9
Beyond the Resource Curse: Rents and Development

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9.1 Introduction

This chapter offers a brief critical reflection on the Middle East's resource curse. The region has typically been described as performing in the middling range, growing neither as well as East Asia nor as badly as sub-Saharan Africa. Arab economies have experienced a modest growth performance with substantial volatility of macroeconomic outcomes. The symptoms appear all too familiar: a weak private sector, unproductive investment in white elephant projects, pervasive rent seeking, and a large and oversized public sector. Government spending (especially on subsidies and public employment) has remained surprisingly resilient in the face of fluctuating oil prices. The relationship between oil and development in the Middle East and North Africa (MENA) is well-documented (Yousef 2004; El Badawi 2005; Nugent and Pesaran 2005). Most of the region's development challenges have been traced to the pathologies associated with natural resource abundance.

The underlying theoretical frame to support the region's adverse development record was the well-known approach of the Rentier State Theory (henceforth, RST), which argues that unearned revenue streams, external to a country and accruing mainly to the government, distort economic and political incentives. The concept of a rentier state was originally formulated in the area studies literature to describe Iran's economic stagnation in the face of its growing oil revenues (Mahdavy 1970). Its first systematic typology, developed by Beblawi and Luciani (1987), was also inspired by the experience of Middle Eastern oil exporters. The main implication of RST was political: direct access to resource revenues also allows state elites to buy political consent through repression and (re-)distribution.

Development in a rentier state often descends from above, with the state acting as the principal actor in the economy. The prime function of the rentier state is the allocation or distribution of rents. This turns incentives away from

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production to predation, stifling competitive structural change that could have produced a social structure more favourable to democratization – independent classes and horizontal civic alignments in society (Beblawi and Luciani (1987); Ross 2001). As long as the state is able to effectively distribute its rents it remains largely autonomous from society, and, therefore, relatively insulated from independent political action. In terms of economic structure, rentier states are ill-equipped to support (private) production, especially a strong manufacturing capability. After dominating the field for nearly three decades, the RST has come under growing criticism. Although the general claims of the theory fit the actual experience of the Middle East rather well, it has been criticized for: lacking context, especially the role of historical legacy; neglecting dynamics; and offering a limited window into the mechanisms through which oil wealth undermines development.

This chapter develops the case for re-imagining the study of Middle Eastern political economy through a broader conceptualization of rents that goes beyond an exclusive focus on hydrocarbon rents. I argue that the region's political economy is best understood by considering the totality of the rentier experience of which oil rents are only one, albeit dominant, component. Other important non-oil rent streams to consider in this regard are derived from foreign aid, remittances and rents from government manipulation of the economy. Together with oil, these rents play a hugely significant role in explaining the region's perverse political economy characterized by authoritarian resilience and dependent economic structures. Importantly, considering these rents in totality allow us to consider, as part of the same framework, the problem of development in resource-scarce economies of North Africa and Levant together with the resource-rich economies of the Gulf Cooperation Council (GCC).

While it is time to retrieve the MENA political economy from its predilection with oil and its aftereffects, this note recognizes the centrality of the unearned revenue streams from oil for the region. Rarely any facet of MENA political economy can be studied without a deep understanding of the ways in which oil shapes the state-society relationship. Many of the region's pathologies, whether it is unemployment, a bloated state, weak private sector or limited political evolution, are ultimately rooted in an economic structure heavily reliant on external windfalls. In this chapter, I only advocate a broadening of the types of rents and their deployment. Considering the non-oil rent streams from aid and remittances only allows us to drop the over-emphasized distinctions between resource-rich and resource-scarce countries. An important macroeconomic regularity of the region is that growth in all MENA countries – whether oil-rich or oil-scarce – is driven by movements in oil prices. The relative abundance or scarcity of hydrocarbon wealth only defines the degree or extent of economic malaise, but an exclusive focus on oil understates the importance of linkages between oil exporters and oil importers.

An additional difficulty with resource-curse explanations is that they ignore the important contribution of domestically derived rents from economic policy distortions. These rents from protection that favour regime insiders are crucial to sustaining authoritarian stability in countries where revenues from oil are either non-existent or insufficient to meet distributional commitments. These economic rents, which are largely derived by posing barriers to competition, serve an important political function. Among other things, they allow rulers to build elite coalitions whose interests are aligned with regime continuity. Their economic implication is equally significant. Such distortions produce a bipolar economic system, defined by an interventionist state and a large informal sector. Together with revenues from oil, aid and remittances, these regulatory rents shape the region's political economy in a most profound manner. By extending the nature and types of rents, it is easy to argue that the Middle East suffers from a wider *rent curse*, not just an oil-driven resource-curse. The scale and significance of this rent curse has not been adequately appreciated by scholars of MENA political economy.

The rest of this chapter is organized as follows. Section 9.2 provides a broader conceptualization of rent streams. Section 9.3 proposes some distinguishing characteristics of MENA political economy. Finally, section 9.4 offers some concluding remarks on the subject.

9.2 Toward a broader conceptualization of rent streams

The Middle East is a resource-rich region par excellence. Proven crude oil reserves in the Middle East are at least three times higher than other regions. The region is also known to possess one of the largest proven gas reserves in the world. The Middle East's exceptional resource riches are confirmed by several measures of natural resource abundance. Recent estimates for the natural wealth of nations suggest that, on a per capita basis, MENA possesses the highest oil wealth in the world. As a percentage of GDP, natural resource rents in MENA are, on average, three to four times higher than sub-Saharan Africa and Latin America (World Bank 2014). But the Middle East is exceptional, not just on account of its resource riches, but also when judged on the basis of non-oil rent flows. To elaborate on this, consider three rent streams: aid, remittances, and rents from protection.

As a region, MENA is one of the largest aid recipients in the world, leaving behind sub-Saharan Africa and South Asia – the two regions that are home to the largest number of poor in the world. The average MENA state receives more aid rents per capita than the average low-income country or sub-Saharan African state. During the last 40 years MENA countries received roughly two to three times more foreign aid per capita than other developing regions. Regional comparison reveals the scale of difference. While South Asia received only

$6 per capita in net foreign assistance during the last decade, the MENA region received $43 per capita. As global evidence suggests, need is not the only driver of aid. Foreign aid inflows are closely linked with the strategic objectives of donor countries. This is best reflected in MENA, where foreign aid can be best characterized as a geo-political rent. Apart from being endowed with considerable natural resource wealth, the Middle East has also remained a perpetual zone of conflict. The geo-political vision of stability, enforced by global powers and regional patrons, rests on buying peace in the neighbourhood of the Palestinian-Israeli conflict. As a result, the two countries with the largest net aid per capita ($128) are Lebanon and Jordan, both neighbours of Israel. Even the middle-income countries of North Africa – the likes of Egypt, Morocco and Tunisia – receive more aid on a per capita basis than a typical Latin American country.

While the numbers in Table 9.1 correspond to the decade beginning in 2000, aid flows have significantly increased since the Arab uprisings in 2011. In Tunisia, the home of the Arab spring, net aid per capita has risen up to $86; the corresponding figure for Egypt is $158. Egypt's case is truly emblematic. Since the Arab spring, Egypt's fiscal balances are ever more dependent on regular cash injections from rich Gulf neighbours. There are few places in the world that can match the scale of such resource flows. Billions of dollars in aid are needed to keep Egypt's fiscal machine running from one year to the next. Importantly, the region's aid flows are practically free of any explicit aid conditionality that typically accompanies aid in developing countries. Such free cash windfalls exacerbate the moral hazard dilemma and weaken the incentives for reform. The soft budget constraint induced by foreign aid creates weak incentives for economic reform, which, in Egypt's case includes the politically sensitive issue of subsidy reform. Through adverse political economy incentives, aid can replicate the pathologies associated with a resource curse (Djankov, Montalvo, & Reynal-Querol 2008). There is some disagreement on whether this reflects Dutch disease effects (Rajan and Subramanian 2011), rent seeking (Boone 1996) or political instability (Islam 2005).

A second significant rent stream is generated by remittances from expatriate workers, which have quadrupled over the last two decades, reaching up to around half a trillion dollars (about three times the amount of total foreign aid globally). The Middle East is again exceptional on this account. As the second panel of Table 9.1 shows, during the period, 1980–2011, the MENA region enjoyed the highest ratio of remittances to GDP in comparison to other major regional groupings of developing countries (4% compared to 1–1.5% in LAC and SSA). Within the MENA region, Jordan and Lebanon stand out in terms of these remittance flows; in both countries remittances comprise around 20% of GDP. Few observers would dispute the profound impact of remittances on the Lebanese political economy. With its dependence on remittances, Lebanon

Table 9.1 Aid and remittances in MENA

Net ODA per capita, current US$

	1960–69	**1970–79**	**1980–89**	**1990–99**	**2000–09**
Egypt, Arab Rep.	3.993	35.235	31.405	50.839	17.412
Jordan	68.264	219.396	323.901	138.418	128.928
Lebanon	4.909	28.669	62.569	70.969	127.977
Morocco	6.383	14.425	30.462	30.693	26.591
Syrian Arab Republic	2.186	86.681	90.018	27.669	6.235
Sudan	1.771	13.148	37.232	14.824	32.205
Tunisia	17.809	32.361	32.231	26.240	34.407
Yemen, Rep.	3.610	32.602	50.324	21.647	16.133
Memo Items:					
Middle East & North Africa	6.543	24.778	28.097	28.637	43.964
Latin America & Caribbean	2.944	3.763	8.374	12.031	12.530
South Asia	2.301	3.121	4.960	4.634	5.786
Sub-Saharan Africa	3.918	9.031	23.041	29.695	38.113
Low income	2.190	7.515	18.825	23.089	31.111
Selected oil exporters:					
Iraq	0.572	3.175	2.958	11.519	214.734
Bahrain	7.767	173.107	308.432	207.568	103.493
Oman	1.454	124.110	79.221	60.144	33.993

Personal remittances received, % of GDP

	1980–89	1990–99	2000–09	1980–2011
Egypt, Arab Rep.	10.078	7.693	4.248	7.248
Jordan	19.519	18.817	20.001	19.035
Lebanon	–	–	22.123	21.514
Morocco	6.717	6.333	7.588	6.899
Syrian Arab Republic	3.055	2.741	2.265	2.689
Sudan	2.258	2.522	5.183	3.251
Tunisia	4.183	3.644	4.372	4.092
Yemen, Rep.	–	20.097	8.915	13.606
Memo Items:				
Middle East & North Africa	–	4.897	3.497	4.037
Latin America & Caribbean	0.391	0.733	1.688	0.951
South Asia	1.947	2.055	3.615	2.638
Sub-Saharan Africa	0.641	1.035	2.463	1.460

Source: World Development Indicators, 2014.

shares many of the features that are characteristic of rentier states. Unlike the rent streams from oil and aid that are largely concentrated in the government, remittances are well-dispersed among recipients. This can lead to more ambiguous effects. While remittances are shown to have favourable effects on financial sector development, they can also produce the familiar Dutch disease effects that adversely affect the manufacturing sector and economic growth in

the long-run (Rajan & Subramanian 2008, 2011). Remittances are also shown to have favourable effects on health and education outcomes.

Although remittance flows tend to be stable and diffusely distributed their net impact is disputed (Rajan & Subramanian 2011). This is especially true when it comes to mapping the political economy effects of remittances. By cushioning foreign exchange reserves, remittances can artificially insulate countries from economic crises. Since crises often spur economic reform, remittances not only postpone crises they can also weaken the incentives for economic reform. Together with foreign aid, dependence on remittances can weaken efforts for domestic resource mobilization. A weak tax effort, in turn, is associated with lower state capacity, weakening a crucial link between the state and its citizens. At the same time, remittances can have positive localized political effects. In a milieu where voters are tied in patron-client relationships, remittances can extricate their recipients from a disempowering dependence on politicians for public goods provision. As independent sources of income, remittances can also set into motion favourable political dynamics associated with the emergence of a vibrant middle class. The aggregate political economy effects are thus *apriori* unclear. The cross-country empirical evidence casts a negative light on the relationship between remittances and politics. Recent research demonstrates that a greater share of remittances in national income is associated with authoritarian stability (Ahmed 2012). Although the underlying mechanisms are still unclear, the stylized empirical regularity tends to fit the Middle Eastern pattern.

The third rent stream is generated from the domestic economy by erecting competitive barriers, administrative controls and burdensome regulation. Rents generated through such manipulation of economic policy are used to protect the privilege of insiders. MENA economies suffer from large-scale subversion of markets that blurs the boundaries between the public and private sectors and create impermeable barriers for unconnected firms. The pathology of the missing middle, where the firm space is divided between large connected firms at the top and informal firms in the periphery, is partly a result of such exclusive economic policies. All across MENA – but particularly in labour-abundant economies – firms can only grow up to a certain threshold. To cross this barrier of mobility, firms must enter into partnership with ruling elites.

Arab markets are one of the most protected in the world, suffering from a prolonged legacy of exclusive monopoly concessions and a variety of arbitrary barriers to domestic and foreign trade. Although such protection is commonplace across many resource-rich and low-income societies, the MENA region is exceptional in many respects. Non-tariff barriers, which are well-known for their arbitrary, discretionary and non-transparent character, are more pervasive in MENA economies than other developing regions. Even sub-Saharan Africa, which suffers from high levels of protection, trails behind on measures

of trade protection. Such protection is often driven by the need to divide the economy for insiders who are given control of various parts of the economy. These extractive policies and the rents they generate carry a larger significance in political economy terms. They are used to sustain an elite coalition whose interests are broadly aligned with those of the regime. It is not without reason that such protective devices are more pervasive in MENA's labour-abundant economies where the distributional commitments are large relative to the available resource envelope. Thus, when rents from hydrocarbons are scarce, other rent streams assume greater significance for regime survival.

Given the scale and significance of these rent streams, it is clear that MENA's political economy cannot be completely explained away by oil rents alone. The region suffers from a larger rent curse, of which hydrocarbon rents form an important part. It is also difficult to explain the adverse performance of relatively resource-scarce Arab countries (the likes of Syria, Jordan, and Egypt). Despite the absence of vast quantities of oil, many of these societies share the resource-curse symptoms of their oil-rich neighbours. In these contexts, non-oil rent streams from aid, remittances and economic controls sustain the adverse political economy equilibrium.

9.3 How does the MENA political economy differ from other regions?

Having argued that the MENA region suffers from a particularly acute rent curse, it is useful to pose a more general question: What are the distinguishing characteristics of the Middle Eastern political economy? Throwing greater light on this can enrich the discourse on natural resources and development more generally. In this section I propose five salient characteristics that distinguish the MENA political economy from its resource-rich counterparts globally.

Scale of rents and channels of distribution

A first obvious feature, much emphasized in the preceding pages, is the scale and volatility of oil rents. As a share of GDP, natural resource rents in the Middle East are, on average, three to four times higher than Latin America and Sub-Saharan Africa. These rent streams are also considerably more volatile in MENA (standard deviation of the resource rents ratio is 12% compared to 3% in LAC and 5.5% in SSA). Importantly, the significance of resource rents in MENA is demonstrated by the fact that the export structure of even relatively oil-scarce countries is dominated by fuel. The ratio of fuel exports to total exports, averaged over the period 1962–2008, is 63% in Syria, 34% in Egypt, and 21% in Tunisia. The MENA region also stands out for the multi-faceted linkages that bind the fate of oil and non-oil economies of the region. Whether a country in question is resource-rich or resource-poor, hydrocarbons are a

powerful driver of the Middle Eastern political economy. The significance of such spatial effects – operating through aid, remittances, and a variety of other channels – is arguably more profound in the Middle East when compared with other resource-rich regions.

This exceptional scale of resource rents also translates into specific patterns of deployment. While most resource-rich states tend to distribute their wealth through salaries and subsidies, the scale, coverage, and variety of these distributional channels sets MENA apart from other regions. The rent-funded welfare regimes in the Middle East cover a more extensive spectrum of social services, ranging from employment and education to housing and food. The average Middle Eastern country, regardless of whether it is a net exporter or importer of oil, also spends a staggering proportion of its revenues on energy subsidies. About one-half of global energy subsidies are disbursed in MENA, which amounts to nearly a third of the region's oil surplus and 8.5% of its GDP.[1]

Energy subsidies are pervasive even in relatively oil-scarce countries: Egypt spends nearly 11% of its GDP on fuel subsidies; the corresponding ratio in Yemen is 6%. Energy subsidies are even more costly if implicit subsidies (for electricity production and state-owned enterprises) are taken into account. The opportunity cost in terms of foregone spending on health and education is similarly high. In Egypt the total subsidy bill is three times the combined spending on health and education.[2] Food subsidies, though less burdensome in fiscal terms, remain equally pervasive in a region known for its astonishingly high levels of dependence on food imports.[3] Despite its notorious scarcity in the region, water is provided virtually free of charge.[4]

Apart from salaries and subsidies, which dominate the distribution regime, MENA states rely on a variety of other channels for sharing resource wealth. One important channel for rent distribution is the financial sector. Favoured groups benefit from subsidized credit in the form of interest free loans.[5] By early 2013 personal loans granted to the GCC citizens exceeded $355.3 billion.[6] While universal subsidies buy broader public support, other means are

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[1] This is equivalent, according to IMF estimates, of 22% of government revenue.

[2] Energy subsidies are also badly targeted, since their benefits disproportionately accrue to urban areas and the rich.

[3] Food subsidies constitute 0.7% of GDP in MENA, while there is considerable variation across individual countries.

[4] Even when charges are in place these are normally very nominal and do not reflect the actual cost of provision.

[5] Many MENA states extend credit for homes and businesses. The financial channel is particularly important in Iran which has suffered through a state of financial repression, and where cheap credit to favoured constituencies has helped to consolidate support for the regime.

[6] Citizens of the UAE and Saudi Arabia were the largest beneficiaries of this favoured credit.

used to purchase elite consent. Oil-funded public investment generates plentiful opportunities for taming political and business elites through construction contracts, import licenses, and land acquisition deals. The construction sector – a key beneficiary of resource-windfalls – depends, in turn, on the import of foreign labour that is organized through a sponsorship system (*kafala*) that generates additional rents for local sponsors, without whose permission migrants can neither enter (or leave) the country nor change jobs. While a comprehensive description of these channels is beyond this chapter's remit, the preceding discussion highlights the scale and variety of distributive rents that set MENA apart from its resource-rich counterparts.

Organization of labour markets

Another distinguishing aspect of the MENA political economy is the structure and performance of its labour markets. Arab labour markets are defined by segmentation along different lines: between nationals and migrants, public and private sector, formal and informal sector, and males and females. Such dualism is particularly evident in the GCC where universal public employment is offered to nationals and the private sector is dependent on migrant workers. Across the region, some 60% of formal employment is provided by the government. Higher wages in government jobs create an ingrained preference for state employment.[7] New entrants to the labour market prefer to queue for public employment than to accept a job in the private sector. This is a feature not just of oil-rich countries alone: in a recent Gallup poll only 5–8% of respondents in resource-scarce North Africa (Tunisia, Egypt, and Morocco) expressed a preference for private sector jobs. As the fiscal cost of maintaining high levels of public employment becomes growingly unsustainable in resource-scarce countries, the adjustment costs are passed on to the "outsiders" of the system: educated youth and the informal sector (Assad 2014).[8] Apart from this inter-generational inequity, dualistic labour markets reinforce multiple distortions in education, finance, and private sector development.[9]

Structurally, however, this labour market segmentation is grounded in a political equilibrium supported by a social contract that uses public employment as

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[7] There are several other non-wage benefits associated with government jobs as well.

[8] As Assad (2014) shows falling government employment in Egypt is being compensated for by a growing share of the labour force employed by the informal sector.

[9] This peculiar structure of labour markets comes at a significant development cost. It traps the educated labour force in unproductive public jobs and distorts the educational incentive structure by emphasizing credentials over skills. Access to state employment is also rationed through connections, which means that the labour market system works to the advantage of insiders (especially prime-age workers). It is also associated with low rates of female labour force participation, high rates of youth unemployment, and limited geographic mobility. See Assad (2014) for a detailed review.

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

Progress in human development

In the large-N literature, natural resource dependence is associated with higher levels of income inequality and lower education and health outcomes (Gylfason 2001; Gylfason and Zoega 2003). The Middle East defies this trend. Over the last five decades, the MENA region has made impressive progress in human development, especially in universalizing primary education. The region has experienced one of the fastest growth in educational attainments (Youssef 2004). Of the top 20 high achieving countries in terms of increasing mean years of schooling between 1980 and 2010, nine belonged to MENA (Campante and Chor 2012).[10] Despite lingering quality issues, even this quantitative access to education and health services is no mean achievement, especially in a global milieu where many developing countries are still struggling to put all their children in school.[11]

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

These distinct shades of the MENA political economy are an outcome not just of the region's resource riches but also its history. The impact of natural

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[10] Eight Arab countries plus the Islamic Republic of Iran.

[11] Similar achievements have been made in improving life expectancy.

resources on development is mediated through a different set of initial conditions. On the eve of independence, many Arab societies inherited a weak business class and centralized bureaucratic structures. The Ottoman political economy, the strength of prior social formations, and the rentier structures in place before independence left a deep imprint on subsequent paths of development. Importantly, an exclusive focus on oil, without mapping the totality of the rentier experience, cannot adequately encapsulate the Arab political economy.

Anatomy of business-state relationship

The organization of business life in the Middle East and its relationship with the state offers another arena for comparison. Although the private sector in resource-rich countries is typically influenced by a dominant natural resource sector, the fragility of MENA's private sector is legendary. The boundaries between the public and the private are blurred to the extent that business is permitted to thrive only under the shadow of the state. Even in the Gulf, which has a long tradition of accommodating business elites into the ruling circle, businesses lack both "political clout" and an "autonomous organizational space" (Hertog et al. 2013). Throughout the region there is a preponderance of older, more connected firms that monopolize economic advantage. Such crony capitalism, frequently termed as "networks of privilege", was particularly rife in Arab spring countries. By one estimate, about 58% of manufacturing firms in Egypt can be characterized as politically connected. These firms had preferential access to credit: in a sample of ORBIS firm 92% of loans were allocated to the politically connected firms (Diwan and Schiffbauer 2013).[12]

Arguably, such crony capitalism is not unique to MENA. Similar crony capitalist structures have been witnessed in other oil exporting nations, ranging from Angola to Kazakhstan and Nigeria to Venezuela. An important question – and one that still needs to be answered – is whether the Middle East is home to a different variety of cronyism. This remains a fertile area for research. Prima facie, several tentative explanations can be put forward, rooted in factors such as the small size of the non-tradable sector, reliance on specific modes of protection (e.g., monopoly licenses and non-tariff measures), weak initial conditions manifested through a historically weak business class and the legacy of centralized rule. Evaluating the comparative strength of such explanations should be an important task of future research.

Neighbourhood effects

Another striking feature of the MENA political economy is its prolonged exposure to conflict and geo-political instability. While obvious to the lay observer,

[12] ORBIS is a global company database, produced by Bureau van Dijk.

dominant narratives of regional political economy have tended to ignore the pernicious role of negative spatial influences. The Middle East remains an active site of regional and global conflict. This has produced powerful neighbourhood effects from which, effectively, no individual Middle Eastern state is insulated. Given the central role played by this region in global power politics, the external environment profoundly shapes the domestic political economy. Regional spill-overs from conflict take multiple forms, including such diverse factors as migration, capital flight, disruption of supply chains, entrenched uncertainty, absence of connective regional infrastructure and the like. A canonical example of the primacy of the external is provided by Lebanon whose political economy is intimately shaped by regional developments. Similarly, it is impossible to evaluate any aspect of the Jordanian political economy without taking account of the several waves of conflict-induced migrations into Jordan.

In the region's high rent per capita economies, the importance of the external environment can be gauged from the fact that the domestic political arena is co-constituted with the geo-political order. Historically, the GCC states have remained dependent on foreign powers for their income and protection, which binds them in a relationship of mutual interdependence with western powers. But the external dimension is not simply equal to western influence. GCC states have increasingly played the role of regional brokers in conflict management. As recent events have shown, oil-rich states play a direct role in coordinating the war and post-war efforts in the region (their engagement in Syria and Libya is just one example). Enjoying greater financial leverage over neighbouring Arab states, rich Gulf countries have been effectively subsidizing the social contract of Yemen, Jordan, Egypt, and Bahrain. The subsidy regime in these countries will be unsustainable without regular cash injections from their rich neighbours. All of this underscores the important role played by neighbourhood effects and regional spill-overs. With few exceptions, they have largely remained under-studied.

9.4 Concluding remarks

This chapter has developed the case for broadening the scope of rentier analysis beyond its predilection with oil, and by accounting for a variety of non-oil rent streams generated by aid, remittances, and economic protection. The Middle East is exceptional not just in the scale of its natural resource endowments but also in the availability of other rent streams that, together with oil, shape the region's political economy. I have argued that the interaction of these various rent streams provides a richer description of the MENA political economy. In fact, juxtaposing these different rent streams in the analysis can allow us to re-orient existing analysis away from its focus on the resource-curse to the wider – and arguably more significant – rent curse that has trapped the region in an

inferior equilibrium. It is clear that the oil and non-oil streams are inter-linked, since oil prices are a fundamental driver of aid and remittance flows. Given the recycling of oil wealth in the region, the traditional distinction between resource-rich and resource-scarce economies is somewhat redundant in political economy terms. It can only explain the intensity of outcomes and their underlying mechanisms but is not a true marker of their political economy. The boundaries between the oil-rich and oil-poor countries of the Middle East are more fluid than is commonly understood.

In short, a comprehensive political economy mapping of MENA requires a more fine-grained understanding of the different types of rents, their inter-linkages, deployment, and effects on the performance characteristics of economy and polity. This is a central exercise for any serious political economy analysis, since MENA's concentrated economic and political structures are fundamentally rooted in the creation, distribution, and sustenance of these rents. The scale, volatility, and degree of concentration of rents matter decisively in shaping elite incentives (Auty 2010). Such a shift of emphasis from oil rents to rents more generally can bring the discourse on MENA's political economy closer to the field of New Institutional Economics (NIE) that studies the origin, development, and impact of institutions. By embedding MENA experience in the emerging political economy paradigms will also enrich the wider field of political economy, since it has only paid passing attention to Middle Eastern experiences. With such a rich potential for a two-way engagement, an exciting turn in the analysis of the Middle Eastern political economy is waiting to be explored.

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