

MIDDLE EAST NOTES AND COMMENT

Unintended Consequences

by Jon B. Alterman

Donald Trump troubled the sheikh, and Hillary Clinton was a reassuringly known quantity. But Bernie Sanders just puzzled him. “Why do people think Sanders is so extreme?” he asked over a quiet lunch of rice and fish last month. After all, in many of the conservative kingdoms of the Gulf, Sanders would be perceived as a moderate. Free education and free health care are the norm. The state’s role as a provider and protector is widely accepted.

In fact, Bernie Sanders and the Gulf governments approach the question of governance from opposite directions. Sanders has argued that U.S. politics plays too great a role serving the interests of the few, and bankers in particular. The governments in the Gulf are coming to realize that their economies have played too great a role serving politics, pursuing political stability at the expense of economic growth and efficiency. Sanders made a bid to reduce the influence of economic interests in politics. As the Gulf Cooperation Council (GCC) governments contemplate futures with lower oil prices and burgeoning populations, they are considering ways to boost economic growth that will almost certainly have political consequences. As they seek to loosen government control over their economies, they are also fostering innovative and disruptive forces that will reverberate widely.

States throughout the Middle East play an outsized role in their economies. Not only do 60 percent or more of GCC nationals in the labor force work for their governments, but the numbers are high in the poorer republics as well. Shortly after independence in the 1950s and 1960s, Arab governments eager to develop a professional class encouraged education by promising government jobs for college graduates. They also pushed industrialization by creating their own public sector industries that took workers from fields and put them into factories. For a time, it all worked. A new middle class emerged in places such as Egypt, Jordan, and Syria, and some fraction of that new middle class helped modernize the formerly poor Bedouin kingdoms of the Gulf that had only recently discovered oil.

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Playing the Market

The experience of racing a car down a Middle Eastern street, dodging traffic and potholes with Arabic music blaring over the insults from passers-by, can be yours any time of day or night.

Malak al-Tawseel, or “King of Delivery,” is part of the stable of Arabic driving apps that the Jordanian startup Tamatem has brought to Middle Eastern gamers. Tamatem’s 40,000 daily downloads have helped attract regional and international investors who are fueling the growth of the region’s mobile game development industry. Between 2015 and 2022, it is predicted to grow from \$680 million to \$2.3 billion.

With just one percent of content in local app stores available in Arabic, recent advances in e-commerce in the Arab world have created high expectations for the future of localized content. It is not just private investors who are getting in on the action: a number of governments, including Iran, Jordan, and Saudi Arabia, are sponsoring hubs to create mobile games tailored to local language and culture. For some governments, games represent an opportunity to peddle soft messages about things such as diet and exercise.

Investors are in it for the money, and their main targets are gaming “whales”—hardcore players who spend up to \$1,000 a month on in-app purchases.

Most of these whales live in the Gulf, and they include not only boys, but also girls and older men keen to enhance their gaming experience. In the rest of the region, patchy Internet infrastructure and low credit card penetration make mobile gaming and e-commerce a harder play. ■

Risk and Reform: An Outlook for Oil and Gas Exporting Countries

Haim Malka discussed Algeria’s economic and political outlook on a panel titled “Risk and Reform: An Outlook for Oil and Gas Exporting Countries” hosted by the CSIS Energy and National Security Program on May 4, 2016. Outside observers’ predictions that low oil will precipitate economic and fiscal reforms in Algeria often fail to account for Algeria’s past experiences with instability in the wake of collapsing oil revenues, Malka explained. The memory of political crisis triggered by economic reforms in response to declining oil revenue and soaring debt in the late 1980s informs debates about reform in Algeria today. You can access video and audio of the event [HERE](#). ■

It couldn't last forever. Arab socialism has been losing steam in the region's republics for decades, even if bloated state bureaucracies and public sector industries have resisted streamlining. But in the oil-rich monarchies of the Gulf, the state has remained the central factor in national economies. Government employment remains both the goal and the norm. It offers attractive hours, good benefits, and job security.

What it doesn't offer much of is effectiveness. As the political scientist Steffen Hertog memorably pointed out in [his book on the Saudi bureaucracy](#), in 2003 Saudi ministries communicated with each other via 30-year-old telex machines, spewing out intra-governmental messages on dot-matrix printers. It sounds wholly inadequate until one considers the demands upon it. In fact, the system sufficed because government departments didn't really communicate.

The bureaucracies in many Gulf governments do not exist to provide services to the broad public; they exist to provide patronage opportunities to government leaders. Institutional capacity is low, and the application of government decisions is inconsistent. Agents, brokers, and middlemen freely negotiate exceptions to regulations, and they solicit government largesse, reinforcing a series of patronage relationships. The patronage provides the glue to keep the whole system together, since it all relies on the authority of members of the ruling family. That same glue prevents the system from operating smoothly, effectively, or efficiently.

And yet, the end of patronage-based economies is looming. As a senior Gulf official recently told a Washington audience, oil cannot underpin the economy forever. The population has grown, and the economy has grown, and oil wealth is no longer of a sufficient scale to carry the burden.

If the economies of GCC states were to operate without the underpinning of oil and seek investments from home and abroad, they would require very different rules. They would need to operate with more predictability, transparency, and efficiency. They would require a workforce that was genuinely productive, creative, and innovative. They would require being places where the most talented people wanted to live and work, and where such people thought they could profit from their efforts.

More broadly, less oil-centered economies would have to depart from the current logic of broad economic security and embrace the likelihood of frequent failure, open competition, and uncertainty. Vibrant economies are fundamentally volatile, and leaders may spend little time at the top. Governments almost always have an incentive to try to keep processes and institutions running as long as they can. Businesses willingly destroy processes and institutions when more efficient or effective alternatives appear.

With heightened insecurity, an emphasis on disruption, and a constant drive for innovation, it is hard to imagine how today's Middle Eastern politics could avoid change. Rulers are accustomed to leading change, and they derive legitimacy from perceptions of success. More robust economies would require leaders to cede authority to others, sharing responsibility for successes and failures.

Democracy may remain far off in the Middle East, and governments are likely to remain the dominant economic actor for some time. Yet, Middle Eastern economics that are more freed from the hand of government seem destined to affect the ways politics works.

In the wake of the Arab uprisings, many Middle Eastern governments seem to favor economic reforms to avoid political upheaval. The equation may work. But assuming that governments can change economics without adapting to changes in politics is a much less certain thing. Innovation knows few boundaries, and disruption is contagious. Entrepreneurs are hard to lead and even harder to contain. ■ 6/21/16

Links of Interest

Melissa Dalton, Senior Fellow and Chief of Staff with the CSIS International Security Program, published a Gulf Analysis Paper on [“Navigating Gulf Waters After the Iran Nuclear Deal.”](#)

Time quoted Jon Alterman in [“Foreign Policy Experts Condemn Donald Trump’s Remarks on ISIS Support.”](#)

Politico quoted Jon Alterman in [“In memo to Congress, Saudis insist they’re fighting terror.”](#)

U.S. News and World Report quoted Jon Alterman in [“Diplomats’ Dissent Over Syria Widens Policy Split Between Obama and Clinton.”](#)

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