita, oil-rich labor flexible regimes outperform other clusters with regards to their level of development. Another defining feature of this sub-category is the fact that their labor markets are

the most flexible ones among all clusters. Furthermore, this cluster of countries, on average, receives the lowest remittance inflows, in comparison with all other clusters. Lastly, oil-rich labor flexible regimes also perform better than other oil-rich countries with respect to the provision of domestic credit to the private sector.

Oligarch Regimes (Group 3)

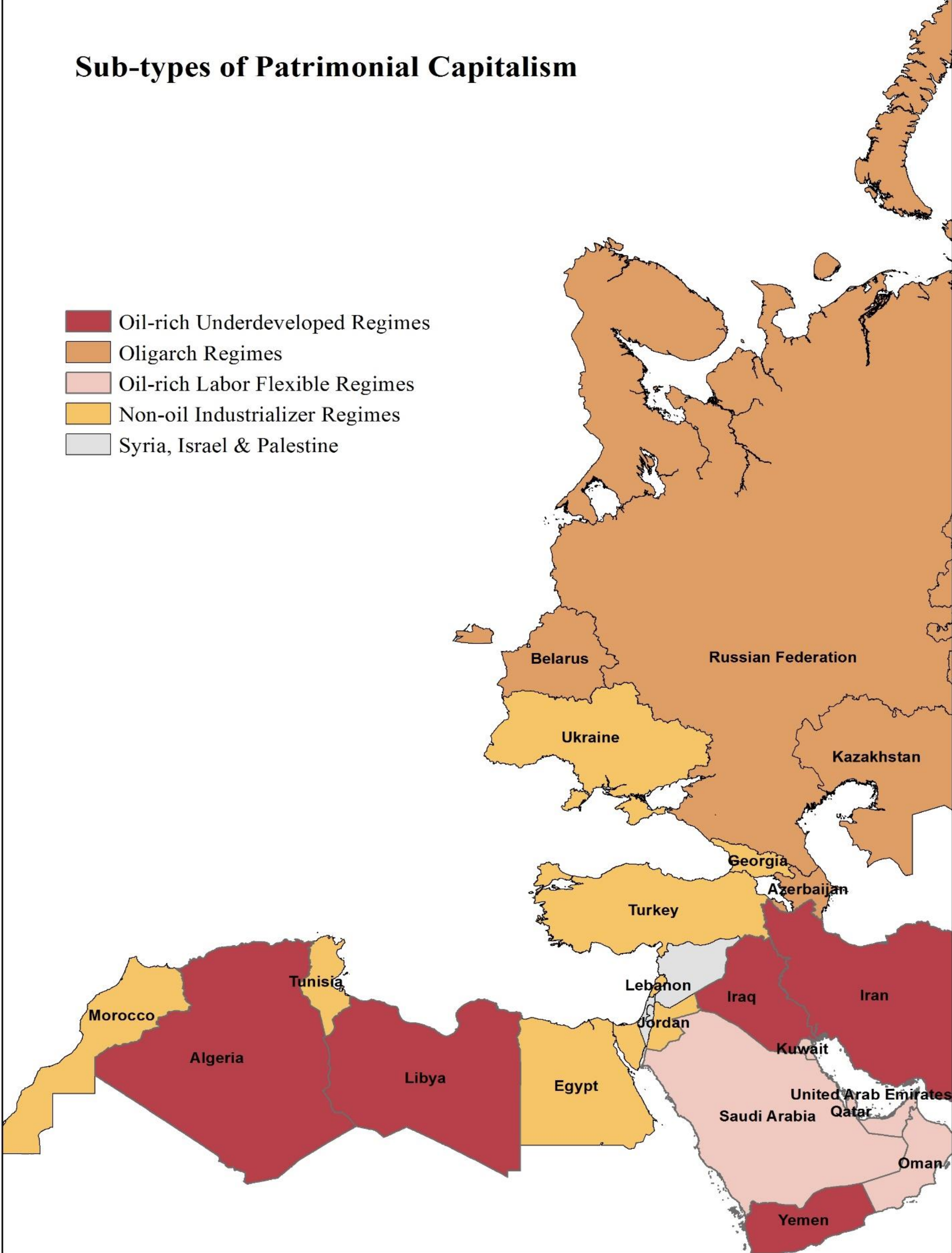
The group of oligarch regimes comprises of Azerbaijan, Kazakhstan, Belarus, and the Russian Federation. It has two distinguishing characteristics pertaining to financing that differentiate this group from other oil-rich regimes. Firstly, oligarch regimes attract relatively higher levels of FDI inflow than other oil-rich countries. In a similar vein, oligarch regimes also receive relatively higher level of remittance inflow than other countries.

Oil-rich Underdeveloped Regimes (Group 4)

The cluster of oil-rich underdeveloped regimes is composed of Algeria, Yemen, Iran, Iraq, and Libya. This category has the most differences among other oil-rich clusters in terms of financing and governance quality. Firstly, oil-rich underdeveloped regimes, on average, are the worst performers to attract FDI among all sub-categories of patrimonial capitalism. Secondly, these countries, on average, also provide the lowest levels of domestic credit to the private sector, compared to other clusters. Finally, regarding governance quality and regulatory framework, oil-rich underdeveloped regimes are the worst performers among all the clusters of patrimonial capitalism.

The next chapter will explore the historical contexts and particular dynamics of four different cases that represent each cluster of patrimonial capitalism.

Map 1: Sub-types of Patrimonial Capitalism



Chapter VI: Cases in Comparative Perspective

Four countries have been selected that are representative of each sub-type of patrimonial capitalism: Tunisia (non-oil industrializer regime), Qatar (oil-rich labor flexible regime), Russia (oligarch regime), and Iran (oil-rich underdeveloped regime) (see Appendix II: Country Profiles). Each case will be analyzed with respect to three institutional domains in the comparative perspective of their specific historical contexts - financing, industrial relations, and regulatory framework - in order to discern the general dynamics of the sub-categories of patrimonial capitalism.

Tunisia, deemed the "only success story of the Arab Spring,"[59] is particularly emblematic of non-oil industrializer regimes with respect to its selective FDI regulations, influential interest groups such as trade and employer unions, and its combat against cronyism and corruption. Besides the fact that Qatar is the epitome of an oil-rich labor flexible regime with its labor codes which ease hiring and firing procedures, high level of oil rents, and high level of economic development, it also exerts vast influence over the political economy of the region with its extensive overseas direct investment in other countries.[60] Russia, with a population of approximately 144 million, 6 percent of the world's proven oil reserves,[61] and the experience of Gorbachevian *glasnost* and new business class ruling over the commanding heights of the economy, Russia exemplifies an oligarch regime. Lastly, Iran has been selected for representing an oil-rich underdeveloped regime because of its unique regime type, the sanctions imposed upon the country because of the nuclear armament conflict,[62] and the vast oil & gas resources, which are constituent elements of Iranian political economy.

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[59] See Malsin, Jared. 2015. "Why the Arab Spring Has Not Led to Disaster in Tunisia". Time, December 18. http://time.com/4154134/arab-spring-tunisia-anniversary/

[60] Amara, Tarek. 2016. "Regional partners pledge billions in help for Tunisia". Reuters, November 29. http://www.reuters.com/article/us-tunisia-economy-investment-idUSKBN13N1KC

[61] BP Statistical Review of World Energy, 2016.

[62] See US Department of State, Iran Sanctions. https://www.state.gov/e/eb/tfs/spi/iran/index.htm

Tunisia

The hallmark of contemporary Tunisian political history is the Jasmine Revolution that erupted in 2011. The self-immolation of a college-educated vegetable seller, Mohammad Al-Bouazizi, triggered the revolution, which eventually toppled Ben Ali, the long-standing autocrat of Tunisia. Ben Ali fled the country on January 14, 2011.[63] However, his Prime Minister, Mohamed Ghannouchi maintained his position. On January 17, he announced a new post-revolution cabinet that included several Ben Ali loyalists in key positions. In the aftermath of new waves of street protests, the composition of the cabinet was altered three times. Eventually, by the end of February, Ghannouchi was forced to resign amid further clashes between the police and protestors, and Beji Caid-Essebsi was appointed as the new prime minister.[64] Since then, Tunisia has been relentlessly struggling for reform, democratic transition, and reconciliation with its authoritarian past. Several bodies have been established in view of that aim, such as *National Commission to Investigate Corruption and Embezzlement* and *Commission of Finding Abuses and Violations* (OECD 2013, 28). In 2015, the Tunisian National Dialogue Quartet, which comprised of four organizations, the Tunisian General Labor Union (UGTT), the Tunisian Confederation of Industry, Trade and Handicrafts (UTICA), the Tunisian Human Rights League, and the Tunisian Order of Lawyers, was awarded the Nobel Peace Prize for its contribution to democratic transition in Tunisia.[65] As of the time of writing, Essibsi serves as president following his victory in the presidential election of 2014. The party that he established, Nidaa Tounes, came

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[63] Chrisafis, Angelique, and Ian Black. 2011. "Zine al-Abidine Ben Ali forced to flee Tunisia as protesters claim victory". The Guardian, January 15. https://www.theguardian.com/world/2011/jan/14/tunisian-president-flees-country-protests

[64] Willsher, Kim. 2011. "Tunisian prime minister Mohamed Ghannouchi resigns amid unrest". The Guardian, February 27. https://www.theguardian.com/world/2011/feb/27/tunisian-prime-minister-ghannouchi-resigns

[65] See the Nobel Peace Prize for 2015, https://www.nobelprize.org/nobel_prizes/peace/laureates/2015/press.html

first in the parliamentary election of 2014. In the wide political spectrum of Tunisia, Nidaa Tounes, which mainly mobilizes secular leftists and progressive liberals, collaborates with the Ennahda Party,[66] the moderate Islamist party founded after the ousting of Ben Ali.[67]

Tunisia is relatively small, middle-income country with an estimated population of around 11 million people. Prior to the Jasmine Revolution, Tunisia was neither an economic miracle nor a full success story, but it was doing better than its neighbors in economic terms. In the last decade it has achieved an average economic growth rate of nearly 5 percent, outpacing other Middle Eastern and North African average (Achy 2011, 4). It is also one of the most trade-liberalized economies of the MENA region (Stevenson 2010, 239). While imports and exports expressed as a percentage of GDP reached over 90 percent, FDI had also increased with the liberalization of telecommunications and banking system prior to revolution. However, the global economic crisis of 2008 affected the Tunisian economy greatly, since it heavily depends on exports to Europe and tourism. In 2011 foreign direct investment inflows fell by 26 percent, and the current account deficit increased to 7.3 percent of GDP, coupled with an unemployment rate of 18.9 percent (Coupe & Redissi 2013). Moreover, by the end of 2010, almost one in four university graduates was not working.

In order to contextualize the mixed record of liberalization and protection, the following factors will be scrutinized - FDI attractiveness, the patronage relationship between the state and business sector in the Tunisian political economy, and the historical genealogy of the constellation of these actors.

[66] For a comparative analysis regarding the relationship between political Islamism and democratization, and situating Ennahda's political strategies within the transition periods in Tunisia, see Somer (2016a).
[67] Amara, Tarek. 2015. "Tunisia approves secular-Islamist coalition government". Reuters, February 5. http://www.reuters.com/article/us-tunisia-government-idUSKBN0L91KB20150205

Historical Context

The history of the Tunisian political economy can be divided into six periods (Coupe & Redissi 2013, 819) - the period of institutional development (1956-1960); the period of nationalization and state planning (1961-70); the period of private-sector promotion and export-oriented institutions (1971-77); the period of economic crisis and adjustment (1978–1986); and the period of structural adjustment and cronyism (1987-2011).

Following the national independence of Tunisia in 1956, Habib Bourguiba established a one-party system, the *Parti Socialiste Destourien* (PSD), on the basis of the Neo-Destour nationalist movement. During the following period of institutional development (1956-60), the government implemented liberal economic policies that promoted nationalization and private-sector investment, hand-in-hand with protectionist measures in the form of prohibitive tariffs, selective credit policies tilted towards the public sector and quantitative restrictions. The pedigree of current interest groups, such as UTICA and UGTT, can be traced back to this period. Producers' associations were limited to the *Union Tunisienne de l'Artisanat et du Commerce*, which later became UTICA. The Tunisian industrial class emerged after independence, and owed its existence and development to the state, which shaped both business interests and the relationship between businesses and the state (Cammett 2007, 55). Moreover, the national labor union, UGTT, was founded in 1946, which pursued a co-optation strategy with the Neo-Destour movement (Bechri & Naccache 2006).

The second episode of the Tunisian political economy (1961-70) was marked by a collectivization drive and central planning of the economy. This was also the period of corporatism, in which the state extended patronage to social organizations. In 1961, Bourguiba assigned Ahmed Ben Salah, former secretary general of UGTT, as the Minister of Social Affairs

and Economy. In this decade, 160 new state-owned enterprises were established (Bechri & Naccache 2006). But despite the state-led development in this period, the state still pursued policies to buttress the private sector, since private enterprises were reluctant to invest in capital-intensive activities. State policies such as import tariffs sheltering the local market from foreign competition and fiscal incentives for businesses laid the foundations for the growth of an indigenous industrial bourgeoisie sector (Cammett 2007).

As a consequence of the fiscal deficit crisis emanating from large wage payments and the collectivization effort, in the third period of the Tunisian political economy (1971-77), the government adopted *infitah* policies that aimed to foster export-oriented economic development. The most significant measure implemented by the state in the 1970s was the '1972 Law,' which promoted exports and foreign direct investment by creating a vast set of incentives, including tax exemptions, for totally export-oriented companies, both foreign and local. This law particularly encouraged foreign investment in the off-shore sector, and as a result foreign investment increased steadily, from 6.75 percent in 1971 to 9.2 percent in 1980 (Cammett 2007, 77). But this export-oriented strategy of economic development did not imply that the government stopped supporting the local private sector. On the contrary, most wealthy families and major private enterprises consolidated their economic base, by capitalizing on public credit programs such as *the Fond pour la Promotion du Developpement Industrie* (FOPRODI), which was established in 1973, and other protectionist measures. In 1978, UGTT orchestrated a general strike, which triggered widespread civil disobedience. With the help of a military colonel, Ben Ali, Bourguiba suppressed the protests and arrested the UGTT leadership. This incident can be construed as the turning point for a new period of the Tunisian political economy looming on the horizon, namely the period of economic crisis and adjustment (1978-86) (Coupe & Redissi 2013).

As both the budget and current account deficits reached alarming levels of more than 7 percent of Tunisian GDP (Bechri & Naccache 2006), in 1981, Hedi Nouira, the Governor of the Central Bank at that time, was appointed Prime Minister because of his commitment to private initiatives. He favored economic adjustment policies. For many businesspeople in Tunisia, the Nouira period was the golden age of business in Tunisia (Cammett 2007). In 1981, for instance, the government promulgated a law that granted incentives to multinational firms that invested in services such as banking, warehousing, and distribution. But alongside this, the marketization and structural adjustment process in the Tunisian political economy encountered resistance from society (see Polanyi 1944). On December 1983, protests erupted and spread across the country when the government announced an increase in the price of semolina. Two days of rioting left more than 150 people dead, as the government called out military forces to suppress it. Eventually, President Bourguiba annulled price hikes for bread, and calm returned.[68] Despite this resistance from society, the government continued to pursue privatization of state-owned assets, limiting public sector employment, and raising subsidized prices (Coupe & Redissi 2013). Eventually, as a dire result of severe balance of payments crisis in 1986, the government signed a Stand-by-Agreement with the International Monetary Fund to adopt a structural adjustment program (Bechri & Naccache 2006). On November 7, 1987, Zine el-Abidine Ben Ali succeeded Bourguiba in a bloodless coup.

During the era of Ben Ali, efforts for liberalization and structural adjustment thrived. In 1993, a unified investment code was enacted, which was followed by the removal of important licensing in 1994, to boost local and foreign investment in the country. And in 1995, Tunisia was

[68] Violent protests erupted in Morocco and Tunisia as a response to economic crisis and adjustment during the same period in 1984. In Morocco, as in Tunisia, the widespread demonstrations were a reaction to government's decision to raise the price of basic commodities, including food. Eventually King Hassan appeared on television in the evening of January 22nd to announce that there would be no further increases in the price of basic goods (see Seddon 1986).

the first South-Mediterranean country to sign an Association Agreement with the European Union, which paved the way to the establishment of a free trade area (Bechri & Naccache 2006). On the labor side, in order to quell the Islamic opposition further, Ben Ali revived the secular basis of UGTT, which was domesticated in the aftermath of the 1978 general strike. Ben Ali also forged a clientelistic network with the business sector to hold on to power. The corrupt administrative apparatus channeled the resources to regime supporters. For example, prior to the revolution, Tunisia's private sector had been dominated by holding companies with close relations to political power, which include Princess El Materi Holding, belonging to Ben Ali's son-in-law, Mohammed Sakher Elmateri (Coupe & Redissi 2013).

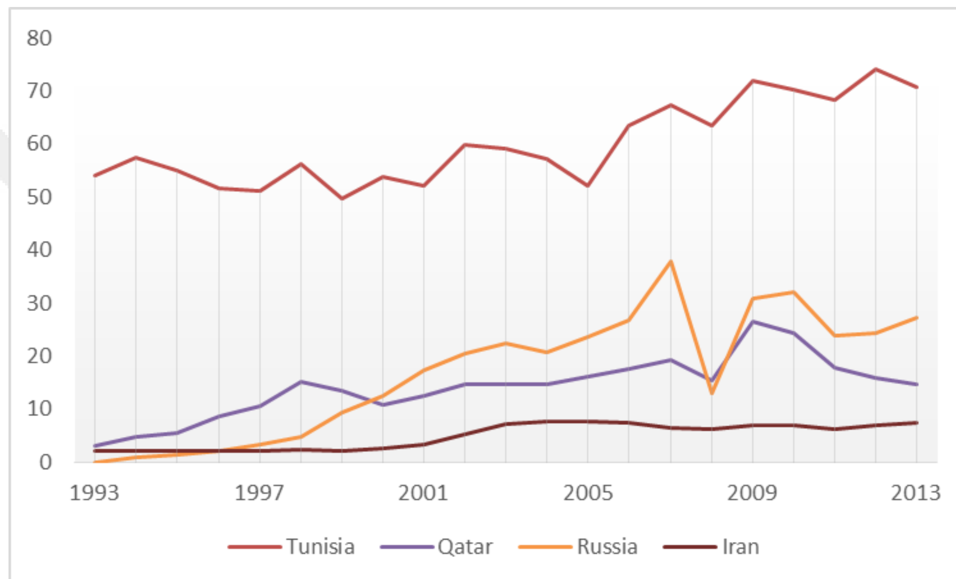
Within this particular context of the political economy, Tunisia's political elite has built an economy in which the alliance of state, private, and foreign capital is prescribed. While the public sector was largely involved in capital-intensive industries, the state has promoted private sector development in other sectors. Foreign direct investment has been incentivized for export sectors with the help of liberal investment codes, and industrial export zones, but restrictions also favor politically-connected private enterprises. Investment codes have encouraged domestic-foreign capital partnerships, but guaranteed Tunisian majority ownership in firms that serve the domestic market (Coupe & Redissi 2013).

Financing

Non-oil industrializer regimes are relatively more successful in attracting FDI than oil-rich regimes. Tunisia, as non-oil industrializer regime, has been the epitome of liberalization and trade openness in the region. As the average FDI stock expressed as percent of GDP amounts to 34.56 percent in the MENA, Tunisia's FDI stock expressed as percent of GDP corresponds to 70.74 percent in 2013. While Qatar's, Russia's, and Iran's FDI stock expressed as percent of

GDP are equal to 14.79 percent, 19.48 percent, and 7.42 percent, respectively, Tunisian FDI stock is three times more than these rates (see Figure 12). FDI-related sectors have been crucial for the Tunisian political economy, since the specific restrictions and regulations on FDI at play that favored firms politically connected to the Ben Ali government.

Figure 12: FDI Stock as percent of GDP (over years)



Source: UNCTAD, 2013

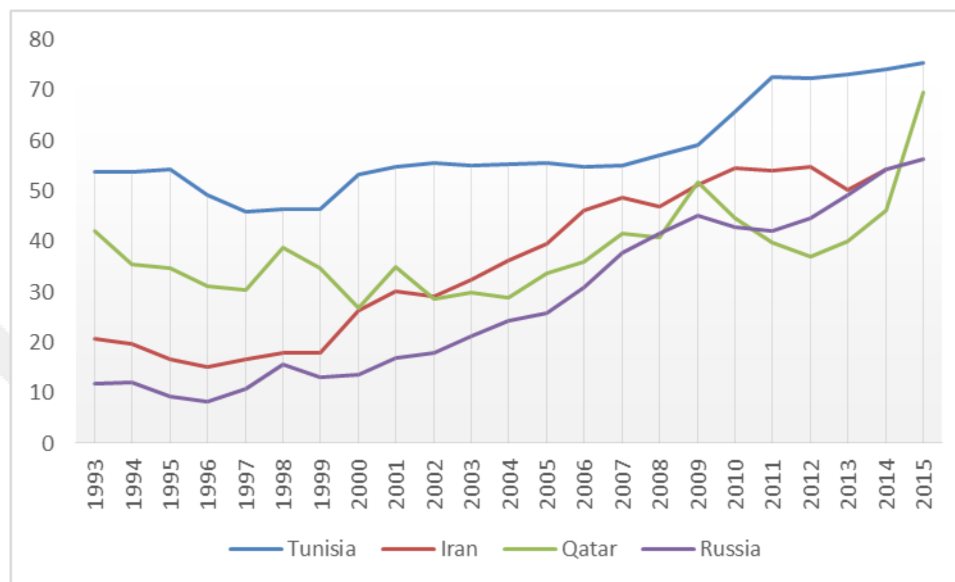
The promulgation, amendments, and implementation of the investment code under Law 120-93 illustrate this network of privilege that entailed sub-optimal economic performance. Even though this investment code each year cost the equivalent of 2.2 percent of GDP, or 11 percent of the state's fiscal revenues (Achy 2011, 13), it was ineffective in stimulating private investment. The investment code is the main investment legislation governing economic activity in almost all sectors of the economy with certain caveats that restrict investment in some sectors, through authorization requirements which oblige investors to obtain permission from the government in order to run a business (Rijkers et al. 2014). These entry regulations were susceptible to abuse.

FDI requires the prior agreement of the Investment Commission if the foreign ownership exceeds 50 percent. The inner circle of Ben Ali's regime exploited these provisions to impose themselves as inescapable partners for foreign operators, which had detrimental effects on private investment (Achy 2011, 12). The Investment Law was amended several times in the 2000s to provide incentives for private sector investments in the offshore economy but, at the same time, also to shelter connected firms from competition in the onshore economy (World Bank 2014, 103). In other words, the investment code was manipulated by the inner circle of the Ben Ali family for their own advantage. For instance, after the adoption of a decree that introduced restrictions on FDI for firms involved in the transport of red meat, a shipping and logistics company involved in the transport of refrigerated products was established by a member of the Ben Ali family (World Bank 2014, 120). By the same token, Rijkers et al. (2014) argue that by analyzing firm-level data of 662 firms owned by the Ben Ali family that were confiscated after the Jasmine Revolution, politically-connected firms were roughly four times more likely than non-connected firms to operate in sectors subject to authorization and FDI restrictions.

In non-oil industrializer regimes, domestic credit to the private sector is relatively higher than other sub-categories of patrimonial capitalism. While in Tunisia, domestic credit to the private sector expressed as percent of GDP corresponds to 75.74 percent, this rate is equal to 39.27 percent, 56.4 percent, and 12.24 percent in Qatar, Russia, and Iran, respectively. The pattern is also similar when domestic credit to the private sector by the banks expressed as percent of GDP is taken into account (see Figure 13). This rate corresponds to 75.4 percent, 69.6 percent, 56.4 percent, and 54.5 percent in Tunisia, Qatar, Russia, and Iran, respectively (see Appendix II: Country Profiles). The Tunisian government signed an agreement with the IMF for a banking reform that ensures adherence to international standards for reserve ratios. By 2009,

the Tunisian banking system was consolidated, as the sector has become increasingly privatized, and private banks increased their credits to the private sector (Coupe & Redissi 2013).

Figure 13: Domestic Credit to the Private Sector by Banks (as percent of GDP) (over years)



Source: World Bank.

Tunisia, as a non-oil industrializer regime, performs relatively better than other countries of interest, in terms of financing. Alongside this, however, difficult access to financing because of high collateral requirements still constitutes a constraint for private enterprises (Stevenson 2010, 241). While private investment only represents 15 percent of GDP in Tunisia, in high-growth countries it usually exceeds 25 percent of GDP. Therefore, despite its record of liberalization and adjustment, Tunisian economic growth has relied more on public investment, and less on private investment (Achy 2011).

Remittances constitute a relatively more significant source of external finance for non-oil industrializer countries than others. As remittance inflow as percent of GDP amounts to 4.32 percent in Tunisia, this rate is below 0.5 percent of GDP for Qatar, Russia, and Iran (see Appendix II: Country Profiles). Remittances can be construed as a relief in crisis periods. Also

following structural adjustment policies, workers' remittances have been stimulated by higher rates of inflation. Since 1996, the transfers received by Tunisia have increased steadily from 735 million dollar a year. These financial flows represent the third source of foreign currency after tourism and the textile and leather sectors, and play an important role in reducing external debt (Jouini 2015).

Industrial Relations

In general, the constraints on private sector development in Tunisia are attributed to the rigidities in the labor code and high social charges on employee wages (Stevenson 2010, 241). Non-oil industrializer countries enact relatively more rigid labor market policies, as epitomized by Tunisia. While Tunisia's difficulty of redundancy score (out of 10) is equal to 10, it corresponds to 7 for Iran, 4 for Russia, and only 0 for Qatar (see Appendix II: Country Profiles). Angel-Urdinola and Kuddo (2010)'s difficulty of hiring index[69] also reveals a similar pattern. While Tunisia scores 28 in this index, Iran and Qatar's scores correspond to 11 and 0, respectively.

The scope of labor market protection can also be detected in the trade union density rate – Tunisia has a relatively high trade union density rate at 39 percent of wage workers, which corresponds to 27.8 percent in Russia. There are 64 trade unions registered in Tunisia and the majority of these trade unions are affiliated to the UGTT. Approximately 1 million workers have been registered as a member for trade unions (Danish Trade Union 2015). Furthermore, there are

[69] An economy is assigned a score of 1 if fixed-term contracts are prohibited for permanent tasks and a score of 0 if they can be used for any task. A score of 1 is assigned if the maximum cumulative duration of fixed-term contracts is less than 3 years; 0.5 if it is 3 years or more but less than 5 years; and 0 if fixed-term contracts can last 5 years or more. Finally, a score of 1 is assigned if the ratio of the minimum wage to the average value added per worker is 0.75 or more; 0.67 for a ratio of 0.50 or more but less than 0.75; 0.33 for a ratio of 0.25 or more but less than 0.50; and 0 for a ratio of less than 0.25.

relatively more ILO conventions in force in Tunisia (52 conventions) than in Qatar (6 conventions), which also attests to the de jure labor market protection (see Appendix II: Country Profiles).

The minimum wage requirements and wage bill also cause variation across the sub-categories of patrimonial capitalism. In Tunisia, in the post-revolution era, the wage bill increased from 10.7 percent of GDP in 2010 to around 13.3 percent in 2015, since public sector recruitment raised the wage bill. Between 2010 and 2014, as a result of high unemployment, public sector employment rose by 20 percent (IMF 2015). On the other hand, there is no minimum wage requirement for Qatar for the private sector.

As a defining feature of patrimonial capitalism, informality is also widespread in Tunisia. Among the working population, approximately 30-45 percent of the employed labor force either do not have contracts or do not contribute to social security (World Bank 2015). Similarly, 28.6 percent of firms identify practices of competitors in the informal sector as a major constraint in Tunisia.[70]

The Tunisian government has been implementing active labor market policies, and providing incentives to troubled firms to prevent them from downsizing their staff. These incentives usually take the form of tax holidays or coverage for tax burden. Even though they might be a fruitful quick fix in the short term, in the long run they entail the misallocation of capital and resources.

[70] Source: World Bank Enterprise Surveys.

Regulatory Framework

Tunisian governments have been enacting certain reforms to enhance regulatory frameworks in the country, yet these represent two steps forward, one step back. In 2014, Tunisia made it more difficult to start a business by increasing the cost of company registration (World Bank 2017). On average, it takes 11 days to register a firm in Tunisia, while this average corresponds to 8.5 days for Qatar, and 15 days for Iran.[71] On the other hand, in 2016, Tunisia rendered paying taxes less costly for companies by reducing the corporate income tax rate (World Bank 2017). Be that as it may, high tax rates constitute an obstacle to private sector development. The total tax rate, which measures the amount of taxes and mandatory contributions payable by the business, expressed as a share of commercial profits, corresponds to 60.2 percent in Tunisia, while it is equal to 11.3 percent in Qatar.[72]

The regulatory and tax environment did little to promote competition and innovation in the formal offshore regulatory framework. On the contrary, they established significant barriers to the entry of foreign or domestic firms, especially in service sectors where most of the politically connected firms close to the Ben Ali family operated (World Bank 2014). Furthermore, the patrimonial relations also underpinned the taxes payable by the businesses – Rijkers et al. (2017) found that firms owned by the Ben Ali family were, ceteris paribus, both 5 percent less likely to submit tax declarations and 8 percent more likely to underreport earnings to the tax authorities. In June 2012, the Tunisian deputy prime minister for administrative reform Mohammed Abbou resigned from his post, citing obstacles in his ability and power to open

[71] Source: World Bank Doing Business Indicators.
[72] Source: I.b.i.d.

corruption files.[73] The post-revolutionary Tunisia still struggles with fighting corruption and bureaucratic red tape. As an indicator, in the Heritage Foundation's Index of Economic Freedom,[74] Tunisia scored 39.9 (out of 100) in terms of government integrity.[75]

[73] Langlois, Jill. 2012. "Tunisia: Mohammed Abbou resigns". PRI, June 30. https://www.pri.org/stories/2012-06-30/tunisia-mohammed-abbou-resigns
[74] See Heritage Foundation, Index of Economic Freedom. http://www.heritage.org/index/heatmap
[75] For additional governance-related indicators, refer to Appendix II: Country Profiles.

Qatar

"*Expect Amazing*". This was the motto and brand set forth by Qatar for its 2022 FIFA World Cup bid. On December 2010, FIFA President Sepp Blatter announced in Zurich that the tournament would be held in Qatar. Hundreds of Qataris poured onto the streets in celebration just after the announcement. This tiny country, which had never even come close to qualifying for the World Cup before, beat its significant competitors in the voting. This was a historical decision in the sense that no Arab or Muslim country had ever hosted the World Cup before.[76]

The World Cup decision has also triggered a new momentum for certain shifts in the Qatari political economy, with the construction and renovation expenses required for the tournament projected to cost at least 3 billion dollars. The international attention has even elicited changes in the labor market regulations in Qatar, as a result of the criticism regarding the working conditions of migrant workers employed on the construction sites. A work-sponsorship system, known as *Kefala*, currently necessitates all foreign workers (such as from India, Nepal, and Bangladesh) to obtain their employer's consent to travel abroad or switch jobs, a measure that reportedly renders workers prone to exploitation and forced labor. On December 2016, the Qatari government enacted a new labor law that allows foreign workers with completed contracts to change jobs freely, and imposes fines of up to 25,000 riyals on businesses that confiscate employees' passports.[77]

Qatar is a small country bordering Saudi Arabia in the Persian Gulf with a total area of about the size of Ağrı province in Turkey. It hosts 2.24 million population, of which around

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[76] Jackson, Jamie. 2010. "Football crosses new frontier as Qatar wins World Cup vote for 2022". The Guardian, December, 3. https://www.theguardian.com/football/2010/dec/03/qatar-world-cup-2022

[77] Al Jazeera. 2016. "Qatar introduces changes to labour law", December, 14. http://www.aljazeera.com/news/2016/12/qatar-introduces-labour-law-161213073333258.html

230,000 are citizens, and the rest are foreign residents and temporary laborers (see Appendix II: Country Profiles). Even though Qatar was one of the most marginal and poorest locations in the Middle East during the pre-independence period, it has managed to become one of the richest states in the world in four decades. Qatar's rise to this position of international significance is based on its possession of the world's third-largest reserves of liquefied natural gas (LNG) and oil revenues. In 2016, Qatar's GDP per capita was estimated at $141,542. Between 2008 and 2012, GDP rose by 75 percent in real terms as a consequence of increases in gas and oil income. In 2008, exports of oil and refined oil products totaled $29 billion; by 2012 they had reached $38 billion. Liquefied natural gas and related exports increased from $32 billion to $72 billion over the same period (Rivlin 2013). However, this wealth does not necessarily translate into human development. For instance, Qatar and Poland have comparable HDI scores (0.856 and 0.855, respectively), yet the former's GNI per capita is five times more than the latter's.[78]

In a volatile and risky environment, Qatar has weathered challenging crises, such as the Iranian Revolution, Iran-Iraq War, Kuwait Invasion, and Saudi Arabia's expansionist policies, and emerged as an important international actor. Weaved between the regional powers of Saudi Arabia and Iran, Qatar's political economy has been shaped by external revenues, royal cleavages, demographic limitations, and domestic quiescence.

Historical Context

On 3 November 1916, Qatar and Britain signed a treaty that made Qatar a 'British-protected state'. As the Saudis were pursuing expansionist policies, Qatar relied on British interests in safeguarding the security of the Persian Gulf. Qataris also signed a petroleum concession treaty with Britain in 1935 to confer the rights for producing, transporting, refining

[78] UNDP Human Development Reports. http://hdr.undp.org/en/composite/HDI

and marketing oil and gas through a subsidiary of the Anglo-Persian Oil Company named Petroleum Development Qatar for a period of seventy-five years (Ulrichsen 2014, 18). The production of oil, though, started in 1947. As one of the poorest and least-developed countries in the Gulf, Qatar used to rely on fishing and pearling as the main sources of revenue. But the beginning of oil exports from Qatar in 1949 marked the starting point of a profound socioeconomic transformation in the country, which eventually converted a nomadic population into an urban population with one of the highest per capita incomes in the world (Niethammer 2013, 720).

From 1949 to 1960 Qatar was ruled by Emir Ali Al-Thani, who abdicated in favor of his son Ahmad. Royal cleavages and enforced successions were prevalent in the Qatari political history. In 1972, Sheikh Khalifa bin Hamad deposed Ahmad, while the former would get ousted by his own son, Sheikh Hamad in 1995 (Niethammer 2013). This can be attributed to the fact that the ruler of the country, the *emir,* has been entitled to a huge amount of income. Under an agreement promulgated by Emir Ahmed bin Ali Al-Thani, oil revenues were divided equally between the state and the Al-Thanis, with 25 percent going to the ruler, 25 percent to his family, and 50 percent to the treasury (Ulrichsen 2014). The large Al-Thani family was restless with family members raising demands for larger share of oil wealth and creating discord (Fromherz 2012, 76). The distinction between the emir’s personal assets and the state treasury was also becoming blurred. In 1995, the dethroned sovereign took a substantial portion of the country's foreign reserves—estimated at about US$3 billion, when he was exiled in France, similar to the actions of his predecessors (Kechichian 2008). Because of a relatively small population (less than 70,000 citizens in 1984) and increasing wealth, Qatar experienced no internal political unrest outside the Al Thani ruling family feuds throughout the 1960s and 1970s.

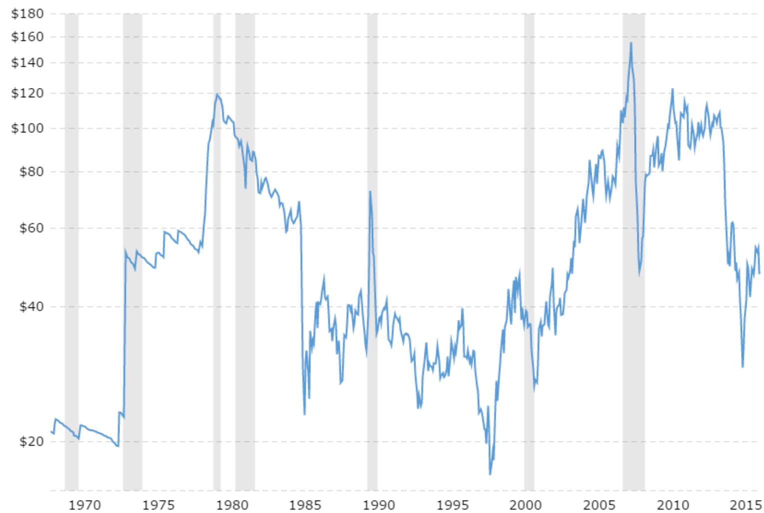
On January 16, 1968, the British government announced its sudden and unexpected decision to withdraw from all obligations east of Suez. This withdrawal implied repatriating some 6,000 British troops from Sharjah and Bahrain, and relinquishing British responsibility for the security of the seven Trucial States, Qatar, and Bahrain (see Heard-Bey 2016). As a remedy, the Trucial States, Bahrain, and Qatar endeavored to establish a federation, the Union of Arab Emirates in 1968, from which eventually Bahrain and Qatar opted out because of internal disagreements. On 3 September 1971, Heir Apparent Khalifah declared independence, by terminating its old treaty obligations with Britain and replacing it with a new Anglo-Qatari 'treaty of friendship and cooperation'. As an illustrative anecdote which signals the weakness of Qatari institutions and poor governance, Emir Ahmad was on vacation in Switzerland and did not attend the independence ceremonies (Kechichian 2008). In general, Emir Ahmad took little interest in government affairs, and spent most of his time in Europe (Fromherz 2012).

Major new Qatari oilfields were discovered in the 1960s and the largest offshore field, Bul Hanine, became operational in 1972. The Qatar General Petroleum Company (today Qatar Petroleum) was established in 1974. In the same year, the new emir, Sheikh Khalifa, reached an accord with foreign oil companies for the nationalization of the Qatari oil sector which left the Qatari government in control of 60 percent of revenues, and the remaining 40 percent until 1977.[79] Following the Arab-Israeli war of 1973, the Arab oil embargo precipitated soaring oil prices - the average price of crude oil surged from $2.04 a barrel in 1971 to a high of $32.50 in 1981 (see Figure 14). This resulted in massive inflow of oil revenues. The six Gulf States' combined revenue increased from $5.2 billion to $158 billion over the same period (Ulrichsen 2014, 24). In the late-1970s, Qatar also took control of the giant North Field, the largest non-

[79] Chan, Sewell. 2016. "Sheikh Khalifa bin Hamad al-Thani, Former Emir of Qatar, Dies at 84". The New York Times, October, 24. https://www.nytimes.com/2016/10/25/world/middleeast/sheikh-khalifa-bin-hamad-al-thani-former-emir-of-qatar-dies-at-84.html

associated natural gas field in the world. This would eventually become the critical driver of Qatar's emergence as an international actor (Ulrichsen 2014, 23).

Figure 14: Crude Oil Prices per Barrel



Source: Macro Trends. Inflation-adjusted prices with display of recessions.

With a population of less than 50,000 Qatari nationals in the 1970s, government external revenues were generously distributed through a comprehensive system of welfare and social services. The emir also managed to forge patronage relationship with citizens through grants of land and interest-free loans that also brought about domestic quiescence. Qatar enjoyed social cohesion, unitary polity, and the absence of sectarian tensions observed in Bahrain. Migrant laborers were also imported to undertake certain menial tasks in these years (Ulrichsen 2014, 25), who would constitute a large segment of Qatari society in future, outnumbering the number of nationals. This oil-booming era constituted the main configuration of the Qatari political economy. Following a peak of oil prices in 1981, prices steadily declined (see Figure 14), which hit the Qatari economy very hard, as the country witnessed budget deficit in consecutive years. This economic deterioration also hampered the social contract between the Al-Thani dynasty and

citizens, which the Qatari government handled with travel bans and the rescinding of citizenship rights.

The national security threats also escalated in this time period because of the 1979 Iranian Revolution, and 1980 Iran-Iraq War. As a response, five Gulf States, Bahrain, Kuwait, Oman, Saudi Arabia and the United Arab Emirates established the Gulf Cooperation Council (GCC) in Abu Dhabi in 1981. Beyond the immediate security threats, GCC also embodies the efforts of the Gulf countries to ensure monetary and fiscal integration. In 2008, a GCC common market was introduced, and as of the time of writing, the GCC countries have also made significant progress to establish a unified central bank and issue a common currency[80].

On 27 June 1995, Hamad sent word to his vacationing father, who was in Cannes, France, that his twenty-three-year rule had come to an end, and that he was taking over. Following a countercoup attempt in 1996 that aimed to reinstate Khalifah, Emir Hamad launched a lawsuit against his father, to recover financial assets controlled by his predecessor. This controversial move did not just intend to expand the new Emir's influence, but also ensure more transparency in terms of governance (Kechichian 2008). The era of Hamad has been symbolized by liberalization efforts. In 1995, the censorship of media was abolished and the Al Jazeera network was established. In 1999, municipal elections were allowed, and in 2003, a new constitution was adapted by popular referendum.[81] Al Jazeera network's regional success in particular has contributed to the positive image of Qatar as a regional power, coupled with immense rent income.

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[80] Al-Tamimi, Amer Thiab. "Gulf countries take steps to achieve monetary unity". Al Monitor, December 29. http://www.al-monitor.com/pulse/business/2013/12/gulf-gcc-monetary-union-central-bank.html

[81] See https://www.princeton.edu/~pcwcr/reports/qatar2003.html

Financing

In striking contrast to non-oil industrializer regimes such as Tunisia, Qatar as an oil-rich flexible regime relies heavily on external rents to finance its operations (see Figure 12). With 25.7 billion barrels, Qatar's total proven oil reserves constitute 1.5 percent of global reserves, which will enable Qatar to produce output at its current levels for around 55 years.[82] Moreover, at 24.5 trillion cubic meters, Qatar's natural gas reserves correspond to 13.1 percent of total global reserves, which makes Qatar the third-largest in the world after Iran and the Russian Federation.[83] Most of Qatar's natural gas is located in the massive offshore North Field. In Qatar, oil and gas revenues account for more than 70 percent of total government revenue, more than 50 percent of GDP, and roughly 85 percent of export earnings (Niethammer 2013, 741). In a possible case of oil reserve depletion, the Qatari government has been adopting policies to diversity the sources of income.

Firstly, Qatar has displayed many efforts to develop its gas resources. Qatar is currently the largest LNG exporter, accounting for around one third of global LNG market.[84] The majority of Qatari LNG production is exported to East Asian countries. In order to finance the expansion of its gas extraction-LNG production facilities, Qatar has encouraged international investment. Qatar signed several agreements with US energy companies (ConocoPhillips and Exxon-Mobil) to develop facilities to export LNG to the US, the European countries, and East Asia (Rivlin 2013). Secondly, as part of diversification efforts, Qatar has heavily invested in tourism, transportation, and technology sectors, exemplified by the rapid expansion of Qatar Airways and

[82] BP Statistical Review of World Energy, June 2016.
[83] BP Statistical Review of World Energy, June 2016.
[84] Ibid.

construction of Hamad International Airport[85] in Doha with a capacity of 50 million passengers per year; the establishment of Pearl-Qatar,[86] an artificial island spanning nearly four million square meters as a residential estate; and the establishment of the Qatar Science and Technology Park in 2009 to attract technology-based companies and entrepreneurs from both overseas and within Qatar.

In terms of FDI attractiveness, non-oil industrializer regimes are more prone to pursue FDI-based strategies than oil-rich labor flexible regimes. Qatar's liberalization policies proceed on a gradual basis, sheltering local companies from overseas competition. Based on Investment Law No. 13/2000, which is the main investment code that regulates foreign investment in Qatar, foreign investment is generally limited to 49 percent of the capital for most business activities, whereas a Qatari partner should hold at least 51 percent. Moreover, certain sectors are not open for foreign competition including electricity and water, steel, cement, and fuel distribution industries. In addition, even though Qatar is considered to be one of the easiest countries in terms of its taxing system, Qatar enacted a new law that introduced 10 percent corporate tax for non-Qatari companies in 2010 (Bureau of Economic and Business Affairs 2016).

There are two notable exceptions for these types of restrictions and limitations. Firstly, recently, Qatar has started to liberalize its communications sector, epitomized by the license granted to Vodafone and Qatar Foundation consortium. However, Vodafone Qatar is still 70 percent Qatari-owned including a total shareholding by Qatar Foundation of 27.05 percent.[87] Secondly, in 2005, the government of Qatar set up the Qatar Financial Centre (QFC) to attract international banking, insurance business, and other financial services. Currently, there are 196

[85] See https://dohahamadairport.com/
[86] See http://www.thepearlqatar.com/EN/Pages/default.aspx
[87] See http://www.vodafone.qa

licensed firms at the QFC, which provides a favorable business environment for domestic and international firms, by allowing 100 percent foreign ownership and granting tax exemptions (IFC 2015, 158).

One of the distinguishing features of oil-rich labor flexible regimes is the existence of sovereign wealth funds, available in the Gulf countries, which grow exponentially through external rents. The Qatar Investment Authority (QIA), which was founded in 2005, manages the funds of Qatar that are not used for the budget. It is independent from the Central Bank and invests overseas, such as startups in France and the infrastructure sector in the United States.[88] The total assets of the fund are estimated to be around $100 billion (Seznec 2011, 7).

In terms of domestic credit to the private sector, oil-rich labor flexible regimes on average perform better than other oil-rich regimes. For instance in Qatar, the total credit facilities granted by the sector in 2012 amount to over 508 billion Qatari riyals, of which domestic credit accounted for 476 billion Qatari riyals (IFC 2015). While domestic credit to the private sector by banks corresponds to 69.6 percent of GDP in Qatar, this amounts to 56.4 percent in Russia (see Appendix II: Country Profiles).

Industrial Relations

An important defining feature of oil-rich labor flexible regimes is the fact that their labor markets are the most flexible ones among all sub-types of patrimonial capitalism. Several indicators of the Qatari labor market support this statement. With regards to de jure labor market protection, there are only 6 ILO conventions in effect in Qatar, whereas this amounts to 52 in Tunisia. The Employing Workers Index (EWI) that measures rigidity of labor law shows that oil-

[88] Bloomberg, Company Overview of Qatar Investment Authority. http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=27869250

rich labor flexible regimes score very low relatively to non-oil industrializer regimes, such as Tunisia and Morocco. While Tunisia scores 40 in this index, Qatar scores only 13, which indicates the flexibility of the Qatari labor market. By the same token, in the difficulty of hiring index, Qatar scores 0, while Tunisian score corresponds to 28 (Angel-Urdinola & Kuddo 2010). There is also no minimum wage requirement for the private sector in Qatar.

The salient aspect of the Qatari labor market is the fact that Qatar has the world's highest level of migrant workers relative to population, as migrant workers constitute up to 90 percent of the total population (Bureau of Economic and Business Affairs 2016). This also explains how remittance outflow exceeds remittance inflow in Qatar, since remittance inflow on average is the lowest in the oil-rich labor flexible regimes, compared to other sub-categories of patrimonial capitalism. Foreign workers, most of whom come from India, Nepal, and Bangladesh, usually work for menial jobs. Just between May and June 2013, over 130,000 people arrived to work in Qatar, especially for World Cup-related construction jobs (Ulrichsen 2014, 105). Due to the work-sponsorship system, *kefala,* in which migrant workers are eligible for attaining visas only with a reference and contract from a Qatari employer, they were subject to certain limitations and even the loss of personal rights (Niethammer 2013, 725). The Qatari government introduced a labor reform because of increasing international pressure to ease these regulations as well. On the other hand, as one of the goals stated in Qatar National Vision 2030, *Qatarization* has been strategically pursued by the government in the labor market to provide employment for its citizens in the private and public sectors.[89]

The level of wage bargaining, and coordination mechanisms for setting the wages are constituent to the industrial relations of a country, and determine labor market rigidity. Collective

[89] See Qatar Foundation, Qatarization. http://www.qf.org.qa/content/about/jobs/qatarization

wage agreements are wage matrixes that set pay brackets for workers for a certain level of competence, responsibility level, educational level, and experience. Each bracket of the matrix contains a minimum-to-maximum wage range. For instance, in Tunisia, sectoral collective agreements are usually negotiated between the UTICA and the UGTT, and if they cannot reach an agreement, the government serves as an arbitrator (Angel-Urdinola et al. 2015, 93). By contrast, collective bargaining is not freely practiced in Qatar, and employers set wages without government involvement. In fact trade unions have only been allowed since 2004 (Bureau of Economic and Business Affairs 2016). This also illustrates labor market flexibility in Qatar.

Regulatory Framework

When governance index scores are taken into consideration, Qatar ranks first among the countries of interest with a score of 3.02, while this corresponds to -0.7, -2.1, and -3.6 in Tunisia, Russia, and Iran, respectively (see Figure 2). Moreover, in a recent World Values Survey, Qatari respondents expressed higher trust in state institutions (the police, army, courts and government institutions) than their counterparts in other Arab countries with an average of 75 percent (Ulrichsen 2014). According to the Transparency International Corruption Perceptions Index, Qatar ranks 31st out of 176 countries, while Russia and Iran rank 131st and Tunisia ranks 75th[90], which makes Qatar one of the least corrupt countries in the MENA region. On the other hand, Qatar has a score of 1.0 out of 12 in the strength of legal rights index with respect to getting credit, whereas this corresponds to 6 and 2 for Russia and Iran. Moreover, in the Doing Business Index, Qatar ranks 83rd while Russia ranks 40th[91].

[90] See Transparency International, Corruption Perceptions Index 2016. http://www.transparency.org
[91] World Bank, Doing Business 2016. http://www.doingbusiness.org

There are certain regulatory bodies that oversee corporate governance and financial regulations. For instance, firms, which are registered through Qatar Financial Center, are regulated by Qatar Financial Center Regulatory Authority (QFCRA), an independent regulatory body. On the other hand, Qatar Investment Authority's financial transactions are secretive, even though the amount of financial transactions is huge.

Qatar has also recently enacted new laws and regulations to ease private investment. In 2012, the government combined commercial registration with registration at the Chamber of Commerce and Industry as a one-stop shop, and in 2016 abolished the paid-in minimum capital requirement for limited liability companies to render starting a business easier (World Bank 2017).

Russian Federation

"Oligarchs" - this concept refers to a relatively small number of Russian industrial tycoons, who happen to control a substantial share of Russia's economy in the course of privatization efforts in the country. Between 1995 and 1997, some of the largest and Russia's most valuable public enterprises were privatized via highly controversial "loans-for-shares" auctions, and were transferred to a handful of well-connected financial-industrial groups for a fraction of their real value (OECD 2005, 29). In the classical loans-for-shares scenario, the government appointed a commercial banker to run an auction that would allocate a controlling stake of a large natural resource enterprise in exchange for a loan to the federal government that the latter never intended to repay (see Guriev and Rachinsky 2005). As a result, the Tyumen Oil Company (TNK) passed into the hands of Mikhail Fridman; the YUKOS oil company into the hands of Mikhail Khodorkovsky and Sibneft was transferred to a holding company controlled by Boris Berezovsky.[92] These oligarchs owe their fortunes to this scandalous state-capture period in the mid-1990s.[93] They also exerted their influence over the political arena – in order to secure their ill-gotten wealth, in 1996 the oligarchs ensured the re-election of the increasingly unpopular President Yeltsin through massive financial and media support. After the election, they were also appointed into high-level government posts, which opened up new opportunities for rent-seeking.

The election of Putin was a blow to the power of the oligarchs. Curbing the oligarchs' political influence was already an essential part of Vladimir Putin's presidential campaign in 2000. In his open letter to voters, he promised to treat the oligarchs in the same way as other entrepreneurs (see Guriev and Rachinsky 2005). In the summer of 2000, at a meeting with the

[92] Gel'man, Vladimir. 2011. "Russia's crony capitalism: the swing of the pendulum". *openDemocracy,* November 14.
[93] For a non-exclusive list of Russian oligarchs as of 2003, see Guriev and Rachinsky (2005, 133).

oligarchs, Putin made them an informal offer they could not refuse, which was subsequently called the 'barbecue agreement.' According to this, the state would not revisit the question of property rights, while oligarchs would have to remain loyal to the authorities and not interfere in the most important political decisions. Putin proved his deterrence in 2003, when the prominent oligarch Mikhail Khodorkovsky, the major owner of the Yukos oil company, violated the agreement by openly criticizing corruption in Putin's administration and supporting opposition parties. Khodorkovsky and his partners were arrested, and their stakes in Yukos were expropriated (see Gel'man 2015). The Yukos incident and the trial of Khodorkovsky offered a revealing glimpse of the system Putin established to rule Russia. On the surface, the spectacle of market democracy could be observed with the presence of courts, stock exchanges, companies, and media outlets. But in reality Putin and his cronies were endowed with soft authoritarian power. A U.S. diplomat, who was monitoring the trial, had written in a cable to Washington that the motivation was clearly political, not judicial, in order to apply "a superficial rule-of-law gloss to a cynical system where political enemies are eliminated with impunity." The cable was titled, "Rule of Law Lipstick on a Political Pig" (see Hoffman 2011).

Russia, a super-power of the Cold War era, has been the epitome of the fact that privatization and market reforms did not entail a liberal market economy, in contrast with expectations, but rather brought about patrimonial asset appropriation by politically-connected industrial-financial tycoons, an emergent class of wealthy people (Becker & Vasileva 2017, 89). The main infrastructure of Russian patrimonial capitalism has been defined and determined by the pendulum swinging between a politically-connected business class and an increasingly authoritarian and waxing state.

Historical Context

The legacies of the Tsarist era and Soviet communist period contributed to the emergence of patrimonialism in Russia. For instance, Tsarist Russia developed the system of *kormlenie* (feeding), in which the monarch, who was the possessor of the whole of Russia, granted land to the nobility in exchange for their service and loyalty. Becker & Vasileva (2017) argue that this clientelistic/patronage system became further entrenched under socialism, as the communist state controlled all significant property and delegated its administration to the *nomenklatura*.

Mikhail Gorbachev became the General Secretary of the Communist Party in the Soviet Union in 1985, and pursued a reformist agenda. From 1987 onwards, he began to promote his vision for "restructuring" (perestroika in Russian) and "glasnost" (openness), and also published a book towards that aim. The excitement of political debate went along with a rapidly deteriorating economy. Gorbachev's first economic reforms removed many of the mechanisms of the Soviet economy but put nothing in their place – a real market did not yet exist. The supply of consumer goods fell catastrophically. In 1991, while Gorbachev was taking a brief vacation in the Crimea, some of the cabinet members and other high officials decided to declare an emergency and take power to reverse the entire process of reform. This coup attempt, also known as the August coup, was countered by an effective civilian opposition, led by Yeltsin, who was famously spotted while climbing one of the tanks and addressing the crowd. After a few days of almost bloodless confrontation, the coup plotters surrendered. However, the coup destroyed Gorbachev politically, after which the Communist Party of the Soviet Union was effectively dissolved. On December 1991, Yeltsin signed the Belavezha Accords with Ukrainian and Belarusian leaders, which eventually led to the abolishment of the Soviet Union (see Bushkovitch 2012).

The end of the Soviet Union implied the collapse of the planned economy as a productive system and as an economic mechanism for distributing goods and organizing production. The end of the 1990s marked a dramatic transformation of Russia's economy. An economy based on state ownership and central planning gave way to one based primarily on private ownership, market forces and integration into the world economy. The private sector, which barely existed in 1991, accounted for roughly 70 percent of GDP in 2003 (OECD 2005, 20). Yeltsin implemented a set of radical reforms, called 'shock therapy', presented to him by Gennadii Burbulis and Yegor Gaidar. This 'shock therapy' aimed at rapid economic stabilization, liberalization, privatization and the opening of the economy to international trade.[94] On the contrary, this rapid liberalization and privatization process led to the creation of a hybrid economy rather than a market economy, in which old elite's (*nomenklatura*) economic interests from the Soviet period mostly survived the reformist push of 1992. Easter (2008) argues that the economic resources of the communist state were not fully redistributed to society in the form of private property. Rather, many of the valued assets of the command economy were made into state concessions.

During the privatization era, a particularistic form of exchange prevailed in the economy, where the economic elite was not engaged in profit seeking, but rather rent-seeking by extracting it from the public resources or by manipulating distortions in the economy (see Robinson 2002). This rent-seeking is also highly associated with the presence of poor state accountability. As the Russian state succeeded the Soviet Union by destroying old institutions of public and administrative control, it failed to develop effective democratic alternatives to the institutions it destroyed. Although free democratic elections and a multiparty system were officially introduced

[94] Commanding Heights: The Battle for the World Economy. http://www.pbs.org/wgbh/commandingheights/index.html

after the collapse of communism, the new Russian political elite viewed these new features only as means of control, not as instruments of electoral influence (Berglöf et al. 2003, 46).

While a new elite of oligarchs was coming into being, the standard of living of the population was collapsing. Yeltsin's fiscal policy was instrumental in this collapse. The tax code, for instance, became a convoluted and contradictory set of rules as a result of numerous ad hoc interventions because of political considerations and economic concessions, which resulted in the failure of tax compliance. Budget shortcomings were covered with increasingly reckless short-term borrowing (see Easter 2008). Even though a large number of banks emerged in Russia at that time – there were 1700 private banks by the start of 1993, the banking system in Russia was not consolidated enough to serve as a source of commercial credit, too (see Robinson 2002). The permanent 'credit crunch' and deteriorating investment records exacerbated macroeconomic conditions, together with a sharp drop in oil prices in the wake of the Asian financial crisis and current account deficit. As interest rates on the government's short-term debt skyrocketed, in August 1998, the government had no choice but to devaluate the rouble and was forced to declare a moratorium on debt repayments (see OECD 2005).

The economic elite in Russia has not been autonomous, but emerged thanks to the state. Even though power and wealth relations were a bit fuzzy during the Yeltsin era, when oligarchs gained too much influence in state policymaking, Putin embraced a more corporatist-style arrangement with state–business relations, using the threat of coercion, as exemplified by the Yukos incident. By relying on his voter basis and political secureness, Putin coerced the business elite to pay taxes to the state, to fund health clinics and sports teams alongside other kind of social obligations. Against this background, Easter (2008) postulates that the persistence of post-Soviet Russian patrimonialism boils down to two institutional features - the lack of independent

economic elites, and the concentration of political power. While the Russian political economy underwent liberalization in the 1990s, this period was followed by a re-etatization in the 2000s (Becker & Vasileva 2017, 83). However, Becker & Vasileva (2017) claim that patrimonialism undermined the etatization process, since state capacity increased only in coercive terms, not in terms of facilitating economic development which involves creating incentives for private entrepreneurialism, providing legal certainty and improving education, and R&D.

Financing

State control over the oil and gas industries became a central element in the 'Putin Doctrine'. Russia heavily relied on the spike in energy prices between 2005 and 2008, which provided the means to transfer value from the energy sectors to the rest of the economy. The role of oil and gas in the Russian economy is significant, since Russia hosts 6 percent of total global proven oil reserves and 17.3 percent of total global proved reserves of natural gas.[95] Hence, Russia´s strong record of economic growth depends more on 'temporary factors' than on deep-seated structural change – an eminent feature of patrimonial capitalism (Robinson 2011, 445). The Russian economy's vulnerability to commodity price fluctuation was revealed during the 2008 financial crisis. As oil plunged from $147 to $34 per barrel, the resource-based economy contracted by almost 8 percent (Aron 2013).

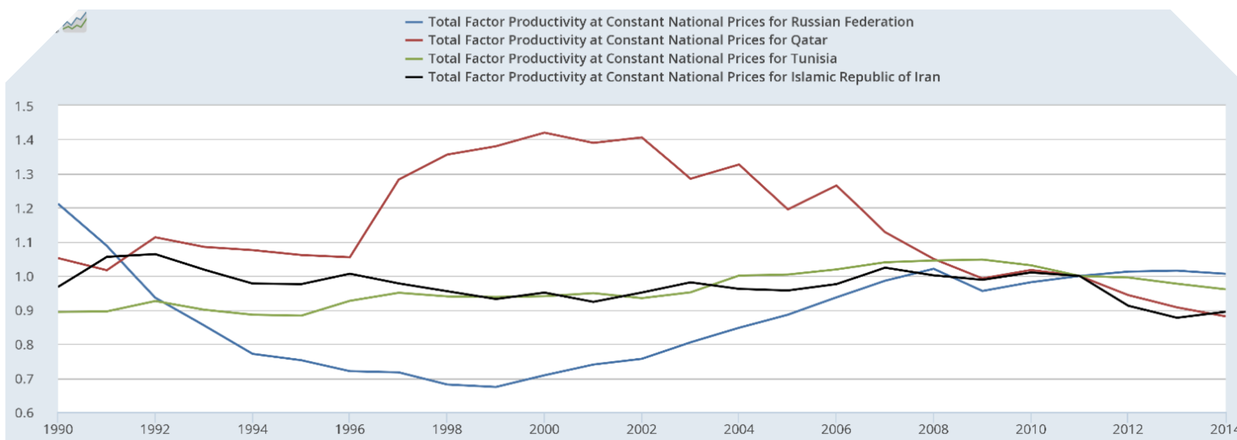
While Qatar's and Iran's FDI stock expressed as percentage of GDP is equal to 14.79 percent and 7.42 percent, respectively, Russian FDI stock corresponds to 19.48 percent. This also attests to the argument that oligarch regimes outperform other oil-rich patrimonial regimes in terms of FDI attractiveness (see Figure 12). The weak financial sector in the country fails to fulfill its function of transferring funds from savers to investors. Therefore, FDI remains an

[95] BP Statistical Review of World Energy, June 2016.

important but weak source of financing the Russian political economy (see Berglöf et al. 2003). While in Russia, domestic credit to the private sector expressed as percentage of GDP corresponds to 56.4 percent, this rate is equal to 39.27 percent, 75.74 percent, and 12.24 percent in Qatar, Tunisia, and Iran, respectively. The pattern is also similar, when domestic credit to the private sector by the banks expressed as percent of GDP is taken into account (see Figure 13). This rate corresponds to 56.4 percent, 75.4 percent, 69.6 percent, and 54.5 percent in Russia, Tunisia, Qatar, and Iran, respectively (see Appendix II: Country Profiles). Hence, Russia also lacks enough domestic credit sources for financing operations. The inflow of remittances is not a viable option either, since it constitutes only around 0.5 percent of GDP (see Appendix II: Country Profiles).

The credit crunch period in the 1990s is also reflected in the total factor productivity records of Russia (see Figure 15). Total output fell during this period, and Russian firms were forced to produce at suboptimal levels of output given their stock of capital and labor (see Berglöf et al. 2003). Until 2010, other patrimonial countries of interest (Iran, Qatar, and Tunisia) outperformed Russia in terms of total factor productivity.

Figure 15: Total factor productivity



Source: Penn World Table. Constant prices at 2011.

Industrial Relations

Many firms routinely circumvent legal provisions on labor relations due to the low enforcement capacity of the state, which leads to the informality of employer–employee relations, which are manifested through employment without formal contract and 'envelope' salaries. Therefore, instead of going on strike, workers rely on clientelistic arrangements with the management in order to have access to non-wage supplements and covert earning schemes. The official average wage also exacerbates the worker's independence on the employee, as the communist-era union federation FNPR, which usually collaborates with management, is no longer a viable workers' organization – this is also associated with labor quiescence in the 2000s, hand-in-hand with a new labor code that imposes numerous restrictions on strikes (see Becker & Vasileva 2017).

The oil-rich regimes differentiate from each other in terms of their industrial relations settings, underscored by the demarcation between oil-rich labor flexible regimes and oligarch regimes in terms of labor market protection. While there are only 6 ILO conventions ratified by Qatar, this corresponds to 54 for Russia. While Russia scores 4 in the Difficulty of Redundancy Index, Qatar scores 0 (see Appendix II: Country Profiles).

Regulatory Framework

The predominant socio-cultural attitude of *informality* has played an important role for the persistence of patrimonialism in Russia. Because of the predominance of informality, laws are routinely circumvented through personal informal relations with local officials and most formal institutions are mistrusted (Becker & Vasileva 2017). A large number of administrative measures available to bureaucrats allow them to interfere in the activities of businesses, through the

excessive regulation of firm registration, licensing, certification procedures, inspections, regulation of investment decisions, and imposition of regional trade barriers. Many regulatory bodies in Russia have been allowed to set up their own rules and regulations without legislative approval (Berglöf et al. 2003, 111). Besides its regular distortionary effects, perhaps the most significant consequence of excessive regulation is the hampering of new business development, especially for small start-ups, since it results in barriers to entry and abuse of market power by incumbent firms (Berglöf et al. 2003, 113).

Doing business in Russia also depends on 'cooperating' with designated well-connected firms. Becker & Vasileva (2017, 90) expose this fact through interviews with businessmen, which described how one of them was negotiating to build a factory in a provincial region:

> "The mayor came and said: 'We need a fountain. Costs – 10,000 Euro. You build a fountain at the city square and everything will be good.' He gave us a company that builds fountains, we paid money to that company. As a result a small puddle was built on the square and a huge fountain at the mayor's summer residence."

The ratings of Russia in international indexes which measure transparency and levels of corruption also highlight this pattern. For instance, according to the Transparency International Corruption Perceptions Index, Russia ranks 131st out of 176 countries, while Qatar and Iran rank 31st and Tunisia ranks 75th[96].

[96] See Transparency International, Corruption Perceptions Index 2016. http://www.transparency.org

Iran

In June 2009, the presidential elections were held in Iran. Ahmadinejad reportedly received 62.6 percent of the votes, whereas his main opponent, Mousavi, received only 33.75 percent. The official results ignited mass demonstrations, which chanted the motto 'Where is my vote?', since there was a nation-wide conviction that the election results had been rigged.[97] It took the incumbent regime approximately nine months to suppress what is called now 'the Green Movement' (*Jonbesh-e sabz*). While the leaders of the movement were arrested, at least 110 people were killed, and many prisoners were tortured.[98] The Green Movement was an attempt towards the democratization of Iranian politics within the framework of the existing constitution to renegotiate Iran's post-revolutionary social contract (Hashemi 2014, 193). As the world's only theocratic republic, Iran's political system is built upon two main sources of legitimacy - on the one hand, popular sovereignty lies with the policy makers elected by the people. On the other hand, these policy-makers are subject to the Shiite clergy, who are not accountable to anyone other than their own religious conscience, and one another (Boroujerdi 2013, 478).

The 1979 Iranian Revolution was not just a breaking point for the Iranian political economy, but also for regional politics, evinced by Iranian efforts to export the Shiite revolution and Iran-Iraq War. The revolution and the seizure of the U.S. Embassy in Tehran also triggered the imposition of US sanctions on Iran, including the freezing of assets, prohibition on loans or credits from U.S. financial institutions, and denial of export licenses for exports to the companies violating the sanctions.

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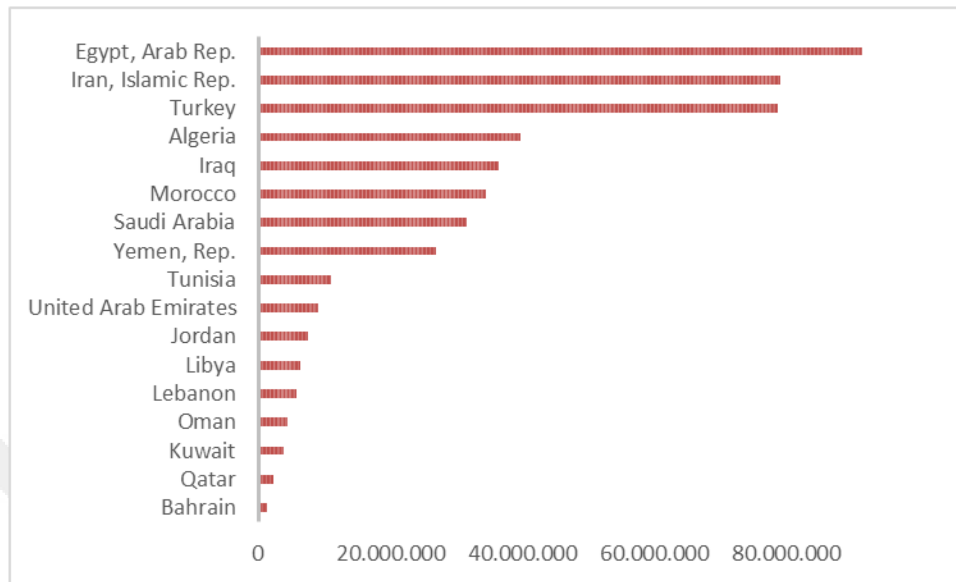
[97] Dabashi, Hamid. 2013. "What happened to the Green Movement in Iran?". Al Jazeera, June, 12. http://www.aljazeera.com/indepth/opinion/2013/05/201351661225981675.html

[98] Ganji, Akbar. 2014. "Iran's Green Movement Five Years Later — 'Defeated' But Ultimately Victorious". Huffington Post. http://www.huffingtonpost.com/akbar-ganji/iran-green-movement-five-years_b_5470078.html

Figure 16: Population, total.



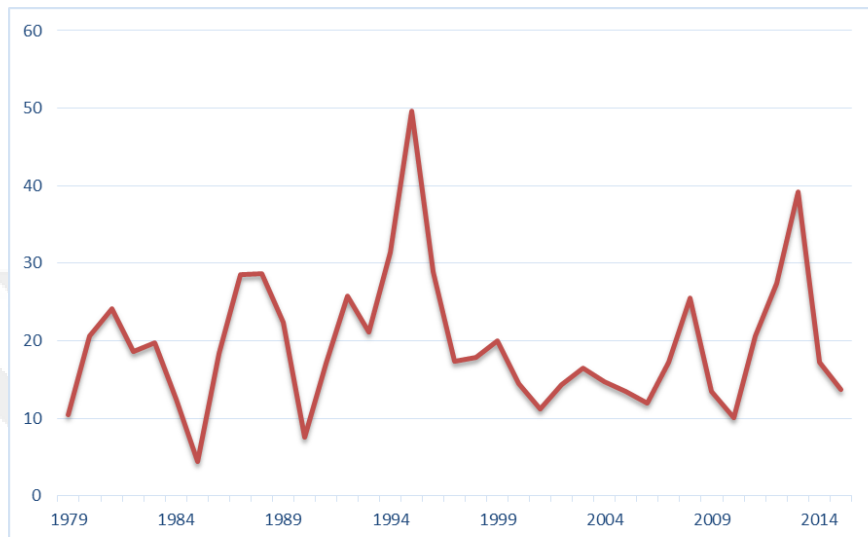
Source: World Bank, 2015.

Without any doubt, Iran entered the twenty-first century as a major regional power. With a population of 79.1 million, Iran is the second largest country in the region (see Figure 16). Iran's total proved reserves of oil corresponds to 9.3 percent of the global oil reserves. In terms of total proved oil reserves, Iran ranks fourth globally, after Saudi Arabia, Venezuela, and Canada. Its oil production also constitutes 4.2 percent of total global oil production. Similarly, Iran's gas reserves account for 18.2 percent of total global proved gas reserves, which also implies that Iran has the largest gas reserves.[99] Despite this level of natural resources endowment, Iran has been suffering from U.S. sanctions; notoriously high rates of inflation (see Figure 17); the devastating impact of the eight-year war with Iraq; ideological cleavages among the ruling elite; shortages of investment capital; a brain drain and flight of capital; and fluctuations in the global price of oil. In a nutshell, Iranian political economy has been shaped by the implications of the Iranian

[99] BP Statistical Review of World Energy, June 2016.

Revolution, U.S. sanctions, ideological cleavages over foreign capital and involvement, and rentierism.

Figure 17: Inflation Rate in Iran (Consumer Prices)



Source: World Bank, various years.

Historical Context

In 1921, General Reza Khan, commander of the Cossack garrison in Qazvin, took control of Tehran with three thousand men and eighteen machine guns. This coup launched a new era, in which the ruling Qajar dynasty was abolished and replaced by a new Pahlavi dynasty (Abrahamian 2008, 63). Reza Shah managed to create a centralized bureaucratic state through policies of secular modernization. This period of institutional development relied on the inflow of oil revenues. Oil was first discovered in Iran in 1908, and its production began in 1911 (Boroujerdi 2013). Oil revenues skyrocketed from £1,288,000 in 1930–31 to £4,000,000 in 1940 (Abrahamian 2008, 66). Based on the statist policies he pursued, Reza Shah annulled the nineteenth-century capitulations, and expanded state power over the economy. In parallel with the Kemalist regime in Turkey, Reza Shah was usually portrayed as a successful, modern, and

progressive leader. The 1941 Anglo-Soviet invasion forced him to abdicate in favor of his son, Mohammad Reza Shah Pahlavi (Boroujerdi 2013, 481).

Reza Shah became the wealthiest man in Iran. By the time he died, he had accumulated a bank account worth £3 million and farm lands that he acquired in part by the dubious transfer of state properties (Abrahamian 2008). In 1958, his son established a tax-exempt charity, the Pahlavi Foundation, which was accrued with most of the fixed assets of the dynasty. At its height, the Pahlavi Foundation had assets worth in excess of $3 billion, with shares in 207 companies active in diverse fields (Abrahamian 2008, 127). But alongside this, the modernization of the state during the 1920s also led to the emergence of more transparent formal budgetary processes and the demarcation between the government budget and the personal prerogative of the Shah. This should be accentuated as an important difference compared to some other oil-rich countries in the region, where oil revenues are still mainly under the aegis of the sovereign and subject to their methods of allocation, as in the case of Qatar (Karshenas & Moshaver 2011, 21).

In 1949, Mossadeq established the National Front (*Jebe'eh-e Melli*), which adopted a populist discourse to nationalize the Iranian oil industry. Between 1951 and 1953, Mossadeq served as the prime minister, and created the National Iranian Oil Company (NIOC) and ordered NIOC to take over Anglo-Iranian Oil Company (AIOC). In retaliation, the British government blocked the export of oil from Iran and froze Iranian assets. By the end of 1951, Mossadeq was embroiled in a full-blown crisis with Britain (Abrahamian 2008, 117). The Shah's disagreement with his nationalist prime minister with regards to the nationalization of oil industry, and *30th Tir* Uprising forced the shah to leave the country in 1953 (Boroujerdi 2013). However, this democratic experience with Mossadeq was aborted by the combination of a prolonged economic boycott and, finally, a U.S. initiated military coup called 'Operation Ajax' in 1953, which

reinstated Reza Shah into power. This coup exacerbated the nationalist disdain for foreign intervention in Iran.

From the early 1960s, Reza Shah implemented the so-called White Revolution, which was composed of a certain set of administrative, economic, and social reforms (Karshenas & Moshaver 2011). The economic system during this era was a mixed market economy within the framework of a five year development plans, which was governed by the Plan and Budget Organization (PBO) established in 1947 (Daneshkhu 2014, 19). As a result of the state-planned large-scale industrialization; the Trans-Iranian Railway was expanded, petrochemical plants and hydroelectric dams were founded, and steel mills in Ahwaz and Isfah were financed among others. Government policies also encouraged private sector activities by sheltering domestic market from international competition through tariffs and providing low-interest loans to politically-connected businessmen, which entailed the creation of a new class of private industrialists. Old landed families – such as the *Bayats, Moqadams, Esfandiyaris*, and *Farmanfarmas* – became capitalist entrepreneurs in this time period (Abrahamian 2008, 133).

Reza Shah managed to finance this set of reforms, by capitalizing on revenue from soaring oil prices, especially after the 1973 Arab-Israeli War (see Figure 14). Oil revenue as a percentage of total government income increased from 11 percent in 1948 to 84.3 percent in 1974. Furthermore, Iran's GNP grew at an annual rate of 14 percent in 1972, which was one of the highest GNP growth rates in the developing world (Boroujerdi 2013). Reza Shah's Iran can be construed as a neo-patrimonial state. By intervening in all significant decisions and asking for absolute loyalty, Reza Shah stripped the state of any corporatist potential and managed to establish a patron-client relationship with the citizenry thanks to huge oil revenues (Boroujerdi

2013). This is also one of the hallmarks that distinguishes Iran from the corporatist regime of Bourguiba's Tunisia.

Besides oil revenues, Reza Shah also tried to foster foreign investment. To that end, the Law for the Attraction and Protection of Foreign Investments was promulgated in 1955, and the Center for the Attraction and Protection of Foreign Investments (CAPFI) was set up. In fact, foreign investment increased from under 1.5 billion rials in 1971 to 6.3 billion in 1977. On the other hand, the Law for the Extension of Industrial Property in 1975 reduced the amount of shares which foreign ventures could own down to 25 percent, which severely hampered foreign investment. It can be concluded that foreign direct investment in Iran was not large, despite these limited efforts (Daneshkhu 2014, 176).

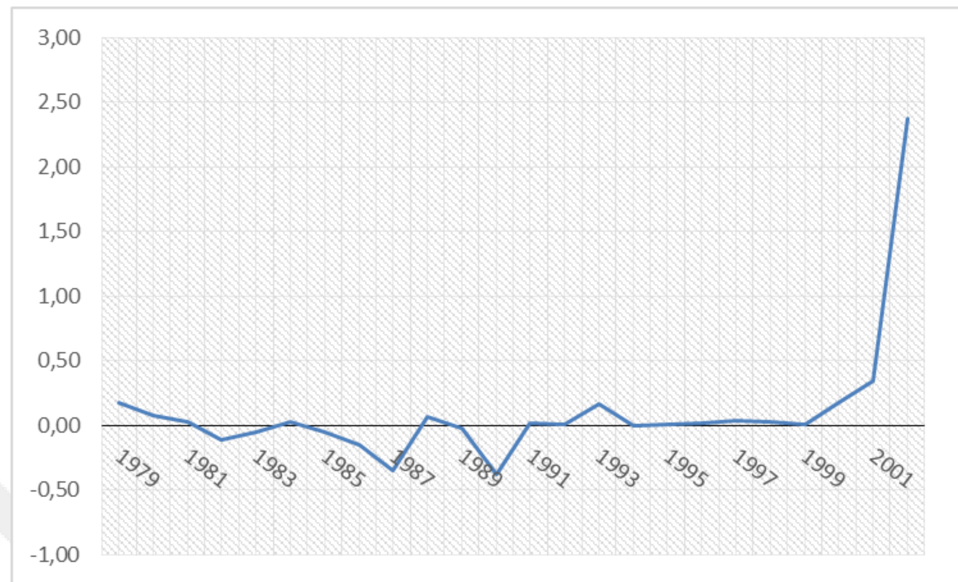
The 1979 revolution brought about the fall of Pahlavi dynasty, and the establishment of the Islamic Republic with a referendum, whereby Ayatollah Khomeini became the Supreme Leader. The Constitution of the Islamic Republic laid the foundation for a dual state whereby the official state structures lives side by side with an unofficial network of institutions controlled by the clergy and headed by the supreme leader (Karshenas & Moshaver 2011). The constitution endowed the Supreme Leader with wide-ranging authority – he could 'determine the interests of Islam,' 'set general guidelines for the Islamic Republic,' and 'supervise policy implementation' (Abrahamian 2008, 161). The flaws in the contemporary regulatory framework in Iran can be attributed to this duality in the constitutional system. This duality has been embodied by two important parallel institutions: semi-public religious foundations, *bonyadha,* and Islamic Revolutionary Guard Corps (IRGC).

Bonyadha, which have been tax-free until recently, have been the largest recipients of government subsidies, operating without public scrutiny and transparency. The Mostazafen

Foundation, which replaced the Pahlavi Foundation, thrived on the confiscated property of some fifty millionaires, when the Pahlavi regime collapsed. It reportedly controls $12 billion in assets, ranging from 800 to 1500 enterprises in various sectors, which employ 400,000–700,000 workers (Pryor 2009, 251). These foundations became a key patronage mechanism for the clergy, as they had a firm grasp of the Iranian economy through their monopolistic and rent-seeking activities. In a similar vein, the IRGC, established in 1979 by Ayatollah Khomeini as a paramilitary organization in charge of safeguarding the revolution, has become one of Iran's most powerful actors in the Iranian political economy to such extent that it allegedly controls up to one sixth of Iran's declared GDP (Forozan & Shahi 2017).

The newly established theocratic republic has had to deal with major blows such as declining oil prices, U.S. sanctions, and a protracted and devastating war with Iraq. The United States has also imposed economic sanctions on Iran following the seizure of the US embassy in Tehran in November 1979. As a direct consequence, the inflow of FDI into Iran crashed (see Figure 18). The Iran-Iraq War between 1980 and 1988 had also significant repercussions for Iranian political economy, not to mention that that more than 400,000 were killed and approximately 750,000 wounded on both sides (Boroujerdi 2013). Although the Iranians were able to drive the Iraqis out of most of their territory by 1982, a major portion of the government's revenue was lost because war mainly took place in the oil-rich province of Khuzestan (Pryor 2009, 249). The war also contributed to the expansion of the state and its power over the economy. During a time period when other countries pursued liberalization efforts, Iranian Ministry of Economics introduced price controls, restricted imports, and took over factories abandoned by fleeing entrepreneurs (Abrahamian 2008, 176).

Figure 18: FDI Inflow into Iran over years (as percent of GDP)



Source: UNCTAD, various years.

Following the consolidation of the Islamic Republic, an ideological split emerged between right-wing and left-wing Islamists with regards to the nature of economic policies that needed to be pursued (Hashemi 2014, 202). On the one hand, one group was convinced that economic independence would only be realized through an economic growth, bolstered with foreign investment. On the other hand, another group vehemently claimed that any encouragement of such investment would only lead to exploitation. Pesaran (2011, 3) argues that "as the influence exerted by each of these groups has risen and fallen over the course of the post-revolutionary era, the extent to which foreign capital has been allowed to expand within Iranian borders has varied in an often unpredictable manner". In this particular configuration of actors, the Rafsanjani era in the 1990s witnessed a shift toward market-oriented pragmatism (Boroujerdi 2013, 500). For instance, in 1989, the National Iranian Oil Company was permitted to sign agreements with foreign companies for investments of up to US$3.2 billion in the Pars gas fields.

After 1988, free trade zones were also established, but elicited only small foreign interest (Pryor 2009, 255).

Financing

The oil-rich underdeveloped regimes are the worst performing countries in terms of FDI attractiveness among patrimonial political economies, which is illustrated by FDI inflow into Iran over years (see Figure 18). As FDI inflow expressed as percent of GDP corresponds to 2.30 percent in Tunisia, this only amounts to 0.50 percent in Iran[100]. Even though the Iranian governments have endeavored to foster foreign investment since 1990s, the reforms were just ebbs and flows. During the era of Khatami, known with his advocacy for freedom of expression and promotion of free market, the Foreign Investment Promotion and Protection Act (FIPPA) was promulgated in May 2002. This act streamlined investment licensing application and approval process and removed restrictions on the percentage of shares that can be held by a foreign investor unlike the Law for the Extension of Industrial Property of 1975. Be that as it may, the anticipated high levels of foreign investment could not be achieved in this period because of other political and technical limitations. For instance, the ownership of real estate in the name of the foreign investor continues to be prohibited (Pesaran 2011, 131). The Ahmadinejad government also revoked a number of investment agreements with foreign firms, which worsened risk assessments hand-in-hand with US sanctions imposed on Iran (Pryor 2009, 255).

The oil-rich underdeveloped regimes perform the worst among patrimonial political economies in terms of domestic credit to the private sector. Domestic credit to the private sector expressed as percent of GDP corresponds to 12.24 percent in Iran, 13.94 percent in Libya, 6.51

[100] Source: UNDP, last available data.

percent in Iraq, whereas it amounts to 39.27 percent in Qatar and 75.74 percent in Tunisia.[101] One of the underlying reasons for this pattern is the fact that domestic sources of financing for private sector development are allocated sub-optimally in Iran, as well as in other countries of oil-rich underdeveloped regimes, which can be attributed to the existence of the parallel institutions of clergy, particularly the *bonyadha,* and Islamic Revolutionary Guard Corps (IRGC). During Ahmadinejad's era, the IRGC's economic activities peaked, as it entered into large-scale developmental and industrial projects and public works. For example, from 2005 to 2011, the IRGC was awarded some $25 billion in contracts in the oil and gas sectors. The role of the IRGC in the economic sphere has become larger, at the expense of optimal economic performance, as a result of foreign investors encountering difficulties because of the investment code, US sanctions, and discretionary political decisions, alongside domestic firms declaring bankruptcy (Forozan & Shahi 2017).

Needless to say, oil and gas revenues are the constituent aspects of Iranian political economy, while the fluctuations in the prices of these commodities heavily affects the Iranian economy. Currently, oil revenues account for 85 percent of Iran's export commodities, and around half of the annual government income (Boroujerdi 2013). As a potential economic vulnerability, analysts forecast that Iran might not be able to sustain recent production levels, since the National Iranian Oil Company (NIOC) lacks the capital and technologies to develop new fields or to use more-sophisticated enhanced recovery techniques (Crane et al. 2008, 68). Furthermore, Iranian efforts for the diversification of financing sources are usually nullified due to the implications of economic sanctions, and the negative international image of Iran, as opposed to the Qatari success in creating international brands.

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[101] Source: World Bank, last available data. See also Appendix II: Country Profiles.

Industrial Relations

On average, oil-rich underdeveloped regimes implement more rigid labor market policies than oil-rich labor flexible regimes, and less rigid than non-oil industrializer regimes. Several index scores that measure labor market flexibility and the number of ILO conventions in force illustrate this pattern. In the Employing Workers Index, Iran scores 29, whereas Tunisia and Qatar score 40 and 13, respectively. Moreover, the Difficulty of Hiring Index suggests that Iran has a more flexible system than Tunisia, and more rigid system than Qatar (Angel-Urdinola & Kuddo 2010). In the Difficulty of Redundancy Index, Iran has a score of 7 (out of 10), as it is equal to 0 and 10 for Qatar and Tunisia, respectively (see Figure 11). Furthermore, while in Iran there are 13 ILO conventions in force, this amounts to 52 in Tunisia, and 6 in Qatar (see Appendix II: Country Profiles). The labor law introduced after the revolution has rendered it very difficult to fire workers. In a survey of managers, one respondent testified that "because we do not have the right to discharge a delinquent worker, we prefer not to employ more workers" (Pryor 2009, 258). In other words, even during booms, private-sector employers are often reluctant to hire, and these policies make it difficult for firms to adjust their workforces.

On the other hand, under the 1990 labor law,[102] independent trade unions are banned in favor of state-controlled Islamic Labor Councils, which must be approved by employers and the security services. Under the assumption that these councils are arm-in-arm with the incumbent government, workers tend to keep their grievances to themselves for fear of being sacked as troublemakers, since labor leaders are often imprisoned.[103]

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[102] See ILO Natlex. http://www.ilo.org/dyn/natlex/docs/WEBTEXT/21843/64830/E90IRN01.htm
[103] The Economist. 2013. "Iran's banned trade unions: Aya-toiling". April, 20. http://www.economist.com/news/middle-east-and-africa/21576408-though-watched-and-muzzled-independent-labour-unions-are-stirring-aya-toiling

Regulatory Framework

In the aftermath of the 1979 Revolution, a dual system of governance emerged, in which the clergy institutions have started to precede legal bureaucratic state structures. The Guardian Council, Expediency Council, Assembly of Experts, and the Special Clerical Court are just a few examples. The foundation of these institutions has rendered the Iranian state increasingly byzantine (Boroujerdi 2013, 484). What Karshenas & Moshaver (2011) label as 'the unelected core state' operates mainly as a network of individuals and interest groups wielding power through informal and sometimes interpersonal relations and their actions are not governed by transparent and bureaucratic rules and regulations. These institutions such as semi-public religious foundations and the Revolutionary Guards exert immense influence over the economic sphere through the accumulation of assets which renders the independent private sector increasingly marginalized. One important implication of the administrative chaos of this dual government has been a frequent changes in policy as different groups have competed for wielding more influence (Pryor 2009, 257).

Oil-rich underdeveloped countries are outpaced, on average, by other patrimonial political economies in terms of governance quality and the regulatory framework. The Doing Business indicators attest to this pattern. For instance, while it takes on average 6 days to get electricity for business in Iran, the regional average corresponds to 5 days. Moreover, it takes 101 hours to export due to border compliance in Iran, whereas the regional average is only 64 hours.[104]

Successful entrepreneurs have found it difficult to increase the size of their operations and transform them into modern corporate entities since they are also wary of attracting the attention of tax and religious authorities. Islamists within the regime are inclined to attack 'big capital' and

[104] World Bank, Doing Business. See http://www.doingbusiness.org

‘profiteering’ on sight. Wealthy businessmen without political connections to the regime have been jailed under charges for becoming ‘too successful’. Most businessmen therefore cultivate supporters within the religious and political leadership to forestall political difficulties through bribes (Crane et al. 2008, 82).

Discussion

Patrimonial capitalism's defining features can be summarized as follows: The incumbents prioritize political considerations over economic development, corruption is widespread, the regulatory frameworks are not conducive for the competitive development of the private sector, and economic exchange is personal and particularistic in which the political-economic elite does not allow competition in its domain (see List 1). The general dynamics of patrimonial capitalism can be observed in all of these cases, however the institutional context it manifests itself in varies by sub-types of patrimonial capitalism.

In the case of Tunisia, an epitome of non-oil industrializer regimes, there has been a mixed record of liberalization and protection since the 1970s. As a consequence of this policy mix, most wealthy families and major private enterprises consolidated their economic base. Through selective promulgation, amendment, and implementation of investment codes, Tunisia's political-economic elite utilized its political connections to promote its own development and interests, which engendered sub-optimal national economic performance (Coupe & Redissi 2013). On the labor side, in order to ensure labor acquiescence and resist societal pressure, the incumbents enacted rigid labor market policies and also capitalized on former corporatist institutions such as UGTT as part of a new emergent clientelistic network.

In Qatar, as an example of oil-rich labor flexible regime, on the other hand, the institutional setting is radically different from the Tunisian case. For instance, in Tunisia, sectoral collective agreements are usually negotiated between the UTICA and the UGTT (Angel-Urdinola et al. 2015, 93), whereas collective bargaining is not freely practiced in Qatar, as migrant workers constitute up to 90 percent of the total population and a work-sponsorship system has been instituted. One underlying reason for this institutional demarcation is the issue of resource

endowment - in Qatar, oil and gas revenues account for more than 70 percent of total government revenue, more than 50 percent of GDP, and roughly 85 percent of export earnings (Niethammer 2013, 741). In an oil-rich regime, patrimonial features are manifested in a different institutional setting. Be that as it may, as the findings of this research suggest, oil-rich patrimonial regimes also exhibit diversity.

The contrast between Qatar and the Russian Federation, an oligarch regime, highlights this variation among oil-rich regimes. Easter (2008) postulates that the persistence of post-Soviet Russian patrimonialism boils down to two institutional features - the lack of independent economic elites, and the concentration of political power. When oligarchs gained too much influence in state policymaking, Putin embraced a more corporatist-style arrangement to state–business relations, with the threat of coercion, as exemplified by the Yukos incident. As in oil-rich regimes, the relationship with dynasty precedes corporatist arrangements; the legacy of nomenklatura in Russian Federation and the prevalence of a hybrid economy forces patrimonialism to operate in a different institutional context.

CHAPTER VII: CONCLUSION

The motivating puzzle for this research was to account for the underdevelopment in the Middle East & North Africa, given the intra-regional variation in economic performances, since the current theoretical frameworks fall short of stressing this intra-regional variation and they try to elucidate sub-optimal economic performance with reference to a *constant* – such as religion or culture (Huntington 1993, Hudson 1995), the predominance of Islamic institutions (Kuran 2010), resource curse (Ross 2001), or rentier state structures (Beblawi 1987), which cannot fully capture the intra-regional variation. As a remedy, this thesis scrutinized a total of 23 countries, including 17 countries from the Middle East & North Africa, and 6 countries from the post-Soviet countries (see Table 9) with respect to three institutional domains of their political economies - financing, industrial relations, and regulatory framework - by situating them within the theoretical framework of comparative capitalisms – a literature that aims to discern institutional patterns to explain differences in economic outputs.

Middle Eastern studies do not keep pace with other regional studies, while Latin American, Eastern European, and East Asian regional studies adapt quickly to the developments in the literature and often suggest new directions (see Esping-Andersen 1996, Huber 2002, Mesa-Lago 2003, Kwon 2005, Riesco 2007, Segura-Ubiergo 2007 among others). By incorporating the Middle East & North Africa into the general literature of comparative capitalisms, this thesis is the first scholarly work to our knowledge that clusters the contemporary MENA (and post-Soviet) countries by employing a quantitative method, and the first academic endeavor to categorize different sub-types of patrimonialism.

I argue that patrimonial capitalism can capture the Middle Eastern dynamics and certain sets of post-Soviet countries. Therefore, patrimonial capitalism is a modern phenomenon that is present in different settings. In other words, patrimonial capitalism is not a region-specific form of capitalism only relevant for the Middle Eastern context. Different forms of patrimonial capitalism can also be detected in the post-Soviet countries. This designation is instrumental for challenging the essentialist explanations that elucidate underdevelopment in the MENA region with respect to religion or culture (see Huntington 1993; Roy, 1994, 4; Hudson 1995) and theoretical frameworks that state the predominance of Islamic institutions as the main determinant for underdevelopment (Kuran 2010). On the contrary, patrimonial capitalism is not necessarily shaped by certain religions, cultures, or religious institutions.

The cross-regional analysis of patrimonial capitalisms suggests that patrimonial capitalism is not a monolithic concept – it has its own sub-types. This is one contribution of this study to the literature on comparative capitalisms in the developing context. The empirical analysis led to the construction of four sub-types: 'non-oil industrializer regimes', 'oil-rich labor flexible regimes', 'oligarch regimes', and 'oil-rich underdeveloped regimes'. The comparative case studies of 4 countries (Tunisia, Qatar, Russian Federation, and Iran) as the representative cases of each sub-type reveals that the general dynamics of patrimonial capitalism can be observed in all of these cases, but the institutional context it manifests itself in varies by sub-types of patrimonial capitalism.

Secondly, by applying the comparative capitalism approach to the MENA context, this scrutiny has sharpened our understanding of the intra-regional institutional variation. An important insight into this variation is related to the differences among oil-rich regimes – countries with a high level of oil endowment also exhibit diversity with regards to certain

institutional domains of their political economies. Oil-rich regimes also exhibit diversity in terms of several institutional domains such as financing, industrial relations, and regulatory framework. While Middle Eastern countries establish two different oil-rich clusters (Group 2 and Group 4), oil-rich post-Soviet countries (Belarus, Kazakhstan, Russia, and Azerbaijan) construct another one (Group 3). As Middle Eastern studies is rich with scholarly works that focus only on rent revenues in the light of the resource curse literature, this finding can also be considered as a contribution to Middle Eastern studies.

To reiterate, in contrast with predominant theoretical frameworks that elucidate the underdevelopment of the region with respect to *constants* such as religion, religious institutions, and resource endowments among others, the idea of sub-categories of patrimonial capitalism can capture this intra-regional variation. However, this contribution is not just to display the existence of variation, but also a different kind of variation, not necessarily characterized by regime types or degrees of authoritarianism. The scrutiny of political economy of the Middle East & North Africa through the lenses of patrimonial capitalism helps discern the intra-regional variation with respect to political economy variables such as regulation, industrial relations, and corporate financing in a holistic and systemic way.

Policy Implications

The MENA region has been endeavoring to combat economic stability for at least three decades with certain ebbs and flows. Growth rates have stagnated, and economic decline has plagued the region. The regional average for unemployment rate is more than twice the global average. Industrial and education policies are not aligned, which brings about skills mismatch in the labor market. Informality is widespread and labor markets are too rigid as a constraint on private sector development. The low level of governance quality because of extensive corruption

and clientelism is associated with the lack of an adequate regulatory and legal framework conducive for private enterprises. The region, on average, is also notorious for its unattractiveness for foreign direct investment. A particular type of political economy undergirds this underdevelopment in the region.

Following the climax of the structural adjustment and liberalization period, a 'non-market type of capitalism' became dominant in the region, in striking contrast with the expectations of neoliberal agenda. And the development prospects for this type of capitalism, namely patrimonial capitalism, are sub-optimal. In a nutshell, the governance gap, limited access to finance, and labor market inefficiencies has weakened the environment for efficient, productive private investment (see World Bank 2003). Regardless of the differences in the level of oil endowment and level of development (as in the contrast between Yemen and United Arab Emirates), it is expected that all of them could perform better than they actually do in a 'non-market setting' (Schlumberger 2004). Hence, the scrutiny of this particular form of capitalism will have certain policy implications.

Despite this regional pattern of patrimonialism, these countries also exhibit certain levels of diversity in terms of three important institutional domains: financing, industrial relations, and the regulatory framework. This research indicates that patrimonial capitalism is not a monolithic concept, and has its own sub-types. These political economies differ in terms of FDI restrictions, domestic credits and external rents, labor market rigidity, tax regulations, corruption & governance quality among others. Therefore, a one-size-fits-all solution to the problems of development, as in the case of Washington Consensus, would not perform well in this context. Different policy solutions should be designed and implemented, depending on the particular configuration of institutions for each sub-type of patrimonial capitalism.

One important policy goal that can be set for non-oil industrializer regimes is to enact regulations that will ease labor market rigidity. This policy shift will foster matching skills, and tilt the balance in employment towards the private sector, which will eventually contribute to private sector development. Secondly, incumbent governments resort to investment codes such as FDI regulations in order to maintain their constituency bases through networks of privilege. These restrictive regulations should diminish, and effective regulatory bodies should be established to oversee these processes.

Oil-rich labor flexible regimes need to diversify their sources of finance other than external rent income, and adopt policies to improve the FDI inflow. There are different mechanisms that can be implemented to foster FDI attractiveness. Allowing full foreign ownership of industrial entities, decreasing tax rates for FDI operations, and abolishing national employment quotas for foreign enterprises, as in the case of Saudization policy, would contribute to this policy agenda. In striking contrast with the Gulf countries with small productive base, oligarch regimes have the potential to boost domestic resources for financing private enterprises, even though on average they perform better than other oil-rich regimes in terms of FDI inflow and remittances. Hence, a new set of policies needs to be enacted that targets domestic sources of financing for oligarch regimes.

Oil-rich underdeveloped regimes are the worst performing countries in many ways, including governance quality, FDI attractiveness, and domestic credit to the private sector. Libya, Iraq, and Yemen have been enduring civil war for a protracted period of time. Libya descended into chaos with its 2011 civil war, which ended with the killing of Gadhafi and led to the current conflict between Libya's two competing parliaments and governments, each backed by a set of militias, tribes and political factions. Since 2014, Iraq has been fighting ISIS, in the aftermath of

the fall of Mosul and Tikrit to the extremist jihadists. On July 4 2016, a powerful explosion near Karada, a predominantly Shia neighborhood in central Baghdad, killed over 200 people, which was one of the deadliest terrorist attacks in the history of Iraq.[105] These kind of terrorist attacks have become an unfortunate reality in Iraq. In September 2014, the Houthis took control of Yemen's capital, Sanaa, and since then Yemen, the Arab world's poorest country, has been wracked by a bloody war between the Houthi rebels and supporters of Yemen's internationally recognized government.[106] Hence, in these countries, there should be a period of institutional development after the end of these crises.

Future Research Agenda

One important source of financing for private sector development is Islamic banking in the MENA region. In the conventional banking system, a collection of funds and then their disbursement are done on the basis of interest charge. However, in the Islamic banking system, banks do not receive funds on interest-based contracts. Rather, they share their profits with their investment account depositors. In the MENA region, the majority of Islamic banks are privately-owned. They exist along with the conventional banking and financial institutions with the exception of Iran, which classifies all its banks as Islamic and the majority of them are state-owned. Iran is the biggest Islamic banking market, followed by Saudi Arabia, United Arab Emirates, Kuwait and, Qatar. There are also Islamic banks operating in Lebanon, Jordan, Turkey and Egypt (see Ali 2011, Moualhi 2015). A future analysis of variation in the financing through Islamic banking, and the asset shares and regulatory frameworks of these banking systems can be

[105] Al Jazeera. 2016. "Iraq: Baghdad bombing kills more than 200". July, 4.
http://www.aljazeera.com/news/2016/07/iraq-baghdad-bombings-kill-23-160703045945293.html
[106] Al Jazeera. 2016. "Key facts about the war in Yemen", August, 1.
http://www.aljazeera.com/news/2016/06/key-facts-war-yemen-160607112342462.html

incorporated into the comparative capitalism literature, which would broaden our understanding of financing as a constituent institutional domain for private sector development.

Secondly, my analysis reveals that Turkey is a hybrid case that can be attributed to different sub-types of patrimonial capitalism, when its political economy is situated within the families of production regimes in the post-Soviet and MENA countries. However, the Turkish political economy can be construed as a "crucial case" that allows us conceptual borrowing from different bodies of literature, including comparisons with developing countries as well as industrialized countries (Bölükbaşı 2012, 342). Future research is warranted to test important hypotheses of the relevant literature by capitalizing on the Turkish political economy's unique setting.

Thirdly, another institution domain essential for a production regime is skills development (see Hall & Soskice 2001). Even though this domain is beyond the scope of this research; the issue of skills development and industrial policies coalesce around one particular setting of the production regime. Besides public expenditure on education, the role of corporate social responsibility and the gravity of vocational training programs should be accentuated in this framework, exemplified by programs such as Silatech's, Education for Employment Foundation's, and ILO's Know About Business Program (Wally 2012). How conducive the regulatory frameworks are for these kind of programs, and how effective these programs are for bridging skills mismatch (Ahmed 2012) exhibit a certain level of diversity across the region. Furthermore, 'the ratio of pupils in vocational training out of 15-24 year olds' might be an interesting variable to assess this variation. Hence, vocational training programs & skills development should also be introduced into discussions to discern sub-categories of patrimonial capitalism.

Fourthly, the development of the SME sector has been emphasized in the global agenda for more than a couple of years. For instance, B20 during the Turkish presidency established SMEs and Entrepreneurship Task Force in 2015.[107] SME growth is also vital for the MENA region.[108] SMEs typically account for 10 to 40 percent of all employment in MENA. Pertaining to our analysis, access to finance is one of the greatest challenges that SMEs face in the region. A recent World Bank/Union of Arab Banks survey of over 130 MENA banks indicates that only 8 percent of lending goes to SMEs across MENA, and even less in GCC countries at 2 percent. While 24 percent of lending is allocated to SMEs in Morocco, this amounts to only 0.5 percent in Qatar (Saleem 2012). Hence, financing patterns for SMEs also differ across the region, which can contribute to our understanding of the variation in the political economies. SME development and financing can be incorporated into this literature in future studies.

Lastly, the empirical leg of this research utilized last available year's data for each variable to classify the countries of interest into sub-categories of patrimonial capitalism. However, this is not a frozen entity – it has changed over time. As a 'non-market type' of capitalism that became dominant after structural adjustment and liberalization efforts, the shifts in the political economies and changes in patterns could also be analyzed over time. As the current analysis focuses on contemporary classification of these patrimonial capitalisms, a temporal scrutiny between 1980s and 2000s would also yield an important insight into the changes in patterns of patrimonial capitalisms.

[107] See http://g20.org.tr/engagement-groups/business-20-b20/
[108] See OECD Working Group on SME Policy and Entrepreneurship in the MENA. http://www.oecd.org/fr/sites/mena/investissement/mena-oecdworkinggrouponsmeandentrepreneurshippolicy.htm

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UNDP

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World Bank, Enterprise Surveys

World Bank, Governance Indicators

World Bank, World Development Indicators

APPENDIX I: DESCRIPTIVE STATISTICS & METADATA

Corporate Governance & Financing	
Oil dependency	High oil dependency is defined as ratio of fuel exports to total export earnings of more than 66 percent; moderate dependency as ratio between 34 and 65 percent; and low dependency as less than 33 percent. Source: Cammett 2013.
Oil rent as percent of GDP	Oil rent as percent of GDP Source: World Bank
FDI stock as percent of GDP	Foreign Direct Investment, stock as percent of GDP 2013 Source: UNCTAD
FDI net flows as percent of GDP	Foreign Direct Investment, net inflows as percent of GDP Source: UNDP
FDI ratio	The ratio of Inward and Outward Foreign Direct Investment, Stock US Dollars at current prices (2013) Source: UNCTAD
Remittances	Remittances inflow as percent of GDP Source: UNDP
Openness Index	Openness of the economies at current prices. Source: Upenn Open Data
Domestic Credit	Domestic credit to the private sector (as percent of GDP), 2013 Source: World Bank
Industrial Relations	
Fixed-term contracts	Fixed-term contracts are allowed in the labor market (binary). Source: World Bank, Doing Business Labor Market Regulation, 2015
Minimum Wage	Ratio of minimum wage to value added per worker. Source: World Bank, Doing Business Labor Market Regulation, 2015

Difficulty of Redundancy Index	This is an index of 10 with 7 items: Third-party notification if 1 worker is dismissed, Third-party approval if 1 worker is dismissed, Third-party notification if 9 workers are dismissed, Third-party approval if 9 workers are dismissed, Retraining or reassignment obligation before redundancy, Priority rules for redundancies, Priority rules for reemployment. Source: World Bank, Doing Business Labor Market Regulation, 2015
Regulatory Framework	
Governance Quality Index	The governance quality index is calculated by the sum of control of corruption, regulatory quality, and rule of law scores of World Bank Governance Dataset. Source: World Bank Governance Indicators
Distance-to-frontier Score	An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier. For example, a score of 75 in DB 2014 means an economy was 25 percentage points away from the frontier constructed from the best performances across all economies and across time. Source: World Bank Doing Business Dataset
Ease of Doing Business	Ease of Doing Business Ranking (last available year) Source: World Bank Doing Business Dataset
Control Variables	
GNI per capita	Gross national income per capita 2011 PPP Source: UNDP
HDI Score	Human Development Index Score Source: UNDP
HDI Ranking	Human Development Index Ranking Source: UNDP

Descriptive Statistics	Mean	Std Dev	Max	Min
Oil dependency	52	37.03	100	0
Oil rent as percent of GDP	52	37.03	100	0
FDI Inflow as percent of GDP	2.25	2.71	9.6	-4.5
FDI Stock as percent of GDP	38.52	30.56	125.47	7.42
Ratio of Inward-Outward FDI	13.95	23.7	110.52	.53
Remittances Inflow as percent of GDP	3.23	4.76	18.26	0
Distance-to-Frontier	63.41	10.82	80.2	33.35
Openness	86.02	28.57	143.5	44.4
Domestic Credit(percent of GDP)	45.68	24.95	98.64	6.34
Fixed terms allowed	.75	.44	1	0
Ratio of min wage	.27	.24	.74	0
Difficulty of Redundancy	3.13	3.01	10	0
Governance Quality	-1.02	2.16	3.02	-4.71
Ease of Doing Business Ranking	85.75	49.76	188	16
GNI	21366.58	19631.08	83691	2728
HDI Score	.75	.08	.85	.5
HDI Ranking	77.42	33.29	160	32

APPENDIX II: COUNTRY PROFILES

	Tunisia	Qatar	Russia	Iran	Data Source
Population					
Population, total (millions)	11.11	2.24	144	79.1	World Bank
Population density (people per sq. km of land area)	72.4	192.5	8.8	48.6	World Bank
Population, ages 15-64 (percent of total)	69.1	83.3	69.9	71.3	World Bank
Ethnic groups	Arab 98 percent, European 1 percent	Arab 40 percent, Indian 18 percent, Pakistani 18 percent, Iranian 10 percent, other 14 percent	Russian 77.7 percent, Tatar 3.7 percent, Ukrainian 1.4 percent, Bashkir 1.1 percent, Chuvash 1 percent, Chechen 1 percent,	Persian, Azeri, Kurd, Lur, Baloch, Arab, Turkmen and Turkic tribes	CIA Factbook
Religious groups	Muslim (official-Sunni) 99.1 percent	Muslim 77.5 percent, Christian 8.5 percent	Russian Orthodox 15-20 percent, Muslim 10-15 percent, other Christian 2 percent	Muslim (official) 99.4 percent (Shia 90-95 percent, Sunni 5-10 percent)	CIA Factbook

Political Outlook					
Government & regime type	Semi-presidential system; republic	Absolute monarchy	Semi-presidential system; federal republic	Theocratic republic	
Executive branch	President elected by absolute majority popular vote: Beji Es-Sebsi	Chief of state: Amir Tamim bin Hamad Al Thani; the monarchy is hereditary; prime minister appointed by the amir	President directly elected by absolute majority popular vote: Vladimir Putin	Supreme Leader Ali Khamenei. President elected by absolute majority popular vote: President Hasan Ruhani	
Legislative branch	Tunisia's Call 39.6 percent, al-Nahda 31.8 percent, UPL 7.4 percent, Popular Front 6.9 percent	Majlis al-Shura; members appointed by the monarch	United Russia 76.3 percent, CPRF 9.3 percent, LDPR 8.7 percent	List of Hope 37.2 percent, Principlists Grand Coalition 25.9 percent, People's Voice Coalition 4.5 percent,	CIA Factbook
Freedom House Index	Free (79)	Not Free (27)	Not Free (22)	Not Free (17)	Freedom House

Economic Outlook					
GDP growth, annual (percent)	1.0	3.6	-3.7	4.3	World Bank
GDP per capita, PPP (current $)	11,467	141,542	24,451	17,388	World Bank
Inflation, consumer prices (percent)	4.9	1.9	15.5	13.7	World Bank
Population below poverty line (percent)	15.5	---	11.2	18.7	CIA Factbook
Current account balance (percent of GDP)	-8.9	8.4	5.2	---	World Bank
Industry, value added (percent of GDP)	28.2	58.5	32.6	38.2	World Bank
Oil rent (percent of GDP)	15.0	88.0	63.0	70.0	World Bank
FDI stock (percent of GDP)	70.74	14.79	19.48	7.42	UNCTAD
Remittance inflow (percent of GDP)	4.32	0.33	0.50	0.26	UNDP
Human Development					
Life expectancy at birth, total (years)	74.1	78.6	70.4	75.4	World Bank
Adult literacy rate (percent)	81.1	97.8	99.7	87.2	World Bank
Gross enrollment ratio, primary (percent)	42.8	58.5	83.8	42.4	World Bank
Human Development Index score	0.72	0.85	0.80	0.77	UNDP
Human Development Index ranking	96	32	50	69	UNDP

Private Sector					
Ease of Doing Business Index ranking	60	50	40	130	World Bank
Domestic credit to the private sector (percent of GDP)	75.74	39.27	56.4	12.24	World Bank
Domestic credit to the private sector by banks (percent of GDP)	75.4	69.6	56.4	54.5	World Bank
Time required to start a business (days)	11	8.7	10.5	15.5	World Bank
Total tax rate (percent of commercial profits)	60.2	11.3	47.0	44.1	World Bank
Start-up procedures to register a business (number)	9	8	4	8	World Bank

Labor Market					
Fixed-terms allowance in contracts	Allowed	Allowed	Not Allowed	Allowed	World Bank
Difficulty of Redundancy Index score	10	0	4	7	World Bank
Labor force participation rate, female (percent)	30.4	53.1	56.3	16.3	ILOSTAT
Employment-to-population ratio	42.5	87.5	69.3	39.2	ILOSTAT
Unemployment rate, total (percent)	15.9	0.5	5.6	11.1	ILOSTAT
Youth unemployment rate, total (percent)	31.8	1.3	12.9	29.4	ILOSTAT
Share of youth NEET (percent)	--	9.4	12	34.4	ILOSTAT
Number of ILO conventions in force	52	6	54	13	ILO Normlex
Minimum wage to valued added per worker ratio	0.54	0	0.3	0.69	World Bank

Governance					
Governance Quality Index score	-0.7	3.02	-2.1	-3.16	World Bank
Voice and accountability (percentile rank)	55	21	19	5	World Bank
Political stability and absence of violence (percentile rank)	19	82	13	17	World Bank
Government effectiveness (percentile rank)	49	79	48	47	World Bank
Regulatory quality (percentile rank)	39	73	32	7	World Bank
Rule of law (percentile rank)	56	78	26	16	World Bank
Control of corruption (percentile rank)	55	81	19	32	World Bank