

The Gulf state / Dubai is the 'social contract' changing?

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Introduction

- Rentier State Theory predicts that a break in the 'social contract' will destabilize and thus potentially overthrow the regimes in e.g. the Gulf states.
- Experiences from the Arab Gulf states so far does not confirm this
- However, there are fundamental problems in the Gulf economies not least in Dubai, which might lead to significant challenges to further development and not least for the social cohesion within these societies. These challenges are the aim of this presentation.

It's time to change old concepts: Kuwait Amir

'Comprehensive reforms needed for complete development'

KUWAIT CITY — The Amir of Kuwait, His Highness Shaikh Sabah Al Ahmad Al Sabah, called on Tuesday for comprehensive reforms in the Gulf state, saying it was time to change old concepts.

"It is time to launch a new decisive phase and a major qualitative move aimed at achieving comprehensive reforms and complete development" programmes, the Ruler said at the opening of the parliament that was elected in July amid a bitter political crisis.

The Amir's announcement comes a day after the government said it planned to review subsidy policies and charges on public services and commodities. "It has become necessary to rectify old concepts ... It's time to adopt a new work methodology," the Ruler said.

Also speaking at the session, Prime Minister Shaikh Jaber Mubarak Al Sabah said that "comprehensive reforms have become an urgent national necessity".

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Shaikh Sabah waves as he arrives for the opening session of parliament on Tuesday. — AFP

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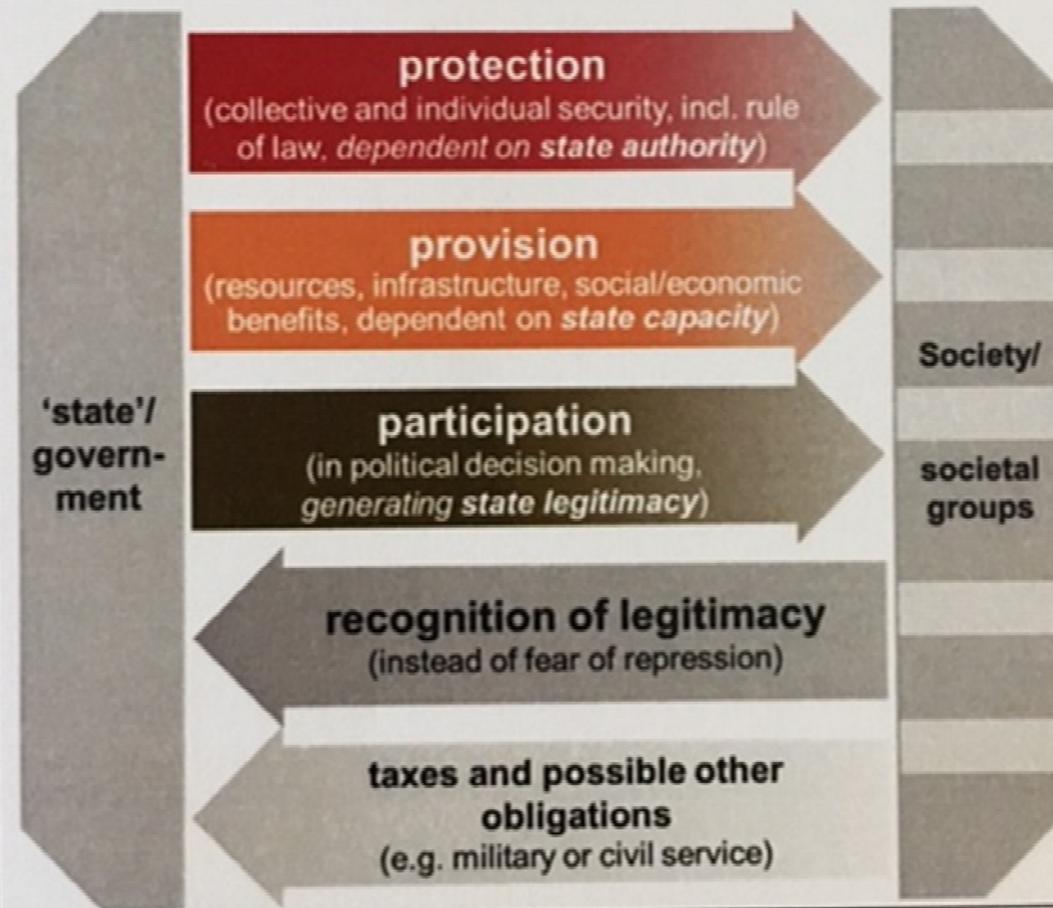
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Khalej Times
30 October
2013

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Figure 2: Deliverables in a social contract



Source: Loewe & Zintl (forthcoming)

The distributive states

The oil rent has been distributed to the national population e.g. via:

- Free land and houses, cheap loans, free education, health and other welfare services, 'marriage funds' etc.
- Subsidies on fuel, electricity, water (and foodstuff)
- Cash hand-outs, reduction of debt, debt forgiveness.
- Import of foreign labor to 'serve' the nationals and to boost profits in private businesses

Most important means of rent distribution:

- Employment of nationals in the public sector

The Gulf States: Current challenges

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The Gulf countries challenged by fundamental structural problems

- rentier nature of the states
- non-diversified economies
- public expenditure levels increased by the 'Arab spring'
- highly segmented labor markets / dual labor markets
- administrative practices established 'with' oil
- tribal governance structures

The Gulf States: Current challenges

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The fundamental structural problems exacerbated by

- rapid population growth
- current low oil prices (2014→)
- dual labor markets
- 'solar revolution' - the end of the 'oil era' or downward pressure on demand for oil?

Figure 10: GCC population, nationals and non-nationals, 2010 and 2017

	Nationals	Non-nationals	Total population	% Non-nationals
Bahrain	664,707	759,019	1,423,726	53.3
Kuwait	1,337,693	3,073,431	4,411,124	69.7
Oman	2,488,755	2,110,296	4,599,051	45.9
Qatar *	243,073	1,456,362	1,699,435	85.7
Saudi Arabia	20,064,970	11,677,338	31,742,308	36.8
UAE **	947,997	7,316,073	8,264,070	88.5
Total	25,747,195	26,392,519	52,139,714	50.6

Figure 11: Population pyramid, Kuwait, national population only, 2015

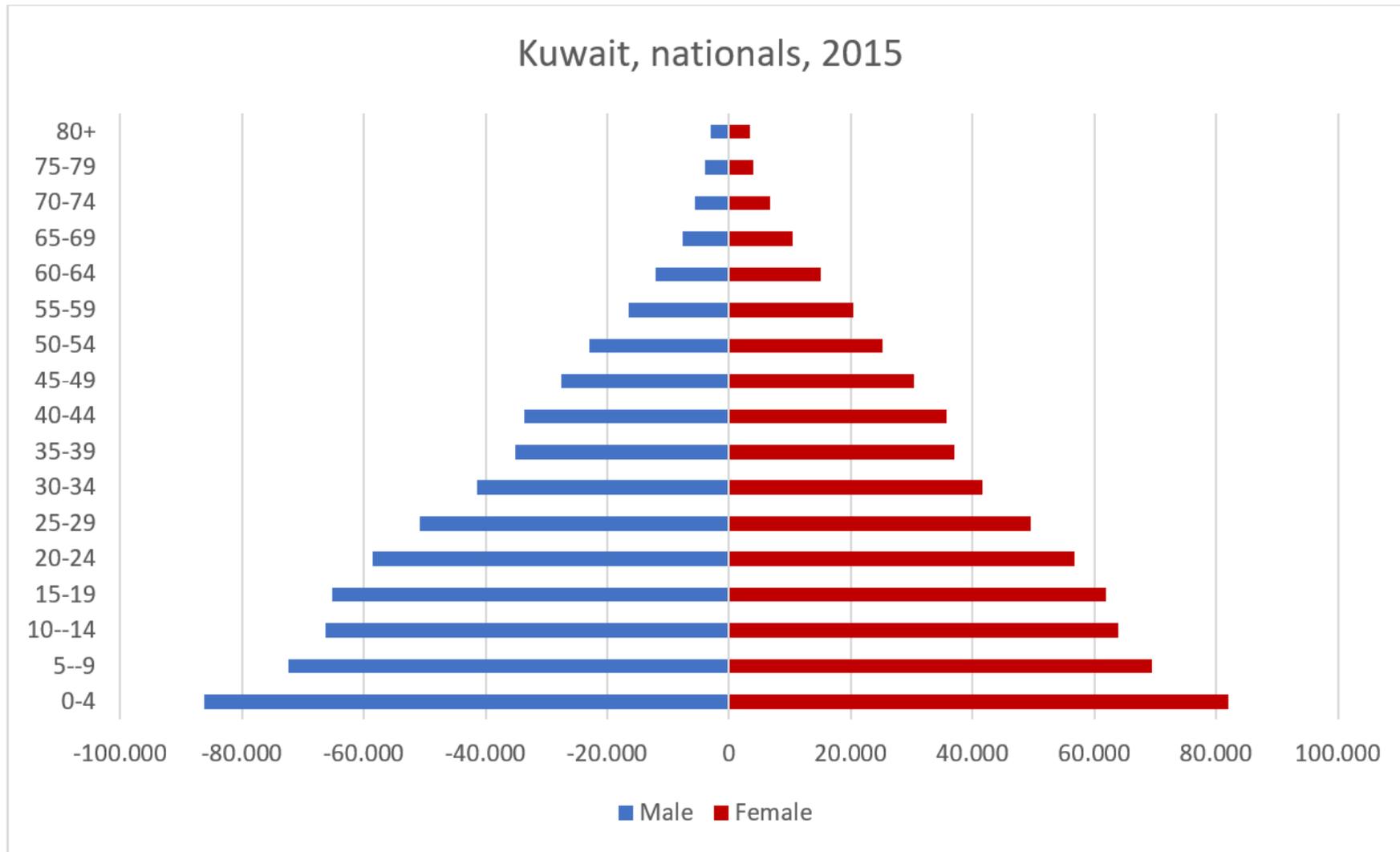
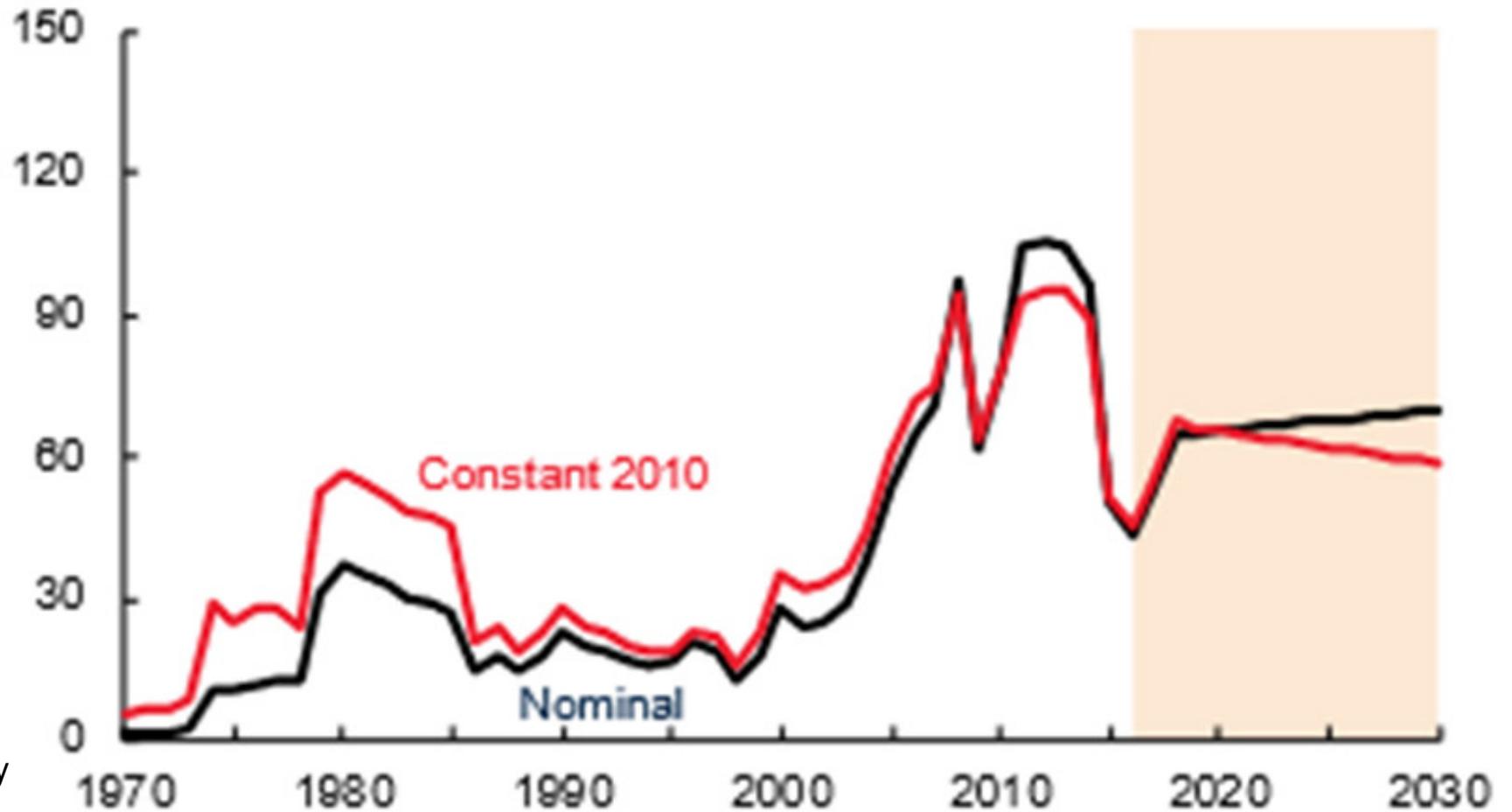


Figure 12: Annual number of GCC nationals reaching working age (25 years)

Country	Yearly number
Bahrain	13,642
Kuwait	28,434
Oman	54,360
Qatar	7,236
Saudi	402,186
UAE	n.a.
Total	505,860

Source: Author's calculations from GLMM Database, available at: <http://gulfmigration.org/gcc-national-foreign-populations-sex-five-year-age-group-2015/>

Crude oil Annual Prices (US\$/bbl)



World Bank, Commodity Markets Outlook, April 2018, Appendix B

Source: World Bank.

Note: 2018-30 are forecasts.

Current reform initiatives

To meet the challenges, all GCC countries have engaged in reform initiatives under impression of the fundamental problems and low oil prices:

- cut in government spending, health, education etc.
- picking 'low hanging fruits' - removal of subsidies on fuel, electricity and water;
- a slow roll back of privileges for expats and nationals
- labor market reforms, e.g. pension age, introduction of VAT

Reforms are always difficult to implement, however this has not led to civil unrest as of now etc.

The challenge: Massive transformation of economic model in the Gulf societies

- The 'oil age' has been the anomaly, now a return to pre-oil conditions, production oriented society.
- This entails: The welfare benefits will be scaled back, perks reduced, meritocracy implemented in hiring and firing and not least the population has to work, including women = **social contact challenged**

The horizontal issue

- What about the migrant population. In UAE they make up app. 90% of the population. Can one think of a social contract without including the migrants?
- Yes, The sponsorship system = *kafala* system provide a way to encompass migrants without providing them with any rights (expectation of transience)
- However, ex Dubai needs investments and import of entrepreneurial people.
 - A response has been to improved conditions for highly-skilled migrants
 - The 'gold card', 10 year residency permit, etc. like a Green card.
 - So, Dubai know that they compete with other states to attract the 'best and brightest'

Conclusion

- What is the outlook for the future? **Autocratic bargain**
- Will this lead to a break of the contract => regime un-stability
- The Dubai model did survive the economic crises. However now in a more modest way catering for less affluent tourists and visitors.
- Kingdom of Saudi Arabia, also survived massive changes
- Under the low growth regime, if this prevails for an extended period of time => opening up for some participatory processes, and more permanency in the migrant population
- As I have argued, resilience stems from recent societal memory of crises, 'bad times'
- The two 'super rentiers' small populations, large oil rent, UAE + Qatar. Will still be able to secure its citizens a well-off lifestyle
- Work in the private sector, less benefits,