Doing business with the state: explaining business lobbying in the Arab World

A thesis
submitted to the Faculty of Graduate Studies and Research
in partial fulfilment of the requirements of the degree of
Doctorate in Political Science

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July 1998

0-612-50224-4

CONTENTS

Abstract

This dissertation addresses a basic question of nonviolent, state-society interaction in the developing world: under what conditions do nascent civil associations in non-democratic or semi-democratic contexts successfully lobby the state yet maintain their autonomy and avoid cooptation? To address this question, the study compares how the Chambers of Commerce in Kuwait and Jordan have lobbied their respective states. The approach involves a comparison within and between each country, dividing each case into four general time periods so that there is sufficient variation in political, economic, and social conditions. The problem of the study is that despite similar political, economic, and social factors, Kuwait's Chamber of Commerce has been more successful in affecting national economic policy than Jordan's Chamber. Why? This dissertation demonstrates that current theories privileging either, state-centric, structural-economic, or society-centric variables fail to account fully for the observed outcomes. Each offers insight but none satisfy. Instead, this thesis argues that two levels of factors, macro economic and institutional organization, combine to account for patterns of business lobbying. The first independent variable is sectoral differentiation of the private economy. For each country, different types of exogenous finances help shape different sectoral attributes within each economy. The degree of sectoral differentiation (whether it is high or low) determines the contours and divisions of the private sector in which the business association is embedded. Membership drawn from the private sector helps shape the broad constraints on the business association. Two secondary variables at the association level--membership qualifications and voting rules--in turn determine the degree to which the rank and file can affect the association's leadership coherence. These organizational variables either amplify membership divisions and conflicts, or help alleviate those differences. Since both associations freely elect their leadership, the rules governing who may be a member and who may vote are crucial to the type of leadership and lobbying capabilities that emerge. The dissertations's empirical narrative charts how external sectoral attributes and internal organizational variables respond to one another to create, on the one hand, a coherent, effective association leadership in the case of Kuwait, and on the other hand, an incoherent, weak leadership in the case of Jordan. The Kuwaiti Chamber benefited from a less articulated private economy and from a tighter, more restricted membership body. By contrast, the Jordanian Chamber suffered from a highly diverse membership and operated under more inclusive voting and membership rules. The result was clear. By maintaining elite coherence at the leadership level, the Kuwaiti business association was better able to lobby its state over time.

Résumé

Cette thèse traite du sujet de l'interaction non-violente entre état et société dans les pays en voie de développement: dans quelles conditions les associations civiles embryonnaires réussissent-elles à faire pression sur l'État, dans un contexte non- ou semi-démocratique, tout en maintenant leur autonomie et en évitant la cooptation? Pour répondre à cette question, la thèse compare les chambres de commerce jordanienne et koweitienne et la façon dont elles ont fait pression sur leurs états respectifs. La thèse entreprend une comparaison intra- et inter-étatique, divisant chacun des deux cas sous étude en quatre périodes, assurant ainsi une variation suffisante au niveau des conditions politiques, économiques et sociales. La problématique de la recherche porte sur le fait que, malgré des similitudes dans les conditions politiques, économiques et sociales, la Chambre de commerce koweitienne a réussi, contrairement à son homologue jordanienne, à influencer la politique économique nationale. Pourquoi? Cette thèse démontre que les théories qui privilègent les facteurs étatiques, structuraux-économiques, ou sociétaux ne réussissent pas à expliquer ces résultats de façon satisfaisante. Individuellement, ces théories éclairent certains aspects du problème, mais aucune n'est suffisante. Pour sa part, cette thèse avance une explication des méthodes de pression basée sur la combinaison de deux sortes de facteurs: les variables macro-économiques et l'organisation institutionnelle. La première variable indépendante est la différenciation sectoriale de l'économie privée. Pour chaque pays, différentes sortes de rentes exogènes contribuent à la formation d'attributs sectoriaux distincts au sein de l'économie. Le degré de différenciation sectorielle (minime ou importante) détermine les contours et les divisions du secteur privé dans lequel les chambres de commerce sont ancrées. Les contraintes auxquelles ces associations sont soumises sont partiellement définies par les membres qui proviennent du secteur privé. Au niveau des associations, deux variables secondaires--les qualifications nécessaires pour l'admission et les règles de vote--déterminent à leur tour le degré auquel les membres ordinaires peuvent influencer la cohésion du leadership. Ces variables organisationnelles peuvent tant amplifier les divisions et les conflits entre les membres des associations que participer à l'alléviation de ces différents. Comme les deux associations sous étude élisent leur leadership librement, les règlements gouvernant l'admission au sein des associations ainsi que le droit de vote jouent un rôle essentiel dans la détermination du genre de leadership et des capabilités de pression qui émergent. L'analyse empirique retrace l'interaction entre les attributs sectoriels externes et les variables organisationnelles internes et la manière dont ils réagissent l'un à l'autre pour créer d'une part un leadership cohérent et efficace au Koweit et d'autre part un leadership faible et incohérent en Jordanie. La Chambre de commerce koweitienne a bénéficié d'une économie privée moins articulée et de restrictions quant à ses critères d'admission. Pour sa part, la Chambre de commerce jordanienne a souffert de la diversité de ses membres et de l'adoption de règles d'admission et de vote plus inclusives. Le résultat est clair. En maintenant la cohésion au niveau du leadership, la Chambre de commerce koweitienne a réussi a mieux faire pression sur l'Etat.

Acknowledgements

Funding for field research in Kuwait and Jordan (but also, Cyprus, Jerusalem, Damascus, and Beirut) was kindly provided through grants by the Social Science Research Council, Near and Middle East Program; The Fulbright Commission; The American Center of Oriental Research, Amman; and the Inter-University Consortium for Arab Studies, Montreal.

My advisor, Rex Brynen, is of a rare breed. Without his guidance and encouragement, this project would have never been completed. There are a number of other people in Jordan and Kuwait whose support and intellectual input was very helpful: Riad Al Khouri, Dr. Mohammad A. Al Awadi, Dr. Hassan A. Johar, Rana Al Fahoum, Paul Tyson, and Bart Marcois. Many of my friends and colleagues have read parts of this study. Criticism and advice offered by Jillian Schwedler, Gregory Gause, Jill Crystal, Richard Doner, Phil Oxhorn, Hudson Meadwell, James Booth, Bassell Sallouk, Edmund Ghareeb, and Jennie Lee Price have been significant. Inaccuracies and faults are my own.

Note on transliterations

In transliterating Arabic terms and titles of documents, I have made an effort to follow the standard as laid out in the *International Journal of Middle East Studies*. Due to word processing limitations, placement of all diacritical marks was not possible. Proper names are given in the form that the individual presented. Where spelling inconsistencies in the historical record occur, I have tried to make them known. Consistency in transliteration, however, is maintained throughout the study. Any mistakes with Arabic terms or the transliteration are my own.

Abbreviations

ACC	Amman Chamber of Commerce
ACI	Amman Chamber of Industry
AFM	Amman Financial Market
ECC	Economic Consultative Council
ESC	Economic Security Council
IDB	Industrial Development Bank
IMF	International Monetary Fund
JBA	Jordanian Businessman's Association
JIC	Jordan Investment Corporation
KCCI	Kuwait Chamber of Commerce and Industry
KFH	Kuwait Finance House
KIA	Kuwait Investment Authority
MOS	Ministry of Supply
NBK	National Bank of Kuwait
NCC	National Consultative Council
PLO	Palestine Liberation Organization
PSEC	Private Sector Executive Committee
RSS	Royal Scientific Society
SSC	Social Security Corporation

I.
INTRODUCTION TO THE STUDY

This is a study of two independent social institutions in Jordan and Kuwait. The study asks: under what conditions are these social institutions able to lobby the state successfully, yet maintain autonomy and avoid cooption? For the social scientist, a comparison poses a puzzle when each case contains similar factors but divergent outcomes result. In this study, the Kuwait Chamber of Commerce and Industry (KCCI) and the Amman Chamber of Commerce (ACC) function as similar representatives of the private sector in comparable political and economic environments, yet the KCCI has achieved greater lobbying success over time than its Jordanian counterpart. Why?

Theories in the social sciences stressing the importance of the state as an independent actor or the character of resources available to a state succeed in positing only broad constraints and opportunities for the fate of social associations and groups. The question is that once a state encounters circumstances (either political or economic) that weaken its ability to manage patronage networks, what happens? By examining patterns of business association lobbying before and after the economic and political shocks of the 1980s, the focus of this study is necessarily narrow. From this micro-comparison, however, it is clear that emphasizing only exogenous resource flows or state action is insufficient. A more satisfying explanation for these outcomes requires consideration of other variables. Accordingly, this thesis offers correctives to our understanding of how social associations, private sector associations specifically, lobby the state in the semi-democratic environments of the developing world.

The argument begins by stressing that the most proximate factor in successful, sustained lobbying is the degree of association elite cohesion: the greater elite cohesion over time, the more successful lobbying. The degree of elite cohesion is determined by the interplay of structural economic attributes (sectors) and two organizational characteristics within the institution. The degree of sectoral differences present in the domestic economy determine the character of a business community that is to be represented. The type and depth of these differences translate into the extent of cleavages within the membership base of each business association. Two organizational features within the institutions determine how membership cleavages impact elite cohesion. First, rules on membership scope determine who is in and out. To the extent that membership is either non-obligatory or restricted, a leadership faces a reduced threat from internal conflict and electoral challenges. Second, voting rules play the most proximate role in securing or weakening elite control. When elections are inclusive and liberal in determining who may vote and who may run, elite cohesion is more easily challenged and weakened over time. The bottom line is that macro-structural variables exogenous to the association determine broad constraints, but it is the characteristics of organization and representation indigenous to the association that determine the capability to respond to those constraints. In other words, organization does matter.

1. WHY THESE CASES?

Comparing two countries and their institutions invites many complications. The inability to hold social reality as a laboratory constant means that differences constantly arise that threaten comparative conclusions. There is no claim here that these cases are identical or that certain idiosyncratic differences do not play a role. They do and are discussed. Nonetheless, comparative field work in the Arab world constantly encounters attitudes as to the impossibility of any comparative project.[1] Even among the "developed" Austrians and Swiss, Peter Katzenstein found similar attitudes: "To them their own institutions and ideologies necessarily remain shrouded in mystery."[2] With these observations in mind, the claim here is that idiosyncratic factors come into view once a comparative base is advanced and that good comparative conclusions can lead to engaging questions on many other cases. Therefore, Jordan and Kuwait were chosen for what they can teach us about the broader dynamics of Third World countries and business associations in similar circumstances. Business associations were chosen as candidates for their functional similarities and for their own inherent importance. First, however, there is a justification for the case countries.

Jordan and Kuwait are comparable countries that have roughly similar monarchial regimes fashioned under British colonial rule and dependence. The al Sabahs in Kuwait and the Hashemites in Jordan have traditionally retained near-absolute political authority while hesitantly granting greater participation in formal politics over time. Early in their history, both monarchies relied on British support (financial and military) to retain their power. Jordan and Kuwait are small states, located in an insecure regional environment. Surrounded by large, aggressive neighbours, Jordan and Kuwait are equally sensitive to regional shifts and external threats. Tribal politics and the relationship between the monarchy and leading tribal groupings has been a paramount feature of political life in each country. As tribal societies, Jordan and Kuwait have

[1] Because of the Gulf War, enmity between Jordanians and Kuwaitis has greatly increased. To admit that one was being compared with the other often brings disparaging remarks.

[2] Peter J. Katzenstein, *Corporatism and Change: Austria, Switzerland, and the Politics of Industry* (Ithaca: Cornell University Press, 1984), p.241.

similar social divisions and identifications. In Kuwait, the distinctions run from the religious (Shia, Sunni), to citizenship status, to tribal affiliations, and history. In Jordan, distinctions involve principally origin (West Bank or East Bank) but also include time of emigration to Jordan, tribal affiliation, and religious identification (Christian or Muslim).

Economically, both countries are late-late-developers. Though Jordan is defined as a semi-rentier state and while Kuwait is a classic rentier state, both exhibit similar characteristics from the flow of external rents. Ironically, the economic development of each has been tied to the other. Remittances into the Jordanian economy came from workers in Kuwait. Kuwait relied on the expertise of Jordanian professionals to help in the construction of its economy and state. While direct oil rents to the Kuwaiti state have been higher than direct foreign aid to the Jordanian state (for Kuwait traditionally over 80 percent and for Jordan approaching 50 percent at its height), both exhibit similar effects at the levels of the state and society from that capital. Kuwait cashed in on its resource endowment, while Jordan cashed in on its geostrategic position. Consequently, both countries experienced economic boom in the 1970s and bust in the 1980s and 1990s.

The bust period is the pivotal point of the comparison. It is in the period after the boom that the divergent patterns of lobbying success become most apparent. For the comparativist, times of financial crisis provide excellent opportunities to see what really matters in a country's politics, since it is in such periods that the greatest freedom of outcome is present.[3] Obviously the assumption is that the crises in the 1980s and 1990s are similar for both Jordan and Kuwait. This

[3] Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Crises* (Ithaca: Cornell University Press, 1986), p.221.

study will show why. Besides these comparative values, Jordan and Kuwait represent useful cases for generalization.

Both Jordan and Kuwait are important in the Arab World as leaders in political liberalization. These countries have a strong history of elected parliaments, constitutionalism, and national identification as democratic states. In the context of Middle East domestic politics, the political leadership in Kuwait and Jordan have historically relied on their "democratic nature" as an element of political legitimacy. Political debate, while subdued by Western standards, is nevertheless robust in comparison with other Arab countries. In this way, Jordan and Kuwait are at the leading edge of political experimentation in the region and have much to say as examples for nascent liberalizers like Bahrain, Yemen, Egypt, Morocco, Tunisia, and Oman. In addition, both countries pursued political liberalization and economic reforms in times of economic adversity. Declines in exogenous rents to each state bring depressed economic growth in both, thus both states have had to juggle the necessity to liberalize economically and politically while maintaining centralized political power and ascendancy. In this way, these cases can offer useful conclusions for small states in Africa and Central America pursuing roughly similar paths of economic reform and hesitant political liberalization.

The role of business associations in each case poses equally neat comparisons. In both Jordan and Kuwait, the Chambers of Commerce were established as the leading representatives of the private sector. These Chambers were founded on the Anglo-American interest group model, as opposed to the more corporatist continental model. Each is considered a peak association, that is they serve to represent all sectors of the business community (as opposed to a textile association, retailers association and so on). Neither was founded as a reaction to rival labour organizations. Both have held free elections for leadership every four years since their founding. Each is financially autonomous from state authority. On these points, a key difference is apparent with business associations in Egypt, Saudi Arabia, and Syria where state sponsorship and management are prevalent. However, as liberalization and greater private sector initiative are pursued throughout the Arab World, it is the Kuwaiti and Jordanian business associations that are sought out as models by business associations in Syria and Egypt.[4] Indeed, work on business associations in Pakistan and Turkey highlights the adverse effects of state control and of recent efforts to weaken that control.[5] By contrast, the Chambers in Jordan and Kuwait began independent of government management and have maintained this independence. Both Chambers have pursued roughly similar policy aims over time and perform similar functions for the business community. Moreover, these institutions are good targets for analytical study over time. Given the weakness of class as a social marker in the Arab World, studying business associations provides a clearer window through which changes in the business community and its elites can be viewed.[6] Within their own countries, these Chambers are important social actors. Besides being

[4] The Egyptian Businessman's Association was directly modeled after the Jordanian version. In Syria, it is no secret that businessmen would like to freely elect the executive board of their main Chamber in Damascus. Currently, the state appoints the board. The success of Syrian merchants in Jordan's Chamber is not lost on the Damascene merchants. For instance, in 1997 a vocal critic of government economic policies became president of the Damascus Chamber of Commerce.

[5] Robert Bianchi, *Interest Groups and Political Development in Turkey* (Princeton: Princeton University, 1984); Stanley A. Kochanek, *Interest Groups and Development: Business and Politics in Pakistan* (Delhi: Oxford University Press, 1983); and Hootan Shambayati, "The Rentier State, Interest Groups, and the Paradox of Autonomy," *Comparative Politics* (April 1994), p. 314.

[6] This is not to imply class cannot be studied in the region. However, in comparison to say Latin America, Arab states certainly do not exhibit a similar degree of a well defined class

representatives of the private sector, each has a membership that makes it among the largest, non-public institutions in the country.

Despite these features, chambers and business associations are generally under-studied in the Arab World. This alone would be an inadequate reason for choosing these associations, but two final reasons make these choices timely and useful. First, comparative work on business associations has been carried out in Latin America, Turkey, Iran, and interest group studies among the advanced democracies has been long established.[7] A spate of recent research and theory building has followed with the publication of *Business and the State in Developing Countries*, edited by Sylvia Maxfield and Ben Ross Schneider (1997). However, among the chapters in the volume, not one contained an Arab case study. The need for comparative evidence from this region is apparent. Second, as many states in the Arab World face the dual processes of economic and political liberalization, business associations and their elites occupy critical positions in shaping the outcomes of these efforts. Many states have been seeking to replace state-led development with the private sector as the engine of growth and employment. The progress of political liberalization is partly built upon the outcome of economic reform and

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contour. In one sense, the size of the middle class is not very large. In many aspects, despite significant urbanization, ascriptive loyalties still cut across more material class concerns. Finally, in Latin America, in Chile for example, class politics was often driven by a reaction to labour organization and assertion. The political right and middle classes would either ally or rally against such dynamics. For various reasons, labour politics or unionization has not been robust among Arab states.

[7] Some examples of these are: Eugene Ridings, *Business Interest Groups in Nineteenth-Century Brazil* (Cambridge: Cambridge University Press, 1994); Henri J. Barkey, *The State and Industrialization Crisis in Turkey* (Boulder: Westview Press, 1990); W.D. Coleman, *Business and Politics: A Study of Collective Action* (Kingston: McGill-Queens University Press, 1988); Clive S. Thomas, editor, *First World Interest Groups: A Comparative Perspective* (Westport: Greenwood Press, 1993).

development. How effective business associations are in negotiating this change and how they deal with new openings to policy-making are crucial variables in the political future of the region.

2. PROBLEM

The central question for the study is: under what conditions are these social institutions, such as business associations, able to lobby the state successfully yet maintain autonomy and avoid cooption? Specifically, in these cases, how do we account for divergent patterns of lobbying success despite the presence of similar variables at play? To answer these questions, each Chamber's lobbying efforts on specific issues will be examined from the time of independence (Kuwait 1961, Jordan 1948) until the 1990s.

The Chambers followed roughly similar historical trajectories in the years previous to and immediately after their states' independence. Some lobbying successes and a favourable relationship with the state were comparable in these years. In the 1940s merchant elites at the ACC were able to control their own trade quotas to route and manage trade for their members. Later, the ACC successfully weakened plans by the state for an income tax. The KCCI played an integral role in formulating Kuwait's initial economic laws. Its leadership, moreover, was widely represented in the first parliaments and in some key ministries. The economic boom years of the 1970s were also similar in each case. Both associations experienced a decline in their ability to shape state policy toward their own ends, so that in the 1970s both were at their weakest *vis-à-vis* their resource rich states. This lack of influence took the shape of disregard by the Kuwaiti state for KCCI proposals. In Jordan, some members of the ACC were arrested for price-gouging as relations with the state became antagonistic. This period also provided the sharpest evidence of "the unwritten agreement" between the state and the merchants identified by Jill Crystal.[8] State work projects, cheap real estate, and appointment to public companies were some of the payoffs merchant and Chamber elites accepted in return for political acquiescence in both nations.

By the mid-1980s, a virtual reversal in the political and economic conditions (nascent political liberalization and rent declines) created new opportunities for influencing state policy. In the 1990s, both countries suffered ill effects from Iraq's invasion of Kuwait, and therefore, both felt greater pressure toward increased political and economic liberalization. However, in these similar contexts of pressure on their respective states, only the KCCI achieved meaningful leverage and lasting influence on state policy. KCCI proposals regarding debt from the 1991 Gulf War and the crash of the Suq al Manakh stock market in 1982 were largely accepted by the government. In many respects, the KCCI regained much of the stature and influence it wielded in the 1960s. By contrast, the ACC could not claim success. The late 1980s and 1990s did witness greater business involvement in policy debates over new economic legislation. However, this participation was shallow and temporary. Consultation with ministries was weak on a variety of economic and political issues. Consequently, despite the similar contexts, the presence of similar factors, and roughly similar historical trajectories, the question arises: why has one failed and the other succeeded? That is the problem to be tackled. Its importance and implications follow.

[8] Jill Crystal, *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar*, (Cambridge: Cambridge University Press, 1990).

3. IMPLICATIONS AND IMPORTANCE

This dissertation and its findings carry several implications for political-economic theories of state-society relations, the civil society/democratization literature, the study of business associations, and the future of liberalization in the region.

Political economy arguments about what drives state-society relations is a key target of this thesis. In particular, rentier approaches and their assumptions about patterns of political effectiveness of social associations *vis-a-vis* the state are put to the test. While rentier theory offers important insights into state-business relations, they do not satisfy. The study builds on the success of rentier insights by tying macro-structural accounts to the interplay of other factors. In other words, another level of analysis is necessary to sharpen claims made by the political economy literature. That process connects exogenous resource flows (state rents) to the sectoral attributes of the business community, and then moves to the associational level where organizational variables prove integral to translating broader structural change into real political outcomes. This borrows from work on the importance of resource endowment and sectoral attributes to economic restructuring[9] and comparative work on business classes in the Arab World.[10]

Shafer's findings are expanded to include the effect sectoral attributes have had on the countries' private sector. Chaudhry and Crystal's work found that business communities, in Kuwait and Saudi Arabia respectively, were able to forge important links with state bureaucracies

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[9] Michael D. Shafer, *Winners and Losers: How Sectors Shape the Developmental Prospects of States*, (Ithaca: Cornell University Press, 1994).

[10] Crystal, *Oil and Politics*; and Kiren Aziz Chaudhry, *The Price of Wealth: Economies and Institutions in the Middle East*, (Ithaca: Cornell University Press, 1997).

that in times of economic bust, were utilized to press successful claims on the state. The findings of this study bring these complementary approaches together by showing how sectoral contours shape constraints on the business association, and how organizational variables affect the capability of the association to exploit links with the state.

The thesis also offers a critique of the literature on civil society and democratization in the developing world. In the context of the economic crunch and structural adjustment, there is the hope that a new Arab bourgeoisie will be born.[11] While such a class may not deliberately push for democratization, its associations and interest groups may lobby the state more successfully. An "expansion of the private sector agenda" in this way may push the state into greater democratization.[12] The Maxfield/Schneider volume echoes the potential for positive externalities arising from a business association's interaction with a liberalizing state.[13] Evidence from Jordan and Kuwait confirms this potential and goes one step farther by offering conditions (organizational variables) under which more effective business association action is likely. Literature on civil society in the developing world privileges the position of such intermediary

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[11] For example see Robert Springborg, "The Arab Bourgeoisie: A Revisionist Interpretation," *Arab Studies Quarterly* Volume 15, Number 1 (Winter 1993); and Volker Perthes, "The Private Sector, Economic Liberalization, and the Prospects of Democratization: the case of Syria and some other Arab countries," in *Democracy Without Democrats? The Renewal of Politics in the Muslim World*, edited by Ghassan Salame' (London: I.B. Tauris Publishers, 1994).

[12] John Waterbury, "Democracy Without democrats?: the potential for political liberalization in the Middle East," in *Democracy Without Democrats*, p.29.

[13] Stephen Haggard, Sylvia Maxfield, and Ben Ross Schneider, "Theories of Business and Business-State Relations," in *Business and the State*; and Richard F. Doner and Ben Ross Scheinder, "Business Associations, Development, and Democracy," unpublished manuscript, Emory University, 1997.

organizations as business associations. This study offers correctives to some aspects of this literature. The work by Augustus Richard Norton and Robert Putnam stress the need for such civil associations to be inclusive, much in the same vein as de Toqeuville's arguments concerning civil society.[14] Conclusions on the importance of organizational variables in this study, however, suggest cautionary inclusion. In the context of non-democratic or semi-democratic developing world states, a strategy stressing inclusionary associations may be self-defeating. Simply advocating a wider membership base without considering the effects on lobbying power and elite cohesion, threatens to weaken the mediating role that such institutions are intended to play vis-a-vis the state. Inclusion without organizational checks and balances can split elites from their institutional and membership representation. Since a degree of political and economic reform is guided by elite interaction between state and society, the need for an institutionally grounded social elite is an advantage.

Because this study reverses the standard question of state autonomy by asking about the conditions under which social institutions maintain successful autonomy, much is learned about what makes for strong associations. Peter Evans has argued that a degree of state autonomy from leading social actors, like business, is necessary at the onset of economic liberalization. However, at the later stages of policy negotiation and implementation, a degree of "embeddedness" is required, that is, connections with social actors.[15] Findings here stress the importance of an

[14] Robert Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993), p.174-176.

[15] Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in *The Politics of Economic Adjustment*, edited by Stephen Haggard and Robert R. Kaufman (Princeton: Princeton University Press, 1992).

association's organizational features to the nature and success of the embeddedness project. Simple state openings to these groups is not enough; there must be strong associations there to respond. Important organizational attributes are revealed in the comparison. An associational focus also intersects with some of the literature on collective action. Similar to this study's inquiry, a common question in this literature is what makes for a policy capable business association? Mancur Olson highlighted a trade-off logic by arguing that "an encompassing association" (one representing all or most of the economy) would espouse a better policy view (benefiting the entire economy) than a more narrowly based association but that the encompassing association would lack in lobbying strength.

> *Peak associations*, frequently, lack the unity needed to have any great influence on public policy, or even coherent and specific policies. Nonetheless, peak associations should on average take a somewhat less parochial view than the narrow associations of which they are composed.[16]

This thesis offers correctives to this view by asserting that encompassingness alone is not fully responsible. As evidenced by the decline of the Jordanian Chamber, it was inclusive voting rules that allowed encompassingness to heighten interest conflict and weaken elite cohesion. There is also support for the counter-factual argument that had the Jordanian Chamber not altered its restricted representation and voting rules in the 1960s, the adverse effects of encompassingness would not have been as great in the 1980s and 1990s.

In researching the conditions of successful lobbying, the study uncovers an important attribute of the policy capable association. Counter-intuitively, a strong association is not impervious to state manipulation; instead, the state often seeks to use a strong association, and

[16] Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982), p.50. Emphasis in original.

the association in turn leverages such state behaviour for influence elsewhere. In other words, it is the measure of a strong association that it engages in a two-way activity with state ministries, not in a zero-sum conflict with the state. The greater institutional strength of the KCCI has allowed it to be used for state ends during the economic crisis, while at the same time maintaining and leveraging its own agenda. In contrast, the weak Jordanian Chamber has proven of little use to state ministries in times of fiscal crisis.

Beyond these theoretical concerns, there are some issues of contemporary social significance. At a time when developing world economies are coming to rely more on their private sectors, how is the lobbying and political influence of the private sector to be managed or enhanced? Among the East Asian newly industrializing countries (NICs), it became a mantra that the role of business associations in close conjunction with state ministries was an important ingredient in their development.[17] However with the Asian fiscal crises in 1997-98, the "cozy" relationship between state and business has come under question. More comparative work is needed in other regions to determine more general parameters and uses of such business-state relations to enhance and not impair economic performance. This study moves in this direction. In some parts of the developing world, and in the Arab World in particular, external rents accruing to states are in decline. One question is: what happens after such a loss of revenue? Do political processes and arrangements simply revert to a pre-rent situation, or is something more involved? By building on political-economy arguments and considering organizational factors of important social associations, a contribution is made to "the what happens after" question. Finally, a

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[17] See, Chalmers Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, Korea, and Taiwan," in *The Political Economy of the New Asian Industrialism*, edited by Frederic Deyo (Ithaca: Cornell University Press, 1987).

methodological note is offered.

This study finds that focusing solely on an actor's interactions with state level entities misses much. One needs also to pay attention to the institutional structure, membership cleavages, and elite cohesion of an actor's organization.[18] These features shape not only the capacity for influence, but also affect the perceptions of state elites concerning the actor.

4. METHODS AND SOURCES

Field research was carried out under three grants over a year and a half. A grant from the American Center of Oriental Research in Amman, Jordan funded work from May to August 1995. A Fulbright Fellowship funded residence in Kuwait from October 1995 to July 1996. Under a grant from the Near and Middle East Program of the Social Science Research Council, I concluded research in Amman from August 1996 to February 1997. In both countries I interviewed over 150 private and public sector officials using a semi-structured qualitative questionnaire. While much of my effort was directed at the two Chambers, I also interviewed officials at other professional associations (labour, trade, occupational) and representatives of major political parties to access views outside the business community. Documentation was collected from each Chamber. Unfortunately, this data is not even throughout the historical period I am examining. The Iraqi invasion of Kuwait resulted in many Chamber documents being misplaced or destroyed. Documents at the Amman Chamber were poorly organized and much was missing from the earliest years. In both cases, the leadership was wary to grant unfettered

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[18] Alfred Stepan, "State Power in the Southern Cone of Latin America," in *Bringing the State Back In*, edited by Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol (Cambridge: Cambridge University Press, 1985).

access to Chamber documents. Where there are gaps in the data, I make this explicit. I also relied on documents from various Ministries, such as Planning, Commerce and Industry, Supply, the Central Bank, and Statistics. Additional economic and historical data was available at the leading private banks in each country, the National Bank of Kuwait and the Arab Bank. Major daily newspapers in each country (*Al-Qabas* and *Al-Anba* in Kuwait, *Al-Rai*, *Al-Dustur*, and *Jordan Times* in Jordan) had archives which I found useful for some historical data. Much of the historical data from the pre-independence period is based on recently published British consular records from Jordan and Kuwait.

5. DEFINITIONS

Explanations for several terms used in this study are necessary. The outcome to be explained, the dependent variable, is termed "successful autonomous engagement." The concept of autonomy is often used in relation to a state's capacity, and it generates much debate. Though the study reverses the standard state autonomy question to examine a social association's autonomy, problems still persist: how to measure autonomy; autonomy for what? Here, *autonomy* is taken to mean the formation and articulation of interests separate from the state. An indicator of autonomy is not only the interest agenda of an actor but also an attempt to revise an earlier state policy initiative. In such instances, the civil actor can be seen as acting outside the sphere of state control but within the political field marked by state action. Autonomy can also be understood by contrasting it with non-autonomous engagement. Here, Philippe Schmitter's classic distinction between state corporatism and societal corporatism is most useful. Non-autonomous engagement is often found within a state corporatist context wherein social actors are coopted and thus essentially compete for privilege and position within the state. It is more or less interaction between state patrons.[19] A problem remains though: autonomy for what? There are many associations in the developing world that maintain distinct agendas and financial bases but are wholly irrelevant in translating that autonomy into anything of political importance. Therefore successful engagement is added to the description of the dependent variable.

Engagement is exercised through legislative involvement, public campaigns on issues, or private meetings with officials. Formal lobbying is the most common form of engagement but research in this project revealed other more nuanced and informal forms of engagement that cannot be simply referred to as formal lobbying. Moreover, while resistance to government authority may be a characteristic of engagement, this is a resistance aimed at reshaping the political order, not abolishing it. In both cases autonomy *per se* is not at issue; both Chambers freely maintain their own agendas and seek to press state ministries on these issues. What is at issue is the successful pursuit of these issues. *Success* is defined here as a change in an initial state position on a policy issue because of engagement. It could be that other forms of success are possible, for example, helping to create a state policy where no state preference was evident before. However, by defining success in this way, measurement and comparison are easier. Of course, sharp distinctions between non-autonomous/ autonomous and unsuccessful/successful in a non-democratic context are difficult to pin down. Interactions may, of course, contain both. However, this study considers the degree of difference between initial state preferences and the eventual outcomes of Chamber demands as the best objective measure of how successful a given engagement is; the more of a difference, the greater the degree of success on the part of the civil

[19] Phillipe C. Schmitter, "Still the Century of Corporatism?" *Review of Politics*, 36 (1974).

actor.[20] Breaking the definition apart like this is meant for clarity, but in short, successful autonomous engagement is also be referred to as simply successful lobbying.

Elite cohesion is defined as the maintenance of consistent leadership of an organization where that leadership is viewed as elite within its community and where those elites maintain cooperation at the head of the association over time. Three factors denote elite status: income, education, and prestige. High income is an obvious indicator of business success and political access. Education, often foreign, is highly regarded in Kuwaiti and Jordanian society. While older merchant elites may not possess significant higher education (an American M.B.A., for instance) their children almost certainly will and this enhances one's elite profile. Finally, perceptions of an individual's prestige also factor into elite status. Prestige is a subjective assessment, but after only a short time in Kuwait and Jordan, it becomes rather clear to any observer who has prestige and who does not.[21] These considerations go into measuring leadership elites over time, and additionally they allow for observing generational changes within the leadership group. Tracking family names, affiliations, and social perceptions of elite status within each Chamber provides a sound measure of this over time. The terms *business community* and *merchants* refer to the rank and file of each Chamber. The term *private sector* is reserved for addressing the broader business community not necessarily integrated or active in a Chamber.

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[20] This is a key problem in Chaudhry's study or any work for that matter that attempts to gauge initial state preferences against an outcome. The change may not really be change but a calculated strategy or the change may be the result of something other than lobbying. Scholarship on state-society relations must in the end render an informed judgement on such problems. Choosing issues of engagement carefully helps minimize the risk.

[21] Margaret M. Pearson uses similar factors to access business elites in China: *China's New Business Elites: The Political Consequences of Economic Reform* (Berkeley: University of California Press, 1997), pp.6-7.

Reference to the *state* strictly encompasses the level of the Prime Minister and his cabinet. The cabinet is composed of heads of the most important economic and political ministries, ministries the Chambers regularly lobby. In these cases, the Prime Minister and his cabinet are the locus of immediate political power and decision. The *monarchy* is the locus of absolute power, but often the monarchy does not render judgement on specific issues of economic policy.[22] When reference is made to other parts of the state, ministries for instance, it will be made specific. When preference differences are apparent between ministries and, say, the Prime Minister this will also be made clear. Following Joel Migdal, the purpose is not to treat the state as a monolith; parts of the state may conflict.[23] With this strict empirical definition of the state in mind, parliament will not be considered an appendage of the state, but a social institution dependent upon the state for its legal mandate and purview.

6. PLAN

Chapter II elaborates the argument of this study. In this manner, it is clear from the start how the empirical narrative will unfold. The thesis is presented by first offering three clusters of rival arguments: political economic, state centric, and society based. The failings of these approaches are discussed, as well as where they contribute to the thesis. Chapters III, IV, and V comprise the historical narrative, stretching across three time periods: 1920 to 1970, 1970 to

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[22] Two exceptions are the Suq al Manakh issue in Kuwait and the issue of economic relations with Israel in Jordan.

[23] Joel Migdal, *Strong Societies and Weak States: State-Society Relations and State Capacities in the Third World* (Princeton: Princeton University Press, 1988); and *State Power and Social Forces: Domination and Transformation in the Third World*, edited by Joel Migdal, Atul Kohli and Vivenne Shue (New York: Cambridge University Press, 1994)

1982, and 1982 to the present. In addition to giving the necessary histories, these chapters highlight the variables that the argument points to as causative. Chapter VI reinforces the thesis and elaborates broader implications of the thesis.

II
STRUCTURE OF THE ARGUMENT

This chapter presents three clusters of potential answers to the question of this thesis. Theory to explain the specifics of business lobbying in the developing world is scant; instead, literature in the social sciences tends to focus more broadly on state-business relations. Therefore, three clusters of literature that discuss state-business relations--political-economy approaches, state-centric arguments, and society-based explanations--are investigated to extract possible conditions or dynamics which explain why one business association can be more effective than another. I then provide a brief discussion of how these positions are inadequate theoretically and empirically to my case outcomes. This is followed by a presentation of the thesis itself. In this way, the various empirical aspects of the comparison will be evident beforehand.

1. RIVAL ARGUMENTS

Political-Economy Arguments

Comparative politics of the Middle East has delivered its best contributions to the general theory of comparative politics in the field of political economy. Simply put, the approach of political economy is to examine the effect of politics on the economy or the effect of the economy on politics. The rentier paradigm, the approach considered here, represents the latter. Though not a new approach concept, the consideration of a state's fiscal base to explain politics among Middle East countries was innovative in that it tied the study of what were typically viewed as unique, almost ungeneralizable, states to the broader field of comparative politics. By tying an explanation of domestic Arab politics to the field of political economy (as opposed to culture, for example), rentier approaches succeeded to a great extent. The task here is to understand that contribution in the light of my question and to critically examine its usefulness.

Rent was given its definition by Adam Smith's famous contrast between rents and profits: "Rent enters into the composition of the price of commodities in a different way from wages and profits. High or low wages and profits are the cause of high or low price; high or low rent is the effect of it."[1] Rents then are distinguished by their non-productive character and their nature as a reward or gift.[2] The importance of rents to political life in the Middle East comes into play when the fiscal resources of the state and society are considered. Therefore, the basic tenet of rentier theory holds that the character of resources available to a state or society fundamentally shapes politics in that country.[3] What are state rents?

Joseph Shumpeter argued that the nature of a state's resources should be a focal point for social and political analysis.

> Most important of all is the insight which events of fiscal history provide into the laws of social being and becoming and into the driving forces of the fate of nations, as well as into the manner in which concrete conditions, and in particular organizational forms, grow and pass away. The public finances are one of the best starting points for an investigation of society, especially though not exclusively of its political life.[4]

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[1] Adam Smith, *The Wealth of Nations* (1776), (London: Everyman's Library, 1960), p.412.

[2] For a state, typical rents include: oil revenues, mining, transit fees, customs duties, and so on. For economic actors, rents comprise exclusive access to markets, production subsidies, or participation in trade protocol regimes.

[3] Giacomo Luciani, "Allocative vs. Production States: A Theoretical Framework,"in *The Arab State*, edited by Giacomo Luciani (Berkeley: University of California Press, 1990).

[4] Joseph Shumpeter, "The Crisis of the Tax State," in *International Economic Papers*, edited by Alan T. Peacock, No.4 (London: MacMillian, 1954), p.7.

In considering state revenues, the key distinction is between revenues generated from the domestic economy versus revenue received from external sources. Revenue extracted internally refers of course to various forms of taxation, and the progress of taxation has been closely linked to the development of the democratic state in the West.[5] Rents, on the other hand, most often come from external sources and can include foreign aid, oil, and various types of transit fees (in the case of the Suez canal, for instance). When a state derives most of its revenue from such external sources, it is termed a rentier state. A good mark offered by Luciani for distinguishing between a rentier and non-rentier is a state with about 40 percent of state revenue in the form of rents and with state expenditure which comprises a significant proportion of the Gross Domestic Product (GDP).[6] The first measure determines if a state is primarily "exoteric," that is, deriving most of its revenue from outside its state boarders, while the second measure determines whether a state is "allocative;" that is, a state whose domestic fiscal activity is comprised primarily of distribution. Most of the pure rentiers (with percentages above 80 percent of state revenue in the form of rents) are found in the Gulf; Kuwait is a prime example. Other states outside the region, however, have been considered rentiers. At times, Venezuela, Nigeria, Norway, and some African countries exclusively dependent on foreign aid, are good examples. When rents levels are significant, but not the majority of revenue (around the 40 percent revenue mark), the effect on

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[5] Charles Tilly, "War Making and State Making as Organized Crime," in *Bringing the State Back In*; Margaret Levi, *Of Revenue and Rule* (Berkeley: University of California Press, 1988); and Robert Bates and Da-Hsiang Donald Lien, "A Note on Taxation, Development and Representative Government," *Politics & Society* Volume 14, Number 1 (1985).

[6] Luciani, "Allocative vs. Production States: A Theoretical Framework."

the state is equally important, and these have been termed "semi-rentier" states.[7] Jordan is a prime example in this category, but Egypt, Syria, Yemen, and other developing world states heavily dependent on foreign grants are considered semi-rentiers as well. So, though Kuwait is properly defined as a rentier state and Jordan as a semi-rentier, each is clearly an allocative state with usually over 50 percent of GDP composed of state expenditure.

Rent in the form of remittances flow into a country's society instead of directly into state coffers. Technically, this is not unearned income, as is the case with oil, but the effects of remittances on the domestic economy and polity are similar. In the Middle East, remittances took the form of Jordanian, Egyptian, Syrian, and other Arab nationals working in the Gulf states and sending their earnings back home. Thus, Jordan and Kuwait have historically shared more than just regional location; they have been dependent upon one another. Though remittance income does not go to the state directly (there may be forms of transfer taxation, but most transfers are informal and not well tracked), some of the effects of remittances follow closely those of state rents. Similar to state distribution, external worker finances flood the local economy boosting internal consumption. Consequently, there is more money chasing fewer domestic investment opportunities. So, Luciani's term "exoteric states" refers not only to external state funding but external societal revenue as well. Though there is much debate about the fate of politics in rentier states after rent declines, there is considerable agreement on what the general characteristics are of a rentier state and society.

The most evident effects are those on the state. Significant exogenous finance (like the

[7] Rex Brynen, "Economic Crisis and Post-Rentier Democratization in the Arab World: The Case of Jordan," *Canadian Journal of Political Science* XXV:1 (March 1992); Hazem Beblawi, "The Rentier State in the Arab World," in *The Arab State*.

kind Kuwait and Jordan experienced in the 1960s and 1970s) to the state result in a drastic growth of state ministries. Ministries not only proliferate to embrace every conceivable policy area, but they also add countless numbers of civil servants beyond all measure of real need. As the rentier state becomes the locus of economic activity through public employment, it also becomes the primary distributor of capital in the economy. Through a myriad of transfer schemes, the primary functions of state ministries become distribution over extraction or regulation. Large-scale real estate purchases, public investments in private corporations, robust subsidy programs, and other welfare projects are common among rentiers. Jacques Delacroix terms this the "distributive state."[8] In turn, the society of a rentier state is shaped by the availability of persistent state rents.

Interaction with state ministries becomes very intense within a rentier society. Whether working for the state, receiving some form of payment from the state, or bargaining for state permissions, political authority becomes inordinately a central target of much activity in society. The state does appear all-pervasive in many respects. The economic effects of state rentierism is also reflected in society. Since social actors are at the receiving end of state distribution, second order rents often permeate economic relations in society.[9] A good deal of private sector activity is geared toward securing a piece of state largesse in the form of subsidies, state contracts, or tax exemption. A number of businessmen become what Samuel Popkin terms "easy riders." They compete with one another, but it is a competition aimed at further political access that does not

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[8] Jacques Delacroix, "The Distributive State in the World System," *Studies in Comparative International Development* 15 (1980).

[9] Hazem Beblawi, "The Rentier State in the Arab World," in Luciani, *The Arab State*, p.89-91.

result in more efficient production or increased quality.[10] Consequently, the economies of rentier states come to privilege short-term, highly liquid investments like real estate and stock markets over longer-term, fixed assets such as private infrastructure or industry. While parts of liberal democratic economies of the West exhibit similar characteristics, the usual small size of rentier countries and the size of rent seeking are unique. These features of interaction contribute to what Hazem Beblawi terms the "rentier mentality" of societies in many Arab states. Citizenship is no longer built on reciprocal interaction with political authority but on rewards from state managers, severing the link between production and reward. These fiscally induced characteristics have at times been conflated with cultural or religious determinants. Therefore, besides adding to the general literature of comparative politics, rentier theory has also gone some way in arguing against these cultural and religious explanations in favour of a less nefarious material one.[11]

How rentier theory may explain my outcomes comes in several variations and is the concern of the following sections.

Basic rentier expectations

The initial rentier argument holds that rents increase state autonomy and capacity. Autonomy we have defined earlier; it is closely related to capacity which is "the ability of states to implement official goals, especially over the actual or potential opposition of powerful social

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[10] Samuel L. Popkin, "Public Choice and Peasant Organization," in *Toward a Political Economy of Development: A Rational Choice Perspective*, edited by Robert H. Bates (Berkeley: University of California Press, 1988), p. 268.

[11] Gregory Gause, *Oil Monarchies: Domestic and Security Challenges in the Arab Gulf States*, (New York: Council on Foreign Relations, 1994).

groups or in the face of recalcitrant socio-economic circumstances."[12] The autonomy and capability of a state is thus dependent on the degree of rents available. For social groups, and business associations specifically, this means that as state autonomy increases, their political influence should decrease.

The logic is quite elegant. External state revenue has drastically different implications for state-society relations than revenue from domestic extraction. Classic theory about Western state development emphasizes the political importance of the eightieth and ninetieth century states' creation of bureaucratic, penetrative institutions and functions.[13] Prominent among these was the extractive function of taxation. While taxation made the state "stronger," it also bounded the state to social forces, which in turn demanded links of reciprocity. Albert Hirschman in *Exit Voice and Loyalty* reasoned the link in this way: when faced with a the revenue-seeking state, an economic agent can either exercise "exit" (capital becomes mobile) or "give voice" (demand representation). A state wishing to minimize the number of exits will inevitably entertain more voice, thus expanding representation.[14]

By contrast, dependency theorists charted a different story for late-developing states of

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[12] Theda Skocpol, "Bringing the State Back In: Strategies of Analysis in Current Research," in *Bringing the State Back In*, p.9.

[13] For example: Tilly, "War Making and State Making as Organized Crime," in *Bringing the State Back In*; Levi, *Of Revenue and Rule*; Bates, "A Note on Taxation;" and John A. Hall, *Powers & Liberties: The Causes and Consequences of the Rise of the West*, (London: Basil Blackwell, 1985).

[14] Albert O. Hirschman, *Exit Voice and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge MA: Harvard University Press, 1970).

the periphery.[15] In the developing world, the link between the development of capitalism and the bureaucratic state was broken since many states were more the product of foreign interests rather than indigenous creation. Lisa Anderson spells this out nicely:

> The state in the periphery is both an instrument of capitalist penetration from without--a dependent variable--and a causal structure--or independent variable--within its society. The causal or interventionist role is enhanced by the state's relative autonomy from the domestic social structure and its responsiveness to the international economy and political system.[16]

When such nascent, newly independent states then encounter rents, due either to oil discovery as in Kuwait or foreign aid as in Jordan, the effect is dramatic. Supported by outside funds, the rentier state is saved from the political messiness of deep administrative roots within society. While rents allow the growth of a large state apparatus, the social cleavages and divisions within society tend to be frozen. Clientelist networks and tribal linkages tend to be strengthened once rents come into play. The state distributes fiscal rewards and punishments within this preserved system, but in all other respects it is aloof from its society.[17] Formal associations are in some cases simply taken over by state authorities. For example, the budgets of the Chambers of Commerce in Saudi Arabia and Dubai are part of the state budget. Even when state fiscal power is not so direct, associations may see their members exit since collective action

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[15] Fernando H. Cardoso, "Associated Dependent Development: Theoretical and Practical Implications," in *Authoritarian Brazil*, edited by Alfred Stepan (New Haven: Yale University Press, 1973).

[16] Anderson, Lisa, *The state and social transformation in Tunisia and Libya, 1830-1980* (Princeton: Princeton University Press, 1986), p.23.

[17] Delacroix, "The Distributive State in the World System."

is not needed to win resources.[18] The elites of associations may be bought off through positions in state-owned enterprises. Finally, under rentier conditions, fewer issues of dispute with government arise, especially with the private sector. Government as the locus of capital investment, combined with low levels of taxation, simply take many issues off the table. Autonomous associational development under rent conditions is therefore weak.

When rents decline, the situation is reversed. The once aloof state is now short on external funds and must turn to domestic extraction. Having had little extractive capacity in the past, new taxation bureaucracies must be created. In parallel, the drop in rents means a drop in pay offs to social groups. New issues of distribution and taxation inevitably arise. Hirschman's logic comes into play. Around the new issues, social demands coalesce and expand potentially to include demands for greater political representation. Though it is not necessarily automatic, the post-rentier state displays conditions ripe for democratization and reform;[19] or, as Luciani put it, "a strong current in favour of democracy inevitably arises."[20] The initial rentier position, then, postulates that as rents increase business associations will become less successful in their lobby attempts, and that when rents decline these same institutions will experience greater lobbying

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[18] This ties to an idea to be dealt with later, namely, that business's's predilection toward collective action is shaped by the extent of state intervention. The more intervention the greater the incentive for collective action. Consideration of the rentier state complicates the logic. Rentier states intervene significantly, but rentier theory (and observations) takes this to mean a lessening of collective action. The question is what type of intervention leads to which incentives. The rentier state intervenes primarily by distributing, and hence this type of intervention may limit, not encourage, collective action by business.

[19] Brynen, *Economic Crisis and Post-Rentier Democratization*, 1992; also Lisa Anderson, "Remaking the Middle East: The Prospects for Democracy and Stability, in *Ethics & International Affairs*, 6 (1992).

[20] Luciani, "Allocation vs. Production," p.75.

success. From this basic position, there are two important sub-theses to consider.

The corporatist variation on the rentier state

This variation takes up the importance of corporatism in a rentier state. The webs of ministries, semi-public boards, publicly-owned enterprises, and even cabinet posts all come to comprise a loose semi-corporatist network in many rentier states. These are the venues through which state distribution takes place, rewards are given, and punishment dealt out. In times of rent plenty, these are the stilts that lift the state above its social rivals. Focusing on linkages with social agents, recent work on corporatism has advanced a variant to what happens after rents decline.

Phillippe Schmitter's distinction between inclusionary and exclusionary corporatism does not quite capture the hybrid systems of many Arab and developing world states. Robert Bianchi's work takes this aspect into account in his analysis of corporatism in Egypt and Turkey[21] and finds that, as states attempted to draw social groups in closer to corporatist networks the usual result was greater pluralism on the part of social groups and intensified interest conflict within their ranks. He finds this especially true among Egypt's business associations.[22] Thus, as the state deepens corporatist links, the outcome is actually to generate more social demands, not less. More specific work on rentiers has carried this thesis further.

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[21] Robert Bianchi, *Interest Groups and Political Development in Turkey* (Princeton: Princeton University Press, 1984); and *Unruly Corporatism: Associational Life in Twentieth-Century Egypt* (Oxford: Oxford University Press, 1989).

[22] Bianchi, *Unruly Corporatism*, p.158-178.

In their comparative work, both Jill Crystal and Kiren Aziz Chaudhry[23] include cases where semi-corporatist links with business were pursued during the rent boom. In both Kuwait and Saudi Arabia, respectively, after rent declined and state vulnerability increased, formerly coopted groups utilized those links with the state to press successful claims. In the cases where those links were not developed in the boom period, Qatar and Yemen, the business community proved unable to press its claims. Therefore, semi-corporatist structures may likely play a role in the outcomes of my cases. The tighter the business association is tied into state corporatist structures the greater opportunity and advantage it will have in reversing those links in times of troubles to realize its policy goals.

A second variation in the basic theme heads in the same direction but adds an additional variable to consider.

The type of rent as another variation

This complementary variation also focuses upon the development of a rentier state's clientelist network as a key aspect of rentier politics. At the base of the argument is a distinction between types of rents. The greater the degree of direct rents to the state, usually oil, the greater the weakness of state power over leading social groups in the long run. Moreover, the timing of when rents come into play determines what type of social strata is frozen, and this in turn determines to whom state elites extend patronage links. Chaudhry's work has pioneered this

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[23] Kiren Aziz Chaudhry, "The price of wealth: business and state in labour remittance and oil economies," *International Organizations* 43, 1 (Winter 1989); and *The Price of Wealth: Economies and Institutions in the Middle East*, (Ithaca: Cornell University Press, 1997); and Jill Crystal, *Oil and Politics in the Gulf: Rulers and merchants in Kuwait and Qatar* (Cambridge: Cambridge University Press, 1995).

approach as a way to criticize aspects of rentier theory, to call into question uses of the term "state autonomy," and to develop new insights into what conditions make for a strong state.

Chaudhry's study compares a labour remittance state, Yemen, with a pure oil-rentier, Saudi Arabia. By examining the relationship of the position of the private sector and the state in periods of economic boom and bust, she was able to generate some interesting findings. In remittance states, the private sector develops independently of state patronage and generally without the extensive semi-corporatist links common of a pure rentier state. By contrast, the private sector in a pure rentier is brought into patronage networks by the state during the boom period.[24] The crucial impact of these divergent development strategies comes when the rents decline. For the private sector in Saudi Arabia, the webs and links created to buy them off in the past were used in the bust period to curb state austerity measures. In the remittance state, Yemen, business had no such links to fall back on and was thus powerless to curb state austerity measures. In this way, Chaudhry adds a crucial variable in considering outcomes in post-rentier situations: "The key difference in the impact of oil rent and labour remittances was the way in which their effect on the balance of economic opportunity in the public and private sectors interacted with social composition of the bureaucracy and the private sector."[25]

The expectation, then, is that differences in rent type bind business associations to the state differently in the boom period. These contrasting links explain outcomes when rents decline.

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[24] In Saudi Arabia for instance, the state created an entirely new private sector to bolster its base of support. See Chaudhry, *The Price of Wealth: Economies and Institutions in the Middle East*.

[25] Chaudhry, "The price of wealth," p.143.

Rents and society: modernization thwarted

Rentier theory considers not only the impact on the state, but offers generalizations on how rents shape social relations. This impact comes in two stages. First, the type of society that is present when rents flow into the state or society determines who wins and who loses. Second, once rents take hold and state distribution is centralized, societal relations tend to become "verticalized" toward the state.

Rentier theory came into being partly as an answer to the question as to why modernization had not taken its predicted historical path in the oil rich states of the Arab world. Modernization theory from the lineage of Lipset and Kautsky[26] stresses the transforming effect that greater wealth has on a society. The key dynamic in these accounts is the change in social structure that results from increased wealth. The problem in some developing world states, like the oil states, was that levels of per capita wealth were climbing steadily but the expected social and political transformation did not follow. Rentier theory sought to explain this.

Because rents to society and state were allocative and not productive, social structure did not change in the direction modernization theory expected. Strands of primordial ties endured. By itself, this is not novel for a developing world state, but in the context of state rents these pre-modern ties were actually reinforced. Significant urbanization does occur in states like Jordan, Saudi Arabia, and Kuwait but this does not mean ascriptive links and loyalties are weakened. As the state disbursed rewards to maintain political support, there was little need to alter a social

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[26] Seymour Martin Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *American Political Science Review*, 53 (March 1959); John H. Kautsky, *The Political Consequences of Modernization* (Huntington, NY: R.E. Krieger Publishers, 1972).

order that after all had allowed political elites to gain power before rents. Therefore, local elites tended to retain positions of local power and tribal leaders were able to maintain tribal cohesion. Since most rent booms occurred shortly after independence, this pattern was repeated in many Arab and African countries. For the question of associational lobbying, this meant that groups on top at the onset of rents or groups with better organizational bases would fare better in the future.

After this initial period, rents did had have a transforming effect, but again, not in the way modernization theory expected. One key aspect of modernization was the development of horizontal links and cross-cutting alliances in society which breaks down primordial cleavages and allows for new foundations of collective action. In the rentier state, wealth creation is centralized with the political authority, therefore, vertical instead of horizontal links develop. Rents weaken not only the bases for cross-cutting collective action but marginalizes social associations. Organized ostensibly to aggregate interests, serve member needs, or exercise some social duty, the uses of social associations wane. Members and elites are "pulled" out because the association is no longer useful.[27] The benefits of associational exit outweigh the costs of membership. Associations decay institutionally, lose collective action skills, and instead vie for the layers of rent that trickle down from the state. Associational life under rent conditions is shallow.

However, the theory is not quite clear on what happens to society after rent. Does society now learn productive habits and discard "the rentier mentality," or do the adverse conditions previously created still inhibit social modernization? Given the strong Marxist and liberal bases of rentier theory and its prevalence among many scholars of the Arab World, the answer leans

[27] This insight was given to me by Tariq Tell, Amman, November 1996.

toward renewed transformation of social structure.[28] This prediction is particularly pronounced regarding a new Arab bourgeoisie:

> the so-called state class or state bourgeoisie will not continue as such. After a period of partnership, first silent then open, with the new bourgeoisie, and after increasingly coming to share interests of the latter, this class will become an authentic bourgeoisie, owning the means of production. As this occurs, the transforming state class will increasingly intermingle with the other branches or the bourgeoisie and finally fuse with them.[29]

Though the hypothesis is not precise in the literature, the general parameters to be considered are as follows: rents to society and the state diffuse associational strength in the boom period resulting in less influence with the state; as rents decline, previously checked modernization forces impact society, resuscitating the social and associational bases for effective lobbying.

State-Centric Arguments

Political-economy arguments share much with the focus on the state. For both, the state is an important actor, but in political-economy accounts the state is primarily a dependent variable in relation to external resources. Among theorists that study the state, there is a great deal of debate about the cause, extent, and effects of the state as an independent actor.[30] State autonomy over social actors can be absolute, conditional, or temporary. It can be conditioned by the personnel occupying state positions,[31] the position of dominat classes,[32] conflict within society,[33] or

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[28] Robert Springborg comes to this conclusion in, "The Arab Bourgeoisie: A Revisionist Interpretation," *Arab Studies Quarterly*, 15, 1 (Winter 1993).

[29] Volker Perthes, "The Bourgeoisie and the Ba'th," *Middle East Report*, 170 (May-June 1991), p.37.

[30] Michael Mann develops a clear discussion of these debates in *The Sources of Social Power, Volume II: The rise of classes and nation-states, 1760-1914* (Cambridge: Cambridge University Press, 1993), p.44-54.

structures in which the state is found.[34] However, most theorists recognize the state as both place (dependent variable) and actor (independent variable). So what are we left with? In some ways, the study of the state within the social sciences has lost its analytical usefulness, since it seems the state encompasses all of a given polity. To avoid these confusing directions, this study adopts a state-centric position closest to Theda Skocpol's work.

Skocpol and her colleagues seek to correct what they see as the excesses of pluralist and neo-Marxist theories of the state. They stress the state as an actor in given situations and its ability to affect, apart from a simple class appendage.[35] Michael Mann terms this approach "elitist theories of the state," a position which stresses a state's distributive power over society.[36]

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[31] C. Wright Mills, *The Power Elite* (New York: Oxford University Press, 1956); and William G. Domhoff, *The Power Elite and the State: How Policy is Made in America* (New York: A de Gruyter, 1990).

[32] A few examples of the neo-Marxist literature on the state are: Nicos Poulantzas, *Political Power and Social Classes* (London: New Left Books, 1973); Claus Offe, "Political authority and class structure: an analysis of late capitalist societies," *International Journal of Sociology* 2 (1972); and Bob Jessop, *State Theory: Putting the Capitalist State in Its Place* (University Park: Pennsylvania State University Press, 1990).

[33] The pluralist school examples are: Seymour Martin Lipset, *Political Man* (New Haven: Yale University Press, 1959), and Robert Dahl, *Polyarchy* (New Haven: Yale University Press, 1977).

[34] This variant shares much with Barrington Moore's classic work and has had much influence on international relations theory as well: Barrington Moore, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon Press, 1966); Charles Tilly, *Coercion, Capital and European States, AD 990-1990* (Oxford: Blackwell Publishers, 1990); and Stephen Krasner, *Structural Conflict: The Third World Against Global Liberalism* (Berkeley: University of California Press, 1985).

[35] *Bringing the State Back In*, edited by Peter Evans, *et al.*

[36]Mann, *Sources of Social Power, Volume II*, p.48. Excellent examples of the rational-actor, elitist model are Levi, *Of Rule and Revenue*; and Douglas C. North, *Structure and Change*

Accordingly, the state-centric position examined here posits the state as the independent variable affecting changes in the legal-political terrain between itself and leading social associations. Therefore the way state formation takes place, the way a state incorporates, the access it allows, and the character of state structures may all account for the outcomes in this study.

The legacy of state formation

The process and history of state formation is integral to the structuring of politics among late-late-developers. Colonial legacies, patterns of state formation, insertion into the international system, and who wins and who loses, can shape state-society relations in ways that carry importance for business lobbying.

Like much of the developing world, Arab countries underwent colonization by European powers. The state in the periphery, it is argued, is the product of this colonial domination. By contrast, the classical approach argues that state development in Europe followed from interaction among social forces and the advent of capitalism. In the periphery, the transformative power of capitalism was injected from outside. The way capitalism penetrated says much about the type of state to emerge. Lisa Anderson, in her comparative treatment of state formation in Libya and Tunisia, draws a distinction between the kind of colonial administration in each. Italian colonial rule in Libya denied the population any political representation, causing the revival of older forms of local rule and patronage. French rule, by contrast, installed a central political administration integrating Tunisian elites. The result was that, come independence and the onset of state formation, each was beginning from different foundations. Tunisia gave rise to the stronger state,

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in Economic History (New York: W.W. Norton and Company, 1981).

Libya the weaker. Anderson argues that, in Tunisia, the state used the power of state institutions to fashion society and its elites to its own political ends. Opponents of state power were marginalized while supporters were boosted. Thus, "the state is less captive of that elite than the elite is its creature."[37] Anderson concludes her study with this assertion:

> the most significant hypothesis to be drawn from this study is the significance of the existence of the bureaucratic state in creating rather than simply reflecting social structures. As they developed, the states of North Africa, and perhaps of the periphery as a whole, enjoyed a greater measure of autonomy from domestic society than did their European counterparts and played a greater role in recasting that society.[38]

The crucial variable, then, is variation in the periphery on the eve of state formation. From there, the relations between economic elites and the state is cast. Private sector associations comprise a part of that creation and color future patterns of lobbying.

State cooption techniques

Elitist state arguments focus more closely on contemporary state actions aimed directly at social associations such as, cooptation, buying off, suppression, and the like. How a state coopts, not only economic elites but actual social associations, may account for lobbying outcomes once the economic crunch comes. It is worth a closer look.

Much of the legal terrain between social associations and the developing world state is composed of various cooptation and suppression mechanisms. Licensing, funding, and composition of associations is often controlled by individual state ministries. Thus, when a period of state weakness arrives, these legal webs may be important in determining how effective that

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[37] Anderson, *The State and Social Transformation*, p.273.

[38] *Ibid.*, p.279.

organization can be. Conversely, these binds may have already worked to weaken a system of associations beyond repair, forcing the creation of new guidelines or associations.[39] The variables to isolate, then, are the legal mechanisms states use to control social associations. The assumption is they may vary.

Some policies can simply be short-sighted, faulty, or weak. Just because state elites may be autonomous by some definition does not mean they exercise keener political judgement. Developing world states of great strength are replete with misconceived policies. Conversely, it is often the case that legal constraints may be quite effective in reducing associational capabilities. The point is that differences in cooptation strategies aimed both at economic elites and their associations may account for differing lobbying success in the end.

A variant of this idea takes up not cooptation mechanisms *per se* but mechanisms of access a state allows.

Cooptation by political participation

When developing states create avenues of political participation, often it is assumed that they are meant as a type of cooptation, or a type of survival strategy.[40] This is the steam valve

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[39] This was essentially the case of the Egyptian Businessman's Association. Faced with a fully state-controlled and institutionally weak system of chambers of commerce, the Egyptian state and some economic elites sought to construct a wholly new organization instead of reforming the old one. Therefore, in the mid-1980s the Egyptian Businessman's Association was created outside of corporatist networks to revive private sector involvement. Interview with Hamdi Tabba, President of the Jordanian Businessman's Association, Amman, 1995; and Springborg "The Arab Bourgeoisie."

[40] For example see: Daniel Brumberg, "Authoritarian Legacies and Reform Strategies in the Arab World," in *Political Liberalization & Democratization in the Arab. World Volume 1, Theoretical Perspectives*, edited by Rex Brynen, Baghat Korany & Paul Noble (Boulder: Lynne

thesis. State elites allow limited participation to quell demands or split the opposition, but it is not meant as a first step toward full fledged participation. Whether genuine or calculated, these avenues immediately impact the lobbying strategies and chances of social associations. Such moves are the quintessential state invitation to participate in the policymaking process, no matter how that participation may be circumscribed. Differences in the type of openings and their degree can structure the chances for successful lobbying.

The first and most obvious form of participation is parliament. Elected parliaments allow the broadest policy participation. In the Arab World, experimentation with elected parliaments has an uneven history. In Kuwait and Jordan, for instance, parliaments appeared in the early years after independence, were later suspended, and are currently back in force. When such parliaments are in session, they are clearly used as venues for debating and amending policy. Observers of the growth of civil society and democratization in the Arab World place great weight on the presence of parliament for precisely this reason. However, while popular appeals can contribute to a reinstatement of parliament, the powers and rules governing their operation are an exclusive state prerogative. Beginning with electoral rules, the introduction of legislation, oversight powers, and powers of suspension, the state can clearly set the parameters of what a parliament will look like and what it can do. Therefore, the way powers and rules differ may account for differing degrees of lobbying success. A parliament less constrained may allow social associations greater chances to shape policy. Parliament, however, is not the only venue a state may create for participation.

Far more common than elected parliaments are *ad hoc* policy boards created by state officials. Boards at various state ministries are created to regularize interaction between ministry

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Rienner Publishers, 1995).

officials and concerned social groups.[41] For example, a ministry of agriculture may have policy boards composed of state officials and larger farmers; an information ministry may combine newspaper publishers with its own officials. Such boards are quite common throughout the developing world. Positions on these boards may involve renumeration or they may be voluntary. The point is that ministries and state officials exercise a wide degree of discretion in forming and staffing such bodies. Variation in the legal standing of these boards, their powers, and their histories may shape the opportunities for private sector lobbying success.

Variation in state structures

The last state-centric argument is a corrective to the purely state-centric literature. A spate of comparative work on state-society relations has followed Joel Migdal and others' stress on variation in state structures and variation in the power of social groups.[42] The collective emphasis is not to look at either state or society as monoliths but to examine the interaction of segments of each.

Migdal argues that many developing world states are weak because the societies over which they attempt rule are strong enough to resist the transformative impulses of the kind Anderson highlights. At best, states exercise "dispersed domination" over society. Social

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[41] In the United Kingdom, these are termed QUANGOs, quasi-autonomous national government organizations.

[42] Joel Migdal, *Strong Societies and Weak States: State-Society Relations and State Capacities in the Third World* (Princeton: Princeton University Press, 1988); *State Power and Social Forces: Domination and Transformation in the Third World*, edited by Joel Migdal, Atul Kohli and Vivenne Shue (New York: Cambridge University Press, 1994); and Michael Bratton, "Beyond the State: Civil Society and Associational Life in Africa," *World Politics* 41, no.3 (1989);

associations in such a society are fragmented and separated from state power, compounding the difficulty of state centralization projects.[43] In this account, what is of concern is Migdal's conception of the state. States in the periphery are not taken as monoliths with indistinguishable parts operating as a rational whole, as in Margaret Levi's conception. Instead, the developing world state, much like its society, is often divided, organizationally uneven, bereft of information, and locked in struggle both with itself and social rivals. Migdal calls for dissaggregating the state, separating its parts, and rendering a kind of "anthropology of the state."[44] One must then recognize conflict happens at many levels and in many degrees.

The success of lobbying may be driven by the particular structure and form of the state being faced. Since the underlying assumption is that states in the developing world vary in their structure and form, associations may face differing degrees of problems when lobbying. Different types of ministries and policy boards may call for different lobbying strategies, some more complex, some simpler. The result could well account for contrasting lobby successes with different states.

Society Based Arguments

Clearly, the concept of the state stands at the center of much theory, even when the point is to render the state an intervening variable. Only society-based arguments can be accused sometimes of virtually ignoring the state in considering political outcomes. Whether neo-Marxist

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[43] Joel Migdal, "The state in society: an approach to struggles for domination," in *State Power and Social Forces*, p.9.

[44] *Ibid*, p14-15.

or pluralist, their defense is straightforward: the state is the product of social forces. Pluralist accounts share with Marxist accounts a tendency to explain the state and its relations with social actors from the perspective of societal and economic dynamics. Barrington Moore (and, after him, Haim Gerber on the Middle East) constructed powerful arguments based solely on the interplay of economic change and conflict between social strata, without considering the role of state development itself as a factor.[45] Behind these works, there are a number of disagreements encompassing end-fights among Marxists,[46] battles between pluralists and Marxists,[47] and attempts to broaden the debate.[48] This study draws two principle arguments from the literature that appear most relevant to the cases: a position termed "state derivationist" and a more or less straightforward pluralist position emphasizing conflict among societal groups.

The Marxist view: business runs the state

For Marx, relations between state and society mirror relations between specific modes of production. Arising out of class conflict, the state is less an object or actor and more like a cork bobbing on a sea of social relations. The current of the dominat class push it along.

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[45]Haim Gerber, *The Social Origins of the Modern Middle East* (Boulder: Lynne Rienner, 1987).

[46] One of the more famous is the Miliband-Poulantzas debates of the 1970s. Ralph Miliband, *The State and Capitalist Society* (New York: Basic Books, 1969); and Poulantzas, *Political Power*, 1973.

[47] The various debates falling under dependency and modernization best capture one wing of this historical debate.

[48] Antoni Gramsci, *Selections from the Prison Notebooks* (London: Lawrence and Wishart, 1986).

> The State has become a separate entity, beside and outside civil society; but is nothing more than the form of organization which the bourgeois necessarily adopt both for internal and external purposes, for the mutual guarantee of their property and interests.[49]

Consequently, not only does the state legitimize the dominate class, but it acts to ensure the interests of capital accumulation.

In the face of capitalist states that appeared to act against the interests of capital, neo-Marxists such as Poulantzas, Miliband, and Offe[50] developed important correctives to Marx's original themes.[51] Sometimes labelled "state derivationinsts," these theorists took the lead of Marx's conception of the limited autonomy of the Bonapartist state.[52] To act in the interests of capital, the state must sometimes ignore individual claims by capitalists and act with "relative autonomy" in the interests of the larger class. Taxation, welfare provisions, and industrial policies superficially appear to go against dominate class interests, in reality, such actions serve to legitimize the state's role and help ameliorate class conflict that could injure capital interests. The occasional distancing of itself from a direct relationship with the capitalist class, then, is required of the state to maintain capital's dominate position.[53]

State relations with social associations, especially business associations, would seem to fit

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[49] Karl Marx, *The German Ideology, Part 1*, from *The Marx-Engles Reader Second Edition*, edited by Robert C. Tucker (New York: W.W. Norton & Company, 1978), p.187.

[50] Claus Offe, "Political authority and class structure: an analysis of late capitalist societies," *International Journal of Sociology*, 2 (1972).

[51] Bob Jessop, *The Capitalist State* (Oxford: Martin Robertson, 1982).

[52] Mann discusses this extensively in, *Sources of Social Power II*, chapter 9.

[53] Margaret Levi, *Of Rule and Revenue* (Berkeley: University of California Press, 1988), pp.186-188.

into this logic. Viewed through this lens, business associations, as representatives of the dominat class, are not actually lobbying a neutral agent in the state, rather they are communicating the interests of the dominate class to political officials. Thus, patterns of lobbying success are actually periods of close alliance (little state autonomy) between capital and the state, whereas patterns of unsuccessful lobbying are actually periods of relative autonomy.

The pluralist view: competition among associations

Though pluralists privilege societal forces in their analysis, they view more conflict and change in society than the typical Marxist. The position of the dominate class *vis a vis* the state is not preordained. Internal conflict may doom capital's control of the state. This assumption fits well with an empirical fact in the developing world. Especially in contrast to labour organization, the number of business associations in larger developing world countries are generally much higher.[54]

To explain this, Claus Offe argues that individual businesses, possessing greater resources, operate on a simple cost/benefit calculation of which private sector organization to join. They can therefore join several organizations at once, each providing a different perceived benefit over time.[55] With labour, by contrast, membership is exclusive (i.e., one cannot join multiple bargaining units). Therefore, labour tends to support only one organization. This logic suggests that the number of business's associations and their inter-associational relations are key variables .

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[54] Mick Moore and Ladi Hamalai, "Economic Liberalization, Political Pluralism and Business Associations in Developing Countries," *World Development*, 21, 12 (1993).

[55] Claus Offe, *Disorganized Capitalism: Contemporary Transformations of Work and Politics* (Cambridge: Polity Press, 1985).

to lobbying success. In Nigeria, for instance, the number of business associations is rather high and memberships overlap. There is a great deal of resulting inter-associational conflict. Competition for access to state decision makers is keen and zero-sum in many instances.[56] In this case, an association's lobbying success is dependent to a great extent upon the fate of competition with other associations, whether business, labour, or other.[57] Thus, one basic condition for successful engagement may be the character and presence of rival associations.

2. THE RIVALS

Overstating the Marxist position

The state derivationist position asserts that patterns of lobbying success result from periods of varying state autonomy from capital. This variance is needed to secure legitimacy and address subordinate class challenges to capital's dominate position. Consequently, one may argue that state-business relations in Jordan and Kuwait are a kind of "potemkin village" masking an underlying logic of mutual dependence. Two points show this position to be inadequate.

First, there are empirical problems. In contrast to the capitalist democracies of the West, exogenous revenue in Kuwait and Jordan made state dependence upon the capitalist class unnecessary. After political independence through the 1970s, these states did not depend on wealth created by the private sector. Instead, political coalitions supporting the monarchies in each country have shown a bias toward tribal concerns and balances. Hence, the cases do not

[56] Moore and Hamalai, "Economic Liberalization," p.1904.

[57] William Coleman & Wyn Grant, "The organizational cohesion and political access of business: a study of comprehensive associations," *European Journal of Political Research*, 16 (19889), p.472-473.

exhibit much evidence in support of the state derivationist argument.

Second, neo-Marxist theories of the state fail to account for how state policy is actually made. As Levi argues:

> Despite the policy emphasis of this literature, relatively few Marxists have investigated the ways in which capitalists express their demands to the state. Nor have many explored the mechanisms for executive coordination of capitalist interests and cooption of unrest.[58]

Therefore, an excessive society-based explanation misses much. In this study, by focusing on a lead representative of the capitalist class, the business association, the interactions of business and state can be more clearly studied. As well, research at this level can more easily determine when state-business association interaction is really conflictual or simple collusion.

Pluralism: asociational competition is comparable

A focus on the presence and strength of rivals in a society may explain some patterns of lobbying success. Conflict between associations or poor associational coordination can doom effective access to state decision makers. However, differences in the level of associational competition in the cases at hand are negligible, and where differences do occur, the thesis accounts for this more convincingly.

First, the KCCI and the ACC were among the first organized associations in each country. Neither faced a strong labour rival. In the liberalization of the 1980s and 1990s, both struggled with similar opposition in parliament. Research shows that Islamic and tribally based groups in each country posed very similar resistance to the goals of each Chamber. Actually, when comparing finance and organization, the strength of Islamic groups in Kuwait was far more

[58] Levi, *Of Revenue and Rule*, p.190.

robust.[59] Furthermore, policy debate in Kuwait has been highly contested due to an established tradition of vocal opposition and an independent press. Policy debate in liberalizing Jordan has certainly not been anemic, but it is comparatively more tame. Yet despite this, the KCCI has prevailed to a greater extent than the ACC.

Second, where a significant difference in associational competition does appear, is in the presence of rival business associations. This study shows that in Kuwait, rival business associations have been marginalized. The Chamber is named the Kuwait Chamber of Commerce and Industry precisely because a rival chamber of industry was not allowed to form. In the 1990s, a union of industrialists was formed, but they were effectively marginalized by the KCCI. Smaller sectoral associations for specific economic activities (food stuffs, for example) exist but they compete among themselves to draw closer to the KCCI. By contrast, two important associational rivals have developed in Jordan , the Amman Chamber of Industry (ACI) and the Jordanian Businessman's Association (JBA). Their presence and competition for state access has helped to weaken ACC lobbying during the 1980s and 1990s. However, as the evidence will show, the development of these rival associations was an *effect* of the variables I highlight. The presence and strength of rival business associations was itself due to the weaknesses in the ACC, rather than a cause of them.

Patterns of state formation are comparable

The first state-centric argument presented earlier asserted that the process of state

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[59] This is ironic because formal political parties were outlawed in Kuwait, while in Jordan they were legalized.

formation is integral to the structuring of politics in the late-late-developers of the Arab World. The background of state formation and a state's insertion into the international system can propel the state in different ways above social competitors.

In the case of Jordan and Kuwait, however, there were few important differences in the colonial administration. Unlike Anderson's cases (Libya and Tunisia), Jordan and Kuwait were both under British control in roughly the same period. Colonial policies encouraged the expansion of merchant trade. There was no policy to create new economic elites to divide native political authority. Moreover, British politicians rarely intervened directly in merchant-ruler relations.

Second, the process and timing of state formation did not exhibit factors that would account for differences in case outcomes. Political independence in each state took place right on the heels of similar and important changes in the macro-relations between merchants elites and rulers. In Kuwait, state formation and independence took place shortly after the significant exploitation of oil. The process of state formation then was intimately tied to the transfer of the oil wealth to the merchants in return for their political acquiescence. In Jordan, independence and state formation also took place at a time when external rents to the nascent state comprised the majority of its revenues. Therefore, a similar profits-for-no-political-involvement deal occurred between merchant elite and ruler in Jordan.

To be thorough, however, two caveats are necessary. First, as Crystal describes, merchant elites (the future founders of the KCCI) were politically active in Kuwait; indeed, they were the loyal opposition to al Sabah rule. In the 1930s, they spearheaded the Majlis movement, the organized demand for an elected parliament in Kuwait.[60] By contrast, Jordan's merchants were not as politically active. The elite, particularly the leadership of the ACC in the 1940s, were tightly organized and successful in influencing some pre-state economic policies. Moreover, there is evidence to suggest that the founding of the KCCI was in part a political act meant to institutionalize merchant opposition elements. The founding of the ACC some forty years earlier did not share the same founding logic. The political background and flavour of each association is therefore an important difference between my cases. This would affect lobbying success because as a not-so-covert member of the traditional political opposition, lobbying by the KCCI would be dealt with differently than in the case of Jordan. The thesis accounts for this aspect with the following logic: The key aspect for the KCCI (and the ACC) is the presence of those elite, qua-opposition, merchants on the board of the KCCI. While their political flavour may explain some lobbying success, it does not explain their ability to maintain control of the association, the association's coherence, or the defeat of rivals. The variables specified in the thesis do, however, explain this important element of elite control and coherence.

Second, Jacqueline Ismael's work on Kuwait reveals that state formation there involved a unique consistent effort by the al Sabahs to bring the leadership of the KCCI into government service.[61] A technique of state coalition building, recruiting merchant elites to lead government ministries did not occur to the same extent in Jordan. Government service can obviously enhance

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[60] Crystal, *Oil and Politics*, pp. 47-55.

[61] Jacqueline S. Ismael, *Kuwait: Social Change in Historical Perspective* (Syracuse: Syracuse University Press, 1982), pp.83-87. This pattern continued well after independence. See Abdul-Reda Assiri and Kamal Al-Monoufi, "Kuwait's Political Elite: The Cabinet," *Middle East Journal*, 42 (Winter 1988).

future lobbying strategies. Research in Kuwait, however, shows that this government service was not as even and widespread as first assumed, especially regarding the posts held (specifically the important Ministry of Commerce and Industry) and movement directly from the KCCI to government. Nevertheless, government service as a tool of state development did play a role, but the point, again, is that it is elite control, coherence, and ability to thwart challengers that gave the KCCI its lobbying strength. Indeed, posts were given to KCCI allies and leaders because government officials viewed their institutional base as secure and useful.

State cooptation is comparable

The second state-centric position discussed earlier argues that differences in cooption strategies aimed at economic elites and their associations may account for variations in lobbying success. In the Jordanian and Kuwaiti cases, however, there was significant similarity in the way each state has utilized cooptation techniques.

First, each state used virtually similar techniques to coopt portions of the merchant community. Bolstered by rents, each state had the resources shortly after independence to purchase land in Amman and Kuwait City and then sell these assets below market prices to select economic elites. As a result, in the 1970s when land prices jumped in both countries, these merchants became extremely wealthy almost overnight. Similarly in the 1960s and 1970s, both states invested in or completely purchased previously private companies (national airlines, for instance) controlled by merchant elites. This strategy increased the wealth of some merchants by increasing their share prices. Consequently, real estate markets and shareholding companies in Kuwait and Jordan were important mediums through which cooptation took place.

Second, *ad hoc* access to state decision making state legal relationships with each Chamber exhibited similar cooptation patterns. After independence, both Chambers were legally registered and recognized by the state. The Chambers' representatives sat on similar government policy boards in the principal economic ministries: the Ministry of Commerce and Industry, and the Ministry of Finance. Other temporary policy boards within the Prime Minister's cabinet also traditionally had Chamber representation. Such venues were expressive of both countries' traditional commitment to a degree of free enterprise in their economies. In neither case, however, was the state legally obligated to provide this access. Consequently, these boards were constructed for policy consultation, not lobbying.

Semi-corporatist ties, then, were quite similar, but it was the exploitation of these venues that proved the crucial difference.

Patterns of political participation are also comparable

The presence of avenues of political participation immediately impacts the lobbying strategies and chances of social associations. Differences in the type of institutions and their degree can structure the chances for successful lobbying. However, just as with similar cooptation techniques, avenues of political participation in Kuwait and Jordan have also been similar.

Elected parliaments have been a feature of each country's political life. Both countries experimented with elected parliaments shortly after independence (the *Majlis* movement in Kuwait occurred prior to independence), and saw them suspended in the 1970s and recalled in the 1980s. Parliament was active in Jordan beginning with the 1952 Constitution. The last election was held in 1967, and parliament was suspended in 1974. In Kuwait, the first elections were held in 1963, and parliament was suspended in 1976. The Jordanian monarchy appointed a National Consultative Council in 1978. Members of the old parliament (which included pre-1967 West Bank representatives) were recalled in 1984, and in 1989 new elections were held. In 1981, the Emir of Kuwait recalled parliament; in 1986 it was suspended, and then recalled in 1992.

In addition to similar time lines, both parliaments were essentially consultative institutions with very circumscribed legislative powers. Electoral rules, legislation submission, and final approval of legislation was within the purview of the Prime Minister and the monarchy. Differences in the legal purview and status of parliament were not factors accounting for differences.

Both states used these powers to shape and reshape political coalitions. Gerrymandering and quasi-support of rival political groups (tribal and religious in each case) resulted in similar changes in the parliaments. Parliaments in the 1960s and early 1970s did have Chamber leadership representation, though in the case of Kuwait that representation was more robust. Jordan's appointed National Consultative Council had significant Chamber representation. By the 1980s, Kuwaiti merchant political representation (specifically, KCCI executive board members) declined as tribal and Islamic groups gained. From the mid-1980s in the 1990s, no executive board members from either Chamber were elected. What small merchant representation and influence has been present, has often sided against Islamic/tribal positions, generating similar problems in parliamentary lobbying. Consequently, the most important venue of popular political participation in each country exhibited similar opportunities and constraints for each association.

State structures are not significantly different

The final state-centric argument focuses on differences in state structures that impact lobbying strategies and success. The problem with this position, however, is that Kuwait and Jordan exhibited very similar state structures with which each Chamber dealt.

Principal lobbying targets have been the Prime Minister's office, the Ministry of Industry and Commerce, and the monarchy. Ministry structures in each state have been quite similar over time; finance and industry/commerce were historically the most important for business interests. Once the fiscal crunch overwhelmed each country, conflicts within and between ministries over economic policy were evident. Initial policy directions were tenuous, and both business associations witnessed ample opportunities to exploit state indecision. However, only the KCCI effectively leveraged the openings. To make sense of this difference, other variables need to be addressed.

The problems and the uses of rentier theory: what happens after rent?

Of the rival arguments, rentier theory proves the most useful. At the core of this thesis is an effort to show how exogenous finances shape a domestic social institution, and how that institution responds to opportunities once those finances decline. In describing what rents do to states and their societies, the theory has had some success. Terry Lynn Karl shows that even states separated by time and distance (Spain, Iran, Nigeria, Algeria, and Indonesia) reacted in broadly similar ways toward social groups during their rent booms.[62] The problem arises when

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[62] Terry Lynn Karl. *The Paradox of Plenty: Oil Booms and Petro-States*, (Berkeley: University of California Press, 1997).

rents decline. What happens after rents? Do social associations or classes, the private sector in this case, reassert themselves in response to weakened state autonomy? Even among states that are not pure rentiers--say, states with substantial foreign aid revenues of which there are many in the developing world--this is a salient question. Jordan and Kuwait encompass characteristics of both, and this study examines each under extreme rentier conditions, and observes the decline to the point where in the case of Jordan it moves in the direction of ceasing to be a rentier state and to the point in Kuwait where rents remain but not in their previous volume. In doing so, recent debates about post-rentier politics and what is expected are engaged.

On one side, Anderson, Brynen, and Luciani hold that some expectation is justified that, as rents decline, liberalization/democratization becomes more likely, though not automatic. On the other side, Waterbury has criticized this expectation, noting that there is not "much evidence that taxation has evoked demands that governments [in the Middle East] account for their use of tax monies." He calls instead for a focus on the type of tax prevalent (indirect versus direct) and on other "intermediate variables" that play between taxation and accountability.[63] So, where does one look to access the future of the private sector's leading associations in this context?

Rent does play a role. But Anderson, *et al* focus too broadly, and Waterbury does not look close enough. Demands for representation need not entail throwing the tea into the port of Aqaba. Change is often more subtle and not intended by state authorities to grant greater representation. By focusing analysis on well-defined associations, a good window on these other dynamics and struggles linked to demands for accountability can be provided. So, on several key points derived lessons from rentier theory and its revisions creates the foundations of the thesis.

[63] John Waterbury, "Democracy without Democrats," pp.29-30.

Rentier theory works while rents are high

The following steps demonstrate where rentier theory takes us and where it leaves off:

i. During periods of high rents relations between the chambers and their states followed the expectations of rentier theory. External rents increase state autonomy and capacity. For social groups, and business associations specifically, this means that as state autonomy increases their lobbying success should decrease. As a glimpse into the high-rent years of my cases, this statement is correct. The impasse arose during the period of declining rents (1980s and 1990s). When rents declined, state autonomy decreased. The point, rather, is how this vulnerability was leveraged by the Chambers. They did not achieve the same leverage or success. Something more than just rent decline was at play.

ii. A focus on differences in rent type and level is useful in my cases. Their importance lies in the kind of economy that results, specifically the economic sectors that develop. Sectoral contours shape divisions within the business community and its elites, and these divisions are important for each Chamber's make-up. This comprises the first independent variable.

iii. Further revisions to rentier theory stressing the construction of semi-corporatist links during high rent and then their use in the bust period are useful. Kuwait and Jordan show however, that opportunity structures (avenues of policy participation and semi-corporatist links) alone cannot account for outcomes. From this point, the intervening variables (membership scope and voting criterion) are developed. They are crucial in translating broad sectoral divisions into lobbying success or failure for the Chambers; moreover, they go some way in helping to answer: "what happens after rent?"

Opportunity structures after rent only go so far

Semi-corporatist links created during the boom years were the venues through which the state distributed rewards and dealt punishment. When rents declined, those same links could be used to reverse ties with the state and achieve renewed lobbying influence. This revision moves closer than the basic rentier position in looking at important intermediate factors, and the dynamic is present in both cases. Each Chamber did attempt in the 1980s and 1990s to reverse those links, but only the KCCI succeeded. Therefore, semi-corporatist links are only part of the story.

Whether those links are used successfully depends on the variables developed in the thesis.

But rent types are important

Moving to another level is Chaudhry's argument about differences in the type of rent. Differences in rent type binds business associations to the state differently in the boom period. These contrasting links may explain outcomes when rents decline. Jordan and Kuwait did operate on contrasting forms of rent in the boom periods. Jordan's level of foreign aid was not the same as Kuwait's oil revenues in terms of percentage of government revenue. Moreover, Jordan's economy was flooded with remittance income not present in Kuwait. Therefore, at first glance, these cases appear to fit Chaudhry's framework. Are the same factors at work then? No.

First, though rent types and their levels differ, Jordan and Kuwait nevertheless operated similarly as allocative states. The weight of the state as the locus of economic activity was great in both cases. Measures of economic control were similar, including outright state ownership of private corporations and majority shares to control executive boards. Second, while the type and level of rent did not translate into vastly different state strategies, they did shape a different economy. This is a first step toward the thesis. Different types and lower levels of rent contributed to a more sectorally diverse economy than was the case in Kuwait. These contrasting features had ripple effects on the composition of each Chamber, on their interests, on the interests of the state, and finally, on the efficacy of lobbying. Chaudhry's analysis provides some insight into cases, but it does not satisfy.

Rent effects on society set the stage for the thesis

Insights from modernization theory's failure and rentier theory's explanation suggests that social associations are directly affected by rents. Where rents are high, the material bases for cross-cutting collective action are weakened and social organizations are deprived of political leverage. Once these conditions are reversed, the expectation is that associations will eventually regain their power and leverage against state interests. On several points, however, this logic is flawed.

The specific predictions of what associations should look like under high rent conditions are not accurate in Jordan and Kuwait. As a general observation, it is true that social associations (unions, cooperatives, guilds, and so on) in Kuwait and Jordan were very weakly organized or simply controlled by the state in the 1960s and 1970s. However, since rent conditions came into play at virtually the same time as independence, it is difficult to tell whether rents were the sole cause. Associational organization was weak in both states prior to independence. Still, this line of thought is compelling: "Where the intervention [of the high rent state in this case] is widespread, detailed, and discretionary, the incentives for collective action are low."[64] However, with particular regard to the Chambers, there are problems with this position. By this logic, merchant elites should have abandoned both Chambers (but particularly in Kuwait) to pursue individual contacts with political authority to increase their personal wealth. This simply did not take place in Kuwait. In Jordan, it happened gradually but was not due to exogenous *pull* reasons, rather, it was more a consequence of endogenous *push* factors. Merchant elites did attempt to maintain leadership control and cohesion of the Chamber in times of high rent. True,

[64] Doner and Schneider, "Business Associations, Development, and Democracy," p.52.

the need for collective action was lessened under high rent conditions, and the evidence is clear that merchant elites did pursue individual contacts to further their interests. However, it was not correct that elite merchants in Jordan abandoned the Chamber for this reason. The fault is that this logic is too instrumental.

Charles Lindblom, a noted pluralist, argues along these lines by suggesting that since business enjoys a privileged position in relation to the state (referring to the state derivationist position), the need for political and organizational representation is subdued.[65] This is a strong hypothesis. However, traditional merchant elites in Jordan continued to desire the leadership of the Chamber through the 1960s, 1970s, and into the 1980s and 1990s. Their reasons were not purely instrumental, but pertained to prestige. Leading merchant elites certainly did not require Chamber leadership to enhance their own *personal* lobbying. But in a situation of high rent, when economic activity is geared to the state, accomplishment in the private sector is far less a sign of recognition in society. Business elites pursued such recognition through the free elections of the Chamber. The thesis, then, shows that, despite this desire, elite cohesion gradually declined in the ACC through the 1970s and 1980s. Elites were forced out rather than pulled out. Membership divisions combined with organizational weaknesses to make elite maintenance of the Chamber more difficult. Elections became highly contested and elite cohesion more complicated. As much as an accomplishment it was to be elected to the Chamber, it was an equal embarrassment to lose.

Another flaw is that this position assumes basically that nothing happens of note in a

[65] Charles E. Lindblom, *Politics and Markets: The World's Political-Economic Systems* (New York: Basic Books, 1977).

rentier society under high rent conditions. Things begin to happen only after rents. This was simply not the case in Jordan and Kuwait. The thesis asserts, and what the evidence shows is, that changes of most importance to the future lobbying success of these Chambers happened precisely in the years of high rents. Sectoral differentiation took place and organizational rules changed. It is these variables that were the most important and a focus only upon the bust period would miss them.

3. THE THESIS: SECTORS AND ORGANIZATION

It is hoped that at this point the outlines of the thesis are clear. Three variables, one independent and two intervening, account for the KCCI's renewed influence and the weakness of the ACC in the 1990s. This section discusses each of the variables, and their theoretical lineage, touching on the empirical leads in each case.

The thesis proceeds through the following steps:

i. Sustained elite cohesion and control of the Chamber is the most proximate factor determining lobbying success. When successful, high profile businessmen represent the Chamber, favourable state perceptions of the Chamber and its policies result. Advantageous organizational features and capabilities strengthening lobbying also flow from sustained elite control. When state vulnerability increases, payoffs from sustained cohesion can be seen in patterns of lobbying success; conversely, when that cohesion has weakened and elite control is uneven, lobbying successes even against the weakened state are limited or highly contingent. Elite cohesion, however, depends on other factors.

ii. Sectoral differentiation in the economy determines the character of a business community. In the rentier economy, it is the type and degree of rents during the boom that shape sectoral makeup. The divisions and conflicts within the business community are present in the rank and file of the Chamber, and it is the expression of those divisions that affect the degree of elite control. Those effects, however, are either enhanced or managed by organizational variables.

iii. Two organizational variables, (1) membership qualifications and (2) voting rules, most directly affect degrees of elite control. When membership is obligatory or expansive and voting rules similarly inclusive, elite control is more easily challenged at elections. This damages leadership cohesion over time. Between elections, if elites are tied too strongly to the rank and file, their autonomy is weakened and their lobbying leverage impaired. Over time, such elections result in different leadership types and skills.

Sectors make a difference

Every association or organization must deal with divisions among the rank and file if it is to function coherently. Business associations represent the business community, and logically the divisions and conflicts present in that community are what the associations must manage if lobbying is to be successful. What determines those divisions, in the most basic sense, is the sectoral make up of the domestic economy. Sectoral attributes comprise the primary independent variable forming the constraints and opportunities on business association lobbying.

Political scientists working on business associations (primarily among the developed democracies) have long recognized that macro-economic variables "structure-up" business associations, that is, there is some reflection of the contour of the domestic economy in the type and distribution of business associations.[66] By and large, however, the tendency is to ascribe more explanatory weight to such things as a particular association's position within policy networks or horizontal linkages with other associations. In the less pronounced corporatist environment (in comparison with its more formal and entrenched version in Europe) of the developing world, sectoral variables should be given more weight. Policy networks are not as robust and developed; rather, they are clientalistic and institutionally weak (when compared with, say, the large number

[66] Stephen Bell, "Between Market and State: The Role of Australian Business Associations in Public Policy," *Comparative Politics* (October 1995); see also David Vogel, *Fluctuating Fortunes: The Political Power of Business in America* (New York: Basic Books, 1995); and William D. Coleman, *Business and Politics: A Study of Collective Action* (Montreal: McGill-Queens University Press, 1995).

of institutions involved in policy networks in North America and Europe). Moreover, with the exception of larger developing states (Turkey, India, and Brazil, for example), business associations are not as numerous or wed into mature horizontal alliances which would greatly affect their lobbying capacities. Therefore, sectoral attributes set the stage not only for an association's lobbying capacity but for the attitudes state elites will have at times toward particular associations.

Michael Shafer in his book, *Winners and Losers: How Sectors Shape the Developmental Prospects of States*, develops an argument about sectors and a state's ability to launch economic restructuring that is useful. He contends that the attributes of the leading sectors, and how they are tied to the international economy, determine how difficult it will be for a state to restructure its economy; because, as he puts it, sectors shape social opposition and "result in distinct patterns of state institutional capabilities and of interest groups with sectorally determined interests and collective action capabilities."[67] Since this study's focus reverses the traditional emphasis on state capability, looking at Shafer's thesis from another angle might provide insight. First, it is necessary to lay out what is meant by sectors and what the important sectoral features are exactly in each case; second, the link between rents and sectoral makeup is explored; and third, how sectoral differences impact business associations is introduced.

What are sectors?

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[67]Michael D. Shafer, *Winners and Losers: How Sectors Shape the Developmental Prospects of States* (Ithaca: Cornell University Press, 1994), p. 2-3.

Shafer defines sector as "a type of economic activity (mining, industrial, plantation crop production, peasant cash crop production, or light manufacturing) that constitutes an enduring, coherent whole defined by a distinctive combination of four variables--capital intensity, economies of scale, production flexibility, and asset/factor flexibility."[68] He uses this definition to construct two ideal type political economies: low/low and high/high. High/high types exhibit high capital intensity, high economies of scale, high production inflexibility and high asset/factor inflexibility, while low/low exhibit the opposite. Shafer argues that low/low political economies have higher degrees of flexibility and hence are able to restructure better (in the face of international shifts) than inflexible high/high types. He then develops several claims regarding exactly how sectoral makeup translates into policy flexibility or inflexibility. The importance for this thesis comes with Shafer's proposition about societal actors' capability for collective action within each ideal type. Since high/high sectors are "composed of a few big firms run by sophisticated, well-connected professionals who are likely to be practiced at collusion," collective action is made easier. By contrast, low/low sectors "comprise a huge number of tiny, geographically dispersed, mutually competitive firms managed by isolated small business people," so collective action is difficult.[69] Shafer's logic is compelling, but his thesis is directed at the description and classification of the entire economy of a state (public and private), whereas the concern of this study lies with the private sector and its representatives. So, what do sectors mean in Jordan and Kuwait?

Shafer's definition of sectors is acceptable for Jordan and Kuwait except it needs to be

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[68] Shafer, *Winners and Losers*, p.10. "Production flexibility is the ability to meet short-term market shifts by varying output levels or product mix. Asset/factor flexibility refers to the sector-specificity of facilities, supporting infrastructure, and workforce skills."

[69] *Ibid.*, p.14.

applied just to non-governmental economic activity. If we consider the total organized economy, neither Jordan nor Kuwait equate to his ideal types. Taking both public and private together, the economies of Jordan and Kuwait fit closer to the high/high side of the topology. The largest economic concerns in both countries are state-owned single product, raw material enterprises.[70] But if we turn to purely private concerns, the differences become apparent. Two characteristics of the private sector in both countries are of comparative importance: distinctions between the commerce and industry sectors and distinctions between big and small business. Even among the developed democracies of Europe, cleavages of these types are recognized as analytically significant.[71] For this study, the commerce sector is defined as encompassing wholesale and retail trade, construction, transportation, and finance. Sometimes this sector is referred to as services. Industry cases is defined as manufacturing, medium range and finished goods. The difficulty in comparing private sector manufacturing in Kuwait and Jordan is that statistics often group public concerns (mining in Jordan and petroleum refining in Kuwait) with purely private sector firms. The result is a higher profile for industry than is actually the case. Care is then to be exercised to separate public from private industry in statistics and their interpretation. The second sectoral feature of big versus small business is primarily confined to the commerce sector. The comparative degree of difference in the size of the small business communities of Kuwait and

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[70] Oil extraction and related industries in Kuwait--the Kuwait Oil Company (KOC), Petrochemicals Industries Company, and the Kuwait Oil Tanker Company (KOTC), for example--and mineral extraction in Jordan--Phosphate and Potash mining.

[71] William Coleman and Wyn Grant, "The organizational cohesion and political access of business: a study of comprehensive associations," *European Journal of Political Research* 16 (1988), p.468; and Wyn Grant and W. Streek, "Large firms and the representation of business interests in the UK and West German construction industry," in *Organized Interests and the State: Studies in Meso-Corporatism*, edited by Allan Cawson (London: Sage, 1985).

Jordan is not the only important feature, but, as the study will discuss, so is the different type of relationship between big and small in each case.

Comparatively, the differences for each feature can be stated in this way:

i. In the 1960s and 1970s Jordan and Kuwait experienced significant economic growth. It was in this period that a nascent industrial sector took root in Jordan. This never really occurred in Kuwait. By the 1980s, small and medium-sized private export industries evolved in Jordan. Though Jordan did not industrialize in the classic sense (or to the extent larger developing states such as India or Turkey did) a distinct private industrial sector with distinct interests did develop. By contrast, Kuwait's private sector remained overwhelmingly homogenous (concentrated in commerce) and, as such, the basis for conflicting interests within the business community was more narrow.

ii. Within the commerce sectors of Jordan and Kuwait there were obvious distinctions between larger merchants and smaller retail businessmen. The crucial difference here was not specifically the comparative sizes but the different type of relationship between large and small merchants in each case. This aspect will be discussed in the next section.

One caveat is warranted. Sectoral differences in each case were not absolute. Specifically in Jordan, many business elites wore both hats, running trading houses and owning manufacturing concerns. They import and export; hence, these divisions are not meant as hard and fast lines throughout the business community. Instead, these sectoral attributes are designed to identify a base for conflicting interests within the business community and ultimately within the Chambers.

There are several ways to measure the progression of these sectoral differences. Most symbolic was the existence of an industrial chamber in Jordan and its absence in Kuwait. The Amman Chamber of Industry (ACI) was founded in 1961 and currently has 7,500 members. Analogous efforts in Kuwait to found an industrial chamber were thwarted by KCCI lobbying and, as a result, only an industrial union was established in the 1990s. Both of these features figure prominently in the following historical sections. Another window into the industry/service sector difference was the relative share each sector contributes to the Gross Domestic Product

(GDP). Table 1 in the appendix shows that from 1960 to 1981, Jordan's commercial sector averaged 35 percent of total GDP, comparable to Kuwait's 27 percent average. However, the comparison diverges when industry is considered. In the same period, Jordan's private industrial sector contributed an average of 12 percent GDP, whereas Kuwait's private industrial sector accounts for one-third of that, at 4 percent.

A second feature, not emphasized by Shafer, is intra-sectoral. In Jordan, a great majority of the commerce sector is dominated by small retailers located in Amman. In other words, of the registered commercial entities in Jordan, by far the largest number are small businessmen.[72] In Kuwait as well, small retailers outnumber larger merchants. The important characteristic lies not in the numbers but in the structure of relations between the large and small traders. That relationship will be elaborated in the following section

But, to gain a better understanding of how sectors make their impact and how interests intersect, it is necessary to take a step back and reintroduce the importance of rents.

Rents and sectors?

The level and type of rents shapes the two principle sectoral features described above. The argument proceeds through the following stages:

i. In each case, external financial flows created what economists in the 1970s termed "the Dutch Disease," economies marked by high consumption and low fixed investment. Oil rents in the case of Kuwait impacted the domestic economy earlier and to a far greater extent. Distribution of oil rents made Kuwaiti citizens among the richest in the world. High purchasing power effectively eliminated any demand for domestically produced, competitively priced medium range goods. Instead, imported Western goods dominated the domestic market. State-led industrialization efforts were generally abandoned in the

[72] Indeed, Amman is known as *Medina Alif al-Duqaan*--the city of a thousand shops.

late 1970s (outside petroleum refining), as businessmen avoided fixed investments and maintained a bias toward trading and import.

ii. Foreign aid and remittances had a more gradual and less expansive effect in Jordan. Consumption in the 1970s was fuelled by remittance flows but it did not create the high-end market present in Kuwait. A domestic market for medium range goods developed, and thus the basis for domestic industry took place. Foreign aid distribution and remittances made Jordanians richer but not to the extent that medium range competitively priced domestic goods were ignored. Therefore, the presence of a moderate domestic market for manufactured goods took root in Jordan. Consequently, rent type and degree were important to the character of the private sector. Generally, the higher levels of direct rent meant less internal articulation of the private sector.

iii. Rent type also shaped the relationship between small and big business in each country. Because oil impacted early and to a large degree in Kuwait, foreign imported goods dominated the retail sales market (the location of most small business) in Kuwait. Early on, merchant elites secured near monopolistic agency rights to broker these imported goods into the Kuwait market. This control made small business dependent upon the larger merchants for product distribution. In Jordan the monopoly of agency rights was not as complete. In some cases, rival domestic goods became available. Small merchants were not dependent upon larger merchants to the degree in Kuwait.

The details of the case studies will bear these propositions out. The important effect of rent in Jordan and Kuwait was not the development of contrasting links between the private sector and the state but the impact on the business community itself. Different levels of rent shaped different types of markets in each country, one supporting medium ranged domestic manufacturing and the other making such a base unnecessary.

Two aspects highlight the connection between rents and private sectoral development. First, economists have long written about the adverse effects of rent income, the "Dutch Disease." The argument pinpointed patterns of excessive investment in nontradeable sectors at the expense of industry among mineral resource states.[73] Capital tended to remain liquid rather than fixed.

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[73] Terming it a Dutch disease was not really fair. Before the Netherlands weathered the storm of its North Sea oil bonanza, sixteenth century Spain had demonstrated similar patterns from wealth it extracted from the New World. For more recent economic literature on the

Thomas Stauffer in an important article on rentier economies dissects an important aspect of the Dutch Disease by noting the difference between "growth" and "expansion" in a rentier economy. Figures on a rentier's boom economy commonly tout dramatic domestic economic growth, but growth in this sense, as Stauffer explains, is composed of two parts: "pure expansion, reflecting the consumption of oil reserves, and a second part which is the result of investment, i.e. the transformation of oil assets into different assets which yield more enduring income."[74] This latter part is referred to as non-depletable income, and this is the more accurate measure of growth. Assets yielding more "enduring" income are often the fixed investments that private industrialization at any level involve. Using Stauffer's method, the actual non-oil GDP in Kuwait and the non-aid GDP in Jordan is calculated in Table 3 in the appendix. Though normal calculations of Kuwait's GDP far exceed Jordan's, once the corrections are made, Jordan (with a lower level of rents) actually has enjoyed more real growth and a greater degree of sectoral articulation. Kuwait's non-oil GDP averages 38 percent of total GDP in the period 1970 to 1990,[75] whereas Jordan's non-aid GDP averages 66 percent in the same period. Clearly, a

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disease, see: Harold Hotelling, "The Economics of Exhaustible Resources," *Journal of Political Economy*, 36 (April 1931); Max Corden and J. Peter Neary, "Booming Sector and Deindustrialization in a Small Open Economy," *Economic Journal*, 92 (1982); Sweder van Wijnbergen, "'The Dutch Disease': A Disease After all?" *Economic Journal*, 94 (1984).

[74] Thomas Stauffer, "The dynamics of petroleum dependency: growth in an oil rentier state," *Finance and Industry*, 2 (1981), p.8; for a more sophisticated treatment see, "Accounting for 'Wasting Assets': Measurements of Income Dependency in Oil-Rentier States," *The Journal of Energy and Development*, 11, 1 (1986); see also, "Income Measurement in Arab States," in *The Rentier State*, edited by Hazem Beblawi and Giacomo Luciani (New York: Croom Helm, 1987).

[75] The calculations for Kuwait in 1990 are exceptionally low. Beginning in the mid-1980s, the Kuwaiti state began using overseas investment returns to make up for oil revenue shortfalls as well as pay off massive debts from the crash of Suq al Manakh.

positive relationship exists between rent level and the level of non-aid/oil GDP.

Second, how rent distortions actually muted industrialization can be seen in the way incentives for industrialization were altered under high rent conditions. In Jordan and Kuwait, the same incentives for industrialization were not present. The Kuwaiti state was less in need of establishing labour intensive industrial concerns to address employment needs because these were met through massive expansion of the state. Expansion of the state also took place in Jordan but the continual addition of Palestinian refugees throughout its history meant state projects could not possibly accommodate the numbers At its height, the public sector in Kuwait topped out at 95 percent of the empolyed Kuwaiti population, whereas in Jordan the number remained around 50 percent. Consequently, the Kuwaiti state needed industrialization to a lesser degree. In addition, massive oil rents created different types of consumer markets. The Jordanian boom of the 1970s did result in a jump in living standards. For Kuwait, however, that jump was much more significant as it became one of the world's richest countries, as measured by per capita GNP (see Table 2, appendix). The demand/need for domestically produced, competitively priced finished goods was simply bypassed. Why buy the imitation when the real import from Europe could be afforded? This was precisely the situation the economic historian David Landes described in the case of sixteenth century Spain, rich with gold from the New World: "the Spanish did not have to make things anymore; they could buy them."[76] Kuwaiti merchants quickly grasped this reality and a large scale import/distribution network was established to bring quality Western goods to Kuwaiti consumers. Domestic industrialization held no appeal.

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[76] David S. Landes, *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor* (New York: W.W. Norton & Company, 1998), p.172.

External resource flows not only created different types of markets in each country, but they helped fashion different linkages between small and large business. Numerically, small shop owners outnumbered larger merchant concerns in both Jordan and Kuwait. However, the relationship between large and small was different in each case. Two aspects set them apart.

First, the import licenses for most foreign consumer goods in Kuwait were held by a smaller coterie of traditional merchants in Kuwait. When rents hit Kuwait, the leading merchants in the KCCI monopolized import licenses for most categories of goods. This monopoly became centred on the board of directors of the KCCI and remained throughout the 1970s, 1980s, and into the 1990s. Small retailers in Kuwait were then dependent upon the elite merchants for product distribution and supply. Challenging these interests or block voting in Chamber elections by smaller traders, as was the case in Jordan, could obviously threaten their own businesses. Second, as noted previously, oil rents allowed the Kuwaiti state to employ virtually every Kuwaiti citizen. The remaining small slice of the private sector did not run all of the small businesses in Kuwait. Though it is illegal to maintain a business if one works for the state, second and third small businesses were quite common for public sector employees. To circumvent the law, public sector Kuwaitis registered their outside business in the name of a son, daughter, or wife. One informal survey taken by the KCCI in 1988 (and another taken by the author in 1995) calculated that of the 15,000 registered businesses in the Chamber, 25 to 30 percent were registered under a female name. It is a fair guess that most of these registrations hid public sector employee businesses. If one could calculate registrations on behalf of male family members then the total could go higher. The point is that for this large block of small businessmen, overt involvement in Chamber politics was simply not smart or useful.

By contrast, the relationship between small and large merchants in Jordan was not as tight. Agency licenses (while predominate among the large traditional merchant class) did not hold the same market sway over small merchants. In part, domestically produced goods diluted the import monopoly, and second some imports came from other developing countries. There was diversity in the import market as well. Small shop owners then maintained a wider market choice than their counterparts in Kuwait. Moreover, only recently have civil servants begun to delve into private business, and not at all to the extent in Kuwait. Finally, the continued influx of Palestinians into small and medium businesses further weakened the links between small and large merchants. What links existed were primarily ascriptive; for example, small merchants from Nablus tended to identify and do business with the larger merchants from Nablus. Therefore, in two important aspects, dependence on larger merchants and state employment regulations, the status of the small business community and its relations with big business were different in Jordan and Kuwait.

Now that the kind of sectoral differences have been established and their connection with rent type outlined, of what importance are these factors in considering business associations and patterns of lobbying success?

Membership is the second step

For a moment if we view the membership of each Chamber as a class, we would conclude from the above discussion that the capitalist class in Kuwait and Jordan is divided along several dimensions. In Jordan, those divisions were sharper and provided a firmer base for conflicting interests. Stopping at this point would not be enough, however. First, there is much agreement in the literature on interest associations that the character of a membership need not be axiomatically reflected in the organization itself.[77] This may be because institutions or social associations take on a life and autonomy of their own. A leadership may achieve autonomy from the rank and file and hence ignore conflicts or claims originating from the membership that could hamper pursuit of long term goals. Second, stopping at the point of sectoral diversity delivers little analytical importance. Robert Vitalis has stressed this point by pointing out that all classes exhibit cleavages and divisions; this is nothing novel with the business community.[78] The logic of Vitalis's assertion is accepted, but the implicit position in this thesis is that one's (or a firm's) position within an economic structure does, to a certain degree, determine interests. It would be a mistake to assume that all interests are determined in this way or that an economic actor could not act outside this rational calculus. Instead, I take this assumption to be roughly generalizable to the extent that it is part of an economic agent's calculation in any given situation. Consequently, the focus on sectoral divisions links to the development of contrasting interests within the business community. Left alone, this is still not enough to account for the outcome of my cases. Other studies of business associations in the developing world can be faulted with relying too much on the sectoral interest argument and not going further to explain how and why interest conflicts

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[77] Moore and Hamalai, "Economic Liberalization, Political Pluralism," p.1898; and Graham K. Wilson, *Business and Politics: A Comparative Introduction* (London: MacMillian Press, 1985); Mancur Olson, *The Rise and Decline of Nations*; and Terry M. Moe, *The Organization of Interests: Incentives and the Internal Dynamics of Political Interests Groups* (Chicago: University of Chicago Press, 1980).

[78] Robert Vitalis, *When Capitalists Collide: Business Conflict and the End of Empire in Egypt* (Berkeley: University of California Press, 1995).

reproduce themselves in an association or how this may impact lobbying success.[79] Therefore the sectoral focus complements the second step of the thesis. This section gives an explanation for why the more pronounced membership cleavages in Jordan were able to express themselves in the Chamber while the admittedly less pronounced cleavages in the case of Kuwait were still held at bay.

Simply put, the most important factor that allows membership cleavages entrance is the criteria and scope of membership. In Jordan after rule changes in the early 1960s, membership was compulsory for all businessmen wishing a license to do business in the Kingdom. Membership in the KCCI was not compulsory. Both Chambers started out as purely voluntary associations, but in the 1950s and 1960s this changed for the ACC to the present situation where membership in the Chamber is a pre-requisite for renewing annual business licenses. By contrast, only annual renewal of an import license (often termed an agency license)[80] or bidding license (permission to bid on state contracts) in Kuwait requires annual renewal of membership in the KCCI. So, compulsory membership in the Jordanian Chamber and only selective compulsion in

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[79] See for example: Ayse Oncu, "Chambers of Industry in Turkey: An Inquiry into State-Industry Relations as a Distributive Domain," in *The Political Economy of Income Distribution in Turkey* edited by Ergun Ozbundun and Aydin Ulusan (New York: Holmes and Meier Publishers, 1982); and Stanley A. Kochanek, *Interest Groups and Development: Business and Politics in Pakistan* (Oxford: Oxford University Press, 1983).

[80] Agency licenses in Jordan and Kuwait refers to permission granted through the Ministry of Commerce and Industry (with bureaucratic approval from the Chamber) to import a specific good or class of goods. In practical terms, the agent, or *kasool*, represents a foreign product (say Ford Motors) to be imported into the country and sold. From that middle position, a percentage of the sales is taken by the agent. This is a very profitable venture among elite merchants in Jordan and Kuwait. Most of the prominent agencies (Western consumer goods) were secured in the 1950s and 1960s (some even earlier) and are more or less granted permanently to the native agent. Bidding licenses are similarly controlled by the Chamber. State contracts in Kuwait are quite lucrative (for foreigners and local business) and notoriously rigged.

the KCCI meant that a smaller pool of members was continually present in the KCCI than in the ACC. In Olsonian terms, the ACC became more encompassing after the 1960s.

In both cases, these guidelines were part of the Chambers' by-laws and changes to these by-laws first originated within the association itself.[81] Indeed, it was the leadership of the ACC that decided to press municipal and state authorities to make compulsory membership a fact in the 1960s. From a theoretical perspective, the ACC--by taking over business licensing (a state function)--was moving into its own quasi-corporatist arrangement with the state.[82] So what do different membership rules mean? Two points are relevant.

1. Harking back, sectoral distinctions interacted with organizational variables to reinforce this trend. The importance of the commerce/industry spilt became evident once industry really began to develop in Jordan in the 1970s. Gradually, the Amman Chamber of Industry (ACI) became politically powerful through the 1980s as it drew more elite members. To an extent, the growing power of the ACI helped weaken the ACC. Owing to compulsory regulations, industrialists have to belong to the ACC, but gradually they were drawn to the industrial chamber because of its given its smaller membership base and the lack of threats to leadership. The growth of an industrial sector intersected with the establishment of an industrial chamber to further weaken effective leadership of the ACC. Excessive inclusionary guidelines in the ACC worked to push leadership elites toward the more favourably organized ACI at a time of growing sectoral diversity.

2. Compelled to join the ACC and pay dues, factions within the Jordanian business community have gradually come to be more involved in Chamber politics and elections. For small

[81] Two types of laws govern Chamber activities in each country. There is the founding "law" of each Chamber which was approved by the Ministry of Commerce and Industry, the Prime Minister, and then by Parliament. This type of law is included in the Official Gazette of each country as law. This law lays out the general parameters of the Chamber, its purpose, and its legal status. By-laws for both Chambers do not require Parliament approval but simply Ministry and Prime Ministerial approval. Thus, changes to the by-laws are designed to be easier. By-laws govern the internal workings of the Chamber, size of the executive board, voting rules, and so on.

[82] Interestingly, this fact runs counter to the well-studied cases of Turkey and India where the state drew business associations into such arrangements. Ironically, in the 1990s the KCCI has considered a similar move.

business, renewal fees and the bureaucracy involved is a cost for which many demand a return.[83] With the periodic influx of Palestinian refugees, the small and medium sized business community is virtually remade each decade, 1948, 1967, and 1991. For the larger, elite merchants who choose to run and serve on the executive board, managing this large influx of members has proven very difficult. While this confirms Olson's warnings regarding "encompassingness," was encompassingness alone the whole story? It was clearly not in the case in Jordan.

Voting is the final step

Voting rules are the most proximate factor shaping elite cohesion and hence lobbying success. Both Chambers freely elect their executive boards every four years, and it is members of this board who carry out the bulk of contacts with government officials. How they are elected determines who may serve. The is a crucial addition to the encompassingness factor.

Sectoral distinctions alone do not determine the character of an institution. Likewise, membership rules govern who gets in, but they do not determine the extent of influence. Voting rules close the loop because they directly determine the degree of membership influence. The basic distinction is that in Kuwait voting rules have been crafted to enhance leadership cohesion, whereas in Jordan voting rules started out similarly but then became more inclusive. Details of this variable can be stated in this way:

i. Both Chambers began with roughly similar voting rules. In the 1960s, the Jordanian Chamber changed its rules to allow voting and nominating from the lower categories of membership (to be explained below). The KCCI did not alter its voting rules.

ii. By the 1980s and 1990s, lower categories of mostly small businessmen began to wield considerable influence over elections in Jordan. As new entrepreneurs came into their own and interest conflicts heightened, securing voting blocks within the Jordanian Chamber became more difficult. Not wishing to suffer the embarrassment and trouble of losing an election, leading merchants gradually began to abandon Chamber politics. By

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[83] At a micro-level, this is an interesting confirmation of rentier theory expectations linking taxation (membership dues) with greater association involvement.

contrast, KCCI leadership could count on steady voting blocks and subdued challenges to its power. The result was cohesive leadership and autonomy, allowing greater lobbying success.

In Jordan, members (firms) are ranked according to category, which is measured by capital:

1. *Mumtaz* (excellent) category,
2. Category One
3. Category Two
4. Category Three
5. Category Four
6. Category Five

In the Kuwait, membership was not ranked but organized by type, that is by the type of business license given. Currently there are 26 categories of firm/members (see Table 7, appendix).

	ACC	KCCI	**Associational Effect**
Membership	-fully volunteer association	-only import license and bidders on state contracts must renew each year	
			Only those businessmen interested in the association join; elite, larger merchants predominate; in Kuwait most holders of agency licenses are the largest merchants; both associations resemble private, specialized associations.
Voting	-only first three categories may vote and nominate	-all types of members may vote; nomination open to all paid-up members of at least a year.	
			The largest merchants control voting and nomination; hence they elect their own.
Executive Board	-12 board members elected every four years	-24 members, 12 elected every two years	
			In Jordan, the smaller board allows for tighter control and delegation; in Kuwait elections every two years ensures that a challenger can only win half of the board in any election.

Figure 1 Organizational Variables

The critical juncture for these rules and the fate of each association occurred in the early 1960s. Obligatory membership was introduced in Jordan at the same time as voting rules were changed, and shortly after sectoral divisions began to develop significantly. Internal rules in the KCCI remained unchanged, and shortly after concerted government policies to create a new merchant class began. From this point, each institution took a different path. The aspects of this change are shown in figures 1 & 2.

	ACC	Associational Effects
Membership	-obligatory annual membership for all classes of business	
		Cleavages and sectoral differences present in the business community transfer to the association; obligatory payment of membership dues influence members to gain use from the association; membership dues become the sole source of association revenue; ACC begins to resemble a state agency.
Voting	-4th category and above may vote and nominate for the executive board.	
		With a larger and more diverse membership, slates of candidates for election appear; voting foundations for elite merchants deteriorates; ascriptive criteria gradually replace merit selection in elections; sectoral divisions intersect with origin attributes in leadership considerations; leadership autonomy from rank and file erodes; gradually elite merchants exit ACC.
Executive Board	-12 board members elected every four years	
		Capturing the executive board in one election is possible; elite cohesion breaks down; elections result in vastly different leadership types; state perceptions of ACC leadership change; lobbying success declines.

Figure 2 Change in Organizational Variables

Obligatory membership combined with revised voting rules gradually resulted in a wholly different rank and file. The addition of the fourth category was most significant since the bulk of members in the Chamber fell in this category (see Table 5, appendix). Taken in the context of greater sectoral articulation in the economy, and continual inflows of new entrepreneurs, obligatory membership and inclusive voting radically altered the electoral politics of the ACC. It forced elites to manage cohesion among themselves while at the same time courting lower category votes. The difficult two-level game made enduring leadership coalitions highly complex and temporary. In Kuwait, contrasting organizational features guaranteed elite cohesion and control.

Therefore putting the pieces together, we can see the thesis clearly. Changes in state rent set the broad parameters of state vulnerability to association lobbying. But we must not forget that rents also influenced different sectoral attributes in Kuwait and Jordan. Sectoral attributes created, over time, the character of each business community and its interests. Membership criteria (Olson's encompassingness) and voting rules determined the extent to which divisions in the business community reproduced themselves within the associations and impacted leadership cohesion. Thus, when rent declined (and state vulnerability increased) the association with a tighter organization and more cohesive leadership stood a better chance of exploiting the new opportunities.

The following three chapters comprise the historical narrative and discuss how these divergent characteristics and capabilities developed in Jordan and Kuwait. They explore issues of lobbying between association and state and reveal the interactions among the dependent and independent variables described in this chapter. Three overarching themes are developed in each of the three time periods. First, each period tracks variation in the dependent variable, associational lobbying/engagement. A second theme focuses on identifying and unpacking variables arising from the rival arguments for successful lobbying. The third theme responds to the second by tracking how the more relevant organizational and sectoral variables make themselves felt as each association matures.

III
THE EARLY YEARS: 1920 -1970

1. AMONG EQUALS: FORMATION OF THE STATE OF KUWAIT, THE MERCHANTS, AND THE FOUNDING OF THE KCCI

The establishment of political authority and the early merchants

The historian Ahmad Mustafa Abu-Hakima gives the year 716 for the founding of the city of Kuwait.[1] The actual founders of what would become the political entity of Kuwait, the Bani Utub, did not arrive until the early eighteenth century. Gradually, families of this tribe built the basis for political rule in Kuwait by managing internal and external challenges.

Legend and what scant historical records exist, portray the Bani Utub as a loose grouping of tribal families who emigrated from the Arabian Peninsula. After the Bani Utub settled in Kuwait, they took advantage of its natural port to develop trade links and build a small pearl diving industry. As Jill Crystal has documented, the Bani Utub were believed to be composed of three principle family branches: al-Sabah, al-Khalifa, and al-Jalahimah. These families compromised among themselves to determine that the al-Sabahs would be responsible for political functions, the al-Khalifa for economic functions, and the al-Jalahima for security affairs.[2] The year 1752 was the first recorded year of al-Sabah rule. In the 1760s, a dispute between the al-Sabahs and the al-Khalifa's resulted in the latter's departure for Qatar. This event established two

[1] Ahamd Mustafa Abu-Hakima, *The modern history of Kuwait* (London: Luzac and Company, 1983).

[2] Jill Crystal, *Kuwait: The Transformation of an Oil State*, (Boulder: Westview Press, 1992), p.8-9; Husayn Khalaf al-Shaykh Khazal, *Tarikh al-Kuwayt al-Siyasi* [The Political History of Kuwait, 1962-1970], Volume 1, (Beirut: Matabu Dar al-Kutub), p.42

facts. First, the ease of mobility in the Gulf meant exit was a prime option when political or economic disagreements could not be solved. Second, the departure of the al Kahlifa solidified al-Sabah political rule in Kuwait. From this period, no serious internal threats to al-Sabah rule would develop.

By the late eighteenth and early nineteenth century, a rough outline of the merchant community and its position in the overall social structure can be traced. First, among the Bani Utub, the largest merchants focused on the pearl diving industry and the boats needed to dive and transport the pearls. As most observers have noted, the political importance of the pearl trade was not so much the evolution of a class consciousness, but the degree of dependence the al-Sabah's had on the wealth produced. Bani Utub merchants, through the system of *zakat* (a form of religious tax), provided much needed finance to the al-Sabah's, who, in this period, remained focused on relations with the bedouin tribes and the caravan trade. Crystal and Ismael also note that a second element of al-Sabah-merchant relations rested on the manpower resources merchants possessed. Labourers and slaves in the employ of Bani Utub merchants provided defense for Kuwait City in times of need. This domestic financial and manpower support allowed the al-Sabahs to pursue foreign intrigues with greater freedom. Generally, this was a foreign policy "of calculated neutrality, tilting towards but never wholly siding with whatever power seemed most useful, while keeping channels of communication open with all parties."[3] Close relations, therefore, developed between leading Bani Utub merchant families and the al-Sabahs.

Second, in terms of support, Kuwaiti merchants provided manpower to the monarchy. Manpower and financial power gave Kuwaiti merchants an early sense of equality with the ruling

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[3] Crystal, *Oil and Politics*, p.21.

al-Sabahs not found in Jordan. From the perspective of Kuwait's merchants, social duties (commerce, defense, politics, and so on) were simply divided among the leading families; a hierarchy was not assumed in this division. Commerce was not viewed as subordinate to politics. Indeed, politics needed commerce. Thus, early on Kuwait merchants openly (and subtly) exercised influence commensurate with a perception of equality. An example of this was the al Nisf family. They represented the half of the al Khalifa family (*nisf* means half in Arabic) that did not leave for Qatar. The al Nisfs would not only be one of the founders of the KCCI, but they would maintain very close relations with the royal family.

Third, as a result of the Persian siege of Basra in 1775, merchants from this area began migrating to Kuwait.[4] Unlike the smaller middlemen merchant of Kuwait city, these Basra emigres pursued maritime trade relationships with regional centers as far away as India. Movement of these merchants tied Basra, already an important trading center, more tightly with Kuwait, helping to establish Kuwait City as a regional trading center. With these new merchants the outlines of the Kuwait merchant class of the nineteenth century became apparent.

Some of the larger Sunni merchants from Basra combined with the largest of the Bani Utub merchants, came to comprise what was loosely referred to as the *asil* (original) families. Though the number would gradually expand over time, the core of the asil included eight principle families: al-Sagr, al-Nisf, al-Ghanim, al-Hamad, al-Mudhaf, al-Khalid, al-Khorafi, and al-Marzouq.[5] These were and remain Kuwait's merchant elites. Their early commercial interests

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[4] J.F. Lorimer, *Gazetteer of the Persian Gulf, Oman, and Central Arabia, Volume 2* (Shanon: Irish University Press, 1970), p.146.

[5] Several excellent studies confirm the identity of this core and overlap in identifying their histories: Ismael, *Kuwait: Social Change*; Nicolas Gavrielides, Tribal Democracy: The Anatomy

went beyond the pearling industry to include commodity trading with Basra and the lower Gulf, eventually expanding to include date plantations in Southern Iraq, These families settled within the walls of the old city in the districts of Qiblah, Kayfan, and Hawalli, and of the core eight families, all but one would sit on the first executive board of the KCCI in 1961. A second strata of merchants, identified by Ismael, was the middle and lower rungs of the Bani Utub "who dealt primarily with the transfer of subsistence products from external sources to the internal and desert markets."[6] A third, albeit in this period very small, merchant grouping was the Shia, mostly immigrants from Iran. They were considered below even the lower Bani Utub and generally occupied economic activities (such as textiles, water carrying, and later garbage collection) considered inferior to the more respectable activity of trade and finance.[7] Above these three divisions, the al-Sabahs themselves gradually took on merchant roles. Initially, the al-Sabahs took over land tracts within the old city affording them not only wealth, but an important source of patronage. At times, individuals in the ruling family fashioned business partnerships with merchants families (middle Bani Utub and later some Shia merchants) who in turn profited from al-Sabah political influence. In times of economic downturn, these alliances became points of antagonism with asil merchants.

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of Parliamentary Elections in Kuwait," in *Elections in the Middle East: Implications of Recent Trends*, edited by Linda Layne (Boulder: Westview Press, 1987); and Abdul-Reda Assiri and Kamal Al-Monoufi, "Kuwait's Political Elite: The Cabinet," *Middle East Journal*, 42 (Winter 1988)

[6] Ismael, *Kuwait: Social Change*, p.55.

[7] Interview with Isa Majed al-Shaheen, Spokesman for the Islamic Brotherhood, Kuwait City, March 3, 1996.

The pre-oil economy: Mubarak the Great

The modern history of Kuwait began in 1896 with the rule of Mubarak the Great. Coming to power by killing his brother Shaikh Mohammed, Mubarak forged a new regional position for Kuwait and altered domestic political arrangements. At the close of the nineteenth century, Gulf politics was composed of competition among the Ottomans, the British, and the rising power of the al Sauds. Mubarak sought to change Kuwait's precarious position among these rivals by securing protectorate status with the British. In 1899, Britain made Kuwait its protectorate. Shortly after the agreement, British obligations were tested. On two separate occasions, Britain sent ships and arms to dissuade Ottoman and Al Saud incursions.[8] In 1904, Britain sent its first political regent inaugurating a period (until 1961) of domestic British presence and influence.

Mubarak's new relationship with Britain helped secure Kuwait's position between Ottoman and al Saud interests. Kuwait's new regional position also had domestic repercussions. The arrangement afforded domestic leverage to inaugurate three politically important domestic changes. First, protectorate status allowed Mubarak to limit future leadership successions to his side of the al-Sabah family, essentially cutting off his late brother's side. Though the British did not directly support this plan, the British agreed to support his designated heir to the throne.[9] While al-Sabah rule had already been secured within Kuwait, this new support demonstrated that security regionally. Second, along with the initial agreement and all subsequent ones, the British

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[8] Crystal, *Oil and Politics*, p.24.

[9] Mary Ann Tetrault, "Autonomy, necessity, and the small state: ruling Kuwait in the twentieth century," *International Organization* 45, 4 (Autumn 1991), p.573.

gave Mubarak monetary payments. The British also guaranteed the safety of al-Sabah date plantations, an important source of family wealth, in Southern Iraq.[10] These concessions gave Mubarak important financial independence from asil merchant. Consequently, some sixty years before Kuwait's political independence, the material aspects of a rentier state were already beginning to take hold. Mary Ann Tetrault described this nascent rentierism: "Since the ruler [Mubarak] contributes little to the people of Kuwait, his wealth could be used for whatever purpose he wished, including to protect himself from them and *to free himself from the necessity of behaving nicely in order to get their financial support*."[11] Mubarak's enhanced financial independence allowed him to embark on a third important domestic change, state building.

State-building in Kuwait introduced important dynamics in the relationship between ruler and asil merchants. Shortly after Mubarak came to power, he instituted new taxes on merchant activities. An import tax, a pearling tax, a house tax, a pilgrimage tax, and even price controls were decreed by Mubarak. Prior to this time, customs taxes were voluntarily contributed by leading merchants, but now taxation became a duty.[12] Ostensibly, this revenue was needed to fund Mubarak's external political intrigues, but Ismael ascribes a second reason to the taxes.

By the early twentieth-century, British steam ships began to dominate commodity trade within the Gulf and between India and the Gulf. British involvement competed with larger Bani

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[10] *Records of Kuwait, Volume 1, 1899-1961*, edited by Alan deLancy Rush (London: Archive International, 1989), p. 149; and Alan Rush, *Al-Sabah: History, Genealogy of Kuwait's Ruling Family, 1752-1987* (London: Ithaca Press, 1987), p.175.

[11] Tetrault, "Ruling Kuwait," p.574. My emphasis.

[12] Paul Harrison, "Economic and Social Conditions in East Arabia," *Muslim World*, 14 (1924).

Utub merchants and with the merchants tied to the Basra trade. Ismael claims Mubarak saw this as an opportunity and used some of the tax revenue to extend easy loans to the middle and smaller Bani Utub merchants, who were becoming more and more dependent on British supplies to support their retail trade.[13] The favouring of Bani Utub merchants marked the first instance, but not the last, of ruler involvement in merchant affairs. Since asil merchants were perceived as domestic competition, weakening their position or enhancing the position (and loyalty) of other merchant groups would help minimize that threat. In 1909, the issue came to a head.

Wishing to strengthen his control over the important pearling industry, Mubarak declared a ban on diving for the season. This was the final straw. Leading pearl merchants along with other traders left Kuwait for Bahrain and Basra, taking with them significant capital. Still dependent on that revenue and bowing to the popular support the dissidents generated, Mubarak gave in and promised to reduce some of the taxes if the merchants returned.[14] Most of the merchants did return, but the effect on ruler-merchant relations was profound. According to Crystal: "The act of secession ended one era and began another for the merchants. It was both the last time the merchants would use secession as a political weapon and first of several times in the twentieth century that they would organize politically in opposition to the Shaikh."[15] Three germane aspects summarize this period.

First, the inauguration of British control in Kuwait did not mean colonial officials directly manipulated ruler-merchant relations. Kuwait itself was not an imperial object, rather, it was

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[13] Ismael, p.54-59.

[14] *Records of Kuwait*, Vol.1. p.542-551; Crystal, *Oil and Politics*, p.24-25.

[15] Crystal, *Oil and Politics*, p.25.

Kuwait's position *vis a vis* Basra and the trade routes to India that was of British concern. The injection of British steamer trade certainly altered markets in the region by offering subsistence traders (Bani Utub) a steady source of supply while challenging larger Kuwait traders. However, it is an overstatement to assert, as Ismael does, that, "It was the new structure of colonial relations forged by the linkages with Britain that inhibited the development of productive forces in Kuwait and the region as a whole, initiating the historical process of the underdevelopment of not only Kuwait but the entire region." As Crystal notes, despite British trade and Mubarak's taxes, the larger Kuwait merchants did not abandon regional trade and continued ship trade with India and East Africa through World War Two.[16] Moreover, it was Mubarak that sought to use British links to thwart his domestic rivals and to create new allies. As a variable, colonial rule alone is insufficient to account for future patterns of merchant-ruler relations.

Second, the rule of Mubarak and his relationship with the British helped give merchant politics a distinctive oppositional flavour. Mubarak's overt and covert involvement in the business and politics of asil merchants set a precedent for future leaders in Kuwait. Rulers would try to influence merchant affairs to enhance their own political position. For the asil merchants, Mubarak's actions did not mean their relegation to second class citizens. Instead, they would, in their own way, oppose al-Sabah interests from time to time. Moreover, this opposition would evolve into a proto-Arab nationalism, especially in the pre-independence period, with the British as a target of elite merchant disdain. So though many merchants fled Kuwait in 1909, they gladly came back and consistently spoke of their loyalty to Kuwait and to the al-Sabahs.[17]

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[16] Crystal, *Oil and Politics*, p.26.

[17] *Records of Kuwait, Volume 1*, p.548.

Third, Kuwait's status as a British protectorate gave the al-Sabah's an important source of wealth independent from the merchants. Though the most overt characteristics of the rentier state came with the discovery of oil and its concessions in the 1930s, the protectorate relationship with Britain really marked the onset of the rentier state in Kuwait. Institutional change and military protection are often emphasized aspects of British colonial rule in the Middle East, but direct payment to rulers were equally important. Historical records from this period are replete with al-Sabah concerns for British payments, their timing, and their level. Al-Sabah reliance on domestic revenue was a thing of the past, and thus, the leverage merchants held with the ruler was weakened. British colonialism, more than anything else, instructed Kuwait's merchant elites--the future founders of the KCCI--that they would have to develop new levers if they were to retain influence with the monarchy.

Merchant politics in the inter-war years

In 1915 Shaikh Jabir, son of Mubarak, succeeded his father. Jabir's short reign was succeeded by his brother, Salim. Events of domestic political importance were few during their reign. However, with the reign of Shaikh Ahmed (r1921-1950) two events of note occurred: the organization of merchant opposition, and the discovery of oil.

World War One and its aftermath was a period of great profits for Kuwait's merchant elites. British steamers were called away for the war effort, reopening much of the regional trade to Kuwait traders.[18] The enhanced financial position of leading merchants, combined with the

[18] This was also a period of significant smuggling, especially to and from India. Much lore and legend was created during this period with leading merchants running wartime blockades and enduring foreign prison. Families like the al-Sagrs, al Marzuqs, al Khalids, and al Ghanims

animosity generated under Mubarak's authoritarian rule, laid the foundation for a merchant backlash. With the sudden death of Salim in 1921, asil merchants saw their chance. Twelve merchants formed *al Majlis al-Istishari* (Consultative Council) in order to establish a merchant voice in the decision of succession. Of the following twelve members, offspring of five would form the first two executive boards of the KCCI (see Table 8, appendix): Hamad Abduallah al-Sagr (whose son would be first KCCI president), Hilal bin Fajhan al-Mutayri, Shaykh Yusif bin Isa al-Qinaie, Al-Sayid Abd al-Rahman Aziz al-Rushayd, Ahmad Ibn Salih al-Humadi, Marzuq al-Dawud al-Badr, Khalif bin Shahin al-Ghanim, Ahmad al-Fahd al-Khalid, Mishan al-Khudayir al-Khalid, and Ibrahim ibn Mudhif.[19] The council proposed three al-Sabah candidates to succeed Salim. One of the candidates, Ahmed al-Jabir, became Emir and agreed to work with the council in determing future policies for Kuwait.[20] After only two months, the council disintegrated due to "internal strife and indecision."[21] Though it accomplished little concrete change, the council signalled the future organizational and political prowess of Kuwait's merchant elites. Just as Leon Trotsky's failed 1905 revolution foreshadowed the successful Russian revolution of 1917, so to did the 1921 council foreshadow the more significant 1938 Majlis movement.

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became well-known in this period as shrewd regional traders and important financiers. Today, some of the older members of these families are still fluent in Hindi, Swahili, Persian, and English, the languages of Gulf trade in the early twentieth-century. However, like the Kennedy's of Massachusetts and the Bronfmans of Montreal, illegal trading allowed Kuwait's merchant elites to diversify their business interests, away from strictly date farming and pearl diving. (Interview with Wael al-Sagr, Kuwait City, April 6, 1996; and *Records of Kuwait, Volume 4*, pp. 440-441 and pp. 428-429)

[19] Ismael, *Kuwait: Social Change*, p.71.

[20] *Records of Kuwait*, Vol 2, pp.71-76.

[21] Crystal, *Oil and Politics*, p.42.

The 1938 Majlis movement occurred primarily as a result of the inter-war economic downturn and its effect on Kuwait's merchants. Like the 1921 Council, the aim of the Majlis movement was political, that is, a merchant desire to gain leverage with the al-Sabahs. The ramifications of the movement were far reaching and cemented a series of merchant organizational precedents that eventually culminated in the KCCI in 1961. The period leading up to the Majlis movement included other important merchant organizations. In 1936, asil merchants established the Education Council to establish and manage new schools in Kuwait. Building on the organizational experience of the Education Council, elite merchants expanded their activities in the newly established Kuwait City Municipality, which the Emir approved in 1932. The municipality was responsible for health and social affairs, but most importantly, the council was an elected body. Though the head of the council was appointed by the Emir, the executive board was composed entirely of asil merchants elected every two years. Crystal argues that these two merchant institutions were important because they gave the merchants vital experience in politics and collective action. As a precursor to the KCCI, these bodies were important in a another aspect.

The way asil merchants organized among themselves to manage each institutions' leadership was notable. Essentially, candidate lists for the Municipality were drawn up by the executive board itself, a method which insured that the same elite merchants and their allies would retain the leadership. Similar to the kind of elections that the KCCI would experience, "the elections were hotly contested. Election irregularities were common enough to elicit complaints, yet limited enough *to preserve a high level of support among the merchants*."[22] Even at this early

[22] Crystal, *Oil and Politics*, p.46. My italics.

stage, merchant leaders were learning how to maintain elite coherence and continuance within an important social institution. In addition, the Municipality was financially independent, operating off revenue generated from business taxes (some voluntary).[23] Therefore, those that ran the Municipality ensured their own leadership continuance as well as securing Municipality finances. In the short term, as Crystal notes, this reliance on maintaining intra-merchant coherence would handicap merchant aims during the Majlis movement, when efforts to forge a broader coalition against the al-Sabahs failed. In the long run however, these organizational attributes, restricted membership/voting and financial independence, would be adopted at the formation of the KCCI.

In this period, Kuwait felt the impact of the worldwide depression. In 1923 Ibn Saud banned the tribes of the Najd from trading in Kuwait. In 1929 the pearl market collapsed for the last time. Though small and middle traders were the majority hurt, many asil merchants did not escape the downturn.[24] What pushed the asil merchants toward action was widespread government corruption and the perception that the Sabahs were dominating what businesses were left available. In 1938, leading merchants began meeting secretly to draw up a list of reform demands. Though historical sources and interviews suggest the meetings were secret, if modern day Kuwait is any guide, it would be difficult to imagine any such gathering as truly secret, especially from the ruling family. In this way, the Majlis Movement is also instructive of the kind of not-so-secret dealings that take place between the merchants and the state. Each side remains aware of the others' position. This transparency is one good reason why, despite the continued

[23] Crystal, *Oil and Politics*, p.46; and, Najat Abddalqadir al Jasim, *Baladiyyat al Kuwait fi khamsin aman* [Fifty Years of the Kuwait Municipality] (Kuwait: Kuwait Municipality, 1980).

[24] Ismael, *Kuwait: Social Change*, p.73.

presence of an organized, powerful opposition in Kuwait, there has rarely been political violence. Each side is spared extreme surprises. As a result of these meetings, two sides quickly took shape.

On the side of the opposition were fourteen members elected to the *al Majlis al Umah al Tashrii* (The People's Legislative Council).[25] As in 1921, these were uniformly Sunni, elite merchants. Out of fourteen, six members' families would sit on the first two executive boards of the KCCI, specifically: al-Ghanim, al-Saqr, al-Marzuq (2), al-Badr, and al-Khalid. These merchant families were backed by dissident members of the royal family led by Abdalla Salim, who had wanted to be Emir ahead of Shaikh Ahmad. To bolster their position, the opposition quickly spread leaflets listing popular demands for improvements in health care, education, and so on.[26] On the side of Emir Ahmad was the majority of the ruling family, some Sunni merchants, and the bulk of Kuwait's Shia community.[27] The pro-Sabah forces also reacted quickly by arresting some of the most out-spoken merchant elites, an act which scared some merchants into fleeing to Iraq. Eventually, after a petition by the merchants calling for fulfilment of the 1921 pledges, Emir Abdallah agreed to elections for the new National Assembly. According to a report

[25] Like the 1921 Council, the election was tightly circumscribed. The original merchants, who had met in secret, drew up a candidates' list of 150 leading merchants and voted among themselves for the fourteen. See Crystal, *Oil and Politics*, p.47-48.

[26] *Ibid.*, p.47.

[27] *Records of Kuwait, Volume 2*, p 219. Besides an event of historical importance in Kuwait, the Majlis Movement has also been used a watershed event to gauge where prominent families fall regarding pro or con Sabah sentiments. Some Sunni family members from the al-Marzuq and al-Khalid branches sided with the Emir. Leading Shia families also tended to side with the ruler, including al-Wazzan and Bu-khamseen. As a result, like religious minorities throughout the Middle East, the Shia of Kuwait came to be perceived by the general population as being pro-government.

from the British Political Resident, the Emir asked opposition representatives what the outcome would be if he refused their petition; their response was, "'In that case, we bid you farewell,'"[28] hinting at their earlier exit strategy. The leading families met, drew up a candidates' list, and elected the fourteen representatives. They then asked Abdallah Salim to be Assembly speaker. This was a significant political victory by the merchant opposition, and they used it to form Kuwait's first political party, the National Bloc. The party sponsored speeches, events, and rallies to express their nascent nationalist message and voice opposition to Abdallah's policies. But the real task was to use the Assembly to enact policy change. This sparked conflict.

Though the first assembly lasted only six months, its legislative record was impressive. It quickly passed a basic law, establishing assembly jurisdiction over a wide range of state activities, including: health, finance, education, public works, and foreign treaties.[29] Reforms to existing laws were equally impressive and succeeded in gaining widespread popular support. Monopolies were ended, taxes reduced, schools built, corrupt officials dismissed, price controls introduced, and a new police force established.[30] By October 1938, the Council began collecting and distributing state revenues. It further extracted a promise from the Emir to turn over the oil concession check by December. Ahmad quickly saw the implications and dissolved the Assembly on 17 December. A standoff ensued, some opposition figures were arrested--including a head of the al Ghanim family--, and other merchants fled Kuwait. One of the leading dissidents, Abdalla Al Saqr never returned to Kuwait, dying in exile in India. The assembly did continue but its

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[28] *Records of Kuwait, Volume 2*, p. 146.

[29] *Records of Kuwait, Volume 2*, pp.152-154.

[30] *Ibid.*, pp.208-209; and Crystal, *Oil and Politics*, p.48.

members were appointed by the Emir, and its oppositional flavour was diluted. In sum, the 1938 Majlis movement reflected two important facts of merchant-ruler relations on the eve of oil and the future trajectory of the KCCI and its leadership.

First, as one of the most important domestic political events in Kuwait's pre-independence history, the Majlis movement again attested to the general lack of British interference within Kuwait. Though asil merchants petitioned for British assistance,[31] the British avoided direct involvement. Merchant-ruler politics and the future trajectory of the KCCI, cannot, therefore, be ascribed solely to patterns of colonial rule. Ironically, one effect of Britain's aloofness was to enhance anti-British sentiment among the asil merchants and strengthen their nascent Arab nationalism. Indeed, as Crystal notes, asil merchants were among the first Arabs to establish a committee for assisting Palestinians against the British.[32] Second, historical sources confirm that the Majlis failed because asil merchants were unable to attract a wider base of popular support, particularly among, the Shia, the bedouin, and the smaller and middle merchants.[33] This inability was a direct result of the way the asil families controlled the election and nomination processes. Though the merchant opposition would try again and again in the future to widen their base, the success and the failure of the Majlis demonstrated that they privileged the control of private institutions over a wider social appeal. In other words, just like the 1921 council, the education councils, and the municipality, the Majlis experience reinforced the value of elite cohesion and

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[31] Merchants also looked to Iraq for assistance against the Sabahs but received only rhetorical support. The Sabahs also looked to the British for support against the asil merchants but were generally ignored as well. *Records of Kuwait, Volume 2*, p.172.

[32] Crystal, *Oil and Politics*, p.52.

[33] *Ibid.*, pp.52-55; and *Records of Kuwait, Volume 2*, pp.219-221.

control over a more inclusive strategy that *may have* won greater political support. An interesting window into that elite, was a list of Kuwait's most prominent citizens, prepared by the British resident in 1941. The following excerpt of that list contains the names of the asil merchants who, themselves or their sons, would compose the first executive board of the KCCI:

	NAME	REMARKS	FUTURE AFFILIATION W/ CHAMBER EXECUTIVE BOARD
•	Ahmad Bahar	general merchant	[1961 board, with another Bahar]
•	Abdulla as Saqer	ship owner, in exile from 1938	[son, Abdallah Az., 1961 President]
•	Abdulmuhsin Kherafi	ship owner	[M. Khourafi, 1961 board]
•	Kahlid A. al-Hamad	ship owner	[1961 board]
•	Fahad Marzook	ship owner	[1961 board]
•	Fahad al Fulaij & Bros	ship owners, they have a business house in Karachi	[Y. Fulaij, 1961 Vice President]
•	Nusf an Nusf	Ship owner, member of The Advisory board; Asst. to the Court	[M Yousef al-Nisf. 1961 board]
•	Ahmad M. Al-Ghanim	A.I.O.C's agent and a leading merchant, contractor, shipowner[34]	[two al Ghanim on 1961 board]

Though oil monies did not compose the majority of Kuwait finances in the pre-WWII period, changes were already on the horizon. In 1938, the Kuwait Oil Company struck oil in the Burgan field, one of the largest oil fields in the world. Kuwait would never be the same.

Oil and the new relationship

Though many in the Third World today rue the effects oil rent has had on their societies and government, when oil was first discovered there were few who did not herald its possibilities.

[34] *Records of Kuwait, Volume 2*, pp.311-315. My comments are in the bracketed area. There are some spelling discrepancies from the original text, so I have corrected them with the names on the executive board.

Oil fundamentally altered domestic politics in Kuwait. This section focuses on two relevant effects of oil rent: the expansion of the state, and the forging of a new relationship with the merchants. These effects were key elements of the environment in which asil merchants established the KCCI in 1961.

In 1950 Shaikh Abdallah (1950-1965) ascended to the throne, at the death of Shaikh Ahmad. It will be remembered that Abdallah was the asil merchant's royal ally in the struggle over the 1938 Majlis. Goodwill between each remained, and this helped ease the transition to a purely rentier/oil economy. The transition was fuelled by an annual increase of 33 percent of crude oil output from 1950 to 1954.[35] In 1952 and 1953 oil revenues to the state doubled.[36] Much of this increase was due to a 50 percent tax levied on the British owned Kuwait Oil Company (KOC) in 1951. Whereas customs taxes and British payments had composed the bulk of state revenue, the overwhelming bulk of state revenues became oil concessions almost overnight. Naturally, Abdallah's first task was to see to his family.

The Emir instituted regular oil payments to prominent Sabah shaikhs and expanded the state positions al-Sabahs occupied. Close family members were given control of important ministries, particularly finance and security.[37] Increased financial resources fed a frenzied spate of land speculation as Sabah family members staked out large land claims outside Kuwait City. By the end of the 1950s, Adballah succeeded in quelling Sabah family squabbles over the oil revenues

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[35] S. M. Al-Sabah, *Development Planning in an Oil Economy and the Role of the Woman: The Case of Kuwait* (London: Eastlords Publishing, 1983), p.71.

[36]Tetreault, "Ruling Kuwait," p. 578.

[37] Crystal, *Oil and Politics*, pp.68-73.

and avoided excessive British influence in the process. A direct effect of this revenue distribution was the expansion of the Kuwait state.

As government ministries were expanded or established at the behest of Sabah family members, public employment jumped accordingly. While concrete statistics on government employment are uneven during the 1950s, what is available suggests that a large-scale shift of the labour force toward public sector employment began in the 1950s.[38] A traditional merchant strength had been its labour force and the manpower it could provide to the al-Sabahs in times of need. While this resource had been declining throughout the 1930s and 1940s, it ended in the 1950s. The expansion of state ministries also began undercutting merchant institutions and merchant access to the decision making processes.

The elected Municipality board, that had served as an asil merchant enclave since 1932, was replaced with an appointed board of Shaikhs. As royal family members took control of government ministries, merchant committees (designed to provide policy input) within those bodies were disbanded.[39] In 1952, Abdallah established the Development Board to carry out economic planning and project coordination. In practice, the Board began taking over many of the planning functions previously the purview of the Municipality.[40] Asil merchant presence on this Board was tightly circumscribed in favour of prominent Shaikhs. Eventually, the merchants

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[38] *Statistical Abstract in 25 Years*, Ministry of Planning, (Kuwait: Central Statistical Office, 1990), pp. 91-92; M.W. Khouja and P.G. Sadler, *The Economy of Kuwait: Development and Role in International Finance* (London: MacMillian Press, 1979), pp. 39-45.

[39] Crystal, *Oil and Politics*, p. 73.

[40] Khouja and Sadler, *The Economy of Kuwait*, pp. 30-31. The Development Board became the Planning Board in the 1960s. Eventually, this would evolve into the Ministry of Planning, still in existence today.

protested to Abdallah, who responded with the formation of the High Executive Committee. Again however, this committee too was dominated by royal family members.

> It is indeed unfortunate that the Ruler has not permitted a number of leading citizens to become members of the High Committee...The Citizens are wealthy and naturally wish to conserve and enjoy their wealth. Under the present system the extent to which they can press their claims without some danger is limited.[41]

The tactic of establishing powerless or unrepresentative state policy bodies would become a favourite response to protest in the future. It further convinced asil merchants of the uselessness of depending on the state for institutional access to policy making. More to the point, state expansion and the concomitant isolation of merchant influence offered some benefit as well, a new and more profitable relationship between merchants and ruler.

Because Abdallah had paid off all of his family's debts to asil merchants in the 1950s, he significantly lowered customs duties and imposed a tax on all foreign firms doing business in Kuwait.[42] Formal levers of rent distribution were then institutionalized within the state. There were four principal means: (1) ordinary expenditures, wages to civil servants and goods and services in support; (2) development expenditures, public investment and spending on infrastructure; (3) expenditures on land, state purchases of land or low rent of public land; and (4) investment in companies, state support of public/private companies.

Wages to civil servants was a rather straightforward means to tie larger sections of the Kuwait population to the al-Sabahs. This distribution did little to enhance the position of asil merchants. Instead, it actually weakened public support for the merchants in the long run. The

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[41] Official from the British Bank of the Middle East, cited in Crystal, *Oil and Politics*, pp.73-74.

[42] *Middle East Economist*, (February 1956), p.29, and (July/August 1959), p.111.

latter three means, however, were tailor made to buy off merchant elites.

Development projects in the 1950s were typical for a newly developing state; they were large-scale, ill-coordinated, and very profitable for the few.[43] Abdallah, through the Development Board, saw to it that lucrative infrastructure projects were steered to local developers representing favoured merchants.[44] Construction boomed, and it quickly became the leading the economic sector in the 1950s.[45] British firms that had previously bid on many of these projects were banned from further participation. By 1960, Law No.15, The Commercial Companies Law, was established, stipulating that any foreign business involvement in Kuwait must have a 51 percent Kuwaiti partner. Though the awarding of these projects were lucrative for many asil merchants, the process was *ad hoc* and depended on the good will of Abdallah.[46]

In the same ad hoc fashion, the land acquisition process enriched many. Vast tracts of land both within and outside Kuwait City were purchased from asil merchants at inflated prices. These outlays accounted for a massive distribution of the new oil wealth. From 1957 to 1966, the land acquisition program accounted for over $1 billion in public spending, averaging more than 50 percent of state expenditures annually.[47] Often land purchases by the state were rented back to

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[43] An excellent review of this period as it happened is contained in a British Foreign Office Report, *Records of Kuwait, Volume 4*, pp.768-775.

[44] *Middle East Economist*, (July 1957), p.109; and Ismael, *Kuwait: Social Change*, pp. 133-134.

[45] *Middle East Economist*, (July/August 1959), p.111.

[46] *Records of Kuwait, Volume 4*, p.774.

[47] Ragaei El Mallakh, "Planning in a Capital Surplus Economy," *Land Economics* (November 1966), p.427.

the merchant at well below market prices. The industrial park at Shuwaikh was one such example. The Shuwaikh Port[48] is located on land originally owned by the al-Gahnims and al-Sagrs. Much of the land was sold to the state at a tremendous profit. To develop the industrial park, the state rented the land back to the same families at very low rates. The merchants divided the tracts up, and rented these tracks to retailers at very high prices.[49] Thus, on both ends, the merchants made significant profits with state help.

By comparison it is useful to note that these types of subsidies and expansion of state employment are not unique to Kuwait, or the developing world. US federal subsidies for cattle farmers have enriched many in the American Mid-West.[50] Moreover, in Harlem, New York a recent study found that 43 percent of jobs there were held by people directly employed by the government.[51] The vital difference is the volume in respect to the rest of the economy. Kuwaiti oil revenues tied the overwhelming majority of the economy to the distribution of rents.

Despite the amount of investment tied to the other distribution means, public investment in merchant initiated companies was probably the most beneficial in the long run. In the 1950s, leading merchant families established a number of companies in which the state invested

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[48] There are two main ports in Kuwait, Shuwaikh in the north and Shubai in the south. Shuwaikh handles the cargo traffic. Shubai handles most of the crude and refined oil export.

[49] Interview with Dr. Mohammed A. Al-Awadi, Department of Business Administration, University of Kuwait, 3 December 1995.

[50] The state of Wyoming is probably the best example of a bust rentier state in the U.S. In 1998, despite having the second largest average unearned income in the country (mostly in the form of cattle subsidies and mining receipts), Wyoming ranked at the bottom of nearly every major economic indicator. *Economist*, 18 July 1998, p.29.

[51] Fred Siegel, *The Future Once Happened Here: New York, D.C., L.A., and The Fate of America's Big Cities* (New York: The Free Press, 1997), p.236.

significant start-up equity. Some of those companies included: Kuwait Airways, Gulf Fisheries, Kuwait Cinema, Kuwait Oil Tankers Company, Flour Mills Company, Kuwait Hotels Company, National Industries Company, and Kuwait Transportation Company.[52] The establishment of these companies enriched asil merchants in two ways: first, government shares in these companies averaged around 50 percent in the 1950s and 1960s,[53] a stake which gave the state executive board appointments.[54] These appointments were used to reward or punish leading merchants. Second, since public investment in these companies was consistent and guaranteed, the value of merchant equity in these companies was greatly inflated over the years. Therefore on the one hand, increased rents and state expansion increased al-Sabah autonomy, thereby decreasing merchant policy involvement; while on the other hand, this wealth was channelled to asil merchants making them very rich. There was clearly a deal.

Crystal's work was the first to detail this bargain and its impact. In return for Abdallah's largesse, asil merchants essentially opted out of the type of political involvement that had caused

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[52] *Records of Kuwait, Volume 4*, p.235.

[53] E.A.V. de Candole, "Kuwait Today," *Royal Central Asian Society* (September 29, 1964), pp. 35-36; and Ragaei El Mallakh, *Economic Development and Regional Cooperation: Kuwait* (Chicago: University of Chicago Press, 1968), p.86.

[54] As an example, one of the most important of these entities was National Bank of Kuwait (NBK), established in 1952. This was the first bank established in Kuwait, and Emir Abdallah helped establish the bank with an interest free loan. The Bank's founders, however, represented the cream of the asil merchant families: al-Bahar, al-Sayr, al-Hamad, al-Sagr, al-Khaled, and al-Khourafi. Since the 1950s, the NBK has served as one of the most important sources of merchant capital, and it has established itself as one of the most profitable and respected independent banks in the Middle East. Like the KCCI, the NBK came to provide asil merchants with a durable, independent institution in the wake of their banishment from other quasi-public institutions in the 1950s. (*Annual Report, 1995*, National Bank of Kuwait; Interview with Nassar Al-Sayr, Deputy Chairman of the Board, NBK, Kuwait, 16 December 1995; and *Records of Kuwait, Volume 3*, pp.505-510).

royal family concern in 1938. In addition, Abdallah and his successors, more or less, kept family members out of excessive involvement in the domestic economy, a prominent merchant complaint in 1938. Aside from the effects on merchant-ruler relations, the arrival of the oil in the 1950s also impacted the character of the private sector itself.

With capital flooding into the local economy, asil merchants were able to establish themselves at the pinnacle of the domestic economy. One principle means was through agency licenses. By the 1950s, Kuwait already had one of the highest per-capita incomes in the World. Naturally, this increased consumption of imported luxury goods.[55] Western importers wishing to exploit this market had to secure domestic Kuwait representatives (agents or *kasool)* in order to access local distribution and retail networks. These were tremendously profitable deals for the agent, who received a percentage of sales in return for essentially signing his name. The agency economy was one of the first manifestations of the secondary rentier economy. Asil merchants were well placed to take advantage of the agency process. By this period most asil merchants maintained business contacts in Europe and North America. They gave many of their sons a foreign education and spent the summer months in Europe. Dealing with foreign importers was an experience at which they were not amateurs. In the 1950s they quickly secured many of the leading Western commercial producers. The Ghanims, for instance, secured General Motors, British Airways, and Frigidaire, while the al-Sagrs became the agents for Ford Motor Company and the Pepsi Company. Besides the revenue attached to these agencies, the process helped create a unique hierarchy among traders and retailers within Kuwait. Though its impact will be discussed later, the oligarchic control of agency licenses gave asil merchants considerable control

[55] *Records of Kuwait, Volume 4*, pp. 780-781.

over other commercial/retail interests in Kuwait.

In summation, the 1950s witnessed the beginnings of the rentier state in Kuwait. Many of the political and economic trends initiated in this decade would strengthen in the preceding decades. The al-Sabahs and their state grew more autonomous from merchant influence, while the merchants became significantly wealthier. This wealth had a price. The leading merchants of Kuwait had effectively been ousted from the traditional institutions and representations that had facilitated political influence in the past. While they still enjoyed a degree of cohesion and identification as the leading merchants, the asil lacked an institutional affiliation. The political independence of Kuwait in 1961 changed all that.

Independence, the founding of the KCCI, and influence in the 1960s

In June 1961, Kuwait gained its independence from Britain. Though the KCCI was organized in 1959, it was not formally established until 1961 with the election of 15 board executives. The 1960s was a complex environment for the KCCI's first decade of existence. Business downturns in 1961, 1965, and 1969-70, contrasted with increased inflows of oil rents. Development was fast paced. KCCI lobbying figured prominently in the new state's efforts to draft and implement laws governing economic policy. Political standoffs and opposition moves also impacted the KCCI's position *vis a vis* the state. A cabinet crisis in 1962 and the first elections to the National Assembly in January 1963 solidified the KCCI as not only a business center, but a political institution as well.

The first Arab Chamber of Commerce was established in the nineteenth century in Allepo, Syria. Jordan's Chamber was founded in 1923. Why did it take Kuwait's merchants, ostensibly well organized and motivated, so long to form their own Chamber? Kuwait's merchants already had established organizational affiliations and loyalties, as evidenced by the Majlis movement and such institutions as the Municipality. However, in the 1950s these institutions were either weakened by expanding state powers, or merchants were simply pushed out by the al-Sabahs and their allies. Though political independence marked an appropriate time for the birth of the KCCI, the founding of which was in part a response to the weakening of merchant-controlled institutions in the 1950s.

Discussions among asil merchants in 1959 generated an informal organization of future Chamber leaders, Abdul Aziz Al-Sagr, Hamoud Al Zaid Al Khalid, and Mohammed Yousef Al Nisf. In 1960, the first elections were held for the executive board. Records from this period are incomplete, but this first electorate clearly resembled previous asil voters in the 1921 Council, the 1938 Majlis, and the Municipality elections. As hinted in the previous chapter, the early organization and form of the Chamber was a crucial variable in the future success of the KCCI. Like its institutional precedents, the KCCI was tightly organized and firmly controlled by its leaders.

Organization of the KCCI in the 1960s

The Chamber took a recognized, legal form in 1961. The first annual report of the KCCI described three important elements of the KCCI's formation: by-laws of Chamber operations, internal committee organization, and Chamber financing.

i. By-laws were established to govern the Chamber's internal activities and executive board elections. Future state laws would influence these by-laws, but their initial form was significant and enduring. Essentially, like many Arab Chambers, KCCI by-laws were modeled on the Anglo-American corporate model as opposed to the continental European form. Internal organization, in other words, was a prerogative of Chamber organizers with no state involvement or appointment. The KCCI was an autonomous organization. The by-laws stipulated that the primary purposes of the Chamber were: "Registration of merchants, industrialists, companies and establishments, and updating all information related to them according to the latest changes and modifications....Endorsing the authenticity of the merchants, industrialists, or their representatives' signatures.... Receiving commercial complaints whether from the members of the Chamber or their counterparts and acts towards settling the commercial disputes and pursuing the members' rights....Receiving commercial, industrial and investment delegations and circulating the news to interested members (companies, establishments or individuals) for preparing meeting schedule, together with a special informative file for each delegation....The Chamber voluntarily presents its viewpoints and proposals about all matters related to economic affairs, whether in the form of legal drafts, decrees or regulations."

ii. Aside from these tasks, the by-laws also established voting rules. Rules on who could vote were simple: the entity voting was actually the company or license registered with the Chamber, therefore, the signatory of the registration was the specific voter. Since each registration with the Chamber has one vote, subsidiaries and branches of companies once registered could also vote. The registered entity must be a member for at least for one year and have paid up all registration fees. Rules governing those who can run for the executive board stipulated only that the person be 25 years old if a college graduate, 30 years old if not a college graduate, and a member in good standing for one year.

iii. The first executive board established six, permanent internal committees headed by executive board members: Tariffs Committee, Merchant Arbitration Committee, The Library, Research and Studies Committee, Magazine Committee, and the General Support Committee.

iv. KCCI finances were primarily drawn from membership fees, which were dependent upon the type of registration (agency or joint-stock company, for example) and one's capital. Already however, the first board signalled its intent to invest KCCI finances to generate revenue independent of membership fees. As well, the first staff of the KCCI was drawn from the offices and companies of executive board members. The establishment of the KCCI was a collective effort by asil merchants.[56]

The tasks of the KCCI were nothing novel. It functions were quite similar to other Arab Chambers: information, lobbying, and arbitration. These tasks were important (to the business community and to state economic policy) only in the light of continued elite cohesion at the

[56] *Al-Taqrir al-Sanawiyy, Ghurfat Tijārat wa Sanā't al-Kuwait, 1961* [Yearly Report, Chamber of Commerce and Industry Kuwait]; *Al-Qānun wa al-Nāzim, Grufat Tijārat wa al-Sanā't al-Kuwait* [By-Laws and Rules of the Kuwait Chamber of Commerce and Industry], 1993.

Chamber. A central argument of this study is that the by-laws helped ensure elite cohesion over time. In the 1960s the effect of these by-laws was not yet apparent since the membership of the Chamber was small (see Table 6, appendix). At this juncture, what is noteworthy is that the establishment of the KCCI gave asil merchants a ready institutional base with which to participate in the politics of the new state.

The cabinet crisis and the National Assembly

The 15 elected board members (see Table 10, appendix) were the leading asil merchants, all of whom had extensive experience dealing with state officials and the royal family. Abdul Aziz Al-Sagr, the first President and youngest son of the chairman of the 1921 Council, emerged as the most dynamic of the young merchants. Politically astute, al-Sagr's leadership gave KCCI policy lobbying a distinctive advantage. Moreover, the institutional cohesion of the KCCI provided an early political base for al-Sagr's activities.

As the first president of the KCCI, al-Sagr was an excellent choice. Not only was he from one of the leading asil families with a rich political history, but his personality would help earn allies outside the merchant community. His leadership has been a key idiosyncratic variable in the KCCI's success over the years. In interviews, Al-Sagr is often likened to George Washington; his opposition to al-Sabah policies is well known, but his loyalty to Kuwait is unquestioned. British officials identified al-Sagr's profile early, commenting: "Abdul Aziz al-Sagr always talks with moderation and authority."[57] Al-Sagr's role within Kuwait's first Cabinet and first Parliament carved a prominent role for the KCCI.

[57] *Records of Kuwait, Volume 3*, p.284.

In 1962 the Emir formed the first Kuwait cabinet. The only non-royal family members were three KCCI board members: al-Sagr (Public Health), al-Nisf (Social Affairs and Labour), and al-Khalid (Justice). There were two interconnecting disputes that led to the cabinet crisis. First, some opposition elements in the new National Assembly objected to the presence of merchants in the cabinet as a violation of article 131 of the Constitution banning government service while operating a private business. These elements were also joined by al-Sabah loyalists upset about the loss of positions on the cabinet. Second, asil merchants close to KCCI leadership claimed that al-Sagr had received a pledge from the Emir to appoint four merchants to the cabinet.[58] Therefore, while some Parliamentarians protested over the appointments, al-Sagr and his colleagues protested over the unfulfilled pledge. KCCI merchants had little popular support in this case. The Emir, overseas at the time, returned to accept his Cabinet's resignation and appoint replacements for the merchants.[59] For the KCCI leadership, this was a final straw in a series of events depriving them of public institutional representation and leadership. It made the presence and success of the Chamber even more important; it was their only institution and a venue in which they could mediate their own interests and communicate them to the state.[60] There would be future appointments of KCCI members and allies to Cabinets and public companies to be sure, but these were rightly viewed by asil merchants as transitory state gifts.[61] Such appointments

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[58] Interview, Yousef bin Nisf, Kuwait, 9 April, 1996.

[59] Crystal, *Oil and Politics*, pp.86-87.

[60] Interview, bin Nisf.

[61] In the remaining Cabinets of the 1960s, there were roughly five postings of KCCI members or allies. The importance of these postings to KCCI influence will be discussed later.

could come and go, but the KCCI was independent and reliable. The National Assembly offered another venue to test the leadership of the KCCI.

In January 1963, Kuwait held its first elections for the National Assembly (the term Parliament will also be used). Given the lively history of the Majlis movement, the politics of the National Assembly did not disappoint. Al-Sabah intentions were clearly to use the new venue to secure allies and punish opponents. For the opposition in general, and KCCI leadership specifically, the Assembly allowed a new venue of pressure and policy participation. The task was to press this access and expand it whenever possible. Asil merchants, primarily responsible for the genesis of an elected assembly, would play an important role in the early Parliaments.

The powers of Parliament in newly independent Kuwait were different from the 1938 Majlis. While the 1938 Majlis generated and passed legislation on to the emir for approval, Parliament could only accept, amend, or reject legislation submitted by the Prime Minister. Parliament was thus a consultative body, not a legislative one. It was nonetheless important, because lobby efforts to influence laws could take place on two levels: first within the Prime Minister's cabinet and then, if passed on to Parliament, with Parliamentary committees. The extent of these powers would be tested and altered over time, but the essence of consultation instead of legislation remained. Voting was restricted to male citizens and was divided among ten electoral districts, each electing five members to Parliament (for the period 1963 to 1975).[62] Three of the original ten districts (Hawalli, Qiblah, and Kayfan) could be described as mostly merchant, but the rest contained mixed populations (asil merchants, bedouin, Shia, and so on). This districting afforded KCCI elites solid representation across districts.

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[62] Gavrielides, "Tribal Democracy," p. 165.

Accordingly, the KCCI leadership enjoyed two advantages in early Parliamentary elections. First, campaigns to Parliament traditionally took place through the *diwaniyya*, a traditional men's forum for discussing political and social issues. Candidates, or groups of candidates, generate support by hosting or visiting prominent diwaniyya sessions to discuss their positions. KCCI candidates (executive board members or affiliated individuals) hosted inter-connecting sessions in their voting districts to encourage block voting. In other districts, lone KCCI candidates benefited from covert funding from other merchant districts to enhance their diwaniyya campaigns.[63] The cohesiveness of this strategy was aided by the institutional anchor the KCCI provided. Executive board members had gone through their own elections, and hence, a smoothly working hierarchy was already in place. This organizational strength was augmented by not-so-covert financial incentives for voters. Payments by KCCI leaders (this applied for al-Sabah as well) for votes also contributed to their electoral success. Second, KCCI elites benefited because of their lingering perception as the national opposition in the wake of the 1938 Majlis. Other groups (Shia, Islamist, and bedouin) had yet to strengthen their own organizational and political bases. Consequently, assemblies of the 1960s and in to the 1970s marked the heyday for KCCI influence in that body.

In the first Assembly (1963-1967), there were twenty-two KCCI members or allies elected

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[63] From the first Assembly political parties have been illegal in Kuwait. Instead, loose groupings have developed. Merchants of the KCCI have generally allied behind the National Block, led by Ahmed Al Khatib, a physician turned career politician. Since all candidates are technically independent, the Kuwaitis have evolved a rather complex support scheme for allied candidates. For example, some candidates are overtly allied with KCCI interests, while others may be suspected of an alliance. This has been true for Islamic groups and for pro-government candidates as well.

out of a total of fifty total representatives.[64] Four of the twenty-two were KCCI board members including, Abdul Aziz al-Sagr, who was elected as the first speaker of the Parliament. Though political parties were illegal in Kuwait, the merchants allied themselves behind a front of Nasserite nationalists (The National Bloc) headed by Ahmad al-Khatib. The real force, however, was al-Sagr, whose role as President of the KCCI, former Cabinet member, and Speaker of Parliament indelibly tied mainstream opposition in Kuwait to the elites of the KCCI. However, by 1967 another crisis erupted, signalling the beginning of the decline of KCCI power in Parliament.

From its inception, merchant opposition focused on three non-economic demands: National Assembly elections without government pressure,[65] reduction of the voting districts from ten to two, and cancellation of Article 131 of the Constitution banning government service while engaging in private business. In the year leading up to the second Parliamentary elections, al-Sagr and the merchant opposition openly campaigned for these reforms and boycotted government functions. In those elections, the merchants and their allies lost ten seats. In January 1967, al-Sagr resigned as Speaker of the Parliament.[66] This would be the last government or Parliament position he would occupy. Al-Sagr had failed to change government policy on non-economic issues of political importance to the merchant community. It was a telling lesson. Only rarely in the future would the KCCI directly push for non-economic issues. Despite losses in the Cabinet and Parliament, the KCCI still achieved significant lobbying successes in the 1960s.

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[64] Calculations taken from data provided in, Gavrielides, "Tribal Democracy."

[65] Just as opposition elements furnished walk around money for votes, so to did al-Sabah supporters. This was what was referred to as "pressure" by the merchant opposition.

[66] *The Arabian Peninsula and Jordan, Economist Intelligence Unit (EIU), Quarterly Economic Reviews*, No.1 (1968), pp 7-8. Referred to subsequently as *EIU*.

Internal cohesion and successful lobbying in the 1960s

In the first decade of its existence the KCCI solidified its own internal cohesion by institutionalizing commercial relations among asil elites. This organization strengthened the KCCI as a foundation through which asil merchants could express opinions on national economic policy, and influence the country's founding economic laws.

Though this study focuses on the business association as a lobbying agent, merchant organization also served other purposes. Hence, an important corollary to the KCCI's successful policy influence in the 1960s was its ability to quickly organize its own members and elites. This coordination was manifest in two principle areas. First, as mentioned previously, in the 1950s and especially in the 1960s imports to Kuwait rapidly expanded as consumer demand blossomed. From 1955 to 1960 imports more than doubled from 33.7 million Kuwait Dinar (KD) to 86.4 million KD.[67] A British consular dispatch in 1961 described this situation:

> Kuwait has to import for its living every item...People have plenty of money to spend and while they can buy luxuries only once in a while the necessities of life have to be purchased everyday. The result is that luxuries are comparatively cheap, the margin of profit charged varying from 25 to 100 percent.[68]

Merchant elites at the KCCI grasped the potential for profits. In its first year of existence, the KCCI moved quickly to centralize trade around the executive board. KCCI board members organized licensing and importation monopolies among themselves around classes of goods, arranging which foreign producer would be represented by which Kuwait merchant.[69] Though the

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[67] Khouja and Sadler, *The Economy of Kuwait*, p.51.

[68] *Records of Kuwait, Volume 4*, p.781.

[69] *Ibid.*, p. 784; and Interview with Jassem Al Sadoun, Kuwait, 5 March 1996.

KCCI's legal involvement in approving import licenses would not come until the 1964 Importation Law, by 1961 the KCCI already played a significant role regulating imports into Kuwait.

A second type of internal collusion involved bidding for state contracts. After British firms were expelled in the 1950s, state work projects went exclusively to Kuwait contractors and their foreign partners. Just as arrangements among KCCI elites organized imports, similar arrangements clearly impacted public contracts. Merchant elites divided up the work depending on the type of contract--i.e., road building, port facilities, public buildings, and so on.[70] Again, similar to import regulations, the KCCI's legal management of public project licenses would be established later in the 1960s. While public works and import collusion may have hampered economic competition; the point is that this collusion facilitated leadership cohesion at a key point in the KCCI's early history. The success of KCCI leadership collusion was reflected in the ease with which the KCCI took over cases of merchant arbitration in the early 1960s. Kuwait's legal system was still in its infancy, and consequently, there were few procedures to adjudicate merchant disputes. The KCCI arbitration committee filled this void by ruling on such cases.[71] It proved so successful that the state rarely interceded in such cases in the future. In a period in which Kuwait's founding economic laws were being debated, the potential for conflicting merchant interests within the Chamber had been alleviated. By compromising among themselves, KCCI leaders were better able to lobby collectively on the coming economic legislation. This

[70] British consular complaints of this fact were common. See, *Records of Kuwait, Volume 4*, p 621.

[71] *Ibid.*, p. 786.

form of collective organization (action) would resurface as a useful tool of KCCI leaders.

A basic theme of KCCI lobbying in the 1960s was the desire to avoid the unregulated public spending and development decisions of the 1950s. Periodic economic downturns in the 1960s reinforced the conservative approach by KCCI leaders to increase state supervision and legal regulation over economic issues, while at the same time restricting state budgetary growth (and ensuring merchant investments profited). This situation confirmed an old argument that free markets are built on a degree of state control/regulation and precipitate struggles between rulers and merchants.[72] Thus, in an odd twist, Kuwait's leading capitalists in the 1960s were actually lobbying for more, not less, regulation in the new rentier economy. Their specific target was the country's first economic laws.

Historical details of the KCCI's first lobbying moves are not complete. It was evident, however, that the aim of KCCI leaders was not to repeat development patterns of the 1950s. British records from the period frequently recount complaints by leading merchants (and the British advisors) over wasteful development spending and arbitrary development decisions.[73] The institutions asil merchants were pushed out of in the 1950s (i.e., the Development Board) centralized many of the development schemes and distribution of oil monies. While it is true, that through this haphazard process asil merchants increased their collective wealth, their concern was deeper. Through arbitrary, unplanned development spending, royal family members benefited greatly, allowing some an entrance into private businesses, a violation of the unwritten pact

[72] Kiren Aziz Chaudhry develops a line of this argument in, "The Myth of the Market and Late Developers," *Politics & Society*, 21 (September 1993).

[73] *Records of Kuwait, Volume 4*, pp.664-65, 67, 161, and 646-647.

between ruler and merchant. Moreover, uncontrolled spending threatened to create new merchants to rival asil power. Consequently, leading merchants concluded that "keeping the arbitrary power of the [royal] family in check...provid[ed] the administrative stability which they recognize as being necessary for their prosperity."[74] By lobbying to influence Kuwait's new economic laws and pushing for better planning, KCCI leaders saw an opportunity to submit Sabah development decisions to a bureaucratic and political routine they could better influence.

Four economic laws developed in the 1960s best represented the KCCI's lobbying strength and influence: The Companies Law No.15/1960, The Commercial Agency and Commercial Representatives Law No. 68/1964, The Law Governing Public Tenders No. 37/1964, and The Industrial Law No. 6/1964. Individually and collectively, these laws directly benefited KCCI elites in several ways:

i. The establishment of commercial entities was restricted to Kuwait nationals. Foreign partnership was allowed but it could not exceed 49 percent of total capital. This in effect sealed off the Kuwait market to foreign domination and allowed monopoly arrangements hammered out within the KCCI to endure.

ii. Any entity wishing to import goods into Kuwait or bid on lucrative state contracts must annually register with the KCCI. In line with similar mechanisms in other developing countries, the state was effectively extending public regulatory powers to a private institution; this was in other words a form of quasi-corporatism. It was an important step toward the goal of regularizing development spending and economic activity within Kuwait. By playing a role within the licensing framework for important sectors (trading and public works), the KCCI could better track and manage that market. Licenses could either be quickly processed or delayed. While this was not an absolute power (final approval came from the Ministry of Commerce and Industry), it greatly aided monopoly arrangements among asil merchants. Furthermore, the regulation meant that every year the largest traders and businessmen in Kuwait would join the KCCI. State law, thus, reinforced the exclusivity of the KCCI.

iii. The Industrial Law specifically established a precedent that would greatly facilitate Chamber lobbying in the future; an Industrial Development Committee was created within the Ministry of Commerce and Industry. This committee had nine members, three of

[74] *Records of Kuwait, Volume 4*, p.64.

> whom were appointed by the KCCI. Its tasks were to review applications for industrial companies and, more importantly, award various tax breaks and incentives to start-up industries. By securing representation on this committee, the KCCI had succeeded in further regularizing state-business relations while gaining an important, legal conduit for information. In sum, these laws created important mechanisms for KCCI involvement in policy formation and market control.[75]

While these changes were important at the ministerial level, economic policy remained the final prerogative of the Prime Minister and his Council of Ministers. When KCCI elites were appointed as Ministers, the KCCI could benefit from such access, but this was *ad hoc* and clearly used by the al-Sabahs as a tool of reward and punishment. Because a primary concern of KCCI elites was to improve general economic planning, the KCCI became an early supporter of a revamped Planning Board after independence. Al-Sagr and his top board members (Fulaij, al-Nisf, and al-Khourafi) directly lobbied the Emir to establish a more institutionalized planning body.[76]

In 1962 the Emir announced formation of the Planning Board, which in addition to various Ministers included four members appointed by the KCCI (but approved by the PM). In line with KCCI prerogatives then, "the planning process itself became institutionalized to ensure social stability through rationalization of the allocation of oil revenues."[77] Though the mandate of the board was "the formulation of the general economic and social policy, and the establishment of development programs and supervision of their implementation," planning in Kuwait never really became entrenched. Budgets were reviewed, suggestions made, but in the heady days of the

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[75] *The Official Gazette*, various years.

[76] Interview, al Nisf.

[77] Ismael, *Kuwait: Social Change*, p.134.

1970s, planning goals were far surpassed by oil rents and their political distribution. Still, a regularized board at the level of the Prime Minister with KCCI participation marked an important precedent. While the Planning Board may not have been a decisive arbiter of economic policy, it was a venue for the KCCI and provided a high-level conduit of information. For its part, the KCCI took the board seriously and assigned only its highest ranking leaders to it. Consequently, a mission from the International Bank for Reconstruction and Development to Kuwait in the early 1960s concluded that "private sector members [of the Planning Board] are very influential."[78] In considering these lobbying successes, however, several caveats are necessary.

First, there are strong indications that state preferences regarding the Planning Board and the new laws were not substantially different from the KCCI. The core issue was greater accountability (and access) in economic policy versus greater flexibility on the part of the Sabahs to continue to dispense economic patronage. But, new economic laws were needed, and the extent to which the KCCI achieved legalized routines in economic development cannot be said to have altered the locus of economic decision making or significantly impaired al-Sabah fiscal independence. So, on the one hand, asil merchants had actually regressed from the near success they had in 1938. On the other hand, however, given the *ad hoc* nature of economic development in the 1950s and given the financial realities of a rentier state, the KCCI had made progress by influencing the creation of a bureaucratized economic decision-making machine in the 1960s. These were important lobbying successes despite the fact that overt state opposition did not have to be overcome.

[78] *The Economic Development of Kuwait, Mission Report*, International Bank for Reconstruction and Development (Baltimore: The Johns Hopkins Press, 1965), p.99.

Second, the role of Parliament in lobbying was generally insignificant. Merchant control of Parliament was at its height in the 1960s, but there were few legislative fights over domestic economic policy in the 1960s. Merchant opposition figures instead pursued larger issues regarding oil concession deals, Arab nationalism, and foreign relations. From interviews, it was apparent that the majority of the initial lobbying took place through informal meetings among state leaders, the emir, and KCCI leaders like al-Sagr. However, once structures like the Planning Board and the ministerial committees were in place, a greater emphasis (though not exclusive) would be placed on the KCCI's institutionalized access as a venue for lobbying.

Third, As the KCCI began to assume its institutional identity in the 1960s, it initiated an important mechanism for future lobbying, annual economic reports. Because the Chamber quickly created and staffed an information and research department--fed by information acquired through its access--it could produce professional studies and economic analyses. By 1968, annual economic reports issued through the KCCI in the name of al-Sagr became important bellwethers for the status of Kuwait's economy.[79] These reports were sophisticated means through which the KCCI voiced its approval or disapproval of state policies, coupled with suggestions for policy changes. The elite profile of al-Sagr and his board supported by the organizational assets of the KCCI gave these reports their influence. In combination with annual reports from the National Bank of Kuwait (NBK, controlled by KCCI elites) and the eventual creation of the *Al Qabas* newspaper in 1970 (also controlled by KCCI elites), the Chamber sat at the center of an effective media network to compliment its other lobbying tactics.

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[79] *EIU Report, The Arabian Peninsula and Jordan*, No. 1 (1968), p.9.

2. BUILDING STATE AND ECONOMY: THE HASHEMITES, THE BRITISH, AND THE ACC

This section covers Jordan for the same time period, 1920 to 1970. Similar themes as with regard to Kuwait are pursued, albeit under some contrasting historical and political circumstances. The core of Jordan's merchant elites emigrated to the cities of TransJordan, established their Chamber early on, crafted close relations with political authority, and eventually profited from those political arrangements. Like Kuwait, development of the Jordanian state closely followed rentier patterns. Unlike Kuwait, the British role was more intrusive, and elite merchants did not share the unique political and social relationship with their monarchy, the Hashemites, that was evident in Kuwait. These differences notwithstanding, this section finds that there existed similarities in patterns of state development, Chamber organization, and early lobbying success so that the early trajectories of each business association were quite comparable. In the 1960s, this trajectory was profoundly impacted by the adoption of compulsory membership and inclusive voting rules in the ACC.

"Strangers with capital:"[80] the first merchants

Emir Abdullah Ibn Hussein and Jordan's first merchants were both strangers to a new land. Merchants from Syria and Palestine emigrated to the cities of what would become known as TransJordan in the waning years of Ottoman rule. The establishment of the British mandate in 1923 satisfied both British regional designs and Abdullah's desire for a throne. Already

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[80] Quote taken from a British observer describing merchant emigrants to the city of al Salt in 1867. Cited in Mustafa B. Hamarneh, *Social and Economic Transformation of TransJordan, 1921-1946*, (Ph.D. Dissertation: Georgetown University, 1985), p.95.

established, Jordan's merchant elite founded the Amman Chamber of Commerce in 1923. A brief review of the early merchants and their social position provides an introduction.

Previous to the British mandate, TransJordan was considered a southern province of Syria. In comparison to its northern neighbour, the area of TransJordan was virtually pre-modern. Well-armed but poor, semi-nomadic tribes dominated the region, making long-distance trade a risky and infrequent endeavour. Cities were small and underdeveloped. The largest in the 19th century was al Salt (around 20,000 by 1920) followed by Irbid, Jerash, and Kerak.[81] The history of Jordan's modern merchant class began in the late 19th century with the extension of Ottoman garrisons and the Hijaz railway to the area.

Attracted by the increased security, merchants from Nablus and Damascus emigrated to Salt, Irbid and eventually to Amman.[82] These families would form the core of Jordan's leading merchants. Among some of the earliest and most prominent were the Asfour and Manku families, who moved to TransJordan from Nablus in the middle of the century. Yousef Asfour would be the first president of the ACC, and Hamdi Manku would follow as an important board member. Al Saudi, Battikhi, Shuqayr, and Shurbaji, all Syrian merchant families, also moved to TransJordan and served on the first boards of the ACC (see Table 11, appendix). Later, fleeing political turmoil in Damascus, the Tabba and Bdeir families established trading concerns in

[81] Ma'an Abu Nowar. *The History of the Hashemite Kingdom of Jordan, Volume I: The Creation and Development of Transjordan: 1920-1929* (Oxford, UK: Ithaca Press, 1989), pp.25-27.

[82] Until the 1930s, Amman was not considered among the major urban areas of TransJordan.

TransJordan.[83] In the 1950s and 1960s, serving as presidents of the ACC Subri Tabba and Mohammed Ali Bdeir continued the trend of elite merchant control. While the immigration of merchants into TransJordan was hardly unique for the region (after all, some asil merchants of Kuwait came from Iraq), this fact did have three unique implications for the political-economic future of Jordan.

First, a dominant theme in Jordan's history has been the division between indigenous TransJordanians (those with East Bank tribal origins) and those Arabs (mostly Palestinians) who came to Jordan as refugees. While there is continuing debate as to the relevance of this division,[84] there is little doubt the evolution of the merchant class and merchant elites were one of its first manifestations. Social perceptions of merchants in pre-mandate and mandate TransJordan were not positive. There was little tradition of commerce among the semi-nomadic TransJordanians. The Palestinian and Syrian families that did emigrate came from urban areas with strong commercial backgrounds where the status of the merchant was more positive. Though some East Bank notables eventually moved into commerce, by and large, TransJordanians avoided it. Instead, East Bankers came to favor public sector service and the military.

This fundamental social division closely followed a second implication. The foreign

[83] Interview with Hamdi al Tabba, 27 June 1995, Amman; Interview with Mohammed Asfour, 24 May 1995, Amman; and Abla Amawi, *State and Class in TransJordan: A Study of State Autonomy* (Ph.D Dissertation: Georgetown University, 1993), pp.390-394.

[84] This debate is most pronounced among Jordanian intellectuals, most notably Tariq Tell and Mustafa Hamarneh. The debate proceeds roughly in this manner: Arguments from the latter, stress the important role both British colonialism and the influx of Palestinian refugees have had on shaping a state (TransJordan) that was essentially a created entity. The former position stresses instead that TransJordan did possess pre-state loyalties (rooted TransJordanian tribal and peasant affiliations), but this nascent identity was preempted by Hashemite rule. Palestinian influxes are viewed as secondary in importance.

character of the nascent merchant community gave the future Amman Chamber of Commerce a similar profile. Throughout its history (and for many social institutions in Jordan) the Chamber of Commerce was perceived as a Syrian, and later Palestinian, institution. While this distinction would seem to be a disadvantage within TransJordanian society, foreign origin was actually an advantage in ways similar to Kuwait. These early merchants formed a close-knit community, in one respect, which facilitated interconnecting social and financial arrangements. Foreign origin drew these merchants together and made collective action easier. Though Jordan's elite merchants did not have the experience of early institution building as in the case of Kuwait, Jordan's first merchants nevertheless demonstrated their cohesion by organizing informally. One such organization, *Jamiyyat al-Thulatha* (Society of Thursday) was composed of Chamber leaders and was set up to facilitate discussions and action on political and economic issues.[85] Similar to merchant diwaniyyas in Kuwait, this society served to reinforce intra-merchant communication and social ties.

Third, similar to Kuwaiti merchants from Basra, Damascene and Palestinian merchants greatly expanded trade in Jordan. Because of their ties with regional trading centers, Jordan's position as a commercial center gradually increased. In addition to this trade, TransJordan's new merchants enriched themselves in another manner similar to their Kuwaiti counterparts.

As in Kuwait, land provided an important early source of merchant wealth in Jordan. This became most apparent in Kuwait and Jordan during the boom of the 1970s. As real estate prices soared during the boom, merchant land tracts in Amman and Kuwait City generated tremendous

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[85] Amawi. *State and Class*, p.513-514.

rent revenue.[86] However, even before the mandate period, Jordan's first merchants built their wealth through land acquisitions. While trade in TransJordan was still in its infancy, Palestinian and Syrian merchants turned to money lending. When urban borrowers could not repay these loans, money-lending merchants simply took land in return. In the towns of Kerak and Salt, this process accounted for the expansion of merchant landholding in the period before and after the British mandate.[87] Indeed, the issue of landownership provided the first real point of contention among merchants, mandate authorities, and King Abdullah.

A central implication emerging from these points was that TransJordan did possess a distinct merchant community that was already expanding and securing a dominant economic position.[88] The best proof of the established status of these first merchants was the foundation of the Amman Chamber of Commerce in 1923, more than forty years before the establishment of its Kuwaiti counterpart.

Organization of the ACC

Records regarding the establishment of the Chamber are modest. However, there is sufficient evidence to support a good description of the early Chambers. In August 1923 the Law

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[86] The subject of landownership is another interesting similarity between these cases. In Syria, Iraq, and Egypt, a landed elite predated state formation. In Jordan and Kuwait a landed elite was created through state development. Merchants (not tribal shaikhs as in the latter cases) became the landed elite. See, Gabriel Baer, "Land Tenure in the Hashemite Kingdom of Jordan," *Land Economics* (August 1957), pp. 194-195.

[87] Hamarneh, *Social and Economic Transformation*, pp. 87-88; and G.F. Walpole, "Land Problems in TransJordan," *Royal Central Asian Society* (July 194?), pp. 59-60.

[88] Debates (Hamarneh/Tariq/Amawi) about whether this was "a class-for-itself" miss the point, that a merchant elite was historically evident prior to modern state formation.

of the Chamber of Commerce was completed by the new TransJordanian government, and in November elections were held for a ten-man executive board. The organizational features established at that time remained in effect until the early 1960s. In the way it was organized and operated, the first Chamber was clearly the domain of a small, tightly-knit merchant elite.

The impetus for the founding of the Chamber came from two directions. First, part of the proposal to start a Chamber came from Abdullah's government. Newly established, the TransJordanian government (staffed as it was by experienced Syrian and Palestinian civil servants) desired to move quickly toward establishing a greater role in the domestic economy. Following the Chamber's founding, Abdullah formed the High Economic Committee within the Prime Minister's cabinet and created the Department of Customs and Excise.[89] This historical fact supports prominent theories (North, Tilly, Levi) about the relationship between state development and revenue need as a primary concern for any nascent, state builders. Second, elite merchants wanted their own association as a means to organize and register their businesses. By the early 1920s, a financial system began to take shape with the arrival of the Arab Bank and the Ottoman Bank. More available capital to finance trade expanded capacity. The city of Amman was a growing trade center in TransJordan by this time, hence, the Chamber was headquartered there. Also, many of the leading merchants had already come to settle in Amman. In short, a critical mass had been reached to organize intra-merchant relations. Because many of these merchants came from Damascus, there was a desire to emulate that city's Chamber and its organization of merchants. Finally, it was not difficult to agree on common institutional norms, since the elites

[89] Ma'an Abu Nowar. *The History of the Hashemite Kingdom of Jordan, Volume 1*, (Oxford: Ithaca Press, 1989), p.228-229.

shared similar origins.[90] Evidence in this case further confirms some of Mancur Olson's sub-theses on collective action; that is collective action organization is made easier among homogenous groups. More recent work on the cultural bases of social organization has been done by Avner Grief,[91] and while this research does not specifically examine what drove merchants to form the type of associations they did, Greif's thesis suggests that cultural beliefs may play a role. The collectivist society that TransJordanian merchants existed in may explain the ease with which they organized so early.

As with the first KCCI, institutional organization was important. While the post-independence legal parameters of the ACC would be made law in 1949, the organizational features were set in 1923.

i. The important organizational attributes of the ACC followed the Anglo-American model. It was an independent institution relying on membership dues for its operating funds. Its internal features were the prerogative of the members, not the state. The early Chamber focused on two principal tasks, registering members and facilitating "member requests." Members were registered by capital. Twice weekly, the executive board would meet to discuss mutual concerns and prepare joint positions to present to the government. However, there is no documentation revealing exact structures (i.e. the KCCI's arbitration board) within the Chamber. According to interviews, the early Chamber was rather undifferentiated, and given its small membership this seems logical.[92]

ii. Voting and representation rules were exclusive. Membership was voluntary for merchants and hence, like the KCCI, the initial ACC was in Olsonian terms not an encompassing association. Members that did join, joined as individual merchants ranked in four categories according to capital. Naturally, the top two levels were composed of the elite.

[90] Interview, Tabba.

[91] Avner Greif, "Cultural Beliefs and the Organization of Society: A Historical and Theoretical Refection on Collectivist and Individualist Societies," *Journal of Political Economy*, Vol. 102, No. 5 (1994).

[92] See Amawi, pp. 401-404; ACC documents: *The Golden Book: 50th Anniversary of the Amman Chamber of Commerce*, 1973; *Sijill Asthma' al Tujjar, 1923-1927* [Registration of Merchants].

> The rules stipulated that only these two categories could nominate and vote for the 12 man executive board candidates. Elite control was thus ensured. Moreover, since total membership did not exceed 100 until 1940 (see Table 5, appendix), elections to the board were purely an elite affair. These merchants would essentially gather and agree among themselves (prior to the election) who would sit on the next board. These crucial regulations remained in effect until the early 1960s.[93]

Despite the paucity of records, it is clear the early organization of the ACC paralleled its Kuwaiti counterpart in that elites were guaranteed control. This institutional foundation eased merchant interaction with the state and facilitated key internal compromise among merchant elites.

The mandate period: growth of a rentier state and the merchant elite

The mandate was naturally an important period (1923-1948) in the social and political development of Jordan. The task of this section is to place that importance within the context of merchant-ruler relations and the nascent lobbying efforts of the ACC. Merchant elites at the ACC did forge close, influential relations with King Abdullah and launched lobby initiatives directed at mandate economic policies. As well, since some mandate policies facilitated growing trade within and through TransJordan, ACC elites were able to achieve a dominant position within the economy and solidify their control of the ACC. In general however, one should be cautious not to overstate the impact of British colonialism. Similar to the Kuwaiti case, British rule was crucial because it introduced rents to the TransJordanian state, but beyond this, British interference in merchant-ruler relations was not significant.

Most historical sources agree that British aims during the mandate were geostrategic. In other words, British interests within TransJordan were focused on issues which could threatened

[93] Interview, Hassan; and *The Golden Book*.

to impact larger regional designs.[94] Nevertheless, there is a theme in some of the literature (akin to Jacqueline Ismael's study of Kuwait) which argues Britain's rule profoundly shaped Jordan's economic history. The following passage, with its implications for merchant-ruler relations, offers such an example:

> Colonial economic policies introduced in Trans-Jordan varied considerably from those introduced in other mandate territories. British economic policies during the entire mandate period were deeply-rooted in and determined by British public security considerations in the Middle East region. To use the words of Sir Alec Kirkbride, a British official who served in Trans-Jordan for twenty-five years, Trans-Jordan was created to be a 'buffer zone.' The entire British colonial machinery was at work to ensure that the territory simply remain such. Foreign investment was discouraged, and thus no influx of capital into the country took place. In fact British strategic and public security considerations were such that one concludes that official British policy was to discourage foreign investment.[95]

One could infer from this position that British colonialism actually retarded and disadvantaged the indigenous merchant elites, and subsequently any relations between the ACC and the state flowed from adverse colonial policies. It is easy to overstate this impact, and there are problems with this interpretation. In the first place, a comparative examination suggests that British economic policies in Trans-Jordan were not considerably different than in other mandate territories. Moreover, the idea that had British colonialism not existed or colonial policies actually allowed foreign investment, investment would have flowed into Trans-Jordan stimulating a different development pattern does not seem plausible. Since modern Jordan (as well as many other developing states) has difficulty attracting investment, how would Jordan of the 1920s have

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[94] Mary C. Wilson, *King Abdullah, Britain and the Making of Jordan* (Cambridge: Cambridge University, Press, 1987).

[95] Hamarneh, *Social and Economic Transformation*, p.151.

presented a better investment?[96] With regard to the history of the ACC and merchant-ruler relations, British colonialism did have an impact, but these effects were a mixed bag, some countered merchant concerns, while others aided merchant organization. This did not depart significantly from Kuwait's experience.

The 1921 mandate agreement between Britain and King Abdullah established the British role in TransJordan's domestic and foreign affairs. To support operations of the new state institutions and to support the British-controlled Arab Legion, Britain gave TransJordan annual "grants-in-aid." Throughout the mandate period, this rent remained the single most important source of state revenue, usually accounting for 50 percent of total state revenues.[97] The grants also made for consistent issues of debate between resident British officials and Abdullah's government. Typically, resident officials complained about Abdullah's expenditures, but

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[96] This comprises part of a larger debate about the aims and effect of Western imperialism. One argument is that Western policy in the developing world was primarily politically instead of economically driven (in contrast to Marxist interpretations). See: John A. Hall, *Powers & Liberties: The Causes and Consequences of the Rise of the West* (London: Basil Blackwell, 1985), pp.223-231; and Raymond Aron, *Imperialism and Capitalism* (Leeds: Leeds University Press, 1959).

[97] Calculation taken from Laurie Brand, *Jordan's Inter-Arab Relations: the political economy of alliance making* (New York: Columbia University Press, 1994), p.42. Reliable statistics in this period until the 1960s are scarce (see Table 4, appendix). Moreover, document research found different reported aid levels from different ministries (Ministry of Planning conflicting with the Central Bank). Unlike Kuwait, where oil rent calculations were rather straightforward (amount of oil bought multiplied by world price), aid in Jordan shifted by type and was fungible year to year. Military aid, for instance, was not included in aid calculations, and its presence certainly freed up revenue to be spent in other areas. Also, aid disbursements arriving near the end of the fiscal year were simply omitted from revenue calculations. Under reporting or incorrect reporting was probably due as much to weak state information gathering capabilities as to national security concerns.

nevertheless requested more funds to cover the shortfall.[98] Thus, at its birth, TransJordan could be considered a rentier state. Though this lessened the need to tax merchants, the grant system did stimulate other points of leverage that ACC elites used.

Specifically, since Abdullah was forced to spend carefully under the scrutiny of resident officials, he sought other revenue sources. Merchant elites at the ACC were well-placed to respond. There are several documented occasions of leading merchants providing ad hoc funds to Abdullah.[99] In much the same way that Kuwaiti merchants supported the al-Sabahs in the years before oil, Jordan's merchants used this *ad hoc* funding to forge close relations with Abdullah. One leading ACC board member, Subri Tabba, met daily with Abdullah and frequently approached him regarding commercial issues. At times, this raised British concern that the merchants were gaining too much leverage.[100] Later in the mandate period, this relationship did facilitate concessions from Abdullah's government that greatly enhanced the position of ACC board members. In addition to shaping this relationship, British grants had a cost.

British grants were premised upon the adoption of land and tax reforms to create a domestic tax base. The intent was to replace various indirect Ottoman taxation systems with a

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[98] Several British resident reports contained these complaints: *Records of Jordan 1919-1925, Volume 2: 1923-1926*, edited by Jane Priestland (London: Archive Editions, 1996), pp.72-73; and J.B. Philby, "Trans-Jordan," *Journal of the Royal Central Asian Society*, 10, 11 (1923-24), pp. 307-308.

[99] During the Syrian Revolt of 1927, ACC elites (Tabba, al-Shurabji, and Bdeir) organized relief supplies on behalf of Abdullah for the refugees (Abu Nowar, pp. 195-196); resident officials mentioned the presence of other *ad hoc* funds, but were unsure of their origin *(Records of Jordan, Volume 2*, p. 102). Interviews with the sons of chamber leaders confirms that their ancestors frequently gave Abdullah "unpaid loans" for his personal use.

[100] Amawi cites a report from the British high commissioner to the secretary of state, 23 July 1921 in "State and Class," pp.409-413.

more direct scheme. Beginning in 1927, the British conducted land surveys to develop data for the tax. In 1933, the government approved legislation on the Land Tax. It applied a uniform 6 percent tax on specific uses of land throughout TransJordan.[101] Records from the time reveal that some leading merchants anchored in the ACC strongly resisted the law to no avail.[102] This failed pressure has led some observers to conclude that these new taxes confirmed weak merchant influence on the economic policies of the British and Abdullah's government.[103] However, the outcome was more complex. Merchant and landowner lobbying actually achieved a compromise in the Land Tax. The overall tax burden to any individual "should not exceed the total amount of the three replaced taxes [former Ottoman taxes that were being replaced by the land tax] by L.P. 10,000."[104] The law also benefited big merchants in the Amman area because--in addition to recognizing land gains made decades earlier through money lending--the registration and security of land meant mortgages were possible. Large merchants gained access to tracts of urban land by financing the mortgages of smaller landowners.[105] Also, a compromise was implicit since acceptance of the Land Tax resulted in a significant weakening of a new income tax passed the same year.

This tax was levied against employee salaries but was premised upon merchants and

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[101] A. Konikoff, *TransJordan: An Economic Survey* (Jerusalem: Economic Research Institute of the Jewish Agency for Palestine, 1946), pp.88-90; and G.F. Walpole, "Land Problems."

[102] Amawi, *State and Class*, pp.283-289.

[103] Hamarneh, *Social and Economic Transformation*, pp. 162-165.

[104] *Official Gazette*, Number 384 (April 1, 1933).

[105] Walpole, "Land Problems," pp.58-59.

shopkeepers providing detailed employee payment records. These records were simply not kept on any large scale. Foreshadowing the intrusive weakness of the rentier state, the Ministry of Finance did not bother to compel or audit merchant submissions. As a result, the tax yielded only some L.P. 5,000 annually.[106] Given that the land tax only resulted in a 12 percent revenue increase by 1946,[107] the entire colonial project of enhancing direct tax revenue was not quite the victory over merchants as is commonly assumed. Compromise on the tax issues only offers indirect evidence of the growing influence of merchant elites and the ACC. The final phase of the mandate period (1938-1948) offered the strongest evidence of ACC influence vis-a-vis Abdullah's government, and even the British authorities.

During World War Two, ACC members were able to take advantage of new trade opportunities, enhance their Chamber's economic role, and use the strengthened association to block new government initiatives. By the late 1930s, local chambers had been established in the cities of Kerak, Ma'an, Ajlun, and Salt.[108] However, the Amman Chamber remained the center for coordinating business activities and representing the country's merchants to the government. The period witnessed a significant strengthening of the association.

Trade opportunities in Jordan and the region increased significantly as a result of World War Two. British authorities designated Aqaba as a primary import point for goods going not only to TransJordan, but to British mandate Palestine as well. This placed Amman's merchants in

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[106] Konikoff, *TransJordan*, p. 91-92.

[107] Amawi, *State and Class*, p.288.

[108] *The Handbook of Palestine*, edited by Harry Luke and Edward Kieth-Roach (London: MacMillan and Co., 1934), p.485.

a pivotal position to manage the increased re-export trade with the cities of Jerusalem, Nablus, Hebron, and Bethlehem. Additionally, in order to deal with wartime shortages and rationing, the British established the Middle East Supply Center (MESC) in 1941. Through this institution, colonial authorities regulated TransJordan's exports and imports. The MESC's trade regimes favoured awarding semi-monopolistic import/export rights to guarantee supplies.[109] The elite, with their government contacts and regional trade links, were able to exploit the situation. The control of import/export was located within the Department of Customs, specifically with its British director, P. Livingstone. Executive board members of the ACC used their contacts with Livingstone and Abdullah to steer trade concessions toward themselves.[110] The profits were significant. In one year from 1940 to 1941, re-exports from TransJordan increased by five times. Abla Amawi terms the recipients of this windfall, the "quota coterie."

> The quota coterie all shared similar characteristics. They already had established trading links. They were well-placed socially to take advantage of quota allocations. They had a head-start in importing through the quota system. They were a cohesive group. They controlled the chamber of commerce.[111]

Of the thirty-one merchants Amawi identifies as belonging to the coterie, twenty-four sat on, or were related to, the executive board of the ACC from 1935 to 1943. By securing these trading rights, board members not only enriched themselves but augmented the capabilities and position of the Chamber. Livingston and government officials would suggest that foreign traders or

[109] Martin Wilmington, *The Middle East Supply Center* (New York: State University of New York Press, 1971).

[110] Interview with Mamduh Abu Hassan, former ACC board member, Amman 5 November 1996 and Tabba. Subri Tabba was an early and popular recipient of these concessions.

[111] Amawi, *State and Class*, p.480.

organizations contact the Chamber for lists of potential import/export partners.[112] Viewed theoretically, Chamber provided information was a collective good that eased transaction costs (of forging external trade links) and benefited members' individual businesses. In return, board members opened facilities under Chamber control to satisfy emergency storage needs for the government.[113] Members also used the Chamber's political contacts to secure travel documents needed to fashion more extensive trading relationships. By the late 1940s the Chamber had become the focal point for merchant self-regulation and collective action. Aside from managing trade organization, the Chamber also took the lead in resolving intra-merchant commercial disputes by hiring a company to provide legal assistance.[114] Riding this crest, Chamber elites faced their first real lobbying challenge in 1945.

Given the tremendous increase in merchant capital from wartime trade, mandate officials sought to reimplement the failed income tax from the 1930s. ACC leadership, of course, was vehemently opposed to such direct taxation. ACC President, Subri Tabba, exercised his clout and directly appealed to Prime Minister Tawfiq Abu Huda. Tabba succeeded in delaying the tax a year by collecting the proposed tax amount from ACC elites and turning it over the Ministry of Finance. Colonial reports suggest this action not only angered British officials but heightened their fear that "the influence of the business classes, as purveyors of financial credit, over the

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[112] Interviews Tabba and Asfour confirmed that their families had established close relations with P. Livingston, the colonial official responsible for import/export licensing, and they used this leverage in conjunction with their influence with Abdullah to establish their coterie.

[113] *Al Sadirat*, 7 July 1942, Amawi, *State and Class*, p.496

[114] Amawi, *State and Class*, pp.519-520.

individual councillors [TransJordanian members of the appointed legislative assembly] is wide."[115] In the next year, government efforts to institute the tax began again, as did ACC resistance.

ACC elites mounted an impressive collective action campaign to derail the law including: a general strike in November 1945 and organization of several petitions and delegations to the Prime Minister and Abdullah.[116] Despite these efforts, British advice and TransJordan's financial needs won out. The law was passed. Still, lingering fear of the ACC's clout forced British officials to suggest that the power of tax exemptions not be vested with the Minister of Finance, where ACC influence was suspected to more effective, but with the Prime Minister. As a single, though noteworthy defeat, the income tax still confirmed the impressive development of the ACC through the War period. With independence in 1948, the ACC faced a different type of political authority. Now elites had to engage a state in formation. Accordingly, as the new Jordanian state expanded its control of the domestic economy, the ACC expanded its efforts to shape that intervention.

Political independence and merchant-state relations

From 1948 to 1970 the crucial first stages political and economic development took place. Rent, in the form of Arab and American aid, came to replace British grants as the leading source of state revenue. By the 1960s state intervention in the economy was underway. The state introduced measures to create distributive government institutions, encourage industrialization,

[115] *Ibid.*, p.517.

[116] *Ibid.*, p.520. Cited from high commissioner report to secretary of state, 1 October 1945.

and initiate public investment in private companies. Experimentation with elected assemblies followed. Elements of these trends closely paralleled Kuwait during the boom. However, crucial divergence did take place in this period. In the early 1960s, ACC elites undertook organizational changes that eventually had far reaching consequences for its own leadership and lobbying capabilities.

Jordan's political independence from Britain occurred in the context of the first Arab-Israeli War. The birth of Israel and Jordan's subsequent position as a frontline state made the threat of war constant. Regional instability continually impacted Jordan's domestic political arrangements. Two implications followed. First and most ironically, Jordan's position in the region (bordering Syria, Israel, and Iraq) made the Kingdom important geostrategically. Whereas Kuwait cashed in on its mineral endowment, Jordan cashed in on its geostrategic endowment. By the mid-1950s, British grants were replaced by direct and indirect aid from the United States. From 1956 to 1966 the United States provided almost 50 percent of Jordan's external revenue. In the period 1973 to 1985, Arab states provided over 80 percent of that aid.[117] Arab money, predominately from Kuwait and Saudi Arabia, followed as a result of Jordan's support of the Palestine Liberation Organization and its role as a frontline state against Israel. In the aftermath of the 1967 War, Arab states at the Khartoum Conference pledged a renewal and increase of Jordan's assistance. From 1959 to 1970, foreign aid as a percentage of GDP averaged 22 percent

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[117] Fawzi Khatib, "Foreign aid and economic development in Jordan: an empirical investigation," in *Politics and the Economy in Jordan*, edited by Rodney Wilson (London: Routledge, 1991), p.65.

annually.[118] While this level of aid did not approach the post-1972 boom, it was adequate to support the various distributional aspects of a rentier state. Second, the 1948 War and the periodic conflicts of the 1950s and 1960s pushed hundreds of thousands of Palestinian refugees into Jordan. By 1950, the population was three times what it had been in 1947.[119] After the 1967 War another 250,000 to 300,000 refugees entered Jordan. While many settled in the West Bank, thousands more headed for Amman. By the 1960s Amman was the commercial center for both sides of the Jordan River. These waves also provided an influx of new entrepreneurs and expanded the domestic market. With new merchants and consumers, the Palestinian character of the merchant community was confirmed.[120] This was reflected in the leadership of the ACC where the presidency of Subri Tabba, a Syrian, gave way to the Palestinian presidency of Ibrahim Manku in the 1950s and 1960s. As the contours of the business community changed, state expansion and development of the 1950s and 1960s would alter the relationship between state and business.

Similar to Kuwait, development of Jordan's state entailed construction of a larger government and greater intervention in the domestic economy. The two most important economic ministries, The Ministry of Commerce and Industry and The Finance Ministry, were established in the 1950s. The Ministry of Commerce and Industry controlled import licensing and

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[118] Khalil Hammad, "The Role of Foreign Aid in the Jordanian Economy, 1959-1983," in *The Economic Development of Jordan*, edited by Bichara Khader and Adnan Badran (London: Croom Held, 1987), p.17.

[119] Khalil Hammad, "The Role of Foreign Aid," p.11.

[120] British situation report commenting on the new merchants, *Records of Jordan, Volume 6*, pp.571-572.

approval of new business licenses (commercial and industrial). The Finance Ministry was the bureaucratic focal point for the two leading sources of state revenue: external aid and customs duties. Recruitment of civil servants to staff the new ministries also took on important characteristics in this period.

While the majority of the labour force remained anchored within the private sector (specifically the service sector), the ranks of civil employees began to grow throughout the 1960s. Figures on precise employment are unavailable, but general estimates provide a rough picture. Between 1961 and 1975 military employment (and related public security) tripled. In that same period, civilian employment increased by only two-thirds.[121] The greatest decline in employment predictably occurred within the agriculture sector. As the waves of Palestinian refugees produced scores of new merchants (small and large), East Bank Jordanians gravitated toward public sector jobs, because, in part, wages in the public sector were competitive. Most importantly, these recruitment patterns fit the legitimacy needs of the Hashemite monarchy to fashion a loyal civil service and a dependable military. Palestinians, desiring return to their own home, could not obviously satisfy this requirement. This trend set into motion the historical occupational differences between Jordanians of West Bank origin and those of East Bank origin. State intervention into the domestic economy followed.

To channel state capital into selected industrial ventures, the state established the Industrial Development Board in 1957. The board was superseded in 1965 by the Industrial Development Bank (IDB). In hand with the 1955 "Law for the Encouragement of Investment,"

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[121] Michael P. Manzur, *Economic Growth and Development in Jordan* (Boulder: Westview Press, 1979), pp. 108-115.

which offered tax incentives, the first state policies to induce industrialization were in place. Overall, these were moderate forms of intervention since the initial capital of IDB was only 3 million Jordanian Dinars (JD).[122] The real focus of state intervention, as in Kuwait, was public investment in or creation of semi-public (or shareholding) companies. Joint-sector ownership centred on what became known as the "Big 5" companies. Four of these five were established in the 1950s. The Jordan Phosphate Mining Company began as a private corporation in the 1940s; and by the mid-1960s the state had purchased over 60 percent of its shares. Similarly, the state took over the Arab Potash Company by purchasing a majority share. In 1956, the state established The Jordan Petroleum and Refinery Company (JPRC) as a joint stock company with private investors. State investment and expansion of these companies progressed steadily until by the 1970s these firms accounted for a significant portion of employment and production in the Kingdom. There was a political purpose to this large-scale intervention.

While taxation and profits of these companies were an important source of public revenue (as in Kuwait), it is a mistake to assume state-led development flowed solely from economic need. A common fallacy concerning late-late-developers was to assume that state investment was necessary because indigenous capitalists either lacked the capital or the skills to take up such projects. In contrast, Albert Hirschman was observant enough in 1958 to argue "that what lacks in late-late developers is not the capital to invest but the will of capitalists to invest."[123] Clearly, a key purpose of state investment was to buy-off economic elites. Once the state secured majority

[122] Raphael Patai, *The Kingdom of Jordan* (Princeton: Princeton University Press, 1958), p. 109; *Middle East Economic Digest* (*MEED*), 2 July 1965, p.305.

[123] Albert O. Hirschman, *The Strategy of Economic Development* (New Haven: Yale University Press, 1958), p.34-36.

shares in the Big 5, it could appoint most of the executive board. Therefore for instance, the first board of the JPRC included two important ACC leaders, Mohammed Ali Bdeir and Ibrahim Manku. Positions on such boards gave elite merchants advantageous insight into government contracts and future purchases. Additionally, shares held by either board members or private individuals increased in value as state investment increased. As in Kuwait, state investment essentially equated more with pay-offs than economic development. A further similarity was in the way the state used land to bind merchant elites to state largesse.

Supported by American and British aid, the East Ghor Canal Project was launched in 1961. The goal was to irrigate thousands acres of Jordan Valley land to permit year round cultivation. The project was almost identical to the Kuwaiti land purchase program.[124] The state bought much of this Valley land from merchants (ACC leaders who had amassed this land through mortgages) at well-above market prices, and then distributed the irrigated land back to some of these same merchants as a method of selective cooptation.[125] As Amman grew, another process took shape whereby the state and the local municipality purchased land for city expansion from merchants at high rates.[126] Or, to spur development, municipal land was sold to merchants at well- below market value. This positioned merchant elites to reap huge profits once the boom of the 1970s drove up real estate prices. For the merchants benefiting, the cost was, of course, political. In return, merchant elites would avoid any overt political positions counter to the state

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[124] *Middle East Economist* (December 1961), p.163.

[125] Many East Bank notables were also included in this process.

[126] Interview with Mohammed Tijani, Former General Manager of the ACC, Amman, 31 May 1995.

and the monarchy. Loyalty was exchanged for profit. Timing was important because these merchant elites stood at the pinnacle of the growing Palestinian majority, in a country whose regime's political legitimacy rested upon East Bank notables. Future waves of Palestinian refugees could be expected to be influenced by these merchants' loyalties and attitudes. Despite the close similarity with Kuwait's famous merchant-state compromise, the issue of political loyalty bears on a key difference between the cases: the role of Chamber elites in elected parliament.

Merchants in Parliament

There were key parallels between each country's parliamentary histories. Due to protests by legislators wanting to expand their powers, Jordan's first assembly was dissolved in 1931. Legislator agitation for greater freedom also pushed King Abdullah in 1951 and King Hussein in 1956 to dissolve the assembly. In 1947, a new electoral law was completed allowing elections for the *Majlis al-Umma* (Lower Parliament) and royal appointments to the *Majlis al-A'yan* (the Upper Parliament). Similar to Kuwait's legislative body, the lower house was restricted to the approval not the introduction of bills. Constitutionally, final approval of any legislation rested with the Prime Minister and by extension the monarchy, who appointed the PM.[127] Unlike Kuwait, parties were legal, but like Kuwait, issues of debate in the 1950s and 1960s tended to coalesce around anti-British, Arab nationalist causes. Varying degrees of government interference in the election process took place in the 1950s and 1960s, but generally--as in Kuwait--the

[127] Under Article 52 of the constitution, this can be, technically, overridden by Parliament.

opposition achieved electoral success and were able to press its claims.[128] The last election, before parliament was suspended in 1974, took place in 1967 two months before war with Israel. Despite these similarities, Jordan's experience with elected parliament was different than Kuwait's in one important aspect.

Unlike Kuwait, the merchant role in Jordan's parliament was much less pronounced. After independence, the state divided elections to the lower Parliament between the East and Banks. This helped dilute any opposition by forcing it to straddle two different electoral areas. And since elections on the East Bank were organized to maximize the election of East Bank notables at the expense of Palestinians,[129] ACC elites located in Amman were at a disadvantage.[130] Consequently, in Kuwait the opposition was the merchant elite, whereas in Jordan the opposition was composed of Baathist and Arab nationalist parties. Merchants were elected to only a limited extent in the lower Parliament. Of the twenty elected members (eventually rising to sixty by the 1980s) in the first few parliaments, prominent ACC-affiliated merchants only accounted for one or two seats at the most. One of those members from 1951 to 1954 was Mohammed Ali Bdeir, an important ACC board member and future president.[131] In the upper house however, early ACC

[128] Philip J. Robins, "Politics and the 1986 electoral law in Jordan," in Wilson, *Politics and the Economy*, pp. 185-189; Linda Layne, "Tribesmen as Citizens: 'Primordial Ties' and Democracy in Rural Jordan," in *Elections in the Middle East*.

[129] Aqil Hyder Hasan Abidi, *Jordan: A Political Study, 1948-1957* (London: Asia Publishing House, 1965), pp. 66-70.

[130] This was done by simply according more representational weight to rural southern areas where the Hashemite power base was concentrated.

[131] Interview with Tijani and Abu Hassan; and Abidi, *Jordan*, p. 216.

presidents were regularly appointed by the monarchy beginning with Subri Tabba in 1950.[132] While this presence was shallow in comparison to Kuwait, it was sufficient enough for the ACC to achieve its most important lobbying success--a success that ironically crippled the association.

ACC elites and change in the Chamber

During this first historical period, elite control of the ACC was secure. The leading and most influential merchants of Jordan elected among themselves the president and executive board of the Chamber. It was an informal process with category one and two merchants meeting shortly before the election to decide who would serve on the next board. Disagreements were often resolved at these gatherings.[133] In a period of increased wealth and excellent relations with political authority, these merchants nevertheless ran for the board, a job that ostensibly took time away from one's own business. One could expect that given the greater centrality of the state's economic role, leading merchants would abandon associational strategies in favour of personal access. Why then did these elites choose to participate?[134]

Two structural theories appear relevant. Lindblom's thesis that it is simply easier for capitalists to organize (in contrast to labour) suggests the common sense answer. The Haggard/ Maxfield/Schneider point that "the more the state intervenes in the economy, the greater the

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[132] *Records of Jordan, Volume 6*, p.565.

[133] Interview Hassan and Hamdi Tabba, former ACC president, Amman, 27 June 1995.

[134] Returning again to the theme of collective action, this question bears not on the difficulty of achieving collective action but on the choice to do so in the first place. Especially when other options appear to be available.

incentive of business to mobilize to influence that intervention"[135] also has merit. However, in a situation where merchant-state contacts already show collusiveness (or successful business lobbying), there must be something more. This research suggests that one additional reason was, first and foremost, prestige. The Syrian and Palestinian elites who made up the merchant class were a tight-knit community. Leadership of their business association was deemed prestigious, especially since service in the government and parliament was limited.[136] This fact is an interesting confirmation of one of rentier theory's basic premises: that is, in a country where the state is the locus of wealth creation, domestic issues tend to coalesce around ideology or ascriptive concerns.[137] For businessmen especially, economic gain *per se* lost its social status, making for a situation in which election to the peak business association was an important marker of social status in itself. A second, non-revenue maximizing function of election to the chamber was in the recruitment and recognition of younger merchants. For new merchants wishing to be "known," election to the board of the ACC was a necessity.[138] In a period with a rapidly developing economy and state, young merchants wishing to move up the ladder required status. By running and serving on the board, it demonstrated acceptance by the elite, facilitating contacts and

[135] Stephan Haggard, Sylvia Maxfield, and Ben Ross Schneider, "Theories of Business and Business-State Relations," in *Business and the State in Developing Countries*, edited by Sylvia Maxfield and Ben Ross Schneider (Ithaca: Cornell University Press, 1997), p.50.

[136] Interview with Mohammed Asfour.

[137] H. Mahdavy, "The Patterns and Problems of Economic Development in Rentier States," in *Studies in Economic History of the Middle East*, edited by M.A. Cook (London: Oxford University Press, 1970); and recently, Hootan Shambayati, "The Rentier State, Interest Groups, and the Paradox of Autonomy," *Comparative Politics* (April 1994).

[138] Interview with Hassan.

partnerships. Conversely, standing elites used the nomination and election processes to socialize the new merchants. As much as the ACC as an institution benefited by elite leadership, backward linkages meant the institution also served as a venue for elite creation. Both the KCCI and the ACC were in many ways a private club, and election to them were viewed as important social symbols.

Three examples of this status were Subri Tabba, Mohammed Ali Bdeir, and Ibrahim Manku. Tabba, originally from Damascus, had made tremendous land and trade profits in the 1940s and 1950s. He served as ACC president in that same period and enjoyed not only national recognition but some international notoriety as well.[139] His relations with the monarchy (Abdullah and Hussein) were so close that one of his daughters married into the royal family. After a young King Hussein ascended to the throne, Tabba played a role in helping the new King situate himself with Jordan's merchant community.[140] Also a Syrian by origin, Bdeir was president in the late 1940s, 1960s and 1970s. He also made a great deal of money in the 1940s and was considered among the top merchants in Jordan. Whereas Tabba enjoyed unique personal access with the monarchy, Bdeir was tremendously popular with the growing Palestinian merchant community. He was a gifted negotiator and was considered to be an extremely honest dealer,[141] a reputation that greatly assisted his election to Parliament in 1951. Ibrahim Manku followed in father's footsteps, Hamdi Manku, in serving on the board. Manku represented a return to Palestinian

[139] In the 1950s, *Life Magazine* ran a story of Subri Tabba.

[140] Interview with Tabba and Hassan.

[141] Interview with Tijani and Said Matook, former general-secretary ACC, Amman, 13 November 1996.

leadership of the Chamber. He gained prominence by serving on the board and was viewed as a young up-and-comer when he was elected president in 1954. Under the these presidencies, younger, elite merchants were groomed into service. Asfour, Toufan, Raghib, Hassan, Nouri, and Barakat all gained prominence through their early service on the board (see Table 9, appendix). In turn, their presence reinforced the prestige and political access of the ACC. This period was viewed by many merchants to be the Chamber's golden age, because beginning in the mid-1950s and culminating in 1961, the ACC undertook organizational changes that would profoundly alter its future.

The first of these changes was actually a positive one. In 1955, ACC elites created the Federation of Jordanian Chambers of Commerce. By the 1950s there were some 10 regional Chambers in Kingdom, so an umbrella association was needed to organize the national activities of these associations. The Federation filled this need as "the peak business association "to advocate policy and to participate with state policy."[142] ACC elites ensured that their association would control the Federation by stipulating that half of the executive board would be comprised of ACC board members (the remainder elected from the other Chambers) and its director would be the president of the ACC.[143] In this way, ACC elites placed the Kingdom's entire business community under their representation and guidance. Federation leadership and national lobbying were a direct extension of Amman's executive board. This led to a second organizational change in this period.

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[142] *Federation of Jordanian Chambers of Commerce: Organizational Structure*, Amman, 1989.

[143] Interview with Amin Y. Husseini, Secretary-General, Federation of Jordanian Chambers of Commerce, Amman, 29 July 1995.

Beginning in 1951 when Bdeir was elected to parliament, the ACC leadership began pressing the Minister of Commerce and Industry to alter the licensing process for new businesses in Amman. The previous process only required new businesses to be registered with the Municipal Authority and with the Ministry. Fees were charged and annual renewal was necessary. ACC leaders lobbied to have membership in the Chamber made a prerequisite for licenses with the Municipality and Ministry. State preferences on the issue were not strong and given the positive relations between ACC president Tabba and then Minister of Commerce and Industry, Sulayman Sukkar, the Ministry agreed. In Parliament, Mohammed Ali Bdeir attached a "rider" to the upcoming law of professional associations stating that "all businesses [in Amman] must first be in good standing with the Amman Chamber of Commerce before a license application to the Ministry and Municipality."[144] From this point, all of the Amman business community (the largest and most important in the Kingdom) would be represented by the ACC since membership was obligatory for a license.

This change made the ACC what Mancur Olson terms an encompassing association,[145] embracing all sectors of the economy and all sizes of merchants. Moreover, extension of regulatory power to the social actor created a quasi-corporatist arrangement between state and chamber. While not a characteristic of the outright state creation or incorporation of the business association, as witnessed in some parts of the developing world, the arrangement nevertheless exhibited some aspects of formal corporatism. For the state, allowing the Chamber to be part of the licensing process fit well with the ongoing cooptation of private sector elites. In the form of

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[144] *Official Gazette*, Law No. 21., 1961; and Interview with Matook.

[145] Mancur Olson, *The Rise and Decline of Nations*, pp.89-92.

obligatory membership dues, the merchants' association was now beholden, albeit indirectly, to state largesse. For the ACC, one clear reason for this encompassingness was revenue. In 1950 the Chamber registered only 500 paying members, and since membership dues were its primary source of income, increasing membership scope was a logical step toward increasing operating revenue.[146] A second reason for encompassingness was the discretion it gave ACC officials. In Kuwait, obligatory membership for bidding and import licenses gave their Chamber officials a degree of market control over these important sectors. Likewise, by routing all business applications through the ACC, merchant elites achieved a degree of market control as well. Delaying or expediting applications could be used as a tool to discipline individual members. The success of membership expansion set the stage for intra-associational changes that had further ramifications for future lobbying.

In 1960, ACC board members considered changing their by-laws to reflect the coming influx of new members. As a majority Palestinian institution, the Chamber was sensitive to regional political repercussions emanating from the Arab-Israeli conflict. When waves of new refugees impacted Jordan's domestic politics, institutions were not spared. Driven by a desire to be more inclusive and "democratic" toward the new members, the executive board approved alterations to the Chamber's by-laws in 1961.[147] Specifically, voting and nomination powers were

[146] The change was not immediate however. Municipal authorities did not respond quickly, and ACC leaders had to continually press over the next decade to make the Chamber-membership requisite a matter of bureaucratic routine at the municipal level. Various interviews.

[147] Two individuals, Mohammed Tijani and Said Matook, who served as officials of the Chamber in this period, confirmed the intent of the by-law change. The sentiment fitted the political mood of the day which was dominated by popular Palestinian sentiment in every Arab country and active guerrilla operations along the Israeli border. The move satisfied a desire to incorporate the Palestinian refugees to an institution to help their careers.

extended to the lower categories 3 and 4 members. Since the obligatory membership rules had not yet taken full effect, these categories did not yet make up the majority of members. Eventually however, the voting majority shifted away form the elite toward those category 3 and 4 members, the middle and small businessmen of the Chamber. Both alterations, obligatory membership and voting rules were ensconced in a reform to the original 1949 Law of the Chamber of Commerce. After Chamber approval, the Minister of Commerce and Industry and finally the Prime Minister agreed to the changes with no debate. The law was then passed to parliament for approval, and in 1961, Law No. 21 was passed.

Elites figured into a final institutional change in that same year. The Chamber elections of 1958 sparked the first real dispute among Chamber elites. Ibrahim Manku, the incumbent, and Mohammed Bdeir, the challenger, were each elected to the board in 1958, but neither garnered enough of the vote to secure the presidency. Personality issues entered the debate, and neither relinquished claim to the presidency.[148] Conflict was exacerbated by the fact that with the expected increase in the association's size, much greater prestige and power was a stake with the presidency.[149] Eventually a compromise was reached whereby from 1958 until 1962, Bdeir and Manku alternated each year between the presidency and the vice-presidency. The compromise did not however alleviate the animosity between each camp. In 1961, Bdeir, backed by his faction, approached the Minister of Commerce and Industry to gain approval for a Chamber of Industry. Despite arguments that Amman needed its own industry representative, the fact was

[148] Though there is little evidence, the fact that the Bdeir and Manku families did not share the same origins may have helped divide the electorate.

[149] Interview, Tijani; *The Golden Book*.

that the move was personal, intended to create a rival elite institution to challenge Manku.[150] Manku and his supporters resisted the idea but did not consider it a serious challenge, since obligatory membership remained with the ACC. In any case, members of the industry chamber would have to belong to the ACC, and hence that is where the real power would lay.[151] State officials took no significant interest in the conflict at this point, but since a chamber of industry fit well with nascent state industrial policies, the Minister of Commerce and Industry approved the association's creation. Consequently, a combination of ACC disregard and state acquiescence helped create the Amman Chamber of Industry (ACI) in 1961. Still, this did not dampen optimism within the ACC, because the association was enjoying fruitful access to policy makers.

Lobby success, and the politics of 1970 in the ACC

Jordan's political independence introduced many of the same economic policy issues and opportunities for the ACC as in Kuwait. Leveraging its position as the leading business representative, its elite leadership, and its possession of economic information, the ACC successfully lobbied several economic policies and directions from 1948 to 1970.

Given the youth of Jordan's political and economic institutions in the 1950s and 1960s, the ACC was well placed to provide expert advice and information on proposed economic policies. For instance, the Central Bank of Jordan, the primary reservoir and compiler of

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[150] This was confirmed only four years later, when Bdeir returned to the ACC to begin his long tenure as president; Interview with Ali Dajani, advisor to the Amman Chamber of Industry, Amman, 4 June 1995.

[151] The Chamber of Industry was set up along lines closely resembling the ACC of 1923. Membership was voluntary and voting was reserved for the upper echelons of members. *Nāzim al-Ghrufat al-Sanā't* [By-Laws of the Industry Chamber] 1961.

domestic economic data, was not established until 1964. Prior to this period, the Department of Statistics in the Ministry of National Economy produced some data, but it was hardly comprehensive.[152] Lobbying in this period, with one exception, was quite similar to Kuwait in that the ACC reacted to government proposed policies instead of proactively pushing a set agenda. This interaction was also primarily informal and personal. In some cases, regularized committee meetings with officials at the ministerial and Prime Ministerial levels were instituted, but this was the exception. By the late 1960s, to augment the meetings, the Chamber sponsored regular exhibitions to which ministers were invited, or ministers would be invited to speak at the Chamber. Important executive board members such as Manku, Bdeir, Asfour, Malhus, and Tabba would use these encounters to schedule *ad hoc* meetings with either the Prime Minister or other relevant ministers to provide input on policy. In this period, use of Parliament as a lobbying venue was minimal, what amendments to legislation that were required were agreed upon previously in the informal meetings. The former General-Manager of the Chamber in this period, Mohammed Tijani, described this situation:

> Chamber officials were under the umbrella of the monarchy. They enjoyed not only the position of leading businessmen, but their position *vis a vis* the monarchy meant that the lower levels of government [ministers and deputies] knew that these men had the backing of the monarchy...so in return, their interests were served.

Some of the first lobbying successes were in shaping the founding economic laws of the Kingdom. Generally, drafts of these laws would be hammered out at the ministerial level where some Chamber input could be achieved. From there, the draft went to the Prime Minister's office for legal review and then--as a matter of routine--the draft would be passed formally to the

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[152] *Annual Statistical Report 1952*, Department of Statistics, Ministry of National Economy, Amman.

Chamber's executive board for its suggestions.[153] Several laws underwent this process:

- Commercial Law and Companies Law: These laws set up the legal parameters of what kinds of companies there would be and how they should be registered. This keenly affected the way leading merchants would have to restructure their firms since most of them pre-dated independence. Data provided by the ACC was key in establishing the capital requirements for the joint-stock company and the reporting procedures, which were modest by design.
- Trademarks and Merchandise Law (No. 19, 1953) and Patents and Design Law (No. 22, 1953): These laws updated a 1930 law on trademarks. Because of ACC contacts with foreign traders and members' import companies, ACC elites were able to provide details so that the law complied with international standards. As well, the law provided for a trademarks' committee to be set up within the Ministry of Commerce and Industry on which the ACC had representation.
- Labour Law (No. 21, 1960): Labour regulations were of obvious concern to the ACC. There was no significant labour movement in Jordan at that time (or currently), and consequently the ACC maintained a freer hand in influencing the law. However, this law, in contrast to the preceding, required a greater amount of elite effort. ACC lobbying efforts centred on amending the draft law once it was received from the Prime Minister. Of primary concern was widening the definitions of employer and employee (so as to give merchant employers greater discretion in its application) and limiting negotiating obligations between employer and employee. The resulting law was consequently vague and open-ended in many respects. Evidence from interviews suggest that there were some sectors of the government in favour of a more detailed and stricter labour law. Nationalist opposition elements in parliament also supported this position; however, ACC elites were able to overcome these demands and succeed in helping fashion a watered-down version.
- Encouragement of Investment Law (1955): This law, similar to one in Kuwait, allowed for tax breaks and tax holidays for selected projects. Also, similar to Kuwait, ACC merchants successfully sought protection by limiting foreign ownership to 49 percent of any project. Details provided for a technical committee within the Ministry of Commerce and Industry to review applications by investors. The ACC was given four personnel appointments to the committee, which met once a month. This institutionalized access gave ACC elites a degree of influence over future industrial and commercial projects that could impact their own interests.
- Arbitration Law (No. 18, 1953): The arbitration law legalized Chamber requests to grant the association legal purview over merchant disputes. Chamber lobbying for this law was

[153] Various interviews. This routine was not legalized but was an artifact of the Chamber's status previously discussed.

driven by a desire to regulate growing construction disputes among members.[154]

Aside from legal reform, an issue of paramount concern to the ACC in this period was customs duties. Customs on imported goods accounted for the largest percentage of domestic tax revenue (direct and indirect) and required layers of bureaucratic procedure.[155] Officials at the Ministry of Commerce and Industry also used customs duties to protect favoured domestic industries. Consequently, customs duties were regularly raised or expanded throughout the 1950s and 1960s.[156] Interviews from business leaders confirmed that despite unified business resistance to the tax and, most importantly, its regulation process, there was little state leeway on the issue. As a recourse, ACC leaders began pressing state officials to support the idea of an Arab Common Market. The idea had gained momentum in the early 1960s within the Arab League as a means to link the Arab economies. Among Arab countries, the Jordanian merchant class, led by the ACC, was one of its main proponents.[157] Since Jordan's most accessible external markets lay in Syria and Iraq, the Common Market promised to help alleviate customs duties on imports and exports with these markets. However, since the idea of a Common Market intersected with larger

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[154] *Official Gazette*, various years; *Business Legislation and Incentives*, edited by Ali Sharif Zu'bi and Sharif Ali Zu'bi (Amman: Allied Accountants, 1995); *Industry, Trade and Services*, (Amman: Allied Accountants, 1995); Manzur, *Economic Growth*, pp.222-227; Patai, *The Kingdom of Jordan*, pp.108-110; Various interviews.

[155] *Years Statistical Series (1964-1993)*, Central Bank Of Jordan (October 1994). Until the 1970s, customs amounted to under 10 percent of the entire state revenue. Rates differed by the good and its origin requiring government agents at the Port of Aqaba to inspect most imports.

[156] *Middle East Economist* (March 1960), p.42.

[157] Interview with Burhan Dajani, Secretary General of General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries, Amman, 6 June 1995.

regional issues of Arab nationalism and Jordan's bilateral relations with countries like Iraq and Syria, the "state's initial position was neutral."[158] To push the issue, ACC elites first coordinated with the Joint Arab Chambers of Commerce in Beirut to get its members to agree on reciprocal customs exemptions within the Common Market. ACC board members then directly appealed to the Monarchy "to bring Jordan on board." Certainly regional political interests figured into Jordan's acceptance and the state took the negotiating lead, but it was ACC lobbying that first introduced the issue and helped shape its eventual outcome. Jordan's entry into the Common Market, therefore, allowed some goods to escape the customs regime and exempted some goods from further rate increases.[159] In addition to marking an important lobbying success, the Common Market issue also introduced a budding relationship between the ACC and Crown Prince Hassan.

Hassan, King Hussein's brother, became a key conduit for ACC elites to influence the Monarchy. While relations between ACC elites (Asfours, Tabbas, Mankus, and Bdeirs) and the King Hussein were good, the King was not known for his interest in economic issues. The Crown Prince, however, took a keen interest. In the 1960s, he established the Royal Scientific Society, an institution which convened an assembly of economic and social advisors, hosted seminars, and produced policy documents. Hassan periodically recruited ACC elites into the Society, and made himself available to hear ACC ideas on economic issues.[160] In return, ACC elites routinely invited the Crown Prince to Chamber-sponsored events and exhibitions.

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[158] Interview with Tijani.

[159] *MEED* (10 August 1965), p.378; and interview with Doug Newman, US Embassy, Amman, 16 May 1995. More nefariously, some Jordanian importers and re-exporters could use false papers of origin to circumvent the duties.

[160] Interview with Ahmed Obeidat, former Prime Minister, Amman, 5 June 1995.

Finally in this period, the ACC successfully pressed state officials to allow its presence on important policy boards. In addition to the investments committee within the Ministry of Commerce and Industry, the Industrial Development Bank (IDB) was a good example of this access. ACC elites successfully convinced state officials that the best method to ensure private sector responsiveness to the IDB would be to permanently assign private sector members to its board of directors.[161] Three members would be appointed by the state with the remaining six from the private sector. The ACC was given the responsibility to appoint these members which it shared with the new Chamber of Industry.[162] More *ad hoc* board inclusions took place within the National Planning Council to provide input into Jordan's economic planning process; the new Central Bank of Jordan to support deliberations on fiscal policy measures, and the new Housing Bank Corporation to determine loans to the boom construction sector.

On the whole, for a new country with a small market, ACC lobbying efforts were impressive in this period. Elite cohesion and control of the institution facilitated regularized influential access with state decision makers. Despite formation of the ACI, the Chamber of Commerce remained the most important representative of the private sector in Jordan, and the association was able to strengthen its pre-independence relationship with the new state. However, by the late 1960s change was already evident. While institutional effects from the 1961 reorganizations were yet to be fully realized, changes in the fiscal situation of the state were underway. In the wake of the 1967 War, a sudden jump in external aid prompted the Prime

[161] Interview, Dajani.

[162] Manzur, *Economic Growth*, p.230; and *Jordan's Economic Plan, 1964-1970*, National Planning Council, Amman.

Minister's cabinet to repeal a new income tax law.[163] Likewise, Jordan's first five year economic plan was revamped once new revenue expectations became externally available. In neither case was ACC lobbying an important factor. State fiscal autonomy would profoundly impact Chamber-state relations.

[163] *MEED* (2 November 1967).

3. SUMMARY

The period 1920 to 1970 encompassed much political and economic change in Kuwait and Jordan. Several summary points stress this:

1. When examining the private sector's evolution within developing countries, an examination of colonial legacy is clearly warranted.[164] However, from examination of this first period one conclusion is that British colonialism did not significantly impact either the trajectory of the KCCI or the ACC, nor their relations with the state. Unlike Lisa Anderson's cases of Libya and Tunisia, types of colonial administration did not arise a variable, simply because British involvement in Kuwaiti and Jordan followed similar lines, and because, in each case, British policies were a mixed bag for the interests of domestic economic elites. Both associations actually benefited from certain aspects of the colonial experience: ACC elites received profitable land and import monopolies, and KCCI elites gained a useful political target (colonialism) on which to make political demands. In Kuwait, domestic decisions and politics during the 1921 Council and the 1938 Majlis played far greater roles than British involvement. In Jordan, British political involvement was more extensive, but it was an involvement focused on regional political concerns not domestic economic development of ACC-state relations. Where the colonial period was significant in both cases, was in the fact that British grants-in-aid set the path of state dependency on exogenous revenue.

2. Early Chamber histories revealed close functional parallels. By institutionalizing elite merchant organization, each association facilitated intra-merchant interest coordination and trade division. Similar organizational features aided elite control, thereby reducing the transaction costs involved in interest aggregation and market compromise. Additionally, the development of a peak merchant association satisfied state desires to have just one voice representing capital. All of this made exit costly since one would consequently miss out on a share of the pie.

3. Review of this period confirmed, in both cases, a variant of Crystal's thesis that the advent of oil/aid resulted in a new pact between ruler and merchants. The sudden influx of

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[164] Robert L. Tignor's recent book, *Capitalism and Nationalism at the End of Empire: State and Business in Decolonizing Egypt, Nigeria, and Kenya, 1945-1963* (Princeton: Princeton University Press, 1998) presents an excellent comparative study touching on this theme. Though all three states underwent decolonization from the British, the post-colonial trajectories of each business class were radically different. Tignor focuses on internal political dynamics, public-private relations, and economic institutions to arrive at some useful correctives to the literature on decolonization, nationalism, and economic development. Among them, he finds that "imperialism was not the avatar of capitalism."

exogenous revenue, the expansion of the state, and the distribution of that wealth were more than mere statistical artifacts. Enriched materially but stripped politically, asil merchants and Jordanian elites relied on their associations as the only, independent institutions situated to engage state agencies.

4. In the process of intra-merchant organization and institution building, a difference between the cases was the experience Kuwaiti merchants had with public institutions prior to the KCCI. From the 1921 Council, the Education Council, and the 1938 Majlis, asil elites gained valuable lessons in managing and controlling important social institutions. Though Jordan's elite merchants started without the same experience, they caught up quickly by establishing their Chamber much earlier. Moreover, each was built with similar organizational features, making the KCCI and the ACC more like private social clubs than social institutions.

5. Comparable degrees of policy influence was achieved by each association in this early period. Lobbying was informal, relying on personal connections and internal coordination to bargain successfully with state officials. The KCCI achieved a good deal of its aims in the 1960s. This success was best exemplified through the role it played in the establishment of new economic laws and the creation of the Planning Board. These changes submitted future development decisions to a bureaucratic routine they could influence. The ACC also played an important role in influencing founding economic laws, gaining access to policy boards, and shaping external trade relations. In neither case did Parliament play an important role in economic decisionmaking since both were preoccupied with regional issues.

6. Finally, this section highlights change in the independent variables. In the late 1960s, both states launched industrialization efforts aimed at developing an indigenous (and loyal) industrial class to rival the merchant majority. Internal to the associations, the most significant change was the Jordanian Chamber's successful lobbying to make membership obligatory. In Olsonian terms, merchant elites had formed an "encompassing association." Following this change, ACC elites instituted more inclusive voting and nomination rules. Though not immediately significant, some elites split off from the board and formed the Amman Chamber of Industry. No comparable changes occurred in Kuwait. Over time, the impact of these institutional alterations would be made clear.

IV
THE BOOM IN JORDAN AND KUWAIT: 1970-1982

1. KCCI AND THE STATE IN TIMES OF PLENTY

The dramatic rise in oil prices in the 1970s generated an unprecedented economic boom in Kuwait and throughout the Middle East. The implications for KCCI-state relations were equally profound. On the one hand, increased state investment in semi-private (shareholding) companies and the general increase in domestic demand significantly enriched merchant elites. Whereas the KCCI elite were comparatively wealthy within their own country, the boom of the 1970s made them rich regionally and internationally. On the other hand, the monumental increase in state autonomy and distributional resources reduced the KCCI's policy leverage. By the mid-1970s, state officials and the monarchy ignored most KCCI attempts at policy input and altered distributional policies to enrich KCCI rivals. By 1982, Kuwait was on the verge of a fiscal crisis that would reverse these trends.

The boom and state policies

While Kuwait reaped oil riches in the 1960s, the boom of the 1970s was massive by comparison. In the latter half of the 1960s oil revenue to the state averaged about 270 million KD annually. In 1974, oil revenue had jumped to over 2 billion KD.[1] The 1973 War sparked the increase, and ensuing OPEC interventions helped keep oil prices high throughout the decade. In some aspects, the windfall accelerated state initiatives of the 1960s; in other aspects, the state

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[1] *Statistical Abstract in 25 Years*, Ministry of Planning, State of Kuwait, 1990.

launched wholly new endeavours. The majority of state actions during the boom, however, closely conformed to rentier theory expectations.

A first expression of increased rent was what Crystal observed as "rapid, disorganized bureaucratic growth." As in the 1960s, the goal of government expansion was distributional, only in the 1970s the means were shifting. Whereas in the 1960s land purchases accounted for around 30 percent of public expenditure, through most of the 1970s that number dropped to around 10 percent.[2] Still, public expenditure on the whole increased (from 1967 to 1977 government spending increased by an average of 26 percent annually), the difference is that much of this spending went to increase the already robust public provision of health, education, and welfare. Kuwait came to lead the Gulf oil states in the development of its welfare system. Public spending also went to expand the ranks of the civil service. Kuwaitis employed in government service comprised more than 75 percent of the total population by the mid-1970s.[3] Politically, welfare distribution and government employment served to buy al Sabah legitimacy. Economically, because much of the increase in external revenue was pumped into the economy, the state's position in the domestic economy grew. The portion of private sector employment correspondingly declined, [4] so that by 1977 only 12 percent of the private sector work force was

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[2] Hazem Beblawi, *The Arab Gulf Economy in a Turbulent Age* (New York: St. Martin's Press, 1984), p.169.

[3] Ragaei El Mallakh, *Kuwait: Trade and Investment* (Boulder: Westview Press, 1979), pp.79-80; *Statistical Abstract in 25 Years*, Ministry of Planning, State of Kuwait, 1990.

[4] As most Kuwaitis came to work for the government, the private sector turned to imported foreign workers Anh Nga Longva, *Walls Built on Sand: Migration, Exclusion, and Society in Kuwait* (Boulder: Westview Press, 1997), pp.27-27. By 1975, 70 percent of the Kuwaiti population was composed of foreign workers.

Kuwaiti. Where once the merchants represented a sizable portion of Kuwaiti society, they were now a minority.

The state's enhanced fiscal position meant officials could continue efforts to buy-off merchant elites while at the same time introducing a new effort, creation of new elites. A first step in these dual processes were the nationalizations of the 1970s. In 1971 the government nationalized the natural gas industry in Kuwait. Following four years of negotiation and debate in Parliament, the government then took a 60 percent share in the Kuwait Oil Company (KOC)--the joint British Petroleum Gulf Oil company that secured the first oil concession in Kuwait. By 1976, the state had taken full control. Along with the KOC, the government nationalized the Kuwait National Petroleum Company (KNPC) in 1975. Consolidation of the oil industry paralleled an expansion of state investment in the shareholding corporations. The following figures demonstrate the magnitude. In less than 10 years (1968-1977), the authorized capital for Kuwait's joint-sector more than tripled. From the 1950s until 1968, 18 such joint companies had been established, but from only 1970 to 1977, 22 such companies were created.[5] Public investment occurred through two means. The Ministry of Commerce and Industry first negotiated with the board of a company to expand its authorized capital. Once the size of the expansion was agreed upon, the Ministry simply purchased the newly available shares. In 1976, the state took a 49 percent share in the Kuwait Oil Tanker Company (founded in 1957 by KCCI President al Sagr) by doubling its authorized capital, and by 1979 the company was completely state-owned. In a similar manner, a 51 percent public share was secured in the National Industries

[5] Calculations made form data provided in, Y.S.F. Al Sabah, *The Oil Economy of Kuwait* (London: Kegan Paul International, Ltd., 1980), pp. 70-71.

Company in 1978.[6]

A second means of public investment was the purchase of existing stock shares. Kuwaiti citizens were allowed to trade in shareholding companies through licensed local brokers since the 1960s, but in April 1977 a formal stock market was inaugurated. As a result of wild price fluctuations and market instability in late 1977 and 1978, the state directly purchased shares in many joint companies to support prices and guard liquidity. In some cases, previously private companies became public virtually overnight. For example, Kuwait Flour Mills, Gulf Insurance, and Gulf Cables all realized sizable increases in public ownership after the stock fluctuations.[7] The macro-economic result of this massive state intervention was the further reduction of the private sector's contribution to the overall economy. By Hazem Beblawi's standard calculation (in contrast to the Stauffer calculation), the share of non-oil GDP fell from 43 percent in 1970 to 30 percent in 1975.[8] With more public fingers in the private sector, the state had the capability to focus on creating its own economic elite.

Endangering the pact: industrialization, the stock market, and the new merchants

If the 1950s and 1960s were decades in which the monarchy sought to coopt the merchant elite, the 1970s was a period in which the state attempted to create its own economic elite. The process eventually involved even the royal family entering private business, a clear violation of the

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[6] *EIU*, 1977 and 1980 Supplements.

[7] Stock purchases also took place through other state-owned companies--such as the Kuwait National Petroleum Company.

[8] Beblawi, *The Arab Gulf Economy*, p.164.

unspoken merchant-ruler pact of the 1960s. There were two phases to this effort. State industrialization policies in the first half of the 1970s earnestly sought to further the industrialization initiatives inaugurated in the 1960s. Not satisfied with the progress of the Industrial Development Committee (created in 1965) or the lack of commercial bank lending to private industry, officials in the Ministry of Commerce and Industry and the Prime Minister's office emphasized import substitution and export-led strategies in Kuwait's 1971-1976 economic plan.[9] To spur private sector industrialization, more robust incentive and protection regimes were created, products of domestic industries were given purchase preference by government ministries, and industrial zones were created. To guide and supervise implementation, the Prime Minster created a committee with all relevant government ministers (but no KCCI representative).[10] To finance projects, the state established the Industrial Development Bank of Kuwait (IBK) in 1973 with the express mandate of providing start-up funding for domestic industries.[11] Undergirding these industrial policies was a not-so-subtle political project.

Through industrialization, state officials hoped to foster a rival business elite to the KCCI. By drawing in younger Kuwaitis, Shia, and bedouin into industrial ventures the intent was to foster a sectorally distinct business elite not tied to the commercially rooted Sunni KCCI elite; in

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[9] *Financial Times* (25 February 1977), p.25.

[10] Ragaei El Mallakh and Jacob K. Atta, *The Absorptive Capacity of Kuwait* (Toronto: Lexington Books, 1981), pp.94-97.

[11] The majority of IBK funding was public but there were also private investors. The Bank raised further capital by issuing bonds, a direct response to the unwillingness of the commercial (private) banks to avoid industrial investments.

other words, a politically loyal business elite.[12] Consequently, many of the "new merchants" who appeared in the 1980s got their start during this period. For example, the al Wazzan group (a Shia family business with close ties to the monarchy) used industrial incentives to form a very successful sugar company in the mid-1970s.[13] Praise for Kuwaiti industrialization was quite common in the international press.

> The wise policies followed by the Kuwaiti government in encouraging industry, and even manufacturing industries and artisan products, has along with other factors triggered a trend of industrialization in Kuwait which is expected to take wider dimensions by virtue of the increasing tendency towards inter-Arab economic cooperation.[14]

By and large however, the industrialization program was a failure. Private sector manufacturing accounted for 3.6 percent of the GDP in 1970, and by 1976 it had risen only to 5 percent. The private sector remained stubbornly rooted in commerce, trade, and services (see Table 1, appendix).[15] Near the close of the five year plan, Dr. Ali Khalifah al Sabah, under secretary in the Ministry of Finance, admitted that the program had failed, recognizing, "a series of white elephants draining the economies of oil exporting countries under the guise of industrialization,"

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[12] Interviews: Jasem al Sadoun, Economic Consultant, Kuwait City, 5 March 1996; Professor Hassan Johar, Kuwait City, April 1996; and Isa Majed al Shaheen, Spokesman for the Islamic Brotherhood, Kuwait City, 3 March 1996.

[13] *EIU*, No. 4 (1976), p.20.

[14] *The Arab World Weekly* (4 February 1978), p.11.

[15] Reasons for this commitment to commerce are commonly attributed to Kuwaiti tradition or pre-existing cultural norms. Seen from another angle, the types of industries the state was pushing (cement, pipes, construction materials) were precisely the same industries that other Arab states were pushing for their own economies. The prospect of market saturation coupled with Kuwait's lack of industrial raw materials, portrays private Kuwaiti investors of the day, as more rational actors, than tradition-bound traders.

was not Kuwait's desire.[16] Though the economic program was cut-short, its political aim remained.

A second phase of the creation a new business class followed on the heels of failed industrialization. It roughly corresponded to the Prime Minister, Crown Prince Shaikh Jabir, taking the throne upon the death of Emir Salim al Sabah in 1977. The second phase was less a direct policy and more a decentralized approach by the government to allow those "not formerly in the private sector to get their piece."[17] Though incentives to lure investors into industry failed, incentives to lure them into the commerce and services sectors held a better chance for success. For instance, in the mid-1970s the Ministry of Commerce and Industry relaxed its guidelines for approving new business licenses. It should be remembered from the 1961 cabinet crisis that the constitution in Kuwait precluded civil servants from operating private sector businesses. In relaxing its screening of new applications, the Ministry, in effect, turned a blind eye to many civil servants setting up businesses.[18] Many of the new entrants focused on the booming construction and real estate sectors. Others used the Ministry loop hole to start what were referred to as *tijāra i'qama* (the business of visas). Domestic need for foreign workers as housekeepers, maids, and so on led to overnight businesses to bring in these workers. Charging the worker a fee for the visa procurement, and charging a finder's fee to the Kuwaiti employer, made for profitable side businesses for many civil servants. Larger-scale government incentives toward Islamists followed a similar logic.

[16] *EIU*, No. 4 (1976), p.20.

[17] Interview Johar.

[18] Often registration would be in the name of a civil servant's wife or son.

In 1977 the state approved creation of the Kuwait Finance House (KFH). State ministries took a 49 percent share in the bank and appointed four of the nine board members. The bank was run according to Islamic principles and allowed a wide purview to operate in all economic facets, from commercial banking to consumer lending.[19] Moreover, it was exempted from normal Central Bank regulations and oversight. The KFH was immediately successful receiving over 5,000 deposits in its first two months of operation.[20] It became a principal source of support for the growing Islamic movement in Kuwait, a movement that often clashed with the type of leftist, Arab nationalism predominate among KCCI elites. In hand with the KFH, the state approved and subsidized the formation of several non-profit, Islamic charitable societies, such as the *Sanabil* Project. Predating the institutionalization of the Islamic non-profits was the Cooperative Movement, inaugurated in the 1960s, and significantly enhanced in the late 1970s.

The cooperatives, essentially grocery store outlets, were established in every district in Kuwait. With government subsidies, the cooperatives sold basic goods at below or near market prices, and were governed by an elected body from the district. At first in the mid-1970s, the state allowed cooperatives to import goods on their own. Then, state supervision of the cooperatives was relaxed and certain cooperatives that could turn a profit did so without state supervision. Greater profitability made share purchases in the cooperatives more attractive for those living in the local districts. From 1973 to 1976 total sales almost tripled, and membership

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[19] *Middle East*, February 1983, pp.72-73.

[20] *Business Week* (6 November 1978), p.83.

(that is, shareholders) increased from just under 30,000 to over 50,000.[21] In 1980 there were 25 cooperatives in Kuwait with over 100,000 shareholders. In purely economic terms, the cooperatives posed a growing threat to merchants' market shares. In 1976 cooperatives only accounted for 10 percent of private consumption but 50 percent of the total expenditure on foodstuffs.[22] The gradual reach back into direct importing carried future warnings for merchant interests. Politically and more immediately however, Islamic groups (at first the Salaifi, then the Muslim Brotherhood) took control of some of these cooperatives through the local elections. Cooperatives proved valuable not only as electoral training grounds but eventually as venues for revenue and patronage. Hence, by the late 1970s, state policies (or their calculated absence) had aided the consolidation of the core of an Islamic economic and political network. In 1977, the state brought to the fore a more potent tool of rival coalition construction, the inauguration of Kuwait's stock market.

In 1970 and again in 1971, the Ministry of Commerce and Industry issued resolutions designed to regulate the growing securities trade in shareholding companies. In 1972 the Bureau of Securities Exchange was created, with a principal aim of limiting trade to shares only in Kuwaiti companies. However, these measures were incomplete. Owing to the unregulated increase in the number of shareholding companies and the lack of restrictions on individual subscriptions, the market boomed in the early 1970s. Because investors could trade in real estate companies and land prices were soaring, the small investors, not previously able to invest directly

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[21] Khouja and Sadler, *The Economy of Kuwait*, p.131. The cooperatives also got their own associational representation in the 1970s, The Consumers Co-operative Union.

[22] *Statistical Abstract in 25 Years*, 1990.

in land, were afforded tremendously profitable opportunities.[23] Oversubscription, heavy speculation, and soaring prices ensued. Fortunes were being made as "brokers with little knowledge of the markets...rose to prominent positions as dealers."[24] Fortunes, however, clouded more ominous aspects of the stock trade.

First, owing to a lack of supervision, forward trading in stocks developed. Small traders with little or no capital were able to purchase and trade shares with essentially post-dated checks. Checks were then exchanged in secondary and tertiary trades with other traders in hopes that future profits would make the checks good. This magnified the number of subscribers, investors, and profiteers. In 1974, the Minister of Commerce and Industry issued a resolution banning such forward trading, but again lack of state enforcement allowed the practice to continue. Second, since disclosure guidelines were weak, there was little "meaningful relationship between stock prices and the underlying companies' financial and earning position."[25] Poorly informed, excessive speculation, especially in newly established companies with low stock prices, became the norm. Third, beginning in 1976, trade in the first off-shore Gulf company began. Kuwaitis in partnership with other Gulf state nationals set up companies (in the U.A.E. for example) and offered stocks in Kuwait. Since these companies were outside the purview of the state and because almost any earnings rate could be imputed to them, off-shore trading opened another important venue for the new investor. Once more the Ministry of Commerce and Industry

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[23] Beblawi, *The Arab Gulf Economy*, pp.194-199; and Fidà Darwiche, *The Gulf Stock Exchange Crash: The Rise and Fall of the Souq Al-Manakh* (London: Croom Held, 1986), pp.5-9.

[24] Darwiche, *The Gulf Stock Exchange*, p.4.

[25] Beblawi, *The Arab Gulf Economy*, p. 209.

appeared to act by banning trade in non-Kuwaiti companies, but enforcement did not follow. Indeed, most government interventions fostered further incentives toward destructive speculation. The most obvious example came in 1975-1976 when the state purchased large numbers of shares to shore up falling prices. Instead, this actually flooded the market with excessive liquidity (24 percent in 1975 and 37 percent in 1976 above the normal market level), leading to renewed speculation and investor beliefs that the state would forever ensure their investments.[26]

Finally in 1977, the state created an official stock exchange and made the 1972 Bureau of Securities Exchange its executive. The newly institutionalized market traded securities in some 40 Kuwaiti-based companies with a total value of KD 347 million. Of the initial stock issued the government controlled around 24 percent.[27] To gain further control over the market, the Ministry of Commerce and Industry released a string of new guidelines in 1977. Since forward transactions continued, the ministry sought to establish standards and manage them. A subsequent ministry ruling banned further establishment of shareholding companies in Kuwait and prohibited any increase in existing companies' capital. These measures affected some stability, but they also pushed the aggressive, new investors into uncharted waters. Trade in the off-shore companies offered a way around these restrictions. Thus in 1979, the Souq al Manakh opened its doors. Its purpose was to deal in stocks of the shareholding companies not registered in Kuwait. Despite the fact that the Manakh was illegal, "the government turned a blind eye."[28] The speculative activity and forward trading that eventually occurred outstripped even levels that the

[26] Darwiche, *The Gulf Stock Exchange*, p.57.

[27] Beblawi, *The Gulf Economy*, p.211.

[28] *Ibid.*, p.233.

legal market had achieved.

How the boom affected the position of the KCCI

Industrial incentives and a permissive regulatory environment helped to fashion the outlines of a new class of Kuwaiti entrepreneur. In some cases, these were civil service employees with side businesses, others were Shia and bedouin groups who had taken advantage of new market openings, and still others were simply gamblers with good connections. One US State Department cable, referring to the stock market and this period in general, put it this way:

> The Stock market so enveloped Kuwaiti society that one could not sit down with a Kuwaiti for more than 30 seconds without the subject being raised...young aggressive Kuwaitis became billionaires in a matter of months; Kuwaiti women found an activity they could profit at and enjoy. Kuwaiti society--with the perceived blessing of the government--indulged in an orgy of greed that knew no bounds.[29]

Whatever the means, more Kuwaitis were in business. KCCI membership figures reflected the jump. From 1970 to 1975 membership increased by 40 percent (see Table 6, appendix). Because any first business license required Chamber membership--but only import and bidding required yearly renewal--the new businessmen simply registered only once. With this in mind, the double digit membership increases of the 1970s were composed mostly of those new merchants. In addition to swelling the ranks of the small and middle class businessmen, government policies also succeeded in laying the foundation for a new business elite. Some, like the al-Wazzan, participated in some of the few industrial concerns that developed. Many more focused on real estate and construction such as Ahmad Duaij, chief executive of the Kuwait Real Estate

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[29] Cited in Edward Jay Epstein, "Kuwait Embassy Cables," *Atlantic Monthly*, Volume 251, No. 5 (May 1983).

Investment Consortium.[30] Few of these business groups immediately approached the size and diversity of the conglomerates of the KCCI elite, but many were gaining recognition, principally from the state. One former official in the Prime Minister's office in the 1970s, Isa Majed Al Shaheen, recalls that:

> Lists for invitees to official functions at the Prime Minister's office began showing new names. The richest of the new businessmen began calling on the Prime Minister and showing up at meetings, whereas before only the Sunni elite of the Chamber had been present.[31]

More expansive state control of shareholding companies also meant new names began appearing on the executive boards of some companies. Correspondingly, the cabinets of the 1970s saw an increase in non-asil, non-Sabah ministers. Prominent Shia and non-asil Sunni representatives increased their share of cabinet posts from about 30 percent in 1965 to over 40 percent in 1975 (an increase of 2-3 posts), while the asil of the KCCI dropped from 38 percent to a steady 33 percent in the 1970s.[32] To a certain extent, much of this was tolerable for the KCCI leadership. Few of the new merchants were challenging elite economic concerns and no immediate leadership challenge within the KCCI was apparent. However, KCCI elites were aware of the direction and intent of state policy. "We knew that by ignoring (market) excesses, the government was hoping to foster a rival merchant class."[33] The problem was that, although direct government

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[30] *The Times of London*, 12 July 1977.

[31] Interview, Shaheen.

[32] Abdul-Reda Assiri and Kamal Al-Monoufi, "Kuwait's Political Elite: The Cabinet," *Middle East Journal* 42 (Winter 1988). The change in these numbers may appear small, but in small and medium sized developing nations even slight cabinet shifts carry political meaning.

[33] Interview, Abdullah M.S. Beaijan, KCCI Board Member, Kuwait, 26 March 1996.

industrialization policies had failed on their own, the more amorphous permissive policies that followed were difficult to pin down and lobby against. Moreover, the flip side to all of this was the boom (particularly in real estate and infrastructure) greatly enriched KCCI elites, because their investment positions of the 1960s increased in value.[34] The boom, then, imparted conflicting pressures regarding KCCI lobbying.

Trying to lobbying during the boom

On the one hand, state rent increases and the general economic boom buried overt issues of disagreement between Chamber and state. Certainly, the state did not have to entertain taxation of merchant profits. State fiscal strength allowed it to continue cooptation processes and favourable deals for the elite. On the other hand, that same fiscal power allowed the state to pursue policies that indirectly endangered KCCI interests. Therefore, though few overt issues, like legal reform, concerned KCCI lobbying in the 1970s, issues of conflict were nevertheless present. Unlike the 1950s and 1960s, however, the state simply ignored most KCCI demands.

In the 1970s the Chamber was quite active. It augmented its institutional capabilities by establishing public relations and foreign relations departments. The staff was expanded and management experts outside Kuwait were recruited to serve as permanent advisors.[35] The Chamber moved to diversify its revenue base by investing more Chamber finances into real estate and development projects in Kuwait. In perhaps their most shrewd public relations move, KCCI

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[34] Imports soared in the 1970s, and given the monopolies KCCI elites maintained, they directly benefited. For instance, in 1975 Kuwait had the highest per capita number of cars in the world. *MEED* (8 August 1975), p.14.

[35] Interview with Majeed Jamal Adin, Advisor KCCI, Kuwait, 6 December 1995.

elites started a national newspaper, *Al-Qabas*, in 1970. Four of the original investors in the newspaper--Saqr, Khourafi, Bahir, and Nisf--sat on the KCCI's board. With the paper, the KCCI had a respected media outlet with which to press its claims. For instance, the president's annual economic statement, which had gained notice in the 1960s, was published by *Al-Qabas*. The paper carried KCCI policy statements and drafts proposals. One of the first issues tackled in this way was the rise in prices.

Tied to the tremendous inflow of capital beginning in 1972, prices skyrocketed in Kuwait City. Demand forced an over 50 percent increase in imports from 1974 to 1975.[36] Retail prices went up. The state and Central Bank responded with a variety of measures that worried KCCI elites. In 1972 and again in 1974, the state declared retail price freezes on certain commodities. In some cases, the state took over the importation and subsidized distribution of basic commodities.[37] The Central Bank imposed a more stringent liquidity requirement on Kuwait's commercial banks to stem lending. Individually these policies did not strike at the heart of any KCCI interests, collectively they were ominous. Little consultation took place with KCCI officials on these measures. The KCCI responded in 1972 and again in 1976 with public proposals to lower costs. The core proposal was a free-trade zone in Kuwait. The KCCI hired a group of British consultants to study the idea and put forward recommendations on how it might be accomplished. With the report in hand, KCCI elites argued to state officials that by establishing a customs-free zone at Shuwaikh port, the cost of imported items could be brought down. Moreover, they asserted Kuwait's entrepot trade stood to benefit by lowering the cost of

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[36] *EIU*, Supplement 1980, p. 62.

[37] EIU, No.2 (1972), p.4; *The Middle East Economist* (November 1975), p.139.

goods re-exported to Iraq and Iran.[38] The government did not act on the free-zone proposal. Despite its access and the institutional capacity to fund research of project itself, the KCCI proposal was wholly ignored. In a second effort on the issue, KCCI elites proposed an export promotion fund be set up within the IDB and funded with customs duties on imports. In this way, entrepot merchants could recover some of the import tax by having their re-exports partially subsidized by the fund.[39] In this case, the Ministry of Commerce and Industry and the IDB agreed but never diverted any customs revenue to the new fund. The autonomy high rents fostered and the ensuing weak consultation and implementation, were not confined to the institutional level, but were interestingly reflected in the appointment of civil servants as well.

An important point of policy leverage was the personal relationship between KCCI leaders and the Minister of Commerce and Industry. Traditional consultation had developed between KCCI elites and the Prime Minister regarding the selection of each minister. That tradition broke down in 1975 with the appointment of Abdul Wahhab Yusif al-Nafisi to the post. Though the precise nature of the disagreement was not documented, KCCI President al-Sagr and Nafisi had a number of personal disagreements.[40] Previous appointments to the post had either been royal family members or individuals close to the KCCI. Nafisi had not served previously in any cabinet post, but his closeness to the monarchy won him four postings to state controlled shareholding companies. He was also not associated with any of the core asil families, and some observers suggest that part of the conflict flowed from the fact that Nafisi was a virulent critic of al-Sagr's

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[38] Interview, Adin.

[39] Interview, Dr. Mohammed A. Al Awadi, Kuwait University, Summer 1996.

[40] Interview Wael al Sagr, Son of A.A. al-Sagr, Kuwait, 6 April 1996; and Dr. al-Awadi.

leftist, Arab nationalist politics.[41] Whatever the source of disagreement, Nafisi was an "outsider" to the KCCI and despite their resistance, he was appointed. By all accounts, the institutional relationship between the KCCI and the Ministry suffered. Policy committees within the Ministry saw fewer meetings with KCCI officials. The personal animosity meant the Minister rarely attended KCCI events, in contrast to previous ministers. Again, despite KCCI protests Nafisi was appointed for another term in 1976--the first non-Sabah reappointed to that ministry. Loss of this ministerial leverage impacted broader Chamber-state relations.

Traditionally, the KCCI relied on the Ministry of Commerce and Industry to provide an institutional counter-weight to the Ministry of Finance, where KCCI influence was weaker. It was to be the pro-merchant element among state agents.[42] Off and on recession in 1976 and 1977 coupled with a growing public budget, sparked bold comments by the Minister of Finance Abdul Rahman Salim al-Atiqi[43] that Kuwait would have to consider "direct taxation in the range of 10-15 percent."[44] In addition to the lack of consultation with KCCI elites on the idea,[45] the expected

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[41] Various interviews. In Kuwait, few personal disputes are secret, but there is discretion in discussing them.

[42] This situation supports Joel Migdal's contention regarding the importance of "disaggregating the state" to view intra-state conflict as a determinant of policy outcomes. The larger point, however, that this study emphasizes is a focus on the strength and organization of the social elite--like business--as a factor in the manipulation of rival segements of the state.

[43] Atiqi was another minister close to the monarchy and with whom the KCCI had open disagreements. When he was minister of oil in 1968, KCCI loyalists in Parliament demanded his suspension. *Middle East Record, Volume 4, 1968*, edited by Daniel Dishon (Jerusalem: Israel Universities Press), p.615.

[44] *EIU*, No. 1 (1978); *MEED* (31 December 1976), p.31; and *The Arab World Weekly* (3 February 1979), p.11.

resistance by the Minister of Commerce and Industry was not forthcoming. Nothing came of the tax proposal, but the lack of ministerial support left its impression. For the first time, the KCCI lacked an ally in the Ministry.

Poor relations with commerce and industry could not have come at a worse time. In 1976 the Emir dissolved Parliament. Crown Prince Jabir explained that "the defective application of democracy in Kuwait has reached a serious turning point...the deterioration of the situation represented a threat to Kuwaiti security and stability."[46] The threat to Kuwait was concern over the repercussions of Lebanon's civil war and fear over possible reactions from Kuwait's 300,000 Palestinian workers. More deeply, the monarchy was frustrated with the opposition in Parliament. Preoccupied with oil concession negotiations, the opposition had on several occasions refused to approve state plans regarding the oil industry.[47] In 1972, rancorous debates threatened to withhold approval of the state's budget. Press crack-downs followed the suspension, undercutting one of the KCCI's newest outlets, the *Al-Qabas* newspaper. Cabinet reform after the suspension did result in the return of three KCCI loyalists, but as well, it was in this reshuffling that Nafisi was reappointed and the new Islamic Affairs post was created.[48] Overall, loss of the parliamentary venue all but destroyed the KCCI's ability to supply *quid pro quos* in

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[45] Counter-intuitively, this was an excellent example of the poor-relations between state and business during the boom. Because there was little fiscal need for increased domestic revenue, the Finance Minister's statement better reflected the institutional autonomy the Finance Ministry had achieved to that point than any budget shortfall.

[46] Quoted in *The Arab World Weekly* (4 September 1976), p.13.

[47] *The Arab World Weekly* (5 August 1972), pp.13-14

[48] Crystal, *Oil and Politics*, p.92.

exchange for policy input. This led to the further centralization of economic decision making and its insulation from KCCI involvement.

In place of the elected ministers, the activities of Parliament's Finance Committee were taken over by a committee consisting of the ministers of finance, commerce/industry, oil, and planning,[49] none of whom were KCCI loyalists. Trends toward institutionalizing Islamic opposition and limiting KCCI leverage were foreshadowed in the elections immediately prior to dissolution. In the 1975 elections, half of those elected were new to Parliament. Owing partly to state gerrymandering, the number of asil (KCCI loyalists) dropped from around 20 to 14, tribal elements realized 2 more seats, and Shia representatives rose to 12. The result was a curious alliance among, tribal, Shia, and Sunni fundamentalists whose voting block could assure the state of opposition to any "legislation sponsored by the liberal urban merchants."[50] Thus, even before the suspension of Parliament, KCCI leverage there had weakened. The cumulative effect of these weakened venues came with unsuccessful lobbying over the stock market and the gradual entrance of Sabah family members into the private sector.

As reviewed earlier, the growth and development of Kuwait's stock market required a great degree of institutional crafting and policymaking. Politically, the KCCI saw weak state regulation as a tool to create a rival, politically loyal merchant elite. More specifically, by the late 1970s some of the KCCI leadership began to fear the economic repercussions of a runaway, unregulated stock market and the harm it could do to their own interests. Certainly part of the

[49] *EIU*, No. 4 (1976), p.19.

[50] Gavrielides, "Tribal Democracy," in *Elections in the Middle East*, p.164; also see, Crystal, *Oil and Politics*, pp.91-92..

KCCI's failure to affect the state's decision making grew in part from the fact that many KCCI elites benefitted from the stock market, and hence opinion was divided in the early stages. Accordingly, the KCCI backed the initial institutional phases of the stock market in the early 1970s. KCCI board members sat on the first Bureau of Securities Exchange and continued to serve when it headed the formal creation of the stock market in 1977. Those same members directly benefitted from government share purchases in companies in which they held stock. Access, however, did not translate into successful influence.

Even before the inauguration of the stock market, KCCI position papers reflected a growing concern. After four meetings with government officials, a panel of KCCI board members completed a comprehensive document detailing Chamber proposals. Themes emphasized greater supervision by state agencies and greater market transparency.[51] First and foremost, the KCCI wanted more forceful regulation of the infamous forward transactions. "Circulating stocks by postponed payment caused an increase in speculation and a drop in prices, that is why this kind of circulation should be organized." The KCCI called for greater transparency by compelling shareholding companies to publish "quarterly bulletins about their financial situation." To address the problem of excessive liquidity, the KCCI proposed the Central Bank be empowered to float "treasury bonds or public debt bonds." Modelling itself after the Security and Exchanges Commission in the United States, the KCCI further argued that the Bureau of Security Exchange be able to "stop dealing with any stock, if there is enough certainly that the process increased or decreased due to rumours or planned contrivance." Though well-researched and professional, the

[51] *Mudhakkara an Suq al-Ashum wa al-Nashāt al-Iqariyy fi al-Kuwait* [Notes on the Stock Market in Kuwait], KCCI, 1977.

proposals reflected more than purely economic concerns. The writers went out of their way to stress the importance of the market to small investors and the positive benefits of "widening the market." In that vein, they even proposed that closed stock companies be allowed on the market to widen investment opportunities.[52] However, the clear thrust of this document, and others that would follow, was to rein in the market, thereby curtailing the methods of creating a rival merchant class.[53]

It is clear that KCCI proposals were heard. Proposals appeared in *Al-Qabas* and there were presentations within the Ministry of Commerce and Industry and within the Securities Exchange.[54] As the progression of off-shore trading and the creation of the Souq al Manakh demonstrated, the KCCI was unable to marshal any internal government support. There was certainly no sympathy at the top of the key ministries, finance and commerce/industry. Furthermore, involvement of government officials and some royals in the illegal trade meant powerful personal interests resisted KCCI complaints. Once the Souq al-Manakh came on the scene in 1979, an institutionalized, albeit illegal, market for trading in off-shore companies was available. Chamber strategy switched from banning this trade toward bringing it under Ministry control.

A telling Chamber-sponsored conference in November 1981 (shortly before the crash of

[52] This proposal may have been something of a red herring. Since most of the closed stock companies were controlled by the asil, they could exercise positive control over trade in their stocks.

[53] For some, this was simply sour grapes, since KCCI elites had made their money and now wanted to prevent others from similarly benefitting.

[54] Interview, Adin.

the Souq al Manakh) represented this effort. The conference brought together government officials, KCCI leaders, and economists to discuss the markets. In a key address, al-Sagr laid out the KCCI's position. While admitting the "second stock market" served a useful purpose in Kuwait's economy, al-Sagr focused on the need for more information and state supervision. "I believe that the problem is very difficult but we can reduce its results by providing accurate information, making studies, and by giving traders and small stock carriers the information to know where to step and when to buy." More specifically, al-Sagr called for the Manakh to be subsumed under the Ministry of Commerce and Industry, essentially bringing these companies into the official stock exchange and regulating forward transactions.[55] He concluded with an ominous warning: "This is so dangerous because nowadays are different than before, we are dealing with millions and if any problem occurs, there will be a disaster."[56] In the end, no effective measures were taken.

Failure to rein in the stock market and limit state creation of rival merchants were the most obvious failures in the 1970s, but they were not the most serious for the KCCI elite. Crystal shows that after the succession of Jabir Ahmad in 1977, more and more Sabah family members entered the business boom.[57] This directly threatened the unspoken deal between KCCI elites and the monarchy and, because of royal family political connections, threatened asil economic positions. The dissolution of Parliament confirmed that KCCI involvement in politics would

[55] By 1980, forward transactions were effectively controlled on the official stock market.

[56] Conference on the Development of the Kuwaiti Stock Exchange, November 1981; also see, Darwiche, *The Gulf Stock Exchange*, pp. 62-63.

[57] Crystal, *Oil and Politics*, pp.93-97.

remain muted.[58] With royals entering business, reciprocity was withering away. Some Sabahs even used their access to win state contracts for front companies or pressed the new Emir to punish rival merchants.[59] While much Sabah involvement was covert, royals such as Shaikh Nassar Sabah al-Ahmad surfaced as well-known domestic investors.[60] KCCI lobbying on this issue was naturally precarious and open records are scarce. Indeed, given that the famous agreement was covert, protesting its violation had to be covert as well. None of the KCCI's public venues or resources could be utilized. Observers confirmed that this was a backroom issue for KCCI elites at the top of the monarchy. In specific instances where royal businesses profited at the expense of private concerns, meetings between the PM or the Emir and al Sagr occurred.[61] Without the full public backing of this institution or a definite lobby target (legislation for instance), royal promises made at one point could be forgotten at another. The trend only served to heighten KCCI concern over the other more concrete issues it failed to influence.

The KCCI entered the 1980s a politically weakened institution. Only a tremendous economic downturn or change in state fortune could alter the situation.

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[58] This was nowhere more evident than in the fact that there was little merchant protest over the suspension of Parliament.

[59] Tetreault, "Autonomy, necessity," p.581.

[60] *Times of London* (4 November 1976); *Financial Times* (25 February 1977), p.23. This situation was all the more aggravating to KCCI elites because they had been forced to acquiesce to the constitutional ban against serving in the government and maintaining a private business. But since there was no such legal standard for the royals, there was no legal stick by which to measure.

[61] Various interviews.

2. ACC AND THE STATE IN TIMES OF PLENTY

The dramatic rise in oil prices and worker remittances also generated an unprecedented economic boom in Jordan. The implications for ACC-state relations mirrored events in Kuwait. Increased state investment/expenditure coupled with greater consumer demand enriched the merchant elite. Conversely, state expansion and enhanced distributional capabilities weakened the ACC's policy leverage. By the mid-1970s, state officials and the monarchy not only ignored ACC policy interests but enacted policies that directly endangered those interests. In addition, state policies to encourage an industrial class--while not fully realized--were more successful than in Kuwait. The ACC entered the decade of the 1980s a weakened association with a growing core of potential rivals.

War, rents, and state autonomy

Jordan entered the decade of the 1970s facing its most significant domestic crisis, the September civil war. Armed forces of the Palestine Liberation Organization (PLO) fought the Jordanian army in Amman and surrounding areas. Eventually, King Hussein prevailed, expelling PLO forces from Jordan. Politically, the conflict inexorably altered state and society.

On September 15 1970, just two days before open hostilities broke out, the ACC held its executive board elections. A group of PLO-affiliated candidates ran against Mohammed Ali Bdier and his allies. As it was for most social groups in Jordan, the war and its issues were a test for the loyalty of the ACC to the Hashemite monarchy. Despite the fact that the ACC was by 1970 a fully Palestinian institution, PLO candidates were completely defeated. The close historical relations between ACC elites and the state, the merchant desire for calm, and the latent fears of communist sympathies within the PLO, influenced the defeat.[62] During the conflict and after, the ACC never issued a direct statement, but it was clear where their loyalty lay. For example, after hostilities the executive board formed a committee to assess damage from the fighting and present the data to state officials. Damage was significant. The war virtually shut down commerce, and most trade routes were closed, reducing GDP for the year by 15 percent.[63] Politically, the war provided an opportunity for the state to alter its role.

King Hussein's victory put in place new rules for domestic politics. Serious domestic challenges to the regime were quelled once and for all. When regional instability did occur, the Jordanian army would take up positions outside Palestinian refugee camps, but no serious internal military threat emerged after 1970. So, while latent fears of Palestinian encroachment persisted among East Bankers, the most important test-- the military test--had been overcome. Victory also set new parameters for future opposition groups (Islamist and tribal). Opposition was accepted within bounds, but who was in control was never in dispute. As it was for Syria's Hafez al-Assad at Hama in 1982, the example and memory of past violence went a long way in keeping future opposition in line. Economically, 1970 proved a launching point for greater state involvement.

In the aftermath of the war, the state centralized the processes of economic decision making. As in Kuwait, technocrats in charge of policy making gained greater insulation from the private sector. This was best exemplified in the creation of the Economic Security Committee

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[62] Interview Abu Hassan.

[63] *Middle East and African Economist* (October 1971), p.143; *MEED* (12 July 1974), p.785.

(ESC). Empowered through martial law protocols and designed to bar currency flight from Jordan during the civil war, the ESC was located within the Prime Minister's office and was composed of ministers from the leading economic ministries. Its first head was Crown Prince Hassan, and there were no private sector or ACC representatives.[64] After the initial recovery period, the ESC became the locus for state sequestration. For instance, in 1975 the ESC invoked national security regulations to sequester private investors operating a large, nearly insolvent, bakery company. The company's board was disbanded and the state bought out the investors.[65] Though the ESC was created to address issues of national economic security, it was a source of press crack-down regulations in the 1970s and 1980s. Much of this new decision making was the legacy of Prime Minister Zayd al-Rifai's government in 1973. Rifai brought in a younger generation of economic technocrats, including: Mohammed Nuri Shafiq (Finance), Kamal Abu Jabir (Economy), Mudar Badran (Education) and Umar al-Nablusi (Agriculture).[66] Input to economic policymaking at the ESC was enhanced within specific ministries: the renamed Ministry of Commerce and Industry (previously National Economy), the Ministry of Planning, and the Ministry of Finance (specifically, the customs department).[67] Ministers of each of these agencies

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[64] *The Arab World Weekly* (25 June 1972), p.15; Eventually, the sitting Prime Minister would call and head the committee.

[65] Michael B. Sullivan, "Industrial Development in Jordan," in Khader and Badran, *The Economic Development of Jordan*, p.136.

[66] Shmuel Bar, "The Jordanian Elite, Change and Continuity," in *The Hashemites in the Modern Arab World*, Asher Susser and Aryeh Shmuelevitz, ed. (London: Frank Cass, 1995), pp.224-226.

[67] Interview with Riad al-Khouri, Amman, Summer 1995; and Tayseer Abdel Jabber, Amman, 27 June 1995.

composed the core of the ESC. Drastic increases in the level of foreign aid matched these institutional augmentations with increased fiscal capabilities.

Aid pledges from the 1967 Khartoum Summit, increases following the 1973 War, and reaffirmation at the 1978 Baghdad Conference kept external revenues as a percentage of total state revenue just under 50 percent for the first half of the 1970s (See Table 4, appendix).[68] As a portion of GDP, foreign aid averaged 30 percent from 1970 to 1980 (whereas in the 1960s the average was 22 percent), peaking to 40 percent in 1975.[69] If one includes internal/external debt and profits from state-owned enterprises (phosphate and potash mining) as forms of rent, then the percentage goes much higher.[70] Though the government does not single out the revenue of state-owned enterprises in its revenue calculations, it is undoubtedly significant. Owing to rises in the world price of phosphates in 1972, phosphates accounted for over half of the increase in industrial value added from 1972 to 1975, half of the commodity exports, and 16.3 percent of GDP (quadrupled from 1973 to 1975).[71] The connection between increased state revenue and increased government spending was uncanny. From 1970 to 1975 absolute levels of aid increased

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[68] At the Baghdad Conference Arab leaders agreed that Jordan, as a frontline state, should be given on average $1.25 billion a year--an amount nearly equal to the public budget in 1978.

[69] Khalil Hammad, "The Role of Foreign Aid in the Jordanian Economy, 1959-1983," in Khader and Badran, *The Economic Development of Jordan*, p.17.

[70] Phosphate and potash mining are only slightly more labour intensive than oil mining. Moreover, since profits accrue directly to the state they work like foreign aid in freeing the state from domestic revenue extraction.

[71] *Yearly Statistical Series*, Central Bank of Jordan; and Mazur, *Economic Growth*, p.214.

by 184 percent while absolute state spending increased by 192 percent.[72] A good deal of the increase in spending went to the military,[73] but a significant amount also supported the state's increased share in the economy. This occurred in several ways quite similar to Kuwait.

While Jordan's spending on social services was far less robust than Kuwait's, the government nevertheless embarked on major social funding programs in the 1970s. The state enacted minimal health and social security plans, boosted the minimum wage, expanded health facilities, and extended coverage of the educational system. In hand with greater military employment, state ministries also expanded their pay-rolls bringing on thousands more East Bankers. By the mid-1970s, the state employed half of Jordan's work force.[74] Greater state revenue also found its way into new modes of distribution. The precedent of direct state investment in shareholding companies (i.e., the Big 5) was established in the 1960s. In the 1970s, new institutions to direct state equity participation were created, and public ownership of mixed companies increased.

State-financed, but structurally autonomous institutions[75] like the Social Security Corporation, the Postal Savings Fund, and later in the 1980s, the Jordan Investment Corporation

[72] Calculations taken from data in, *Yearly Statistical Series (1964-1993)*, Central Bank of Jordan (October 1994).

[73] There were three salary hikes for the military from 1975 to 1980 alone. Cited in Robert Satloff, *Troubles on the East Bank: Challenges to the Domestic Stability of Jordan* (New York: Praeger, 1986), p.19.

[74] Roger Owen, "Government and Economy in Jordan: Progress, Problems and Prospects," in *The Shaping of an Arab Statesman*, Patrick Seale, ed. (New York: Quartet Books, 1983), p.88.

[75] Meaning run by its own government-appointed executive board and not under the direct control of a specific government ministry.

(JIC), established their own investment portfolios in shareholding companies. In addition, individual ministries were allowed to take out smaller shares in companies operating within sectors under their jurisdiction. Through this network of state appendages, what evolved was less wholly publicly-owned companies and more varied participation in a number of companies. Outright public ownership was limited to utilities, the national airlines, and the Big 5.[76] Dispersed public ownership gave Jordan the appearance of living up to its claim of a free market economy. Certainly in contrast to Egypt's formidable array of publicly-owned enterprises, Jordan's 31 state companies (by the 1980s) appeared tiny by comparison. But when one considers the tremendous importance of mining to the domestic economy, the small number mask their importance. Moreover, by buying company shares in different sectors of the economy, the Jordanian state, like the Kuwaiti state, came to exercise wide influence in the composition and direction of ostensibly private companies in the 1970s. Therefore, total state employment (the state-owned sector plus some semi-private companies plus direct state employment) far exceeded the 50 percent figure commonly attributed to Jordan. Autonomy and greater market control enabled pursuit of new economic policies that directly addressed merchant interests at the ACC.

State industrialization and a basis for new merchants

Three policy directions evidenced the state's reach and its insulation from the private sector: import-substitution industrialization, liberal business licensing, and subsidized importation and distribution of commodities. Each policy fit the state's overall desire to fashion a new

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[76] *Jordan: Consolidating Economic Adjustment and Establishing the Base for Sustainable Growth*, Volume 1, World Bank (24 August 1994), pp.59-61.

business elite, one geared more toward industry and marked by East Bank political loyalties.

In line with the developmentalist ideologies of the day, Jordan's economic decision makers were enamoured with the idea of turning Jordan's economy away from "non-productive" commerce toward more productive industrial enterprises. State guidance was a key ingredient. A core of economic advisors, mostly of East Bank origin and associated with the Royal Scientific Society (RSS), gained prominence in the 1970s advocating these policies. Bassam Saket, a young advisor to Crown Prince Hassan, frequently commented that Jordan should curb imports and direct investment toward more fixed assets.[77] The RSS published a series of studies suggesting various import-substitution strategies to wean Jordan of its excessive reliance on trade.[78] These ideas were most evident in the expansion of the state's Big 5 industrial companies. Cement ($21.3 million), phosphates, fertilizer ($325 million), and potash ($420 million) all expanded their facilities and capacity through public funding and external aid.[79] The state's various 5 year plans also stressed more straightforward incentives for private sector industrial projects.

Augmenting loans from the Industrial Development Bank, the 1972 Encouragement of Investment Law expanded the powers of the Investment Committee within the Ministry of Commerce and Industry to grant tax breaks for new industries. The Ministry also shifted industry

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[77] *MEED* (22 August 1980), p.4; *EIU*, No. 1 (1980), p.15.

[78] *The Middle East* (September 1976), p.54; *The Middle East Reporter* (14 September 1979), p.8; *The Economic Realities: Jordan 1976-1977*, The Royal Scientific Society, Economics Department (March 1977).

[79] *Five Year Plan for Economic and Social Development*, 1973-1976 and 1976-1980, Ministry of Planning, Amman; *EIU* Supplement (1978), p.94.

protection away from quantitative import restrictions toward greater reliance on tariffs. More targeted assistance came with the Small Industries and Handicrafts Fund established within the IDB in 1975.[80] Still IDB loans amounted to only a moderate effort, 65 industrial loans worth JD 2.6 million in 1976.[81] Of more quantitative importance have been government purchase preferences for local industries as well as Central Bank policies. Beginning in 1973, the Central Bank called for Jordan's commercial banks to lend more toward "productive activities." Since commercial banks accounted for far more loans to the industrial sector than the IDB, this was an important direction. In 1974 the Central Bank placed ceilings on commercial lending but exempted industrial loans.

This had only a slight impact. The bulk of commercial lending remained biased toward the trade sector with industrial lending moving from about 8 percent of total lending in 1970 to 12 percent by 1975.[82] Finally, through its varied investment means, the state directly participated in newly established industries by purchasing shares. With the formation of Jordan's first stock market in 1977--the Amman Financial Market (AFM)--public investment in these shareholding industrial companies could be easily tracked. Thus, it was no surprise to find that of the 77 industrial companies currently registered on the Amman Financial Market, 25 were established in the period 1970 to 1982, twice the number that were established in the period 1948 to 1970.[83] By

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[80] Mazur, *Economic Growth*, pp.223 and 231.

[81] *EIU*, No. 1 (1977), p.16.

[82] *Yearly Statistical Series*, Central Bank of Jordan.

[83] Author's calculation taken from *Dalil al sharekat al masaalhima al aama al urdeyya* [Jordanian Share holding Companies Guide] 1995, Issue 10. Amman Financial Market. Industrial companies listed on the AFM are publicly traded and the largest industrial concerns in the

the 1980s, state shares in these companies averaged over 60 percent. The result was not the type of classic industrialization state elites hoped for, but, unlike Kuwait, a private industrial sector did take root.

One ironic advantage Jordan had over Kuwait was that per capita income grew during the boom but did not reach the Kuwaiti level (See Table 2, appendix). The comparative point was clear: the average Jordanian was better off but the average Kuwaiti was rich. In Kuwait, increased purchasing power meant that price was not as important as quality or prestige. There was little market for medium-scale, domestically produced goods, at least not the kind predominant in Jordan. Whereas in the 1970s, Kuwait was one of the world's richest countries, Jordan had but moved into the upper brackets of middle income countries. This was a remarkable achievement for a country with national resource and market endowments not much better than the average sub-Saharan African country. For mid-level industrialization this was a plus. Official remittances increased more than a 1000 percent from 1973 to 1980 widening the consumer base.[84] Since remittance income went directly into people's hands consumption was directly affected, and a viable market for medium and small scale industry resulted. Consequently, two-thirds of the production that emerged in Jordan in the 1970s was clustered within the cement, food, and clothing sectors. Larger joint-sector, export-oriented projects developed in ceramics, pharmaceuticals, and piping. Thus, excluding the growth in government mining, the industrial sector's share of GDP showed steady, moderate growth in the 1970s (See Table 1, appendix).

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country. Most have over 10 employees.

[84] This calculation is based on remittances tracked through the banking system and thus only gets a portion of the real amounts. *International Financial Statistics*, IMF, various years.

Underlying the industrialization strategy was a clear political rationale. Similar to the Sabahs, the Hashemites viewed industrialization as a means to draw politically loyal elements into the private sector. Contrasts with Palestinian-dominated private commerce were hard to miss. Many of the new government technocrats pushing Jordan's industrialization found themselves appointed to the boards of the Big 5 and other publicly invested industries; for example, Saket at Jordan Cement Factories; Abu Hassan at Jordan Ceramics; and Ayyoub at Aluminum Industries. Despite these successes, the private sector remained firmly rooted in commerce and Palestinian in origin. Indeed, the majority of private industrial establishments were run by the elite Palestinian merchants who chose to diversify. Thus, while some politically loyal elements were induced to enter the private sector, government service remained the prime destination for East Bankers.

An obvious difference, then, between Jordan and Kuwait was that the rather small Kuwait industrial slice presented little threat to the KCCI, while the more sizeable industrial sector in Jordan affected the ACC, especially since an industrial association had already been formed. Its first, most obvious, manifestation came with the appointment of Walid Asfour, former president of the ACI, to head the Ministry of Commerce and Industry. The appointment marked the first and only time a representative of a private sector association was given this important ministry. The fact that the appointment did not come from the ACC reflected not only the political importance of industrialization but the declining influence of the ACC. The choice, however, was off set a bit since Walid's relative, Zuhar Asfour, was vice-president of the ACC.

A second policy with political undertones was the relaxation of business licensing. Beginning with the 1972 Encouragement of Investment Law, the Ministry of Commerce and Industry was given far greater discretion in awarding special tax breaks to new businesses. This had the effect of easing licensing requirements, since the ministry switched to using tax incentives as the principal means to dissuade licenses in saturated sectors. Consequently, "around 1971-72 the government began to approve nearly all license applications without regard to the number of firms currently in existence."[85] Combined with the continuing influx of Palestinians in the 1970s, the size of the private sector as measured by the number of registered companies shot from 2,305 in 1970 to 12,439 in 1982.[86] In Amman, registered ACC members increased from 2,100 to over 8,000 in the same period. As in Kuwait, the combination of industrial policies with a relaxed licensing regime helped lay the foundation for a new merchant elite. Gradually, as the entrepreneurial ranks expanded, ACC revenue increased, but the cost was greater stress on its institutional capabilities (recalling Samuel Huntington's famous thesis). This occurred precisely at the moment the state launched a third policy, one aimed directly against ACC interests.

Like many developing countries of the 1970s, Jordan experienced chronic, high inflation. It was classic liquidity induced inflation. Remittance increases, higher oil prices, and a greater volume of imports (so called, imported inflation) drove up prices, particularly in Amman. From 1973 to 1974 the consumer price index rose 17 percent in Amman alone. As housing shortages increased, land prices and rents went up correspondingly, nearly 200 percent in 1977.[87] Elite merchants who had built up (or been awarded) land tracts in the 1960s profited immensely. Given

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[85] *Mazur*, Economic Development, p.220.

[86] *Financial Times*, 13 August 1982.

[87] *Middle East and African Economist* (October 1974), p.134; *Middle East* (March 1977), p.73.

the political sensitivity of higher prices,[88] the state stepped in forcefully. In 1974, the state created the Ministry of Supply (MOS). Previously just a division within the Ministry of Commerce/Industry, the MOS was made a separate ministry with cabinet status. The MOS centralized government subsidization schemes and extended them to more classes of goods. It took over the importation and distribution of meat, rice, sugar, tea, flour, cooking fat, and some fuel products. Storage facilities were established for non-controlled goods to allow the state further leverage over distribution and prices. For other categories of goods, the MOS established set prices and published lists of the official prices in the local dailies. These activities quickly made the MOS one of the most important economic ministries.

MOS officials regularly criticized merchants for "hoarding," "price gouging," and ignoring the needs of low income citizens. Press and government rhetoric accused the minority of rich merchants of profiting at the country's expense.[89] In 1978, Prime Minister Mudar Badran in a major address issued not-so-veiled statements on the government's concern: "any government in power must aim at ensuring the prosperity and well-being of its citizens with an atmosphere of security and stability so they can produce and build." The next Prime Minster, Abdul Hamid Sharaf, continued the campaign by railing against "runaway consumption," emphasizing "increased production and a cutback in luxuries," and suggesting that "free enterprise would be promoted as long as it is conducive to the welfare of society and lies within the constraints of social justice and balance."[90] Action followed words. The Cabinet approved a Citizens'

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[88] Those bearing the brunt of price increases could not help but notice those profiting--Palestinian merchants.

[89] *Al -Dustur* 10-16 March; *Al-Rai* 7 September 1980.

Complaint Bureau to facilitate information about merchant price violations. Soon after, a military-run, anti-corruption court was created to try price violators.[91] In 1980, the MOS expanded its reach by opening "parallel markets" designed to sell a wide range of commodities at below market prices. The Minister of Supply, Jawad Anani, then announced the government would be creating a chicken supply company to slaughter, package and market foul at below market prices.[92] In addition to threatening ACC member interests by competing with retailers, MOS policies furthered the political direction of industrial and licensing policies.

MOS import schemes relied on middle merchants to import the subsidized commodities. These arrangements created instant monopolies and guaranteed profits for merchants close to the bureaucracy.[93] In the words of one former ACC official, "the MOS became a swamp." Collusion, easy profits, and corruption helped create another niche for a class of merchants wedded to state distribution.

Internal dynamics: coalition building and sectoral representation within the Chamber

Superficially and viewed in isolation, the ACC appeared to be a strong and durable social institution in the 1970s. It survived the civil war with no doubts about its loyalty to the monarchy. Its elite was profiting from the boom in consumption and rise in land prices. As

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[90] *EIU*, No. 1 (1980), p.15.

[91] *Jordan Times* 11 January 1980; *Middle East Contemporary Survey*, Volume 4, 1979-1980 (New York: Holmes & Meier Publishers), p.573.

[92] *EIU*, No. 2 (1980), p.14.

[93] Various interviews.

private savings were invested in the West, sons and daughters followed. The widely respected Muhammed Ali Bdier, remained president, and the cream of the elite merchant families were represented on the board, including: Asfour, Touqan, Tabba, and Taher. Despite these positive conditions, the ACC realized little lobbying success, particularly on the macro issues of economic policy. As in Kuwait, increased state autonomy translated into official disregard for ACC interests. Moreover, the 1961 organizational changes and the growing ranks of new merchants were recasting intra-associational politics. First, what were these the internal changes?

Under Bdeir in the 1970s, the ACC instituted several positive changes. The Chamber bought land and constructed a new headquarters in a developing upscale area of Amman, Shmeisani. Shmeisani was a booming business and residential area of the Palestinian merchant elite. Many of the largest commercial and banking (including the largest, the Arab Bank) firms had moved their headquarters to the area. Hence, it was no coincidence that the ACC headquarters were built across the street from the Arab Bank building. Since office facilities were significantly expanded, the board approved an expansion of the permanent administrative staff. There was enough additional space to rent floors out to local businesses. The area quickly became synonymous with the heart of the business sector of the city.[94] Along with the physical changes, Bdeir created a library and documents division to store and organize much of the economic statistics which state agencies, like the Central Bank and the Ministry of Planning, were producing annually. He also introduced one of the first computer systems in Amman. The rather unsophisticated (by today's standards) punch-card system was tasked with upgrading and handling the growing number of member registrations. No other private social institution

[94] Interview Tijani.

operated such a system and only a handful of state agencies had followed suit.[95] In contrast with these organizational upgrades, more negative trends were taking root.

By 1973 the Palestinian character of the ACC was solidified. Not only were the vast majority of merchants in the Amman area Palestinian in origin, but the significant Syrian board representation of the past had all but disappeared. The 1961 changes in membership scope were only seriously enforced by the municipality in the late 1960s. Therefore, by the mid-1970s we see just the onset of the effects that membership expansion and voting liberalization were going to have. There are few open records remaining on past Chamber elections, so one must piece together the remnants with personal recollections to get an idea . What is documented was the membership breakdown. In 1975, of the total possible member voters (classes *mumtaz* through 4), 9 percent fell into the category of old elite (those allowed to vote and nominate before 1961) and 91 percent fell into the newly enfranchised categories. By 1980, those figures were 13 percent and 87 percent, respectively. Besides the obvious expansion of the overall electorate, the increased number of elites complicated the processes of elite compromise and cohesion. Some of the elite increase included the new merchant rich, some the older generation, and some the sons of the traditional elite. The periodic clashes of perspective and bias alone would require constant attention to maintain elite cohesion. The leadership team of Bdeir and Asfour in the 1970s, by all accounts was respected, secure, and skilled enough to manage the larger elite grouping without any severe institutional or electoral repercussions. What eventually wrought changes was the addition of the mass of lower category voters. Their problem came straight from the literature on

[95] Interview Matook; *Al-Taqrir al-Sanawiyy, Ghurfat Tijārat Amman* [Yearly Report, ACC] various years.

the difficulties of coalition building and collective action. In line with Oslons's early hypothesis, small groups have disproportionate powers for collective action and organization. Once they are no longer small, this power weakens, but what is the process?

First evident in the early 1970s, elections for the 12-member board began to show signs of overt origin and religious affiliation. For instance, running in alliance with Bdeir, there would be among the Palestinians two Christian candidates, two with origins in Hebron, two from Nablus; and outside the Palestinians, maybe one Syrian, one TransJordanian, and so on. Surfacing possibly in the 1974 election but certainly in the 1978 election, formal lists of candidates appeared. These lists compressed 11 board candidates plus their leader (the presidential candidate) into a single vote list. A tool of coping with the larger and more diverse rank and file, lists allowed the presidential candidate to include elements representative of the larger voting membership. Ascriptive concerns, like garnering the Hebron vote, gradually trumped more pragmatic concerns, like candidate profile or political access. By the early 1980s, candidate lists reflected less sectoral balance and more narrow interests. Choices based on origin and religion meant that an entire ACC board could represent only one or two sectors, and this occurred precisely at the time in which sectoral diversity was deepening. An unbalanced board could be expected to present proposals to the state that reflected particular as opposed to encompassing interests. This is a clear violation of Olson's thesis that encompassing associations, while impaired at policy advocacy, are better able to espouse more balanced economic policies. Evidence to be presented about the 1980s and 1990s and the role of voting rules suggests additions to Olson's thesis. Suffice it to say by the late 1970s, a trend was emerging that this Jordanian encompassing association was both impaired at policy advocacy and unable to free itself from particularist interests.

The effect on elites was clear. Not only winning elections, but distilling diverse interests into policy initiatives, was greatly complicated because elites had to play a two-level game, so to speak. At one level, elite compromise had to be made and cohesion ensured. At another level, since some board members were directly chosen because of their ties to the lower categories, rank and file concerns had to be met not only every election but during policy deliberations as well. Negotiation between levels stressed information provision and made internal political calculations less clear. The effects were not immediate, but hints of change during the 1970s were evident.

One of the first, and most notable elite defections, was one of Subri Tabba's sons, Tawfiq Tabba. Like many sons of prominent merchant families, Tawfiq sought to demonstrate his independence and success by serving on the board from 1966-1970. After 1970 he left the board, despite attempts by Bdeir to bring him back.[96] His younger brother Hamdi, would eventually take over Tawfiq's position, but the symbolism of the defection was clear. The ACC was not the association it had once been. One institution to clearly benefit was the ACI. Unburdened by the need to compromise with its rank and rile, the ACI could attract leading merchants who chose to take on the "industrial hat." Even though membership in the ACC was obligatory, industrial representation was continually absent, for an industrial board member could not command a large voting block.[97] The lack of this important sectoral representation was not lost on state officials. It should be remembered that the Prime Minister appointed Walid Asfour, the former ACI

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[96] Interviews Tijani and Tabba.

[97] The big vote getters became textiles from Hebron, foodstuffs from Nablus, and retailers from Ramallah.

president, to the post of Minister of Commerce and Industry in 1979. More evidence of the declining ACC position and its antagonistic relationship with the ACI was Crown Prince Hassan's negotiation efforts in the 1970s.

Buoyed by the growing policy advocacy role of the RSS, Hassan took an interest in private sector representation in the 1970s. He reasoned that the separation of industrial and commercial into two chambers injured private sector representation and interest mediation. In 1971, Hassan engaged the head of the Central Bank to mediate negotiations between the two associations with the aim of reuniting them. Off and on meetings took place until 1975. Bdeir proposed that industrialists receive one third representation on the board--in other words a guarantee of 4 seats every election--while Asfour responded with a demand for half the board. Neither side compromised and the issue receded after 1975. Though there are no open records on the deliberations, participants and observers suggested that a core issue for the ACC was the growing power of the lower categories.[98] Some of the most resistant (to ACI inclusion) executive board members were those whose base was composed of the newly assertive lower ranks. They stood to be sacrificed in any unification process, and so raising the industrial percentage was not negotiable from their perspective.[99] This was possibly the last chance ACC elites had to alter the 1961 organizational changes.

[98] Interviews Hassan, Tijani, Tabba, Asfour.

[99] To be sure, some observers suggest that neither Bdeir or Asfour were serious about reuniting. Negotiations were taken because the Crown Prince had asked for them.

ACC lobbying during the boom

The types of lobby failure in Jordan closely resembled the pattern in Kuwait. Business's resistance to more aggressive economic intrusions by the state were generally ignored. Policies were adopted with little or no associational input. Some of these policies (e.g. helping foster rivals) indirectly endangered elite interests, while others directly challenged merchant interests. The suspension of Jordan's Parliament in 1976 was symptomatic of increased state autonomy and the general freeze on lobby venues during the boom.

Access points for policy input underwent some change in the 1970s, but in the aggregate much was the same as it had been in the 1960s. Personal access to ministers (commerce/industry and finance) and the Prime Minister remained the paramount venues. Permanent representation on the Investment Promotion Council within the Ministry of Commerce/Industry remained in place. The high profile policy role of Crown Prince Hassan, which began in the 1960s, added another dimension of access. However, in the 1970s Hassan was building his own advisory coterie within the RSS, and ACC elites had yet to make much headway there. Consequently, Hassan's record of economic advocacy in the 1970s reflected little of the ACC's concerns. In the words of one board member, "Hassan had his own ideas" in the 1970s.[100] Not until the 1980s, when the Crown Prince broached more consultation with the ACC, did merchant elites become more comfortable with Hassan. A noticeable addition to ACC access came with its permanent representation on the board of the Social Security Corporation (SSC) in 1980. The Corporation's primary task was to extend insurance coverage for Jordan's work force. The SSC--in addition to the Postal Fund and the JIC--acted as a principal funding arm for public investment in

[100] Interview Hassan.

shareholding companies.[101] These were important functions that clearly impacted ACC interests, but since patterns of public investment were already in place, representation with the SSC did not assume much lobbying importance until later in the 1980s. The more important change in lobbying access during the period was the suspension of Parliament and its replacement with the National Consultative Council.

In 1974, Arab leaders at Rabat, Morocco declared the Palestine Liberation Organization "the sole and legitimate" representative of the Palestinian people. King Hussein, ever vigilant over external politics and domestic impacts, returned from the meeting determined to change Jordan's electoral law to "reflect the new situation."[102] The previous separation of the lower house into East and West Bank elections was limited to the East Bank only. However, in 1976 the King halted plans to elect an East Bank only Parliament and dismissed Parliament. In its place, the King proposed in 1978 a temporary appointed body, the National Consultative Council (NCC). As its name suggested, the NCC was designed solely as a consultative body, with no legally binding powers. It was to deliberate on policy passed down from the Prime Minister and offer advice, but unlike Parliament, it could not approve or disapprove. At first glance, the suspension of Parliament looked to be a gain for the ACC.

The 60 member NCC had its own Finance Committee, and business representation was far greater than in past Parliaments. Nine businessmen sat on the first council, including ACC board members Bdeir and Hassan. Other businessmen were either past board members or were closely

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[101] *Official Gazette*, The Social Security Law, No. 30, 1978.

[102] Nabeel Khoury, "The National Consultative Council of Jordan: A Study in Legislative Development," *International Journal of Middle East Studies*, 13 (1981), p.429.

allied with ACC elites. Tribal representation (rarely in agreement with business) declined in contrast to urban-educated elites as a whole.[103] Business representatives controlled the Finance Committee for the first time. However, access proved easier than actual influence. Aside from the very limited power of the NCC, the royal invitation to participate was predicated on loyalty. Just as Subri Tabba sat on the first appointed senates because of his loyalty and closeness to the King, the same was expected of the new generation. Consequently, businessmen sat as individuals not as representatives of their association. Mamduh Abu Hassan describes the precarious position of business on the NCC:

> The NCC actually paralyzed business. We sat on the council without community activity or assocational backing. We could do little. Because there was already an atmosphere of suspicion about business, our appointment was regarded with even greater caution by the other political elements on the NCC.

Two pieces of legislation and the 1976-1980 economic plan for Jordan best exemplified the ACC's lack of policy input. In 1972, the Prime Minster pushed through Parliament a key reform of the Labor Law. The purpose of the reform was to enact legal parameters for the establishment of professional associations.[104] ACC elites sought to have the reform stipulate that professional employer associations (sub-sector associations like food stuffs, transportation, sweets, and so on) be legally obliged to either fall under the leadership of a local Chamber or under the representation of the Federation. In other words, they wanted encompassingness to extend not only to individual business licenses but to licensed economic associations as well. Since ACC elites feared that such institutions would compete for lobbying access or duplicate

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[103] Khoury, "The National Consultative Council of Jordan;" and Bar, " The Jordanian Elite," p.223.

[104] *Official Gazette*, Labor Law 1972, (Article 69, section D).

proposals, their appeal was based on the state's desire for one business voice on national policy.[105] Officials at the Ministry of Commerce and Industry ignored the appeal and left the reform rather vague. Associations were given permission to form, and no legal guidelines on affiliation with the Chamber were put in place.[106] The Chamber had little sway over associational formation since permission was granted solely by the Minister. Seen in conjunction with other state policies to spur the growth of new merchants, decentralization of associations made sense. While ACC elites did not see such associations as serious rivals, their presence would eventually complicate relations with state ministries and occupy resources otherwise in their possession.

Another legal revision flowing from the 1976-1980 economic plan stirred significantly more ACC resistance. Following the exit of Western companies from war-torn Beirut in 1975, Jordan's state technocrats, led by Crown Prince Hassan, crafted a new vision of Jordan's economic role in the region.[107] The same group that pushed the idea of Jordan's industrialization, closed ranks with Hassan in declaring Jordan as "the new Beirut." With much fanfare and international press coverage in 1975, the Crown Prince unveiled plans to turn Amman into the new center of business in the Middle East.[108] World Bank President, Robert McNamara, reportedly agreed to back the plan with targeted loans.[109] The twin visions of an industrial Jordan and the new Beirut came together in the 1976-1980 economic plan for Jordan. The plan

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[105] As well, the additional fees from associational members would be welcome.

[106] Interviews Matook and Abu Hassan.

[107] Even into the 1990s, this new economic vision of Jordan surfaces again and again.

[108] *New York Times*, 2 October 1975.

[109] *Journal of Commerce*, 8 December 1975.

represented the low point for ACC involvement in planning for Jordan's economic future. Integral to the plan were calls for increasing investment in industry, mining, and tourism.[110] It projected investment in commerce to decline. To boost export oriented industries, the plan called for a committee to reexamine Jordan's tariff structure. Though the theme of tariff reform was an annual concern of ACC policy papers and letters to the Ministry, the committee had no ACC representation.[111] In addition to ignoring any input role for the ACC, the plan called for expanding the capabilities of the ACI by funding the formation of sub-sections to cover specific industries.[112] To serve the purpose of recasting Amman's regional role, the plan advocated modifying the 1972 Encouragement of Investment Law.

Hassan and his advisors argued that a first step in replacing Beirut would be to attract those firms which left Lebanon. On November 1976, the Ministry of Commerce and Industry and the Prime Minister's office completed revisions to the law. It was clear ACC elites had not been consulted either on the law or on the larger vision for remaking Amman. Foreign companies wishing to relocate to Amman were exempted from registration with the Chamber, and from customs fees.[113] The committee (on which the ACC had representation) empowered in 1972 to rule on tax breaks for business was bypassed by this new legislation. Judgements for foreign business requests would be made in a week by the minister only, not the committee. Therefore,

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[110] *Five Year for Economic and Social Development, 1976-1980*, Ministry of Planning, Amman, p.39.

[111] *Ibid.*, p.173.

[112] *Ibid.*, p.176.

[113] *Official Gazette*, Law No. 46, 1975; *EIU*, No. 1 (1976), p.14.

not only was the Chamber deprived of fees and contacts from foreign business licensing, but important leverage over granting breaks was bypassed. By spring 1977, businessmen in Amman were openly protesting the law. They argued that simply letting in foreign offices contributed little to the economy, but actually stretched already thin social services and increased competition for skilled workers.[114] In vain, ACC elites filed petitions with the Ministry and the Prime Minister to revoke the law. The failure of these efforts solidified an already poor record of lobbying by the association up to that point, because the Chamber was already losing its most important struggle over the Ministry of Supply.

The creation and operation of the MOS was the most injurious and difficult issue merchant elites faced in the 1970s. Jordan and its private sector had successfully weathered the waves of Nassar inspired socialism of the 1950s. Demonstration effects from Nassar's treatment of Egypt's once well-respected private sector were muted in Jordan.[115] However, the public sector mood of the 1970s, resounding with its injunctions against "runaway consumption" and demands that "free enterprise...lie within the constraints of social justice and balance," echoed--for Jordan's merchant elites--themes of the Nassarite era. Exaggeration was easy, but the MOS's activities and the ESC's selective sequestrations departed from traditional state-business relations. These were not halcyon days for the private sector.

In the first place, state officials did not consult ACC representatives prior to the creation of the MOS. To no avail, Bdeir and Asfour reacted by petitioning to the Prime Minster for ACC

[114] *The Times of London*, 25 May 1976; *Middle East*, April 1977, p.73.

[115] For an excellent history of that relationship see: Robert L. Tignor, *Capitalism and Nationalism at the End of Empire: State and Business in Decolonizing Egypt, Nigeria, and Kenya, 1945-1963*, pp. 96-194.

representation within the MOS to ease some of the import transitions and guard against unfair accusations against merchants.[116] The rapid expansion of the MOS's import lists and goods that fell under price control were not curbed by merchant complaints. The type of working relationship of the past where ACC elites, like Subri Tabba, worked with ministry officials to set up emergency storage facilities was gone. MOS officials made storage, distribution, import, and pricing decisions in the absence of any merchant or associational input. Mid-level merchants close to MOS officials were awarded monopoly import rights to bring in goods for the ministry.[117] ACC elites argued that merchants were simply setting prices in relation to demand and to cite them for the rise in prices ignored other more important external factors, notably oil prices. In the late 1970s, when the MOS began to establish retail outlets, "the private sector began to see the government as a competitor since it owned so many businesses."[118] These fears were confirmed with the MOS's decision to spend JD11 million to develop its own bakery capable of supplying Amman with 11,000 loaves of bread an hour.[119] For state officials and the monarchy, price rises and the need for government response was an issue of political legitimacy.[120]

In 1979, the Citizen's Complaint Bureau came into effect and military-administered courts were empowered to try price violators. The new Prime Minister Abdul Hamid Sharaf gave

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[116] Interview Hassan, Tabba.

[117] Interview Jabber.

[118] Interview Tijani.

[119] *Middle East*, February 1979.

[120] For instance, there were reports from Kuwait that retired army officers and bedouin leaders staged a march near Amman in October 1979 to protest the rise in prices. *Kuwait News Agency* (KUNA)30 October 1979.

special weight to the MOS and its policies.[121] Over the next year and a half, "hundreds of merchants" were tried before this court; additionally, retailers that violated price controls or "hoarded stocks" had their names published in local tabloids.[122] Amman merchants were exclusively targeted and though none of the ACC elites were arrested, some were quietly implicated through the tabloids. Despite protests that the MOS rein in such suspicion, the climate continued. "MOS witch hunts," (as they had become known among merchants) proved impervious to ACC influence even as Bdeir and Hassan led vocal criticisms of the government's pricing policies in the NCC.[123] Prime Minister Sharaf rejected the appeals, as well as proposals that the Chamber's own arbitration department adjudicate some of the price violation cases.

The state's move into the private sector represented a break with past arrangements between state and merchant elites. Almost a mirror image of the broken Kuwaiti pact, Jordan's private sector elites perceived that their own faith and loyalty had been trampled. Given the tumultuous effects capital flows had, ACC elites recognized the need for a greater state role. What they did not expect and what they railed against was the sacrificing of policy access and the traditions of private-public consultation that had historically developed. On the one hand, the Amman Chamber was one of Jordan's largest and best organized social associations of the 1970s. On the other hand, it entered the decade of the 1980s a significantly emasculated policy advocate. The abrupt economic shocks of the 1980s that engulfed Jordan and the entire region, heralded

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[121] Umayya S. Tukan, "The Debate about Development," in *The Shaping of an Arab Statesman: Sharif Abd al-Hamid Sharaf and the Modern Arab World*, Patrick Seale, ed. (New York: Quartet Books, 1983), p.109.

[122] *MESC*, Volume 5 (1980-1981), p.639; Interview Hassan.

[123] *Al Rai*, 14 November 1979.

new opportunities to reverse this trend. Intra-associational trends and domestic political dynamics, however, mitigated against a return to power.

3. SUMMARY

In some ways, the boom period enhanced state developmental policies of the 1960s. In other ways, Jordanian and Kuwaiti public policies broke with past-arrangements, specifically private/public consultation. With state autonomy at its peak, each Chamber was equally estranged and isolated from meaningful policy input. Similar weaknesses, however, could not mask divergent internal dynamics that were to have crucial effects the next decade. The following points summarize these salient issues.

1. Patterns of state economic intervention moved along similar lines and employed similar means. Significant amounts of exogenous revenue buttressed jumps in civil service employment. By the late 1970s, the majority of the Kuwaiti and Jordanian work forces were publicly employed. More rent expanded state capabilities to purchase large numbers of shares in formerly private companies. When considered in conjunction with state owned enterprises, public control of the domestic economy in each case was profound. Included in the expansionist policies were incentives to expand the ranks of the private sector; one direction was industrialization, and another was more liberal licensing requirements. As a result, the entrepreneurial ranks in each country grew. The key difference was that industrialization took hold to a greater degree in Jordan than in Kuwait. Owing to what Robert Looney termed a market with "high purchasing power but low sales,"[124] few of the Kuwaiti private sector were lured away from the lucrative commerce sector into industrial ventures. Actually, technocrats in each country showed little cognizance for the standards of investment safety and profitability employed by private sector decision makers. So, industrialization in Jordan was marginal as well. However given its larger market for mid-level goods, it developed a more identifiable private industrial sector by comparison.

2. While economic policies meshed well with ideologies of the day, these policies were also undergirded by clear political rationales. Each monarchy sought to foster new economic elites through either industrialization, more lenient business licensing, or unregulated stock markets. The aim was to create a business class more closely associated with each regimes' base of political legitimacy. It succeeded to an extent. Industrialization took hold to a greater extent in Jordan and therefore some of the new elite would be rooted in that sector. In Kuwait, the new elite was less sectorally distinct and more ascriptively specific.

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[124] Robert E. Looney, "Employment Creation in an Oil-based Economy: Kuwait," *Middle East Studies*, 28, 3 (July 1992), p.574.

3. While the external environment of each Chamber was quite comparable, divergent internal dynamics were beginning to show evidence. The KCCI weathered the decade with significant increases in membership and with its cohesive leadership in control. The ACC also witnessed membership increases, but at the same time, the 1961 organizational changes began to make themselves felt. To be sure, the leadership in Amman remained composed of a cohesive elite into the 1980s. However, elections became more complex. Difficult two-level balancing games evolved whereby intra-elite compromise was not enough. More and more, elites were forced to construct that compromise upon rank and file concerns, ascriptive issues, and electoral needs. Coalition building with the Chamber was showing sign of stress. In the offing, the growing power of the ACI was apparent. Just as sectoral diversity was beginning to take hold, internal dynamics at the ACC were crippling the ability of the institution to incorporate and mediate those competing interests. Elite defections from the ACC were not far away.

4. Lobbying venues in Kuwait and Jordan showed similar patterns of change and development. Personal contacts at the top of the relevant economic ministries and access to the Prime Minister remained paramount. Parliament in each case was suspended, limiting overall access to policymaking. New technocrats, tied to the monarchy, came to dominate economic policymaking in isolation from Chamber input. Personal antagonism and disputes between state officials and Chamber leaders further eroded lobby access in each case. While state fiscal autonomy meant many issues were off the table (taxation for instance), few business inputs were realized in policy during this period. Persistent KCCI injunctions about stock market regulation went unheeded. ACC ideas on tariff reform, and adjustments to the power of the MOS were equally ignored. In each case, policy targets were amorphous and difficult to pin down. Best evidence of this was the gradual eroding of the merchant-ruler pacts. In Kuwait, royal family members moved into private business, but the ability of the KCCI to respond to this covert trend was limited. More blatantly, the creation of the MOS and aggressive state takeovers in Jordan, prompted strong, but fruitless, ACC resistance.

V
LEAN TIMES AND NEW DIRECTIONS: 1982-

1. KUWAIT AND THE BUST

Just as sudden inflows of capital disrupted existing economic and political arrangements, their reversal had equally profound repercussions. The economic historian David Landes best summed up the precariousness of the rentier state: "Easy money is bad for you. It represents short-run gain that will be repaid for in immediate distortions and later regrets."[1] The fiscal crunch, coming at the time it did, provided a good window on state-business relations and the factors that had previously affected it. What we see is a state beset by two fiscal crises; an externally imposed decline in oil rents and an internally generated fiscal collapse brought on by the crash of the Suq al Manakh. Exacerbating money problems, were persistent regional security issues from the 1980-1988 Iran-Iraq war. These pressures culminated in the Iraqi invasion and coalition liberation of Kuwait in 1990-1991. If the fiscal crises of the 1980s had not laid bare state vulnerability, then certainly Iraq's invasion did so. The Chamber exploited these openings to fashion a new relationship with the state. Renewed policy influence allowed KCCI elites to shape fiscal resolutions, influence the progress of privatization, and strike at the support base of rivals. Institutionally, the KCCI was not stagnant but showed remarkable flexibility and endurance.

The rebirth of parliament, the role of business, and the fiscal crisis

The timing of Kuwait's crises coincided with the maturation of new social and

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[1] David S. Landes, *The Wealth and Poverty of Nations*, p.173.

oppositional forces. If in the 1950s and 1960s the merchants were dominate and in the 1970s that position declined as the power of religious and tribal elements grew, then the 1980s and 1990s can be described as the heyday of the new opposition. Therefore, on the one hand once the fiscal crises took hold, the policy environment was considerably more populated than in previous years. On the other hand, the presence of more organized groups pressing for policy access meant the state was significantly more vulnerable than in previous years. It was a reversal of fortunes. Allies the state and the monarchy had helped create to counterbalance the merchants now needed counterbalancing of their own. In Crystal's words, "by developing new allies, he (the Emir) had inadvertently politicized them."[2] Relying on its organizational capabilities and elite cohesion, the KCCI could exploit this opening and trade-off support for the government in return for policy influence. A hint of this dynamic came before the actual fiscal crunch.

Iran's revolution had reverberated throughout the Middle East. For Kuwait and its substantial Shia minority, events in Iran were for all intent and purposes part of Kuwait's domestic politics. The larger Shia families (such as the al-Wazzan) had always been a bulwark of Sabah legitimacy because the monarchy had looked to them to lead the larger community. Iran's revolution and subsequent demonstrations by Kuwaiti Shias in 1979 cast doubt on the broader community's loyalty. To head off potential instability, one of the monarchy's responses was to call for the reinstitution of parliament.

In 1980, Crown Prince Saad announced the creation of a Constitutional Review Committee to reform the electoral process and kick start elections. Headed by a KCCI board member Abdul Razzik Khalid al-Zayd, the committee included a number of KCCI loyalists. Some

[2] Crystal, *Oil and Politics*, p.101.

press reports directly criticized the Chamber presence, suggesting the government was reverting to the old power structure.[3] They were prescient. Interestingly however, the committee approved a redistricting plan whereby the country was divided into 25 two-man constituencies instead of 10--it should be remembered that the KCCI proposed reducing the number of districts to two in the 1960s. Lines were redrawn to favour bedouin/tribal candidates and to divide the Islamic elements. The redistricting crippled the left-nationalists like Ahmad al Khatib, who was not reelected. Tribal representatives increased their seats to 23 and Sunni religious candidates surprisingly won 5 seats. This representation was split between the more mainline Muslim Brotherhood's Social Reform Society and the more conservative Salafiyyin Islamic Heritage Society, but an alliance quickly developed.[4]

In committing to the changes, the KCCI was admitting to its loss of Parliament. Its candidates were squeezed into fewer districts as tribal and religious districts grew. For example, the old Qibla district, a stronghold of KCCI asil merchants, was divided into three new districts.[5] This narrowed KCCI representation to one prominent candidate, Jasim al-Sagr brother of Abdul Aziz al Sagr. Though al-Sagr headed the politically sensitive foreign affairs committee, his voice in all matters was deemed to be official KCCI representation. To be sure, other asil merchants, affiliated with or related to board members, did win elections. Parliaments in the 1980s and 1990s

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[3] *MECS, Volume 4, 1979-1980*, pp.404-405.

[4] It was also in this period that Islamic control of the local cooperatives spread. In the same year as the parliamentary elections, Salafi and Brotherhood candidates took over half of the local cooperative. Crystal, *Oil and Politics*, p.103. This will be discussed in further detail at the end of this section.

[5] Ahmad Daher and Faisal Al-Salem, "Kuwait's Parliamentary Elections," *Journal of Arab Affairs*, Vol.3, No.1 (1984).

were composed of about 10 to 20 percent of these merchants, but Jassim al-Sagr was the sole KCCI representative;[6] hence, the contrast with the parliaments of the 1960s and early 1970s was stark. Regardless of the loss of representation, greater openings toward the Chamber were unmistakable. In addition to its presence on the Constitutional Review Committee, the post-election cabinet was noteworthy for the absence of two KCCI rivals, Atiqi from finance and Nafisi from commerce/industry.

Government gerrymandering and courting of the KCCI did not quell the opposition. More pro-Islamic policies also did not seem to work. In 1983, six car bombings took place in Kuwait City. The attacks, tied to a Tehran based Shia oppositional group, prompted the state to reverse course. In the 1985 elections, government (overt and covert) support turned toward the old leftist/progressive elements. Their gifted leader, Ahmad al-Khatib was profiled in a lengthy television interview. To discredit the Islamic opposition, an official at the office of the Emir suggested that Islamic groups had violated Kuwaiti law by operating as political parties.[7] Election results marked a return of Khatib and his progressives; tribal candidates repeated their previous victories with 22 seats; and Islamic candidates fared bad by six seats. In a surprise result, Jasim al-Sagr lost his seat. Though other asil merchants (Mutawa, Ghanim, and Qutami) won seats, the loss of al Sagr marked the first time there was no "KCCI representative" in parliament.[8] As before, the government appeared to have an assembly of loyalists, and yet, an alliance soon

[6] Though not overt, KCCI elites certainly supported the candidacy of some of these merchants and others whose future support could be counted upon. In Kuwaiti politics, covert backing was common practice for all elements, including the government.

[7] *MECS, Volume 8, 1983-84*, p.404.

[8] Interview Johar; Candidate lists and vote totals in, *Al-Siyasa*, 22 February 1985.

developed between the Islamists and nationalists.

By now it was obvious, Parliamentary elections did little to curb political instability. In May 1985 an unsuccessful attempt on the Emir followed by several bombings, shook the country. Government preoccupation with internal security was aggravated by new crises within Parliament. Opposition groups investigating accusations of fiscal impropriety by Minister of Oil Shaikh Ali Khalifia al-Sabah demanded his resignation. The combination of political instability with an unruly opposition was too much, so that in July 1986 the Emir suspended Parliament.

It did not take long, however, for opposition groups to mount pressure for the return of Parliament. In late 1988 and early 1989, petitions surfaced demanding the restoration of Parliament and a lifting of press restrictions.[9] Islamist, nationalist, and business all participated in the petitions. Abdul Aziz al-Sagr took the leadership of the merchant community's demand for a return of Parliament. Diwaniyyahs held by al-Sagr and other KCCI elites provided important venues for the venting of opposition demands.[10] Recalling events in 1921 and 1938, merchant elites were making a play for their "rightful place" in Kuwait's social and political life. By 1990, all opposition strains had come together in demanding a return of the constitution and Parliament. Similar to Jordan's NCC, the Emir responded by convening a 75-member National Council to quell opposition demands and prepare for new elections. The process was barely underway before Iraq invaded on 2 August 1990.

In exile during the occupation, the opposition realized unparalleled leverage. With the global spotlight on Kuwait, the Emir agreed to a national convention of opposition and

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[9] *MECS, Volume 13, 1989*, pp. 484-489.

[10] *Financial Times*, 13 March 1990.

government officials in Ta'if, Saudi Arabia. The meeting was the KCCI's show. They represented not only the traditional opposition but a bedrock of Sabah loyalty in the face of Iraqi occupation. KCCI leaders Yusuf al-Ghanim and al-Sagr stayed in Kuwait during the invasion. Rumours at the time portrayed al-Ghanim as a key player in the resistance supplying communications and support equipment for Kuwait's underground.[11] There was little doubt where the loyalty of KCCI elites resided. At the Ta'if meeting, a famous photo showed al-Sagr (who was smuggled out of Kuwait for the meeting) seated at the right hand of Crown Prince Saad. The symbolism was not to be missed. Among the opposition demands at the conference was an assertion for the monarchy "to stop running Kuwait's finances as a family show."[12] The Crown Prince had no recourse except to commit to new elections after liberation.

Those elections in 1992 witnessed a return of Jasim al-Sagr to Parliament, this time under the banner of the KCCI's own political grouping, *al-Tajammu al-Dusturi* (the Constitutional Group). The group advanced a platform focusing on a greater role for the private sector in Kuwait's economic management and more decentralization of policymaking. Recapturing its role as loyal opposition and successfully pushing for the reintroduction of Parliament did not mean a merchant victory was absolute. For instance, unsupported by the Islamic and tribal blocks, Jasim al-Sagr failed in his bid to become Speaker of Parliament.[13] The struggle for Parliament in the

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[11] These stories are easily exaggerated. More legend than hard evidence of the extent of Kuwaiti resistance and its players survived the occupation. But in this case, perception was equally important as fact.

[12] *New York Times*, 13 October 1990.

[13] *EIU*, No. 4, 1992, p.9. It is worth recalling that the last speaker was Jasim's brother, Abdul Aziz al-Sagr.

1980s and 1990s confirmed that the KCCI had returned as an important political player, but it did not dominate the arena as it once had. Well organized tribal and Islamic groups occupied the public policy arena as well. Nevertheless, Parliamentary politics reopened venues for KCCI lobbying. It not only signalled wider state vulnerability, but it was an important aspect of that vulnerability. Briefly reviewing the country's fiscal crises points to other areas in which vulnerability appeared and state autonomy decreased.

Fiscal crises: bad loans and debt

Internal and external fiscal crises beginning in 1982 represented a reversal of the halcyon revenue days of the 1970s. The crash of the Suq al Manakh (to be discussed in greater detail below) crippled Kuwait's financial system. The over 5,000 individual debts from the fallout totalled a whopping 92$ billion, more than 17 times the foreign reserves of Kuwait and 4 times that of Saudi Arabia.[14] Most of these debts were backed by local banks which could not meet the liability. "The willingness of banks to keep doubtful loans on their books and stretch them out over a longer period of time still means the loans have to be funded on the liabilities side of the books."[15] The crunch could not have come at a worse time as world oil prices declined by 15 percent from 1981 to 1983. Kuwait's own oil exports declined by 50 percent in the same period.[16] In aggregate terms this meant the 2.5 million barrels a day that Kuwait exported in 1979

[14] Darwiche, *The Gulf Stock Exchange Crash*, p.101.

[15] *Euromoney*, August 1985, 119.

[16] Mahmoud A. Kaboudan, "Oil Revenue and Kuwait's Economy: An Econometric Approach," *International Journal of Middle East Studies*, 20 (1988), p.46.

were down to 1.1 million by the mid-1980s. Oil revenue as a percentage of the state budget declined accordingly (see Table 4, appendix).[17]

To fund the shortfall, the state ran a deficit in 1981 for the first time in Kuwait's history. Chronic deficits stretched into the 1990s. As GDP growth declined through the first half of the 1980s, the government drew down its own reserves (3.35$ billion by 1985) to inject liquidity into the banking system. In 1988, the Central Bank reached its lowest level of foreign reserves (1.4$ billion) since 1973. The Iraqi invasion, ostensibly sparked by fiscal disputes between Baghdad and Kuwait City, ended any hope for a short-term solution. To fund costs of the war and post-war repairs, reports suggested that the government reduced its foreign investment portfolio, estimated at 100$ billion, to the range of 15 to 35$ billion.[18] Complete details were never available on the exact amount of the reduction, but the haste of the liquidation was best exemplified by the government's sale of shares in Britain's Midland Bank at well below market prices.[19] Fiscal vulnerability fed back into the reassertion of the political opposition and the reopenings of Parliament. Fiscal vulnerability also meant the state needed the private sector, if not to contribute economic solutions, then to share some of the political heat.

Return of the KCCI

Entering the 1980s, the KCCI was in an excellent position. The cream of the elite

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[17] Beginning in 1987, returns from Kuwait's overseas investments outstripped oil revenues every year.

[18] *MECS, Volume 17, 1993*, p.496.

[19] *Middle East* (September 1992), p.36.

remained in control. Despite the appearance of political rivals, the Chamber was one of the largest, best organized, and best funded independent institutions in the country. It was well situated to take advantage of the state's financial and political vulnerability. Three themes defined the KCCI's 15 year return to policy effectiveness: (1) solving the inter-related problems of debtors and creditors from the Manakh crash and Iraqi invasion; (2) influencing the process of economic reform and privatization; (3) curbing the growing power of the Islamic opposition. Each direction required effective policy advocacy and measured policy participation. The association had to walk a fine line between being useful to the state but avoiding being used. Aside from these tasks, KCCI elites still faced internal difficulties arising from the evolution of new merchant elites beginning in the 1970s. The association's organizational advantages proved decisive in both assisting its return to influence and its ability to cope with and selectively incorporate internal rivals.

Cracks in the wall: new policy venues in the 1980s and 1990s

Whereas lobbying venues remained essentially stagnant during the 1970s, they multiplied during the 1980s and 1990s. The most obvious of the openings was Parliament. Unlike its predecessors of the 1970s, assemblies of the 1980s focused far more on domestic political and economic issues. Ministerial corruption and financial impropriety were popular issues. The powers of Parliament remained as circumscribed as in the 1960s, but the better organization and aggressiveness of the opposition stretched that authority to its limit. Especially during the Suq al Manakh debates, the Finance Committee in Parliament was a key venue for amending legislation. However, the reassertion of Parliament also produced problems for KCCI lobbying. In one respect, Islamic and tribal elements proved more skilled at Parliamentary politics, complicating KCCI initiatives at key points. In another respect, despite having only one representative through much of the period, respect for the KCCI's economic analysis and its leadership made the association a valuable ally for the government from time to time. KCCI elites effectively exploited this position by playing off government and opposition to realize its own goals.

In hand with the assertion of Parliamentary opposition, the press surfaced as an important venue. Already established in the 1970s, al-Sagr's annual economic report as president of the KCCI proved an authoritative and politically useful tool. In the mid-1980s, the association's research department was significantly upgraded with a computerized data base and staff expansion. Just as the Kuwaiti government and financial institutions were known to recruit the Arab World's best and brightest,[20] the KCCI augmented its staff with well-educated Palestinian, Lebanese, and Syrian professionals. By the mid-1980s, the KCCI possessed a respected team of Gulf economic analysts.[21] In addition, given that board members owned some of Kuwait's largest companies and financial institutions, the Chamber could count on the support of their research staffs as well.[22]

Knowing the profit and the power of media, it will be remembered that the executive

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[20] A good example of this fact is Ibrahim S. Dabdoub, Chief General Manager of the NBK (National Bank of Kuwait). Many observers credit the success of the NBK over the years to Dabdoub's financial skills. Dabdoub is also a Palestinian with Jordanian citizenship. He remained with the NBK after liberation and the expulsion of most Palestinians from Kuwait. The reason was reportedly that the board of directors (KCCI leadership families) petitioned the Emir to allow Dabdoub back in the country, so great was their need for his skills.

[21] Interview Walid Khadurri, Executive Editor, *Middle East Economic Survey*, Nicosia, Cyprus, 10 July 1995.

[22] The research resources of the NBK alone surpassed most Kuwaiti ministries.

board members had controlled the *Al-Qabas* newspaper since 1970. Its editorial bent was decidedly middle of the road. Unlike the more exciting and partisan Islamic *Al-Mujtama* or the nationalist *Al-Anaba*, *Al-Qabas* sought to antagonize few. It was a calculated strategy that gave *Al-Qabas* the profile of a sober, professional newspaper. In the early 1980s the Kuwait Centre of Gulf Studies found that *Al-Qabas* had achieved the country's largest circulation precisely because it offended few.[23] The paper figured as an important lobbying tool throughout the decade. Every major government proposal or draft was printed along with the Chamber's response or expert commentary. Chamber proposals were also given much coverage. To be sure, *Al Qabas* was not the only media outlet comprising Kuwait's rancorous press of the 1980s and 1990s, but it was prominent and effective.

In contrast to the 1970s, state officials turned to the private sector more often and more overtly. Throughout phases of the debt issue and efforts at economic reform, the Prime Minister's office created *ad hoc* committees either to generate policy options or oversee implementation. Almost without failure, KCCI representatives were present. More permanent committees were also launched. In 1985, the Prime Minister established the Supreme Planning Council (SPC). Of ten independent members, seven were appointed from the private sector by the KCCI.[24] Its task was to submit policy recommendations to navigate problems arising from decreased state revenue. Ever since the 1960s, KCCI elites had demanded less *ad hoc* state economic policy and more bureaucratized planning for the future. The SPC was a significant step toward that goal. In 1986, direct pleas by al-Sagr resulted in the creation of the Economic

[23] *MECS, Volume 6, 1981-1982*, p.499.

[24] *EIU*, No. 1, 1986, p.7.

Reactivation Committee, a high-level advisory board of KCCI board members and state technocrats. Through these venues, the KCCI could integrate proposals ranging from debt relief to economic reactivation. However, it is clear these were not open government invitations for the private sector to take over economic policymaking. Similar to most developing countries, these type of state openings were fashioned with cooptation/survival strategies in mind or to make the private sector partly responsible for economic outcome. Consultation, not advocacy was the state intent. Therefore, inclusion was one thing, the extent and success of KCCI lobbying would be its own responsibility.

Aside from institutional openings, increased access occurred through personnel changes as well. One of the key headaches for KCCI elites in the 1970s was appointment of rivals at the top of important economic ministries. By 1982 however, Atiqi and Nafisi were gone. A distinct turn toward the asil took place as the monarchy granted key ministerial appointments to KCCI loyalists. The first of these was Jassim al-Khourafi's appointment to the Finance Ministry in 1985. One of the richest merchants, Khourafi was a persistent critic of government policies in the late 1970s and early 1980s. The Khourafi family was one of the founders of the Chamber and Jassim's relative Mohammed al-Khourafi served on the board throughout the 1980s. In that same cabinet, KCCI board member Yousef al-Nisf was appointed Minister of Social Affairs and Labour.[25] The apex of Chamber appointments came in the aftermath of the Iraqi invasion when Ali Hilal al-Mutairi, long time Director-General of the KCCI, was appointed Minister of Commerce/Industry. Though he was not an elected deputy and despite being a vocal critic of the government's economic management, Mutairi became the first head of this ministry to be

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[25] *MEED*, 26 April 1985.

appointed directly from the Chamber.[26] Key personnel in these positions obviously increased KCCI access, but it also enhanced business's leverage. Threatening resignation (as al Nisf did in 1986) or leaking reports became useful public relations tools.

Lobbying the Manakh

The crash of the Suq al Manakh stock market in 1982 and its economic repercussions dominated Kuwaiti political life until well after the end of the Iraqi occupation. Aside from fiscal dislocations, the crash wounded Kuwaiti national pride. Long admired for their investment and banking prowess, the Manakh exposed faults in the system which embarrassed the nation. The arduous task of addressing the debt problem came in two phases, adjudicating the debtors and supporting the creditors. Opinions about how to do this stretched between two polar opposites. One pole argued for a full government bailout of the debtors. Recalling government stock bailouts in the late 1970s, public, private, and royal family debtors assumed the state should again limit their liability to prevent further economic recession and capital flight. The second pole favoured bailing out only the small debtors and leaning on the larger ones for full repayment. Factions in the government and Islamic/tribal opposition groups supported this view. The KCCI's own proposals evolved toward a central position, essentially going easy on the small debtors but offering government assistance to help the larger debtors and support the creditors.

A few days after the crash, once the Byzantine network of debt became apparent, Crown Prince Saad met with business leaders and market heads to discuss a way out of the crisis. On 17 August, the Minister of Commerce/Industry held a press conference during which he stressed

[26] *EIU*, No. 2, 1994.

urgent measures, "in collaboration with the private sector," to address the situation.[27] On 21 August resolution 21 from the Council of Ministers made official the government desire to work closely with the private sector. A door for the KCCI had been opened. An official KCCI position did not immediately crystallize. Instead, the first opinion to surface in public debate was the hard line. Finance Minister Abdul Latif al-Hamad personified this position with his often cited statement.

> Those who have debts must repay them or they will be sent to prison. To honour one's obligation is the only way to restore confidence. Those who keep their word have nothing to fear. I have no regrets in adopting this harsh attitude because the reputation of Kuwait can only be restored if we are strong.[28]

It was certain al Hamad represented only a faction within the government and monarchy, but it was the loudest voice at the onset. Since some 5,000 large and small debtors were scattered among traders, government employees, and royal family members, rival views were slow to take shape. The KCCI itself waited until December 1982 before it issued its first official position.

The apparent indecision of the Chamber was due in part to the fact that some large debtors held sway within the executive board. None of the sitting board members were ever seriously implicated, but observers agreed that family members and friends of some board members were among the debtors.[29] The core leadership (Sagr, Khourafi, Ghanim, Nisf) was not deeply involved in the Manakh, creating the generally correct perception that the debtors were

[27] *Al -nba*, 18 August 1982.

[28] *The Economist*, 4 December 1982, p. 86.

[29] Interview Jassem al-Sadoun

composed mostly of the *nouveaux riches* and the small dealers.[30] Best representative of the lack of significant KCCI involvement was that the National Bank of Kuwait came out of the crash carrying few debts from the Manakh dealers. While Kuwait's other commercial banks allowed post-dated checks, the NBK avoided involvement and lived up to its well-earned reputation. Therefore, though not deeply involved, the KCCI leadership was greatly concerned about the Manakh. The crash depressed the official stock market and threatened to ensnare the wider financial system. It provided an opportunity to cripple the growing merchant rivals, many of whom were caught in the crash. Taken together these were important internal and external reasons for action.[31] A balance had to be struck between the desire to go hard on the debtors and the need to protect against massive bankruptcies that could bring down the entire fiscal system. The Chamber's first policy statement in December 1982 represented elite mediation of these interests.

Concluding that "all traders in this market should bear a large part of the responsibility," but admitting, "that it is impossible to find a solution which satisfies all parties," the Chamber proposed premiums on the debts be reduced from 25 to 50 percent to facilitate payment. Though the KCCI cautioned against excessive reliance on the public treasury, it nevertheless called for the government "to provide funding...to facilitate the payment of dealers liabilities."[32] It was a balanced proposal, avoiding the Finance Minister's *laissez-faire* attitude but still demanding a

[30] The infamous "eight" were debtors who accounted for two-thirds of the total debt. Its leader was Jasim al Mutawwa, previously a clerk in the government.

[31] *Middle East Economic Survey* (MEES), 28 March 1983, p. B2-B3.

[32] *Al-Qabas*, 6, 15, and 16 December 1982.

form of assisted repayment. Several three-hour meetings between KCCI representatives led by al-Sagr and a ministerial committee headed by the Crown Prince took place to discuss the proposal. There are no detailed records from those meetings, but al-Sagr's position won out over the Finance Minister and his faction. The Crown Prince agreed to go forward with the core KCCI proposal, premium stripping, and put the proposal before Parliament.[33]

Subsequent Chamber details suggested that a clearing house be set up to register and sort out the outstanding checks. The Prime Minister appointed Hilal al-Mutairi (KCCI general-secretary and future Minister of Commerce/Industry) to head the Kuwait Clearing and Financial Settlements Company (KUCLEAR). This body worked closely with the Chamber's own arbitration department and experts at the National Bank of Kuwait to sort out, and where possible settle, the debts.[34] The Chamber also sought to embolden its negotiating position by convincing debtors to sign over power of attorney to it. In this way, any arrangements negotiated by the Chamber would be binding for those who signed on. The collective action move proved impressive with over 85 percent of debtors signing on with the Chamber.[35]

By February Parliamentary opposition had mounted. Government patience over the progress of KUCLEAR was wearing thin, and the al-Hamad faction appeared to regain the policy initiative. Tone and rhetoric had decidedly changed toward punishing "the manipulators" and

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[33] *Al-Qabas*, 22 and 28 December 1982.

[34] Interview, Ibrahim Dabdoub, NBK. This was an interesting confirmation that rents weaken a state's extractive and information gathering capabilities No state ministries had the capability or expertise to sort out the debts, so the NBK and Chamber officials were tasked with collecting this vital data.

[35] Interview Adin; *MEES* 6 December 1982, B1.

dropping the KCCI's premium stripping. The government placed some 60 investors under house arrest, seized assets, and confiscated luxury cars.[36] The Chamber felt "stabbed in the back."[37] It believed a deal had been struck with the government and the process of arbitrating debts was still underway. Opposition elements in alliance with the Finance Minister had pulled the rug from underneath the Chamber. KCCI leaders responded by arguing that without the hope that some government backing to lower premiums would arrive, investors would be less likely to agree to amiable settlements. Moreover, the threat of mass bankruptcies among the merchant and trading community could gravely cripple the financial sector. At this stage, the focus of debate shifted to Parliament. Islamic and tribal deputies complained that the previous KCCI plan left the smaller investors with the brunt of bankruptcy while the larger players were bailed out. Opposition weighed in on the hard line.

In Spring 1983, the Emir called a special session of Parliament to deal with the continuing crisis. He needed a more balanced approach and desired Parliamentary approval. Once more, KCCI elites took the lead calling for meetings with cabinet ministers and the Crown Prince to discuss a new proposal. The KCCI's proposal called for a halt to the government's actions (which they blamed for a rash of bankruptcies since January) and a return to KUCLEAR's power to lower indebtedness and facilitate repayments. Several meetings resulted in the basis for new government legislation.[38] To augment ministerial lobbying, the KCCI mounted a fierce public relations campaign to support the premium stripping formula within the context of voluntary

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[36] Crystal, *Oil and Politics*, p. 99.

[37] Interview Adin.

[38] Darwiche, *The Gulf Stock Exchange*, p.120; *Al Qabas*, 21 and 27 June 1983.

multilateral settlements, which it would oversee. The lines were drawn.

On one side, Finance Minster al-Hamad, supported by the opposition in Parliament, urged the hard line, while the KCCI, the Ministry of Commerce/Industry, and Minister of Oil Shaikh Ali countered with the premium stripping formula. Media outlets were in full swing with the Islamic newspaper *Al-Mujtama* running consistent criticisms of the KCCI/state positions. *Al-Qabas* joined the fray by criticizing proposed amendments from the opposition.[39] In Parliament an *ad hoc* committee of deputies was struck to review the draft law and its various amendments. It met with government officials, KCCI representatives, and independent debtors and businessmen to canvass ideas. Headed by Islamic deputy, Isa Majeed al Shaheen, the committee proved a focal point for every lobby. According to Shaheen, "We met with everyone. Some of the debtors had very good contacts and could offer huge bribes. Representatives from every district also made their presence felt." In describing the KCCI, Shaheen acknowledged, "they came well-prepared...usually the younger board members would make the presentations, and they were very professional and quite well informed about the details of the draft law."[40]

Eventually the committee approved only slight modifications to the original KCCI/government bill, and Law 100/1983 was passed by Parliament on 11 August. Finance Minister al Hamad promptly resigned. On the one hand, the premium stripping formula was reinstated, with some slight modifications in the amounts. On the other hand, the law contained an element of compulsion since the arbitration board clearly dictated the terms of settlement.[41]

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[39] 7 August and 8 August 1982, respectively.

[40] Interview, Shaheen.

[41] *MEES*, 15 August 1983, p. B1.

Opposition criticism did not relent. An editorial in *Al-Watan* on 1 September 1983 severely criticized the government for incorporating KCCI representatives into the draft law committee.[42] Then in October, some Parliamentarians proposed formation of a "jumbo bank" to replace the arbitration committee. It was effectively quashed by KCCI loyalists on the Finance Committee.[43] KCCI lobbying had prevailed during the first stage of the crisis.

With the immediate problem at least acted upon, the longer term problem of Kuwait's financial markets and new guidelines for the stock market continued to plague policymakers. Early in the crisis, the government had expanded the powers of the Stock Exchange Committee to participate in the resolution. In 1984, the Committee began moving on a series of KCCI proposals to strengthen the official market. Returning to Chamber proposals in 1977, some closed-shareholding companies were allowed into a newly created parallel market and an entirely new circulation system was introduced. The Committee also integrated some of the Manakh's more legitimate shares into the official market, so that by November 1984 the Suq al-Manakh could be closed.[44] The official stock market recorded some recovery and renewed trading, but overall Kuwait remained mired in a recession.

Stemming from meetings between KCCI leaders and the Prime Minister in April 1984, the government began considering macro policies to reactivate the economy and address creditors' problems. Leveraging its position on the Economic Reactivation Committee, al-Sagr sent select

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[42] Cited in Darwiche, *The Gulf Stock Exchange*, p.129.

[43] *Al-Qabas*, 13 October 1983.

[44] *MEES*, 5 November 1984; and Darwiche, 130-139.

board members to make its play.[45] The committee allowed these KCCI representatives to work with state officials--in isolation from public or opposition pressure--to fashion a complete package of reforms. Among the enacted measures that did not require approval by Parliament were: new protection for local industry; new priorities for awarding government contracts to local contractors; and a return to public purchasing of land. A key proposal that would require Parliamentary approval was an idea for the state to take over non-performing bank debts by issuing bonds directly to the affected banks. This provision became the basis for future KCCI proposals to reform the financial sector. Politically astute enough not to underestimate the opposition, the Chamber also publicly bowed to some of their ideas by espousing "draconian" measures for debtors who had concealed foreign assets from local creditors.[46] This warning was as much to quell opposition voices, as it was a signal to recalcitrant debtors (active in the KCCI) to cooperate with KCCI proposals or else.

In May 1985, the Prime Minister presented the bank bail-out plan, but the opposition did not go along. It was in no mood to bend to any further government proposals. But in its preoccupation with fiscal impropriety, Parliament shot itself in the foot. The suspension of Parliament effectively suspended debate on the proposal. It paved the way for extra-Parliamentary approval of the KCCI-government plan by the Council of Ministers in August.

Despite close state-business consultation, recovery was not rapid. Oil prices remained low and public debt increased. Despite all the debt legislation, significant amounts of unrecoverable debt remained on most banks' bottom line. The government commissioned a long-term report by

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[45] *Al-Qabas*, 11 November 1985.

[46] *EIU*, No. 5, 1985, p.11.

the Massachusetts Institute of Technology in 1988 to offer solutions. This report was followed by another extensive KCCI report in October 1989. In December 1989, KCCI and ministry officials once again met and drafted a joint plan, incorporating some of the MIT and KCCI reports, to establish new debt alleviation measures and a national strategy for the 1990s.[47] A core element to resurface was the KCCI's idea of Central Bank support for domestic bank debts. Less than six months later, the Iraqi invasion ended any implementation plans.

The cost of liberation: finally solving the debt and economic reform

In economic terms, the price of Kuwait's liberation was quite high. Not only was the state forced to liquidate more of its assets, but much of the previous decade's legislative efforts were made null and void. Politically, many of the pre-war trends were strengthened. Despite the prominent role asil elites played in pushing for a return of Parliament, KCCI representation in Parliament remained limited to Jassim al-Sagr. Islamic and tribal opposition to al-Sagr's bid for Speaker of the Assembly promised little chance for rapprochement between business and the opposition. Still, the basic message from the KCCI remained persistent and convincing to many. Kuwait's economic troubles were the result of the monarchy's misguided policies taken without the input of business. Where once Kuwait and its fiscal system were the envy of the Gulf, the U.A.E. had now seized the mantle as the best place to do business in the Gulf.[48] There was no recourse for the state. It had to rely on KCCI input to solve renewed debt problems and plan for

[47] *MEED*, 15 and 28 December 1989, pp.17-18.

[48] Part of the reason for Dubai's specific success was its free trade zone, in place since the early 1980s. KCCI elites never tired of reminding state officials that they pushed the exact same idea for Kuwait in the 1970s, and they were ignored.

economic privatization. Sensing victory, KCCI elites broached more ambitious strategies. In the mid-1990s, the Chamber attempted to undercut the power of its rivals by using its state access.

Kuwaiti banks emerged from the Iraqi occupation with KD 6,300 million in bad debt, some left over from the Manakh and the rest resulting from the invasion. Resolving chronic local debt was the first issue on the table. Returning to the Chamber's original idea to exchange local bank debts for government bonds, the Prime Minister worked with KCCI representatives to fashion the legislation. A pattern was emerging. KCCI elites had achieved meaningful policy access and were able to rely on their institutional capabilities and elite profile to influence the formation of economic legislation. Once legislation was passed to Parliament however, KCCI influence dropped precipitously. High-level lobbying had proven easier since the 1980s, but opposition politics impaired the KCCI's ability to limit amendments. KCCI elites bristled at opposition accusations that their close work with state elites amounted to collusion. In their eyes, not only did they remain the true, "loyal opposition," but their ideas were the most economically sound for the country. Advisor to the executive board, Jamal Adin expressed the problems with Parliament.

> The majority in Parliament do not understand economic issues. They are more interested in government employment and benefits. We have difficulty communicating with them to reach any compromise. We work closely with the government because they have people that understand the issues. The problem is with Parliament since the government must turn around [after fashioning legislation] and deal and compromise with Parliament.[49]

The first post-war step toward final debt resolution was Law 32 in 1992. KCCI elites and Central Bank officials composed a plan for local banks to exchange non-performing loans for government bonds. KCCI representatives and state officials worked closely to convince Finance

[49] Interview, Adin.

Committee deputies of the necessity of the bailout. Opposition deputies were wary of a deal because they suspected it addressed only the financial community. The Finance Committee proved less pliable to KCCI facts and figures. Despite merchant beliefs to the contrary, opposition deputies had gained much experience in fiscal matters by serving on the committee throughout the 1980s. Caving in to the law, opposition deputies still got their pound of flesh. In the same session, the committee also passed legislation requiring all companies with over 25 percent public ownership to disclose regularly their financial records to Parliament. It was a populist backlash against post-war revelations of public corruption and mismanagement. The strongest critic of the law was Jassim al-Sagr, who argued that the law would ostensibly burden private companies with minority government shares.[50] The presence of a *quid pro quo* was quite apparent. Without the KCCI's backing,[51] the law amounted to little more than a public relations victory. There was little precedence for the closeness of this business-state relationship.

To follow-up on the bank bailout, the KCCI waded into the debate over how those government debts should be repaid. In addition to Central Bank proposals and Finance Committee suggestions, a small, but influential, group of debtors banned together to win more favourable repayment opinions. The group called itself the Economist Forum and it targeted the KCCI to push for near absolution of the debts. The Forum represented an organization of the internal debtors that had figured into the KCCI's delayed response in December 1982. Members of the Economist Forum claimed that the Iraqi invasion had impaired their ability to pay earlier

[50] *EIU*, No.1, 1993.

[51] Many of the companies with small public ownership were controlled by KCCI elites, and hence, tardy or non-existent reporting occurred.

debts.[52]

Under the aegis of the Chamber and the Central Bank, a second piece of legislation was put forward. Its aim was to outline a final repayment scheme for all debtors, large and small. Differential payment rates and times were specified. Opposition deputies, still wary of a bail out only for the large debtors, resisted KCCI provisions and amended key parts of the draft to further reduce the burden of small debtors and raise that of the larger. The Central Bank was disappointed in the amendments to the KCCI's original proposal and the debtor's lobby was certainly not satisfied.[53] Therefore, even though the draft became Law 41 of 1993, repayment was slow and many debtors refused to provide financial data. The Chamber feared that Parliament's amendments had dissuaded the larger debtors from compromise, and that even if payments went through, the economy would collapse under the weight of more liquidations. The debtors lobby had succeeded to an extent.

A final push to right the wrongs of Law 41 took place throughout 1994 and 1995. The Finance Committee of the Chamber drafted a lengthy report detailing Law 41's failings and its proposals for amendment.[54] In a speech before the Chamber, the head of the Central Bank expressed support for the plan. Opposition deputies were infuriated that the government would attempt to subvert the law they had previously approved. The fight was nasty and public. Opposition deputies had little support on their side. Debtors refused to go along with their

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[52] Interview Abdul Aziz Sultan, 5 March 1996.

[53] *EIU*, No. 2, 1993.

[54] *Amendments to the law collecting difficult debts: why and in which direction?*, Notes Submitted to the Finance Committee by the KCCI, 24 April 1995.

previous scheme, and the state had not shown steady enforcement in the past. In the end, the KCCI proposal survived the kind of amending that had resulted in Law 41. Better repayment conditions were restored for the large debtors. They were allowed five annual payments instead of the pervious September 1995 deadline for full repayment. Additionally, there would be no interest since 1990. The sole opposition victory was the refusal to extend Law 41's 10 year repayment schedule to the 20 years in the KCCI proposal. On the key aspects, premium stripping and government support, the amendments amounted to a KCCI victory.[55] The Economist Forum, however, continued to press for more lenient terms, but for the KCCI leadership, the end had been reached in the Manakh saga. In early 1996, 150 of the debtors' lobby filed a suit challenging the legality of the bad debts law. Their challenge went unsupported by the Chamber.[56] Of more importance to KCCI elites was reforming the economy.

Since the KCCI carried much of the Manakh fight for the government, leverage elsewhere appeared. After liberation, the Chamber's voice in espousing Kuwait's's economic future was dominant. A visit by an IMF team to assess the economy and provide recommendations echoed the Chamber's own recommendations. In 1994 and 1995, the KCCI presented several documents to Parliament and the government outlining cuts in government spending, civil service reform, and privatization. Some were enacted with little resistance, such as the KCCI's long-desired free trade zone. The Chamber's hopes for privatization, on the other hand, ran counter to opposition interests. Responding to KCCI suggestions, an eventual government plan called for selling such government owned enterprises as the telecommunications ministry, the national airlines, and the

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[55] *Amendments to the law collecting difficult debts: why and in which direction?*, pp.9-12.

[56] *EIU*, No. 4, 1996.

tanker company. Opposition deputies complained about the potential loss of jobs once such big entities became private. One of the first to speak out against privatization was Islamic deputy Nasir al Sane, who attacked plans to sell off public utilities. Eventually Parliament demanded that no state-owned firm be privatized without its approval.[57]

State officials avoided the issue entirely by forging ahead with the liquidation of public assets in the shareholding companies. The result was a rather decentralized process whereby merchant elites moved in to buy government shares in a variety of sectors. Curiously, the Chamber appeared institutionally severed from the process. The Kuwait Investment Authority (KIA), a state agency, entered negotiations with prospective buyers, haggled about price and share numbers, and then sold the government shares. Profitable ventures such as the National Industries Corporation, United Real Estate Company, and the Holiday Inn were expunged of public interest in this collaborative way. In most cases, the state was liquidating shares purchased as a result of the stock market crashes. By 1996 all shares in companies with less than 10 percent public ownership were liquidated. These sales totalled $1.1 billion and were expected to approach $3 billion when the process was complete.

Excluded from the process, the Chamber appeared to resist the decentralized approach. Jassem al-Sagr, for example, attacked the government's privatization programs before Parliament. He argued that the *ad hoc* nature of sales was creating monopolies that would damage the economy.[58] Behind the scenes, however, many of those buying government shares were tied to the KCCI leadership. The KCCI's own policy statements on privatization did not differ

[57] *MECS, Volume 18, 1994*, p.455.

[58] *EIU*, No. 3, 1995.

significantly from the state's actions. Both sides agreed that first public shareholding funds should be sold. The idea of selling public utilities or even privatizing ministries, while advocated by the Chamber, was not a priority for either side.[59] Consequently, observers suggested that KCCI complaints were not serious and the decentralized nature fit their interests well.[60] In return, state officials could extract promises of limited job layoffs or even political support elsewhere. The appearance of a collusive trade-off was strong.

Two specific examples of this were the sale of the National Industries Company and the United Real Estate Company. In each case, KIA authorities entered closed-door meetings with prominent KCCI elites (Khourafi and Sultan, respectively). The state agreed to sell its majority share to each group, and in turn both new owners released minority shares on the stock market for public sale. It was probable that the negotiations involved commitments for continued employment.[61] Consequently, opposition fears notwithstanding, there has been no real threat of unemployment from Kuwait's first privatization. It was a compelling insight that successful policy advocacy and participation could overflow into collusion.

Consolidating its position: external and internal challenges in the 1990s

The 1990s finally witnessed the full fruition of a rival business class; at the same time there appeared new, well organized opposition rivals. Three issues best exemplified these challenges to

[59] *Ijabāt al-Ghurfa ila al Lajna al Māliyya hawl al Khaskhasat* [Answers of the Chamber to the Finance Committee on Privatization]; *Executive Summary: Change from the Public Sector to the Private Sector in Kuwait*, Joint Chamber-Finance Committee Report, 1995.

[60] Interview Sadoun

[61] Interviews, J. Sadoun and Khalid al Sanna, President Industrial Union, 3 March 1995.

the KCCI leadership: the birth of an industrial union, struggles with the cooperative movement, and the 1992 Chamber elections.

A key difference between Kuwait and Jordan was the early founding of an industrial chamber in Jordan. No such rival appeared in Kuwait until the 1990s. Where private business did invest, it was usually KCCI elites who "chose to put on the industrial hat." So, the al-Sagrs managed the Pepsi agency and bottling company as well as operating the Gulf Cable Company, a fabricator of underground cables. The small slice of industrialists not tied to the KCCI elite went unrepresented. In 1989 that changed. A small group of these industrialists first approached the Ministry of Commerce/Industry to create a Chamber of Industry. This was blocked by the KCCI. The group then turned to the Ministry of Social Affairs which granted them the status of Industrial Union. Like other sub-sectoral and professional associations, a union (employer or employee) has no legal relationship to the Chamber, but neither does it have its profile.[62] With about 180 members in the 1995, the Industrial Union struggled with the Chamber for representation, but it was not a fair fight. Khalid al-Sanna, president of the union, was given a seat on the KCCI's industrial committee. As well, the KCCI nominated him to sit as a private sector representative on the Industrial Committee within the Ministry of Commerce/Industry.[63] Despite al-Sanna's attempts to secure the union its own seat at the Ministry, the union continued to be dependent on grants of access from the Chamber. Marginalization of the Industrial Union was a fair depiction of the relationship between the KCCI and most sub-sectoral employer associations.

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[62] There were some 20 approved unions in 1995.

[63] Interview, al-Sanna.

Cooptation instead of competition has been the norm. Presidents of the unions frequently ran for the KCCI board because it promised better access for one's union. Abdullah Beaijan, president of the foodstuffs union, ran for the board in 1992 because, "we were having problems with the government, so taking a position on the KCCI afforded us better lobbying leverage with the municipality and ministries." Perhaps most symbolic of the KCCI's dominant position was its new headquarters completed in 1997. The building contained more space not only for the KCCI's expanded staff but a "businessman's club" and extra office space for unions wishing to relocate. Competition for that space was said to be keen.

By comparison, unions presented nothing like the threat of the Islamic movement. Of the KCCI's external rivals, Islamic organizations in Kuwait have proven the strongest. By the 1980s, the Islamists had taken over the KCCI's image as "the opposition." Even regionally, Kuwait's Islamists had taken over a role once the domain of the merchants. Whereas al-Sagr and other asil merchants were among the first Arabs to organize relief supplies for Palestinians in the 1930s, Brotherhood and Salafiyyin associations were the new players in Arab politics in the 1990s.[64] Moreover, the Islamic leadership was professional and well received in asil society; they were not outsiders.[65] Consequently, the relationship between the KCCI and Islamists is hardly black and white. One can find evidence of some KCCI board members sympathetic to the Islamic movement while some Islamic businessmen support privatization. Neither desires open conflict

[64] Kuwaiti Islamist groups were reported to be one of the main benefactors of Hamas. Arafat's occasional complaints of foreign meddling in Palestinian affairs were as much aimed at these Kuwaiti groups as at Iran.

[65] Khalid al-Sultan and Isa al-Shaheen best exemplified this leadership. Both are Western educated, prominent businessmen, and well-spoken.

with the other; KCCI leaders do not wish to be viewed as anti-Islamic, and Islamic leaders do not want to alienate the private sector.[66] Still, clashes between each camp were persistent and multifaceted. Some were played out in Parliament with Islamic deputies siding with tribal representatives in opposition to most KCCI debt reduction and privatization ideas. The replacement of the KCCI's Parliamentary representation with the Islamic opposition was a difficult pill to swallow, but it was deemed an inevitable political reality by the merchants.[67] After the Iraqi invasion, the Islamic challenge became more economic, and this was not tolerable.

In the 1990s an integrated political and economic network of Islamic organizations had taken shape. In addition to non-profit social institutions (i.e. the Sanabil Project), the Kuwait Finance House (KFH) had come to occupy a position of fiscal prominence. Like the asil governed NBK, the KFH weathered the debt problems of the 1980s with few liabilities. Unlike the NBK however, the Islamic Bank remained aloof from most Central Bank regulations. Its unique mandate allowed it to offer everything from consumer loans to investment banking. The fiscal resources of the KFH combined with the growing market importance of the cooperatives worried KCCI leaders.

Politically, the cooperatives had become extremely important in post-war Kuwait. Cooperative elections were excellent bellwethers for the way a district would vote in Parliamentary elections. Those that won a cooperative seat could then invest an estimated 20 percent[68] of their local cooperative profits back into the district. Politicians of the American

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[66] This is also a reason why representatives from each are reticent to discuss the issue.

[67] Various interviews at the Chamber.

[68] Interview Abdullah M.S. Beaijan, 26 March 1996.

South called this "walking around money," and in Kuwait it was simple vote buying. Both Salafiyyin and Muslim Brotherhood candidates controlled the majority of these cooperatives and built secure, independent electoral and funding bases. Economically, the cooperatives occupied a significant slice of Kuwait's consumer market. Operating with virtually no overhead, cooperatives accounted for roughly 80 percent of foodstuff sales, representing a KD300 million market annually.[69] Against this market control and purchasing power, merchants complained of collusion. There were claims that cooperatives paid for goods with post-dated checks and demanded kick-backs to showcase commodities in certain areas of their stores.[70] In 1994, state and select private citizens quietly came together to discuss their respective concerns.

A special committee was formed with the Ministry of Social Affairs to review possible reforms to the cooperative's law.[71] The state naturally wished to weaken the cooperatives as a basis for Islamic electoral strength. Merchants wished to break their market control. The Ministry assigned new KCCI board member Abdul Wahab al-Wazzan to the committee. Though quite transparent, al-Wazzan sat as a "private individual," not as a KCCI representative. His presence guaranteed KCCI support. The eventual report was confidential, but observers confirmed that the suggested reforms increased state control of the cooperative boards and established more fiscal oversight of cooperative activities.[72] The issue awaited future

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[69] Interview Abdul Wahab al-Wazzan, 20 December 1995.

[70] Merchants noted that cooperatives--resembling strip malls--sat on free state land and operated with healthy state subsidies. The cooperative board then rented out extra space at premium prices.

[71] Law No. 24, 1979, Ministry of Social Affairs and Labour.

[72] Interviews al-Wazzan and al-Shaheen.

Parliamentary debate, but it was clear state-Chamber relations had moved from policy advocacy/participation to include elements of political and economic collusion. The Chamber used the state to contain an economic rival, and the state used the Chamber to strike at a political rival.

By far the most significant threat to KCCI elites, however, came from within. In 1992, elections were held for all 24 seats of the executive board.[73] This was to be the most important and most publicized election in its history. Lead up to the election was charged. Al-Sagr emerged from the Iraqi invasion with even more stature than previously. Remaining in Kuwait during occupation and adopting a high profile role within the pro-democracy movement, al-Sagr commanded a great deal of respect from all Kuwaitis. He was also an elderly man and this election would be his last. It was his chance to shape the direction of the Chamber before he retired. The elections themselves came right before the first Parliamentary elections, and hence were viewed as an important precursor. Given that the business community would obviously play a crucial role in the rebuilding of Kuwait, whoever controlled it would be in a powerful position. The challenger was Khalid Marzuq.

Marzuq hailed from an asil family of colourful origins. Marzuq's ancestor, Yousef Marzuq had been active in the Majlis movement, had been jailed in India for smuggling, and by legend won a bride courted by an al-Sabah "by preparing her tea over a fire of 10-rupee notes."[74] Khalid Marzuq had inherited Yousef's flare. Marzuq headed an impressive array of trading and

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[73] Since elections were missed during occupation, all 24 were up for election instead of the usual 12 every two years.

[74] Recounted by Crystal, *Oil and Politics*, p.208.

construction companies, including the extremely profitable Kuwait Real Estate Company. His family owned a leading daily newspaper, *Al-Anba*, and was rumoured to be politically close to the royal family. A charismatic and gifted speaker, Marzuq portrayed himself a maverick, and he had the resources and stature to seriously challenge al-Sagr. Organizing a list of 24 candidates to face al-Sagr had never been done, and it testified to the seriousness of the challenge. Marzuq called his list *Ahlu al-Dera*, which is a Kuwaiti dialect term meaning "our home" or "the family home." It was meant to convey a more inclusive leadership role, one not limited to the asil. Of Marzuq's 24 candidates, 8 were Shia, and 5 were bedouin. No Shia or bedouin had ever sat on the executive board.

Al-Anba and *Al-Qabas* gave a great amount of partisan coverage to the election campaign. In speeches and debates, Marzuq sought to make the race one of all merchants versus the politically obsessed few. He argued his list, "gives opportunities to all qualified Kuwaitis and supports them with no favouritism." He promised to "correct the path of the Chamber" and steer it away from "political involvement" toward the service of all its members.[75] A stinging editorial in *Al-Anba* hammered at the theme of a politicized, elite Chamber.

> Politics entered the Chamber and overshadowed the general interest of the members. It kept those who would work for the benefit of all members from reaching any post....we wonder if the current chairman ever put the member's interest before his eyes.

The *Ahla al-Dera* platform made explicit the call to inclusiveness. Among its policies were:

> 4) maintaining equality in rights between small and large members by adopting their problems and protecting the interests of all members.
> 11) returning and backing the manufacturers, handicraftsmen, and farmers to their rightful

[75] *Al-Qabas*, 15 May 1992.

position in the Chamber.[76]

Economics did not appear as a significant issue. Instead, Marzuq blamed the politicization of the Chamber for the decline of Kuwait's economy. He contrasted this with the rise of the merchant community in the U.A.E. and that country's status as the new business center in the Gulf. Despite Marzuq's asil status, this was a contest pitting the various new sectors of merchants against the traditional elites. Al-Sagr's own list was uninspiringly called "the Economic Family." The cream of Kuwait's merchant community, including the head of the NBK Mohammed Abdul Mohsen al-Khourafi, rallied to al-Sagr's side. They cleverly pushed the idea that Marzuq was a government supported candidate sent to rob Kuwait's opposition of one of its traditionally independent institutions.[77] More base, some accused Marzuq of being the al-Sabah's revenge for al-Sagr's pro-democracy role over the last decade. The message appeared to work. A heavy turn out returned 23 of al-Sagr's candidates to the board.[78] The win was so large and sensitive to the government that a Reuters reporter who wrote that Marzuq was the state's candidate was expelled. However, reasons for the failed challenge went deeper than the pro-government charge.

In one respect, Marzuq clearly hoped the inclusion of Shia and Bedouin candidates and an appeal to the more numerous small merchant members would give him the edge. It was long suspected that before an election, board members would simply pay up dues for smaller merchants (usually those retailers which sold their goods) to enhance the votes of their subsidiaries and

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[76] Advertisement in *Al-Qabas*, 17 May 1992.

[77] For the Muslim Brotherhood this was a convincing argument. According to their spokesman, Isa al Shaheen, they encouraged their merchant members to vote for al Sagr.

[78] Marzuq won his seat, but then in a long drawn out series of published letters tenured his resignation.

branch memberships.[79] Marzuq and his asil supporters could certainly do the same, but the addition of the smaller non-affiliated vote could make the difference. Marzuq failed to win this group because they were not in a position to vote. Many smaller merchants were those civil employees illegally operating private businesses. They certainly cared little about Chamber politics since there was no threat to their livelihood. Moreover, registering and voting in such a high profile election meant unwanted publicity. Intra-merchant ties limited the appeal Marzuq's candidacy could generate. In a second respect, Marzuq lost because al-Sagr beat him at his own game.

Al-Sagr responded to the diversity of the Marzuq list by breaking KCCI tradition. Of his 24, al-Sagr recruited seven new, mostly young candidates, including three Shia, one former Bedouin Parliamentarian, one with strong Brotherhood sympathies, and one young, successful entrepreneur (see Table 8, appendix). It was a far smarter list. Private business in Kuwait was no longer the sole domain of the asil, and al-Sagr responded shrewdly. He selectively incorporated only the cream of the new class. The young al-Wazzan headed the largest Shia family business and was close to the royal family. Even though the election supposedly pitted a pro-government candidate against the opposition, KCCI elites felt secure enough to allow a quasi-government candidate within their own ranks. A second new candidate was Jameel al-Essa, who headed a string of private grocery stores. He was one of the most dynamic, young entrepreneurs in Kuwait without any strong ascriptive or asil ties. To be sure, the asil elite still dominated the board, but they were not afraid to rely on the new recruits to represent the Chamber (i.e. al-Wazzan and the

[79] It will be remembered that each company registered, branch and subsidiary, receives a vote. Hence, large merchants with several registered companies and licenses multiple their vote.

cooperatives). Al-Sagr had not so much diluted asil dominance as much as he had expanded its ranks. In this way, the election of 1992 confirmed the renewed institutional strength of the Chamber and the continued autonomy and cohesion of its leadership.

2. JORDAN AND THE BUST

Proof of the intertwined nature of Kuwait and Jordan's political-economic histories could not have been demonstrated more clearly than in the 1980s and 1990s. Just as Kuwait's economy was beset with external and internal difficulties, so went Jordan. Amman's problems stemmed foremost from a decline in foreign aid and remittances. Reduced economic growth and increased public debt followed. The dual crises fed on one another making resolutions as intractable as they were in Kuwait. Politically, the monarchy responded by reconvening Parliament and legalizing political parties. In the mid-1980s, economic measures were taken to encourage more private sector investment. Chamber participation in these first steps was shallow. A reassertion of economic and political reform in the 1990s again offered opportunities. By this time however, elite exodus from the Chamber, the presence of strong rivals, and its own institutional and leadership weaknesses injured state perceptions of the Chamber limiting the extent of its policy influence.

Fiscal crises and state vulnerability in the 1980s

The year 1982 was bad for Arab countries. The sudden drop in oil prices meant Gulf states who gave money were squeezed, and those like Jordan who received, felt the pain. Of the original seven Arab states that had promised annual subsidies to Jordan at the 1978 Baghdad Summit, only Saudi Arabia was able to sustain its level of aid. In 1980, aid comprised 40 percent of state revenue, by 1984 it had declined to 16 percent (see table 4, appendix). The stupendous annual 10 percent GDP growth of the 1970s had been cut in half by 1982. By the late 1980s, per capita GDP actually declined (see Table 2, appendix). Similar to Kuwait, Jordan responded by deficit borrowing. The Central Bank drew on its foreign currency reserves to finance the loans, and by February 1985 reserves dipped to their lowest level since 1973. World Bank figures revealed that Jordan's debt-service ratio had gone from 9.9 percent in 1985 to nearly 15 percent in 1987.[80] It was no exaggeration then when head of the Central Bank, Mohammed al-Said Nablusi, described Jordan's economic situation "as the worse [sic] since the years immediately after the 1973 war."[81]

Under such fiscal strain, Jordan's currency, the dinar, did not escape harm. The spark was Jordan's disengagement from the West Bank. Intended as a political act, the disengagement carried severe economic repercussions.[82] Palestinians in the West Bank worried about their future relations with the Hashemite state, reacted to the disengagement announcement by withdrawing an estimated $200 to $300 million from Jordanian banks.[83] Cashing in dinars for dollars combined with an already low foreign currency reserve meant the Central Bank could do little to stop a run on the dinar. By November 1988 the dinar lost two-thirds of its value against the dollar in only a few months time.[84] By 1989 it was painfully clear to state elites that no quick solution to Jordan's debt problems was on the horizon. Unable to meet its mounting debt payments, Jordan concluded its first adjustment loan with the IMF. This first agreement running from 1989 to 1993 contained

[80] *Financial Times*, 27 August 1987.

[81] *Jordan Times*, 19 January 1985.

[82] The disengagement was probably the best example of what little interest King Hussein had in economic issues. Taking such a decision during a persistent recession showed little foresight or planning.

[83] *MECS, Volume 12, 1988*, p.604.

[84] *New York Times*, 7 November 1988.

many of the common aspects of IMF sponsored adjustment programs: reduction in budget deficits, reform of the tax system, and pursuit of a tight credit system.[85] On the eve of the invasion of Kuwait, it appeared Jordan had taken decisive steps toward resolving its economic problems.

Problems within the chamber and rivals at the door

Jordan's turn for the worse economically created new openings for Jordan's private sector led by the Chamber. To understand what was made of these opportunities and why, we have to first review the situation of the Chamber itself.

The decade of the 1970s was a disastrous period for Chamber policy influence. However, the Chamber entered the 1980s still a significant institution. It's membership in Amman alone topped 10,000. Its control of the Federation of Jordanian Chambers, comprising 12 local chambers, meant that it effectively represented about 70,000 nation-wide. By far, this made it the largest independent institution in Jordan in the 1980s.[86] In 1982, the elderly and respected M. Ali Bdeir retired. Because he had led the Chamber for 20 years, Bdeir's retirement represented a generational changing of the guard. Distortions from the 1961 organizational changes and maturation of sectoral distinctiveness could be seen in subsequent electoral politics and elite cohesion.

Hamdi Tabba, son of Subri Tabba former ACC president, won 11 of 12 seats in the 1982

[85] *EIU, Jordan* No.3 (1989), p.11.

[86] Compare this to the 11 professional associations in Jordan (lawyers, engineers, and so on) which taken together by the 1990s represented only about 50,000 members. Schirin H. Fathi, *Jordan: An Invented Nation?* (Hamburg: Deutsches Orient-Institut, 1994), p.191.

elections. This new board consisted of six new members one of which was the first category three member to sit on the executive board. Tabba admitted that his selection of running mates depended foremost on "origin and religion to achieve a balance" at the expense of lobbying skill, business acumen, or sectoral representation. The voting power of the lower categories was felt in the new board's lack of industrial, transportation, or finance representation. Three dynamics followed.

First, observers noted that the board members Tabba brought with him were not representative of the business elite in Jordan. Aside from a few notables (Touqan and Qawar), the candidates were chosen to attract the lower category votes.[87] The leadership transition from Bdeir was more a break than a cohesive transfer. Many of the lower category voters identified with faces and names they knew and often these were businessmen (no doubt successful) only recently removed from Hebron or Nablus. These were not individuals with well worn ties to the monarchy or state officials. On a board of 24 as in Kuwait, a few with little profile could be compensated for elsewhere, but on a board of 12, there was less room. Second, the unevenness of the board meant lobbying was almost exclusively carried out by the president and the vice-president. Contrast this with the Kuwaiti debt debates where al-Sagr sent out younger, more energetic board members to lobby on behalf of the association. Third, as elite cohesion decayed, other board members began to approach government ministries for their own (or a friend's) particularist interests. The tendency toward individual lobbying had always been present but were generally kept in check when issues clashed with wider Chamber interests. In the 1980s and 1990s, these tendencies became routine. This gravely damaged the perception of the Chamber in

[87] Several interviews.

the eyes of state officials. Still, Tabba himself was one of the country's leading businessmen and was able to undertake positive, albeit short-lived, changes within the association.

A close friend of the monarchy, Tabba was the first ACC president to accompany the King on a foreign visit. Tabba also launched an important structural change, the formation of the Research and Studies Department in 1985. He initiated discussions among board members to change associational by-laws to either eliminate 4th category nomination/voting or designate board seats by sector. Despite Tabba's belief the change would have government support, the idea failed to gain a consensus among board members. On the one hand, the newer, low profile board members stood to lose their associational access for personal lobbying under such a system. On the other hand, board members feared that if the attempt to change the by-law failed, lower category members would exact electoral revenge.[88] Tabba did not return for a second term so it is hard to speculate how much more of an impact he would have had. Ostensibly, Tabba left the Chamber because he was asked to serve in the government (to be discussed below), but it was very likely a degree of frustration and displeasure over the running of the association also played a role.

Tabba was followed by Mohammed Asfour, elected in 1986. Asfour, grandson of the first ACC president, continued the tradition of elite pre-1948 merchant family presidencies. Again, the elections returned less than half of the previous board members. Of the new members, two came from the 3rd category. Like Tabba, Asfour admitted that in choosing his candidates, "I selected individuals with business experience and community popularity, not education or lobbying skills." There was little continuity between the two leadership boards. While some leading elites ran with

[88] Interviews, Tabba and Asfour.

Asfour, like Muaashir, others that had run with Tabba (Touqan and Qawar) simply chose not to return. In their place, new faces appeared, specifically Haider Murad. With a new board, top positions within the Chamber (vice-president, heads of internal committees, and so on) were completely replaced. The permanent staff had to adjust to new personalities, new techniques, and new expectations. By Asfour's second run for the presidency, it was clear there was an imbalance between the status and prestige of the President and the rest of the board.

Half of the previous board returned, and this time Haider Murad moved into the vice-presidency. This board clearly expressed the weight of the lower categories and the reliance on candidates that could deliver that vote. The difficulty of managing the two-level game, balancing attraction of voters with the maintenance of elite cohesion, was yielding a nearly new executive board after every election, even under the same presidency. A by-product of this change was the retarding of institutional development. Not until 1990 was Asfour able to further augment the vital Research & Studies Department. Until that point, it was staffed by only three permanent professionals and lacked basic resources, such as a computerized data base. The monthly Chamber magazine, *Al-Iqtisadi Al-Urdun* hardly came out monthly and by the late 1980s had become more a bi-annual magazine with little content. What exact function the department served was unclear since the Chamber often hired outside consultants to aid its preparation of policy documents. Asfour sought to change this by bringing in Odeh Sweiss, a Ministry of Finance employee, to head the department and upgrade it. In a unique arrangement, Sweiss was "seconded" to the Chamber but remained a paid government employee. Sweiss had been advisor to the Minister of Finance, and the hope was his experience would help the Chamber's R & D capabilities. As with Tabba's reforms, Asfour would not remain in office long enough to follow through on the changes. In 1994, the Chamber saw its most important and most heated election.

Quite similar to the 1992 KCCI elections, the contest in Amman pitted the traditional elite, Asfour, against the new challenger, Murad. The Chamber elections came shortly before Parliamentary elections generating the type of publicity that had occurred in Kuwait. Also like Kuwait, the election was less about contrasting economic visions and more about the character, leadership, and control of the Chamber. Murad was the first presidential candidate not to hail from a pre-1948 Palestinian or Syrian merchant family. He was in every way a man of the small and middle merchants.

> While he served under Asfour, Murad spent more time in the Chamber with the members. He had a good touch with the small merchant, he identified with them, spoke their language, and appeared more humble in their eyes. For Asfour, the small merchants did not respond to his personality or his stature [as an elite merchant] and this limited his support base.[89]

Certainly a successful businessman, Murad was nevertheless viewed by the merchant elite as an outsider.[90] Indeed, one supporter admitted that "because Murad was the first of the newer Palestinians, he gave a bad impression to some by going overboard to portray himself as representing all merchants."[91] As in Kuwait, a strong theme was a candidate for all versus a candidate for the elite few. Consequently, the election was heated with a great deal of press converge and accusations of voter fraud.[92] In a contest between elite merchants and the middle rung, the results were predictable. The top three member categories comprised only 14 percent of

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[89] Interview Tabba.

[90] One observer even referred to him as a "hick."

[91] Interview Mohammed Muhtasib, ACC Board Member, 6 December 1996.

[92] *Al-Ra'i*, 26 November 1994

the electorate, whereas the 4th category alone accounted for over 50 percent (see Table 5, appendix). Winning the largest number of votes in Chamber history, 4,135 (about 25 percent of the membership voted), Murad secured 10 seats. It was an historical change for Jordan's oldest independent institution.[93] Asfour's loss was clearly an embarrassment. More importantly, it was a warning to other elites that a run for the Chamber risked public humiliation. With the new board, Murad cleaned house of past staff allied with Asfour, including Sweiss at the Research Department. Any promise of structural reform or increased institutional capabilities would have to await the new administration.

As will be evident in the next section, weak leadership continuity directly impacted lobbying capabilities. In this period, government ministers often complained of changes in Chamber proposals and style with each new leadership. Lessons learned or compromises reached with one board would be forgotten by the next. Losing or winning became a zero-sum affair with the winning list completely replacing staff management positions with their allies. The lack of an entrenched leadership encouraged some board members to lobby independently for their own interests. Since these members were on the board for the votes they could garner, disciplining them carried high costs at election time. Businessmen outside the Chamber referred to ACC personnel as *ma'sool*, a term meaning those responsible, or, more loosely, a bureaucrat. Going to the Chamber was likened to visiting a government ministry. Institutional representation was sacrificed damaging state views of the ACC as a representative of the private sector, especially

[93] More broadly, this victory was symbolic of the social maturation of the great numbers of Palestinians, who came to Jordan as refugees after 1948. The Shia, the Bedouin, and the younger merchants in Kuwait also came into their own by the 1990s as well. The difference was that incorporation of the new merchant in Kuwait took place smoothly with the traditional elites sharing control.

during a period of acute economic crisis.[94] Bassam Saket aptly described what the Chamber of the 1990s had become, "a head with no body."

So who benefited?

The weakening of ACC elite leadership in the 1980s and 1990s did not mean merchant elites declined. Just the opposite occurred. The traditional elite remained rooted and prosperous, and new waves of entrepreneurs, following the Palestinian expulsions from Kuwait, were pushing into the upper ranks. Because the Chamber squeezed elites and narrowed sectoral representation, rival associations benefitted. First and foremost, the Chamber of Industry became a new haven for business elites. For precisely the opposite intra-associational reasons--a restricted membership scope (7,000 in 1994) and exclusionary voting rules--the ACI proved a perfect venue. Structurally, it was more developed. It moved far more quickly and far more effectively in forming sub-committees to cover diverse sectoral interests and provide policy input. Its research and studies division had more resources and staff than the ACC.[95] Consequently, though the ACI represented far less of the business community in Jordan, it received far more press coverage. Its

[94] There was near universal agreement on these views of the Chamber from ministers heading up different ministries under different prime ministers throughout the 1980s and 1990s. The clearest of these were interviews with: Dr. H. Khatib, former Minister of Energy and Planning; Zaid Fariz, former Minister of Planning and Industry; Sami Ghammo, former Minister of Finance.

[95] Interview Ahmed M. Al Saadi, ACI, 27 July 1995. A simple review of the ACI's publications tells the story. They produce far more useful documents of economic data, reprints and translations of economic laws, and member surveys.

influential president, Khaldoun Abu Hassan,[96] out paced ACC presidents in press conferences, press releases, and policy statements in the early 1990s. The attitude of state officials toward the ACI followed a similar suit.[97] It was viewed as more professional, less particularist, and more authoritative than the ACC. In addition to the gains of the ACI, another rival appeared further eroding the ACC's position.

In 1985, a group of prominent businessmen formed the Jordan Businessmen's Association (JBA). The initial purpose of the JBA was to coordinate with a similar association in Egypt as part of Jordan's rapprochement with Cairo. Quickly however, elites realized the usefulness of the organization. The JBA's stated mandate is almost identical to that of the ACC's but the JBA stands apart as a non-profit, private association. Membership stipulations were highly select: capital requirements, a seat on the board of a shareholding company, and nomination by two members.[98] Drawing leading businessmen from each major sector (10 at last count), the JBA was in every way a private club for the cream of Jordan's business class. Much of the elite exodus from the ACC ended up in the JBA.[99] Moreover, many businessmen who served in the government came to join the JBA after government service. With its superior flexibility and

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[96] The Abu Hassans are an East Bank merchant family with a long history. They were one of the principle beneficiaries of the state's industrial policies in the 1960s and 1970s. Khaldoun's older brother and father served on the ACC's board in the 1960s and 1970s.

[97] The ACI particularly gained the favour of Crown Price Hassan. Since unsuccessfully trying to bring the ACI and ACC together in the 1970s, the Crown Price came to favour the ACI over the ACC.

[98] *By-Laws*, Jordanian Businessmen Association, 1985.

[99] In 1993 for instance, Hamdi Tabba was elected president of the JBA. Other elite business families which moved from the ACC, included: Asfour, Taher, Bdeir, Bilbeis, Saket, Al Azzeh, Salfiti, and Abu Hassan.

profile, the JBA has come to dominate representation of the private sector in the eyes of the government.[100]

The deterioration of the ACC fed the growth of these rivals. Whereas once the private sector was represented by one association, three vied for access and policy influence in the late 1980s and 1990s. With no overarching organization, not only was ACC lobbying to suffer, but economic policymaking and government directions became less coherent in the 1980s and 1990s.

The Rifai administration: the first opportunities

The first hints of state opening appeared with a change in administrations. The governments of the early 1980s under Ahmed Obeidat and Mudar Badran responded to the decline in revenue by maintaining the level of government spending while increasing external borrowing. From 1982 to 1984 government spending increased by nearly 4 percent while foreign aid declined by 47 percent.[101] Obeidat enacted several conflicting policies meant to curb consumption but still boost business confidence, including: stricter licensing requirements for private companies; increased subsidies for mixed companies; greater limitations on imports through an expansion of the MOS's purvey; and a new decree was announced requiring all foreign banks to acquire 51% of Jordanian ownership.[102] Virtually none of these measures involved prior ACC consultation. Business protests, however, followed. The country's largest bank, the Arab

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[100] Equally important, foreign businessmen wishing to invest in Jordan are more apt to contact the JBA before either the ACC or the ACI.

[101] *Yearly Statistical Series (1964-1993)*, Central Bank of Jordan, October 1994.

[102] *EIU* No.2 (1985), p.17.

Bank, in its 1984 annual report called the law on foreign bank ownership "inopportune" and "not consistent with the interests of a country such as Jordan which has chosen to be open to the outside world."[103] In the few meetings that did result, ACC representatives complained to the Prime Minister that continued government expansion in a time of declining rents was counterproductive. In a reaction that would become quite common, Prime Minister Obeidat was unmoved by the protests.

> To be honest, in spite of their presence we did not feel they carried out their role, they acted as individuals rather than as representatives of the business community...Therefore I personally did not respect their interests, there was no devotion to public interests.[104]

In April 1985 the government of Prime Minister Ahmad Obeidat, just over a year in office, resigned, ostensibly due to the continued poor economic performance. A growing government concern was unemployment which ranged anywhere from 10 to 20 percent depending on the source.[105] To set a new pace with a new Prime Minister, the King appointed a close friend, Zayd al Rifai, generally viewed to be supportive of private business and the need for economic liberalization. The change was accompanied by press and official pronouncements that the new Rifai government was to chart a pro-business course. In his instruction speech to the new government, the King--not known for an interest in economic affairs--asked for "steps toward reviving and reinvigorating the economic process in Jordan..." and he called for "programs geared

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[103] *EIU* No.2 (1985), p.17

[104] Interview with Ahmad Obeidat, former Prime Minister, Amman, 5 June 1995.

[105] In 1984 a World Bank report, that was later amended after Jordanian protests, forecast a 30 percent unemployment rate by the 1990s. *Al-Dustur*, 24-25 March 1986.

towards stimulating the private sector."[106] In office, Rifai moved on a series of institutional and policy reforms

The banking law was repealed, restrictions on private business hours were lifted, and new tax exemptions for export industries were enacted. Rifai also introduced Jordan's first plan for economic privatization.[107] It was scarcely an outline, but the idea was to enhance the private sector role by transforming public shareholding companies and some state-owned enterprises to full private ownership. Most importantly for the ACC, the power of the MOS was sharply curtailed. For the first time since the MOS was established, the incoming head of the ministry did not receive a separate cabinet portfolio. Instead, it was folded into the Ministry of Commerce/Industry. MOS import controls were also narrowed to only flour, sugar, rice and meat.[108]

The Rifai cabinet decreed two further institutional changes. Within the MOS, a "higher supply council" was set up which allowed for Chamber representation on decisions of hoarding and price gouging. As well, a new civilian supply court was set up where supply disputes could be adjudicated instead of resort to the quick military courts.[109] A direct plea from ACC president Tabba to the Prime Minister resulted in a key reform to the ESC. It was renamed the Economic Consultative Council and ACC representatives were given permanent seats in addition to the

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[106] *EIU*, No.2 (1985), p.17.

[107] *Jordan Times*, 27 August 1986

[108] *MEED*, 19 April 1985, p.14

[109] *EIU*, No.4 (1985), p.11.

Ministers of Supply, Commerce/Industry, Finance, Planning, and the Central Bank.[110] It was the highest policy body on which ACC representation had been allowed. New ground was also broken in choosing ministers. With ten Palestinian ministers, the first Rifai cabinet had the highest percentage of Palestinians since 1974. Rifai reached out to business leaders by appointing Rajai al Muaashir as his first minister of commerce/industry. The Muaashirs were a prominent Palestinian business family with historically close ties to the ACC.[111] Muaashir was replaced in 1986 with Hamdi Tabba. The move directly from the presidency of the ACC to the ministry was an historical first. All totalled, the change from Obeidat to Rifai was stark. The end of the Rifai administration, however, was equally abrupt.

With little economic recovery registered by the late 1980s, the monarchy was nervous. In a series of interviews, King Hussein admitted Jordan was in a "stage of economic adaptation," and sacrifices would have to be made.[112] Alarmed by the drop in the dinar, a stagnation in wages, and increases in debt, state and monarchy soured on the private sector and the ACC. In 1989, the MOS went back into action, detaining and fining scores of merchants for price violations. New sources of supply were made available from the military and subsidies were boosted.[113] Four days of violent protest, ostensibly due to price rises, in the cities of Ma'an, Tafila, and Kerak, was the last straw. A new administration was appointed led by Prime Minister Zayd Ibn Shakir, a close contemporary of the King and former armed forces commander. The tilt of the new cabinet

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[110] Interview Tabba; *Jordan Times* 14 September 1986.

[111] Samir Muaashir sat on M.Asfour's ACC board.

[112] *MECS, Volume 13, 1989*, p.456.

[113] *Al Dustur*, 6 August 1989; and *Jordan Times*, 31 July 1989.

reversed the previous openness to business, particularly with the appointment of Zaid Fariz, a well-known critic of the Chamber, to head the ministry of commerce/industry. How did this come about? While some of the blame for failed economic reform can be placed on the continued regional economic recession, some blame lies with the inability of state and business to achieve a degree of embeddedness and the failure of the ACC to effectively voice and participate in policy.

Despite changes in policy, institutions, and personnel there was little genuine ACC involvement during Jordan's first attempt at economic reform and liberalization. First, the issue of policies. It is not uncommon for state technocrats to develop ostensibly pro-business policies without the active lobbying or participation of business representatives. The situation under Rifai resembled Eduardo Silva's description of Chile's failed liberalization between 1975 and 1982: "Policymakers churned out liberalizing decrees without significant participation from other business interests."[114] The plan for privatization, for instance, generated neither coherent response nor counter-plan from the ACC. Consequently, there was virtually no private sector interest in state declarations to sell off Royal Jordanian Airlines or the Aqaba Port Authority. There was simply little investor interest in these money-losers, and state officials received little feedback. Reforms of the MOS were certainly welcomed, but observers suggested there more private sector interest in reforming customs guidelines and creating more transparency in economic legislation.[115] The lack of any significant decrease in government spending levels kept

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[114] Eduardo Silva, "Business Elites, the State, and Economic Change in Chile," in *Business and the State in Developing Nations*.

[115] Interview, Tijani.

Chamber acceptance of the new Rifai economic program to the level of a "cautious welcome."[116] At best Tabba admitted, under Rifai the government "recognized the importance of the private sector," but with virtually no organized business response, the reforms were destined to languish. Even the institutional openings to ACC representation were not exploited.

While a far cry from the infrastructure of full blown state-corporatism, the ECC and higher supply council marked a definite shift in state strategy because no comparable move had been made since the 1960s. It was an attempt to draw organized business into a limited and managed, quasi-corporatist arrangement. The ECC operated to facilitate consultation, not lobbying. The agenda and the scheduling of ECC meetings were solely controlled by the Prime Minister. Not surprisingly, successive prime ministers have varied in their use of this committee with some holding monthly meetings and some calling very few.[117] Consequently, some of the blame for weak private sector-state cooperation can be attributed to state designs. Despite the intent of the body, as a venue of opportunity, the ACC failed to exploit the opening. The Kuwaiti Chamber used such openings, designed with no more sincerity, to bolster comprehensive policy initiatives or provide specific evidence to counter government claims. Even Tabba admitted that at ECC meetings "we come and listen to 40 different speeches and then leave." What ACC involvement occurred was deemed by most participants as "lacking in preparation," "narrowly crafted," or "unconvincing."[118] Thus, even though Tabba's influence resulted in the inclusion of the ACC at the highest level, the lack of institutional capabilities meant little could be made of the opening.

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[116] *MEED* 4 January 1985, p.12.

[117] Interview, Obeidat.

[118] Various interviews with former ministers.

Personnel changes fared no better. The Tabba and Muaashir appointments were deemed "an experimental failure" by the government.[119] Instead of providing the private sector's voice, the ministries were run as if nothing changed. Some observers suggested this was due to fear on the part of the new ministers of being perceived as pursing personal business interests.[120] With no active support of organized business, the pro-business ministers were left dangling. Any radical departure from set policy would certainly appear a personal crusade. The fact that every leadership change meant complete institutional change also implied that former leaders or allies would be severed from the Chamber once they left. When KCCI allies headed ministries in the 1980s and 1990s, they could count on the support of their association. When the Kuwaiti chamber put forward recommendations, this gave the minister enough bureaucratic manoeuvre room to support or reject parts of it without appearing to serve personal interests. In the absence of a connected, proactive association, the pro-business minister was left with the spectre of personally advancing ideas that could be seen as self-serving.

The Rifai reforms and the state's first opening to business were a failure. However, the economy still languished, and IMF recommendations meant the private sector could remain on the sidelines. A return of Parliamentary elections in 1989 and the eventual dislocations following the Iraqi invasion of Kuwait, reintroduced new opportunities for the Chamber.

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[119] Interview, Obeidat.

[120] Interview, Saket.

Political liberalization, invasion aftermath, and lobbying in the 1990s

Despite a stand-by agreement with the IMF, Jordan's economic woes were far from resolved. The invasion of Kuwait, the expulsion of Palestinians, and an end to Gulf aid reinforced that fact. In part to cope with these pressures, King Hussein delivered on promises made earlier in the 1980s to restore Parliament. In April 1989, riots broke out in several southern Jordanian cities, ostensibly in protest over government austerity measures. The riots sharpened two imperatives; improve economic performance and deliver some political liberalization. The Chamber specifically, the private sector in general, viewed both imperatives as leverage to broker greater policy influence. This time the state really needed them. By all accounts, the scene was set for a new pact to be established between merchants and rulers in Jordan, a pact that could economically support the political hopes of liberalization and return policy clout to the Chamber.

Two aspects were key to the political liberalization during the post-Gulf war period: greater press freedom and the reinstitution of parliament. Increased press freedom was the most visible and exciting aspect of Jordan's liberalization. Jordan joined the ranks of Yemen and Kuwait where a relatively free press injected itself into domestic policy debates. The Chamber, along with other private sector representatives, utilized the media to present their ideas on current policy debates. Though none of the major dailies in Amman were controlled by pro-business interests (as in Kuwait), there were columnists who frequently presented private sector interests in these debates. Interviews with Chamber of Commerce officials, coverage of major banks' year-end reports, and opinion pieces by leading merchants were examples of uses of the new press freedom.[121] However, as was the case with Kuwait, the media playing field was densely populated. Opposition groups--particularly the Islamists--quickly and more effectively pursued press exposure. The Muslim Brotherhood in Jordan proved itself a formidable foe to business interests through its own media and tabloids, *Al-Sabil* and *Shihan*.[122] The Islamic along with the leftist press adopted the frequently heard claim that the business community was out to rob the state or impoverish working Jordanians. Their defense of public employment and attack on privatization paralleled their counterparts in Kuwait. The lesson from both cases is that while press freedoms have certainly imparted new opportunities, the larger impact has been an increased competition to express one's position amidst many loud opinions. Reconvening parliament went some way in institutionalizing this competition.

Elections for Jordan's first parliament in 23 years marked the beginning of wider policy participation. In 1984, King Hussein recalled Parliamentary deputies from the disbanded 1976 assembly. Incrementally, the government crafted a new electoral law to carry out elections only on the East Bank. The resulting electorate was similar to Kuwait's gerrymandering, in that a clear rural and tribal bias was evident. For instance, Amman with 41 percent of the population was given only 25 percent of the seats. The new parliament of November 1989 and the ones to follow did not differ in their power or purview from the parliaments of the 1960s. Consultation and approval were its primary functions. Still, the presence of Parliament subjected economic policy making more and more to Jordan's form of quasi-party politics. The 1992 Political Parties law

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[121] Fhadi Fanek and Mohammed Asfour are some of these type of voices. Also, the newspaper *Al-Aswaq* has come to be a forum for pro-business ideas.

[122] Jillian Schwedler, "Democratic Institutions and the Practise of Power in Jordan: The Changing Role of the Islamic Action Front," paper presented to the conference: The Social History of Jordan, Amman, March 1998, p.9.

allowed political parties to be legally registered. By 1994, over 20 had been formed, and this definitely changed the lobbying methods of organized business. During the existence of the NCC and previously, the Chamber relied on personal government contacts, on meetings with ministers, or as a last resort on the Crown Prince to influence policy. Parliament added a new and complicated venue of policy participation. Structurally, the Finance Committee was the primary body before which business representatives went to plead their case. This mirrored the process in Kuwait; even after interaction at the level of the Prime Minister to influence draft legislation, business leaders could go before parliament to press for last minute amendments not accepted in previous lobbying. To be a player in this process, however, business needed some representation.

As we know from much comparative work on democratization, parliaments empower different groups differently. In Jordan, as with most Arab states, Islamist and tribal groups have benefited. In the 1989 elections, for instance, 12 of Amman's 17 seats went to Islamic candidates. The opposition that evolved after these elections comprised a loose alliance between the Muslim Brotherhood controlled Islamic Action Front (IAF) and 10 small leftist parties. While some businessmen were elected (Qawar and Nabulsi in Amman) efforts to organize that representation generally failed. In 1989, ACC President Asfour attempted to create a pro-business, centrist party to give the private sector a voice. Executive board members were unable to agree on the basics of a strategy; either to ally with a currently established party or establish a completely new party. The initiative floundered. In the mid-1990s, JBA elites gravitated toward the small, centrist Al Wahd party making this, more or less, the "business party."[123] On the whole, business moved

[123] Interviews with Asfour, and Anis Muashir, General-Secretary Al-Wahd Party, 3 December 1996.

slowly and was unable to establish a Jassim al Sagr type voice in Parliament. Electoral rules notwithstanding, part of the blame lay with the institutional weakness of the largest business representative, the ACC. Even when businessmen were elected, connections with the Chamber appeared weak. The Chamber was more apt *ex post facto* to agree with a business deputy's statement rather than coordinate beforehand with his strategy. A result has been that when state and monarchy attempted to balance against the Islamic/left block,[124] business was not sought out. Instead, the king and his aides meet with leftist and socialist representatives to split the opposition.[125] Despite the promise of access Parliament offered, it has proven a difficult venue for the Chamber. Not having experience in dealing with Parliament was compounded with the inability to secure Parliamentary allies.

The costs of not being invaded

Aside from Kuwait and Iraq, Jordan was the most adversely affected by the invasion of Kuwait. When Iraq invaded Kuwait, remittances and state rents had already declined significantly. The political position King Hussein staked out at the onset of the crisis served to knock the bottom out of this trend.[126] In 1986 a rough estimate of worker remittances was 1.1$

[124] Schwedler, "Democratic Institutions," p.16.

[125] *MECS, Volume 14, 1990*, p.465.

[126] King Hussein's position, like his disengagement decision in 1988, suggested very little consideration of the economic implications. That, or the political necessity to back Iraq was deemed to be more important than the economic dislocations.

billion, and by 1991 that number dropped to 450$ million.[127] In 1991, GDP growth almost came to a halt, increasing by only 1 percent. Nearly 300,000, mostly Palestinian, expatriate workers returned to Jordan after liberation. They brought with them their savings, and the sudden infusion of capital created a mini-boom in the early 1990s, principally in the construction sector.[128] Annual GDP growth increased to 6 percent in 1994 and 1995, inflation remained low, and exports increased modestly. Government statistics were quick to highlight increased private sector investment as measured by the capitalization of new companies in 1993 and 1994.[129] Short-term gains clouded deeper, long-term problems. The immediate benefits did little to increase overall investment, and business confidence remained low. While the boost in construction increased temporary employment, the addition of so many new workers from the Gulf heightened the state's fear of unemployment since little of the new growth was geared toward middle or long term returns.

Apart from the economic fallout from the invasion, the influx of Palestinians from the Gulf added another dimension. Similar to 1967, thousands of new entrepreneurs poured into Jordan, many with life-long business experience in the Gulf. Their entrance into the private sector placed

[127] *World Tables* (Washington, D.C: The World Bank, 1995). Given the difficulty of tracking real amounts of remittances, the loss was probably greater.

[128] From 1990 to 1991 the total area under construction in Jordan's major cities almost doubled (Central Bank of Jordan, 1995). See also, Nicholas Van Hear, "The Impact of the Involuntary Mass Return to Jordan in the Wake of the Gulf Crisis," *International Migration Review*, 29, 2.

[129] In 1994 the Ministry of Industry and Trade reported that 4,462 companies with JD 408.37 million capital were registered compared with 4,409 capitalized at only JD 242.99 million the previous year. Such statistics, however, fail to report how many companies go under in that same period. (*Al-Aswaq*, 22 January 1995)

greater pressure on the ACC to accommodate them. Inexperienced in the politics of business in Jordan and since they were obligated to join, many looked to the Chamber as a source of *wasta* (influence) in their dealings with state and municipal authorities. By 1995, the Amman Chamber had 30,000 registered members. Externally, pressure mounted on the Chamber as well. Aspects of the IMF structural adjustment agreement were coming due in the mid-1990s, and many in the private sector and the government expected a number of economic policy changes. This was a contradictory environment, offering growth and new entrepreneurial input into the economy, while at the same time laying bare the fact that little of Jordan's underlying economic problems had yet been addressed. Both state strategies and the private sector's outlook took account of this.

From a government perspective it became necessary to replace lost external revenue with taxation on the hoped for increased private sector activity. True to basic rentier predictions, the state considered ways in which to tap into this domestic revenue. To do so required creating new laws, altering institutions to carry out previously neglected government tasks, and determining which activities to tax and at what level. This direction was balanced by another concern, specifically maintaining positive economic growth and creating jobs for the vastly expanded work force. Economic policy makers were fully aware that IMF grants could not deliver more employment nor ensure steady economic growth.[130] The failure of reforms under Rifai and the weak response by the private sector lowered government expectations for private sector cooperation. Moreover, an entirely new Chamber leadership was in place which did not experience nor was able to learn from the failure. Still, the government planned for economic

[130] Interview, Sami Ghammo, former Minister of Finance, Amman, 3 July 1995.

liberalization with some involvement of the private sector. According to the government this would include:

> Reducing the government's role in direct production, enhancing the role of the private sector through improving incentives for domestic and foreign investment, and discouraging government competition with the private sector; and activating the role of the private sector in the areas of infrastructure and basic services and increasing private sector participation in the management and ownership of public sector institutions.[131]

The consensus was to somehow entreat the private sector into a new pact to deliver greater domestic investment and spark new economic growth.

From the Chamber's perspective, one concern was how the government intended to deal with its budget problems. On the revenue side, merchants and traders in the ACC opposed an increase in general tax revenue or in import/customs duties. Especially for traders, increases in the size and power of the Customs Department in the Ministry of Finance had become a key concern. Bureaucratic problems with this agency were legion, and a good number of contacts with the state were over customs disputes. If a tax was to be imposed, most wanted exemptions for their goods. The small and middle retailers in the ACC opposed *any* intrusive government tax scheme that would force record keeping, or a national sales tax that would further depress consumption. On the expenditure side, industrialists led by the ACI opposed any reduction in subsides for their produced goods or taxes on imported raw materials. The largest, elite merchant families, scattered among the JBA and the ACI, acknowledged and welcomed a state move toward greater domestic revenue extraction. Many operated multi-sectoral enterprises and were

[131] *Jordan: Economic and Social Development Plan, 1993-1997*, Ministry of Planning, pp.103-104.

aware of the need for austerity and structural adjustment.[132] What they wanted in return was a greater role in policy making. In various guises, they viewed the future of Jordan as a low-tax, regional service center, focusing on its areas of comparative advantage (tourism and pharmaceuticals, for instance). They advocated some government support particularly in the tourism sector, but generally their desire was for a decline in the presence of the government, both as regulator and supplier. Few of these balanced voices were present in the Chamber of the 1990s.

This fact left the Chamber with few advantages in the policy debates of the 1990s. Since the leadership lacked autonomy, conflicting pressures within the Chamber were readily felt by the executive board. Instead of mediating claims, the board reflected them through increased particularist lobbying. Managing policy advocacy, let alone policy participation, became quite limited in the post-liberalization period. On the one hand, social and economic events kept up the pressure for greater political and economic liberalization. On the other hand, these dynamics tended to complicate the Chamber's efforts to come to terms with state vulnerability.

Taxation in a post-rentier country

In 1994, final legislation was prepared by Jordan's Parliament on its first national sales tax. A sales tax, while not as direct as an income tax, nevertheless paralleled quite strongly with the type of state intervention rentier theory envisions after rents decline. According to Luciani, "a sales tax, or VAT [value added tax], requires extensive administration and comes close to a direct

[132] One of the best examples of these multi-sectoral, dynamic entities was the Salfiti family. They headed the Union Group of Companies, a group of industrial, financial, and trading concerns

income taxation on individuals in establishing a direct relationship between the tax-payer and the state."[133] Debate surrounding this tax was unprecedented, marking the first time economic policy was so publicly debated among the government, the business community, and the opposition in Parliament. From the beginning the Chamber figured in the debate, but it was overshadowed by the lobbying of the Chamber of Industry and the oppositional rancour of Parliament. Instead of leading this alliance or helping amend the law to suit the entire private sector, Chamber lobbying riddled the tax with confusing exemptions that damaged both business and state objectives.

The idea of a national sales tax first emerged in 1989 as part of IMF recommendations to overhaul public revenue and replace an older consumption tax. The intent was to implement a comprehensive sales tax which would eventually become a national value added tax on all retailers and traders. In addition to offering needed revenue, a sales tax promised easy implementation and management. Generally, the idea of a sales tax supported a long-term government desire to move toward indirect, consumption based taxation instead of income based. It was, in short, easier for the government and held out the hope that such a tax would generate less opposition.

As discussed above, business preferences on taxation differed according to the association. ACI representatives shared a common concern that any tax levied against their raw material imports and then again on the final product would make their products too costly. The elite at the JBA recognized the government's need to move toward indirect taxation, but it did not wish to see such a tax simply added on top of an already cumbersome and, in many instances, high customs and corporate tax system. They wanted total reform of the tax system. Within the ACC

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[133] Giacomo Luciani, "The Oil Rent, the Fiscal Crisis of the State and Democratization," in *Democracy without Democracts*, p.133.

differing positions abounded and fractures within the executive board were apparent. Concerned over record keeping and reduced consumption, a faction of middle and smaller merchants simply wanted no sales tax.[134] Other ACC interests did not mind application of a sales tax on imported goods, they just wanted the sales tax to be levied prior to the customs duty. In this way, the total tax would be less and competing products from domestic industry would bear the brunt.[135] Most fractious, but vehement were ideas about trade-offs from the tax and demands for exemption. On this, executive board members and blocks of members prepared to lobby for compensation elsewhere (say, in lowering customs) or special exemptions for their goods written into the law. Apart from these competing associational interests, opposition groups in Parliament were in no mood to bend to IMF-initiated taxation during a period of austerity.

All groups, however, shared two goals. One was simply to lower the proposed rate of the tax (10 percent). On that everyone could demand compromise and claim victory. A second concern was over the authority of the later phases of the tax. The original government intent was that the next phases of the tax would be enacted through the authority of the Prime Minister; that is, Parliamentary approval of the first sales tax would entail a blanket permission for the state to enact further tax without consultation.[136] Business and opposition in Parliament wanted further stages to be submitted to Parliament for approval.

Business lobbying came in two phases. The first phase came in 1992 after the government

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[134] *Jordan Times*, 4-5 February 1993

[135] Interview, Sweiss and Amin Husseini, Secretary General, Federation of Jordanian Chambers of Commerce, 29 July 1995.

[136] *Hawl Mushruwa Qānun al-Dariba al-Amma ala al-Mabiat* (1994) [About the draft sales tax law], Article 4, Item B, The Finance Committee, Parliament.

of Prime Minister Sharif Zaid bin Shaker announced that a draft sales tax law was near completion and would be enacted as a temporary law. Under the Constitution, when Parliament is not in session the government can enact temporary laws that can be approved later when Parliament returns. Bin Shaker sought to short-circuit opposition to the tax by using this loop hole. Opposition in Parliament vehemently protested this move. The leftists and Islamists saw the government as simply enacting a mandate from the IMF and the West. One well known opposition figure, Laith Shbeilat, asserted that the tax was neo-colonialist and that "the weaponry has changed over the years to become controlling the economic survival of Third World countries."[137] The ACC and other business associations were angered over the lack of consultation. Though the idea for the tax dated back to 1989, business had not been included in the state's deliberations to create the draft law. Given shallow ACC participation during Rifai, it was no surprise the government felt little need to consult. Belatedly, the ECC and the Ministry of Finance began entertaining *ad hoc* meetings with ACC and ACI representatives. It was too little, too late.[138] With Parliamentary elections scheduled for November 1993 (some government Ministers were up for reelection) and Islamist/leftist opposition running high in the press, the government backed down in May 1993 agreeing to submit the law to Parliament after elections.[139] The second phase of lobbying came once the formal submission process began at the end of 1993.

Though the government had completed the draft law, the previous back down convinced state elites to be better prepared this time. Part of that preparation was to secure business support

[137] *Jordan Times*, 29-30 April 1993.

[138] *Jordan Times*, 5 and 10 May 1993.

[139] *Ibid.*

for the tax to undercut Parliamentary opposition.[140] So in December 1993, a special 16 person sub-committee under the ECC was created with ACC representation to study business concerns about the tax. The committee went through at least four drafts of the tax law before consultations ended.[141] ACC and ACI representatives used this opportunity to convince state officials of the need for exemptions for their members, lowering the basic rate from 10 percent to 5, and changing the authority over future tax phases.[142] On the latter two points, ACC and ACI lobbying was complementary. They clashed over the imposition of the sales tax on imports and over ACC demands for exemptions on specific goods. According to state officials involved in the interchange, there was a marked difference between each associations' lobbying.

Clearly more organized, the ACI commissioned its own research department to poll its members on the issue. They inserted these concerns along with their proposals along with comparisons with other countries' tax codes and estimates on the impact to industry. By contrast, the ACC appeared unable to mediate its own competing sectoral claims. Its own research staff of little use, the Chamber hired an outside consulting firm to assist its deliberations.[143] It did not canvass its members nor did it circulate elements of the draft tax to generate internal reaction. Instead, it was "hoped" individual board members would alert members in their sector to get

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[140] Interviews with government officials suggested a logic that they could compromise with business on the tax but that there was little to offer the Islamic/leftist opposition to win a compromise there.

[141] Interview, Muhtasib.

[142] *Al Ra'i*, 28 December 1993.

[143] Interview, Ghammo.

opinions.[144] Echoing Prime Minister Obeidat's complaints the previous decade, ministers were puzzled at the ACC's lobbying initiatives. Finance Minister Sami Ghammo admitted that Chamber representatives lacked "back up research and appeared ill-prepared." Planning Minister Zaid Fariz was more blunt: "I failed to ever hear a coherent argument from their representatives, there was never any new blood presenting their views." Most damaging however, were the particularist exemptions ACC representatives demanded. Outside associational channels, individual board members sent letters and pressed ministers attached to the consultations for specific exemptions for their businesses. Therefore, sectors in which ACC board members operated (textiles, for instance) comprised most of the exemption demands while unrepresented sectors (transportation, for instance) went unaddressed. All of this hurt the image of the Chamber in the eyes of decision makers. As a result, ministers tended to work more closely and share information more freely with the ACI and its president Abu Hassan.[145]

By January 1994, little compromise had been reached on the main issues. Pressed for time, the Prime Minister presented the draft law to Parliament in February. The draft failed to lower the rate of the tax, did not include the necessity of submitting future taxes to Parliament, and did not contain enough exemptions for the ACC. Business representatives and opposition elements braced for a fight within the Finance Committee where amendments and exemptions

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[144] Interview Mohammed Muhtasib, ACC board member, Amman, 6 December 1996.

[145] There are no open records of these meetings. Interviews from ACC and ACI officials were understandably one sided. Hence, most of the information on these deliberations came from interviews with former minister officials present and high ranking civil servants. Of particular insight were former prime minister Obeidat's views.

would be considered.[146] The interchange was often three-sided. Government ministers attended to defend or clarify government positions; opposition MPs defended constituent concerns, and business representatives lobbied their interests. In this process, ACC representatives enjoyed a key advantage during the debates.

Despite little representation in Parliament and scarce experience lobbying the committee, the Parliamentary environment was very conducive to ACC arguments. Islamist deputies in particular railed against even the idea of a tax since it came, partly, from IMF recommendations: "The draft law is a requirement of the new Middle East so that our economy will be marginal, to the benefit of the Israeli enemy and the capitalist economy."[147] Their logic may have been impaired, but the political effect was useful for Chamber lobbying. Finance Committee members sympathetically received ACC exemption petitions more to demonstrate legislative power than in recognition of Chamber arguments or skill. Outside Parliament, opposition parties mounted an impressive public relations campaign against the tax. A number of associations banded together in opposition, including the largest: the Consumers Protection Society, the Engineers Association, and the Contractors Association. Their primary claim was that the tax would injure the poor and increase the cost of living, ironically the exact same arguments were used against such pro-business issues as privatization.[148] Here again, the ACI took the lead, purchasing full page advertisements in some of the daily newspapers to explain business concerns. The Chamber of Commerce was scarcely present in these campaigns.

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[146] *Jordan Times*, 14 January 1994.

[147] IAF deputy Hammam Said quoted in, *Jordan Times*, 21 April 1994.

[148] *Jordan Times*, 5 March 1994; *Al-Dustur* 17 February 1994.

Eventually, the government chose not to fight the Finance Committee's amendments. Finance Minister Ghammo admitted, "we have spent more than 30 months discussing and negotiating the draft and we are not going to waste anymore time on this."[149] What Parliament eventually passed and the government accepted was a tax law riddled with inconsistencies and loop holes. On the macro aspects there was compromise. The agreed rate was 7 percent, a compromise between government's initial 10 percent and business's 5 percent. This victory proved temporary, however, when the government later pushed through an increase to 10 percent in 1995.[150] The Chamber of Industry succeeded to an extent since the tax would be applied only to raw material imports and not on the final sale. To appease the opposition, future phases of the tax would require Parliamentary approval. What the ACC could claim as success was found in the myriad of exemptions to the tax. Pages of addendum to the law specified what type, number, and style of goods and services would be exempted from the sales tax.[151]

The various loop holes in the sales tax were a poor first step toward the kind of tax overhaul the elite business community had in mind. Jordan's already complex import/export regime was given another layer of interpretation with the addition of the sales tax. Just to be an importer, aside from annual registration with the Chamber, an applicant had to obtain a clearance authorization at each import site, a license of operation from each locality, a license to import from the ministry, and an authorization for parcels. To complete a customs importation

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[149] *Jordan Times*, 14 May 1994.

[150] *Middle East Executive Reports*, November 1995; *Jordan Times*, 6 June 1995.

[151] *Qānun al-Dariba al-Amma ala al-Mabiat* [The Sales Tax Law] Number 6 (1994) The Official Gazette, Number 3970, Amman; *Middle East Economic Digest*, 30 September 1994; *Jordan Times*, 19 June 1995.

document, one required 17 signatures.[152] Since over half of Jordan's imports enjoyed some form of duty free status,[153] the addition of a sales tax with countless exemptions meant one then had to determine if, and to what extent, his good was subject to the sales tax. The consistent Chamber goal to reduce red tape and streamline customs regulations was actually thwarted by its own particularist lobbying. Government customs agents, who already exercised wide discretionary powers, were given greater leeway with the arrival of more complex levels of tax assessment. Instead of easing transaction costs, Chamber lobbying contributed to new market entry impediments. The result was general confusion, delays in tax collection, and extensive evasion.

The Chamber appeared confused by the law and failed to inform its members of the details of the tax's application. Well into 1995, confusion persisted within the merchant community over the provisions of the law, its details, and simply how the tax was to be levied.[154] Many businessmen struggled with customs officials at Aqaba, petitioned the Ministry of Finance, and complained before the Finance Committee. More amendments were passed through Parliament (including the increase to 10 percent) to clarify the earlier amendments. The number and complexity of exemptions encouraged a good degree of evasion by traders.[155] Future Parliamentary approval, the enduring, major concession of the debate, could not be claimed by the Chamber. Their victory, instead, shifted more weight to customs oversight and bureaucratic red

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[152] *Jordan: Private Sector Assessment*, Private Sector Development and Infrastructure Division, Middle East Department, World Bank, 25 August 1995, p.X.

[153] *Consolidating Economic Adjustment*, World Bank, p.53.

[154] Some Parliamentary debate in 1995 and 1996 as well as public forums with government officials were held to address these problems.

[155] Interviews, Muhtasib and Ghammo.

tape.

The 1995 Amman Economic Summit: trying to work together

Just as in Kuwait, Jordan's fast-track to reform presented a number of occasions where the Chamber could move from simple advocacy to policy participation on issues of common concern. Policy participation by business usually served more state interest than business.[156] But participation is quite rewarding in improving the image of business and winning a degree of trust for future lobbying. The 1995 Amman Economic Summit was the most prominent policy participation issue and tested the extent to which state and Chamber could coordinate toward a similar goal. The Summit brought together countries of the Middle East (including Israel) to discuss economic issues focusing on cooperation and investment. It provided a stage upon which Jordan could sell itself to private foreign investment and international lending bodies. Both state elites and the ACC desired such investment and both attempted to coordinate a unified approach.[157]

As part of the larger regional peace effort, the Amman Summit was conceived of as a follow up to the 1994 Casablanca Conference. Where the Casablanca Conference was a political gathering meant to lay the groundwork for Middle East economic cooperation, the Amman

[156] Some of the earliest examples of this were the handling of foreign delegations by the Chamber and sponsoring trade fairs with other countries.

[157] There is however a caveat. The Amman Summit occurring right on the heels of peace with Israel also meant that the conference was tied to general government efforts to involve Jordanian groups (especially business) in exchanges and dealings with the Israelis. As a consequence it would be an overstatement to suggest that the entire business community was thrilled with the Amman Summit but certainly an overwhelming majority were interested and hopeful about its outcome.

Summit was intended to provide the opportunity for actual deals to be made. In concrete terms, the Summit was a mad dash by some Arab states to secure foreign (principally Western) investment in their failing economies. Peace with Israel, a well-known liberalization record, and its role as host of the conference, placed Jordan at the head of the pack. Hopes and rhetoric ran quite high in Jordan that the Summit would spark the awaited peace dividend.

Shortly after the Casablanca Conference, the Minister of Planning approached the Canadian Embassy to solicit assistance on the preparation of Jordan's investment strategy for the Summit. The primary tool to lobby foreign capital was a projects list prepared by the government touting joint-investment projects in Jordan. Under a project financed by the Canadian Embassy, foreign consultants were hired in December 1994 to assess this list. One of their conclusions stressed the need to involve Jordan's private sector in Summit preparation.[158] A key element in any strategy to attract foreign investment is a stable investment climate. The most simple and direct means for the potential investor to assess this is to sample the local business community's opinions. One American participant in the summit put it this way, "If the private sector has all this cash, why doesn't anyone invest? If they think it's a risk, how can I get my company to take that risk?"[159] This predicament became a key concern for the Ministry of Commerce/Industry and Prime Ministerial officials as they worked toward the summit. To assist, the Canadians developed a list of private sector representatives to participate in meetings on the Conference.

This was an excellent test of state-Chamber relations because a relatively objective agency was given purview to examine Jordan's business community and attempt to select its elite

[158] Interview with Daniel Joly, First Secretary, Embassy of Canada, Amman, 1 June 1995.

[159] *The Middle East*, December 1995, p.17.

members to work with the state. Their first task was to contact Jordan's leading business associations for lists of potential representatives. Instead of receiving lists of "dynamic business leaders," the tardy response only contained "the names of family members of the organizations' leaders." Moreover, the Canadians concluded that these formal representatives could not "deliver mobilization and that it would entangle the process in bureaucracy."[160] Consequently, of the sixty-one individuals invited to the first meeting in May 1995, only five were invited from the Chamber. The rest were businessmen (and one businesswoman) chosen through the Canadians' own research.[161]

The first meeting allowed the private sector to compile its own list of priorities for the Summit. These priorities called for projects at the Summit to be "attainable and sustainable." Many of the projects the state had originally proposed were large-scale investment tasks such as the Disi-Amman water pipeline and the Red-Dead Canal.[162] There was little private sector interest in such endeavours. Suggestions from the private sector focused instead on well-known sentiments to reform current economic regulations, re-educate civil servants, and involve the private sector to a greater degree in economic policymaking. Minister of Commerce and Industry, Ali Abu Ragheb, summed up the government response at the meeting: "With the increase in economic activity it is very tempting to maximize profits at the expense of the

[160] Interview Joly.

[161] List of attendees provided by the Canadian Embassy, Amman.

[162] The Disi project is a multi-million dollar effort to build a water pipeline from the Disi Aquifer in the south to Amman. The Red-Dead Canal is an idea to build a joint Israeli-Jordanian canal from the Red Sea to the Dead Sea. (*Investing in Jordan*, marketing documents for the Amman Economic Summit, prepared by the Investment Promotion Department, Ministry of Planning, Amman, 1995)

consumer and the environment. Such imbalances cannot be tolerated even with the historical tasks ahead of us."[1] Aside from an exchange of views the problem remained as to how the private sector should structure its involvement in the summit. Since the involvement of the largest business association was quite limited, who was to decide participation and organization?

Discouraged with the response of the Chamber to the first meeting, the Ministry of Commerce/Industry with final approval from the Prime Minister appointed a ten member board of leading businessmen, The Private Sector Executive Committee (PSEC). The chairman of the PSEC was the vice-president of the JBA, Thabet Taher. The PSEC was the elite and it was telling that only one ACC board member, Taher al Taher, was chosen to sit on the committee. Several officials involved in the Summit confirmed that the Chamber was not supportive of the PSEC because its leadership viewed the organization as a rival its own authority. With less resources than the Chamber, the committee organized eleven sectoral committees and appointed its members from among the leading businessmen in each sector. None of the chairmen of the committees came from the ACC. By all accounts, the PSEC was very effective. Raising their own funds, the PSEC produced several well-organized publications for the Summit, and most importantly, interacted smoothly with state personnel organizing the summit. This interaction helped shape the final projects list which consisted of 27 ventures totalling roughly 1.3$ billion in private sector projects and 3.5$ billion in public sector projects.[163]

Though the Amman Summit proved an organizational success for Jordan's public sector, it demonstrated little in the way of a new pact between state and business. A pattern by this

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[163] Interview with P.V. Vivekanand, Editor, *Jordan Times*, 7 November 1996. None of the projects saw start-up funding. In part this was due to the fact that the conference was overshadowed by the assassination of Israeli Prime Minister Yitzak Rabin.

point, the ACC had failed to use the opportunity to advance its own vision of Jordan's economic future. Institutional and leadership weaknesses doomed effective policy participation. It was easy for state officials to justify by-passing the largest private sector association in the country. But, since there was no ready, strong partner with whom state ministries could coordinate, state agencies were forced to create a temporary one.

The slow path of privatization and the what if question

As with IMF sponsored structural adjustments in many countries, Jordan's privatization program was formulated in response to IMF recommendations on lowering the budget deficit and increasing revenue. Two characteristics of the program closely paralleled privatization in Kuwait.

First, the program is really a liquidation program of public assets. Privatization in the sense of turning over significant portions of public sector activities to the private sector is not on the table. Instead, state officials have considered a wide array of state investments in public shareholding companies to liquidate. Like Kuwaiti government holdings, these were substantial with an average stake of 46 percent in 109 shareholding companies registered on the Amman Financial Market.[164] Consideration of privatizing government-owned corporations (Potash and Phosphates for instance) or some government ministries was very limited. Second, the process lacked a coherent plan or direction. After the rather vague outline of privatization offered under Rifai, the state did not develop a detailed plan or targets. Various references for the need to privatize has accompanied each five year plan, but no concerted effort to debate or strategize the issue had taken place by the mid-1990s. Structurally, the process was as decentralized as in

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[164] *Jordan: Consolidating Economic Adjustment*, World Bank, p.59.

Kuwait. There is a technical committee for privatization located at the Prime Minister's office which was created to oversee the privatization process. However, since most state assets in public shareholding companies were owned by the Jordan Investment Corporation, it generated the decisions of what to sell and to whom.[165] Other shares were held by individual ministries, and hence each minister had input into sales decisions. Aside from these features the program has been quite different in each country.

Unlike Kuwait, there was little private sector confidence in the process. Business leaders almost unanimously expressed ignorance over state intentions toward privatization except what was broadly recognized. There was very little if any discussions between Chamber representatives and the state about the issue. Chamber policy on the process was quite thin with only general agreement for the need to privatize but little beyond that.[166] In Kuwait, a number of interactions and reports had taken place between Chamber officials and the Finance Committee in Parliament over the program. In Jordan, though resistance among opposition groups ran high against privatization, no such contact took place. All told, the Chamber has essentially been severed from the process. Consequently, though Jordan espoused its privatization program in the mid-1980s, few actual sales had occurred by 1995. Did the poor state of Chamber-state relations and weak advocacy by the Chamber figure into this poor performance?

To an extent it did, but other factors need consideration first. There was an underlying political calculus to privatization that was unique to Jordan. Given that the historical

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[165] Interview, Saket.

[166] Various interviews with Chamber officials. Also, research uncovered no privatization documents or policy statements by the Chamber.

development of the private sector was primarily Palestinian in origin, the politics of East Bank versus West Bank was of prime consideration. Since state efforts to supplant the merchant community with a more loyal East Bank industrial class never fully succeeded, the great majority of capital in Jordan remains in Palestinian hands. Most of the potential buyers for government shares were of Palestinian origin. Selling large amounts of public shares to portions of this group threatened to alienate the monarchy's support base among East Bank political elites. The only major sale by 1996, the InterContinental Hotel, was sold to a consortium of investors headed by a prominent East Bank notable.[167] Apart from the political impediment to privatization, there were few really attractive opportunities for investment among what the government wanted to sell. For example, since the mid-1980s the government touted the sale of the national airline, Royal Jordanian. However, because the airline ran very high debts and only leased its airplanes, there was little capital a buyer could sell off to make the airline profitable.

These important factors notwithstanding, we can still see evidence of poor advocacy by the Chamber and the effect of weak leadership. A prime element in the Kuwaiti Chamber's collusion with state officials on privatization was their ability to speak for the buyers. The KCCI elite could assure state officials that sales of this or that company in this or that sector would not result in immediate unemployment. This was crucial assurance that state officials could depend on because KCCI elites had proven they could deliver. This was not the case in Jordan. The leadership of the ACC hardly represented the potential buyers, and they had certainly not demonstrated they could deliver. Officials, therefore, saw little need to consult them. In fact, in many of the pronouncements about privatization, ministry officials have had to state that any sale

[167] *Jordan Times*, 3 September 1996.

will require a waiting period of 5 years before any job losses.[168] Not having the leading private sector association involved in the process has contributed to its snail's pace.[169] To consider the counter-factual "what if" question, strengthens this conclusion.

If Jordan's business elite still controlled the Chamber, what then? To be sure, the process would still be a cautious one, but it is likely there would be more private sector confidence, better organization, and less fear on the part of state officials. The process would likely progress in such a way because a multi-sectoral, elite leadership could help ease the state's perceived political costs. The economic proclamations and promises of a Shoman, Tabba, or Asfour would at least be credible given their market and their social profile. Those elite businessmen, while of Palestinian and Syrian origin, were also staunch supporters of the Hashemites--evident by their close relations with King Abdullah and their loyalty in 1970. For the pre-1948 elites, their identification has always been with Jordan.[170] Moreover, in the last few decades these elites have proven apt at allying with East Bankers who have chosen to move into the private sector. The presence of the Abu Hassans in the Chamber and various joint-ventures between traditional Palestinian elites and East Bankers demonstrated political savvy and commercial flexibility. For example, the East Banker who purchased government shares in the InterContinental Hotel headed a consortium of 16 investors, many of them of Palestinian origin. These are good reasons to believe that just as the KCCI elite managed inclusion of the new elites, the same could have been

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[168] *Jordan Times*, 18 September 1996.

[169] The state will no doubt find elites outside the association with which it can negotiate, but that will be an *ad hoc* and unwieldy process.

[170] Indeed, it is often heard by Palestinians that elites like Asfour should not be considered Palestinian since they came over so long ago and came voluntarily.

done in Jordan.

An organizational epilogue

The steady decline of Chamber policy influence and its replacement with particularist, rent-seeking lobbying did not go unnoticed. The decade long state effort to liberalize and reform generated similar introspection among Jordan's social associations, particularly the Chamber of Commerce. World Bank observers advised that obligatory membership be abolished, thereby severing Chamber involvement in the process of business licensing.[171] As we have seen before, such an idea received little backing within the Chamber. Wedded to its own rents (membership dues), the association finds it as hard as the state to let go of this revenue. Still, some moves toward reform have been evident.

President Murad instituted the formation of sub-sectoral committees within the Chamber. Hamstrung by the narrow sectoral nature of the executive board, the new committees were designed "to advise the board of directors of the Amman Chamber of Commerce on the interests and concerns of their respective sectors so that the board could adopt necessary action."[172] The idea was also to attract and control the participation of the smaller and more numerous professional associations that represent each sector. In 1996, the Chamber initiated an internal review to "raise the profile of the board." Considering ideas attempted under Hamdi Tabba's presidency, proposals were considered to end 4th category voting, establish sectoral seats on the board, or set aside some seats for appointment. It was unclear what would be made, if anything,

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[171] *Jordan: Consolidating Economic Adjustment*, World Bank, p.67.

[172] *Jordan Times*, 21 February 1995.

of these revisions to the 1961 changes, because together and individually, each violated the reelection imperative of most board members. Change has its costs.

3. SUMMARY

Even though the dynamics were evident earlier, the bust period was the most instructive of what drove the divergent lobbying patterns. In Kuwait and Jordan similar environments of exogenously caused and endogenously exacerbated fiscal crises forced the state to open to private sector access. The capabilities and skills of each association, however, determined the extent to which that access could be used. Though the precise issues of lobbying and participation were not the same (rarely can comparative studies find exact issues in different environments), there was sufficient similarities in state interests, the structures of access, and clear outcomes to support the findings. During the first efforts at economic reform in the 1980s, the Jordanian association failed to take crucial first steps not only to influence state direction and carve out a clear position, but generate state confidence in its abilities. When faced with the Manakh debacle, the Kuwaiti association was swiftly able to mediate internal conflicts and stake out a clear position. It persisted through policy reversals and oppositional pressure to realize much of its aims. Elite continuity and institutional capabilities demonstrated to state officials that the Chamber was a useful ally. That periodic alliance proved a two-way street for the Chamber to limit its rivals and influence the process of economic privatization. In contrast, by the time the Jordanian Chamber faced increased state vulnerabilities in the 1990s, the dye had been cast. Elites driven from the Chamber strengthened rival associations. Lack of elite control and underdeveloped institutional capabilities splintered its lobbying. What limited impact the Chamber did have on policy was economically and politically detrimental. The following points summarize the comparative lessons:

1. The relevance of organizational features to lobbying effectiveness was clear. It created

different types of intra-associational politics and leaderships. Chamber elections in Jordan were a zero-sum affair leaving little continuity between leaderships. The power of the lower category votes resulted in the expulsion of the elite from Chamber leadership. The presence of board members tied to the lower category voters weakened the ability of the president to discipline members against particularist lobbying. Conversely, the leadership of the Kuwaiti Chamber was not threatened by voting blocks and was freer to incorporate board members for their profile and lobbying skills. The electoral challenge that did emerge was conclusively defeated. Ironically, the more exclusive association allowed the inclusion of previously unrepresented parts of the business community. Elites were less fearful of overthrow and more willing to tolerate controlled inclusion.

2. Different leaderships influenced divergent institutional capabilities and contrasting images in the eyes of state officials. The Kuwaiti Chamber used a well developed research and studies division to aid policy preparation and support collective action measures. The skill, youth, and clarity of Chamber lobbyists impressed state officials. The rationality of Chamber proposals may not have been the sole reason for Chamber successes, but it made it easier for state officials to justify action on their behalf. Evidence from Jordan paints the mirror opposite. Chamber proposals paled by comparison to the lobbying of rival associations. The inability to control member lobbying damaged the image of the association. State officials not only distrusted Chamber proposals but saw little advantage in relying on the Chamber in other areas. What Chamber policy influence that did result was highly contingent on Parliamentary opposition and other associations leading the way.

3. Two tangential, but intersecting, points follow from the evidence. Though both associations faced similar difficulties with Parliament where rivals to the private sector dominated, the leadership of the KCCI consistently pushed for democratization, whereas the ACC was virtually absent. Why? Aside from the merchant community's traditional oppositional role in Kuwait, an instrumental calculus was at play. In Kuwait, the presence of Parliament broadened state vulnerability. As the vehemence of Islamist opposition pushed the state to secure allies, the cohesion and strength of the Chamber made it an ideal partner. In return, the Chamber used the state for its own ends. Supporting democratization then paid dividends. In Jordan, there was little policy pay-off from Parliament, since the state did not view its Chamber as a worthy ally. Finally, outcomes in the 1990s reveal that modelling the opposing forms of organization, inclusion versus exclusion, as independent variables do not impart the neat lessons that may be hoped. The Kuwaiti Chamber certainly excelled at policy advocacy and participation. Evidence from the issues of privatization and cooperatives, however, revealed degrees of collusion between state and business. Just as damaging as the Jordanian Chamber's particularist lobbying, the effects of collusion can lead to market entry impediments, competitive rent-seeking, and inefficient distribution of resources.[173] The problem is that too much policy success or too much elite control can encourage forms of collusive behaviour. How best, then, to balance the necessary degrees of exclusion with the off-setting benefits of

[173] Ben Ross Schneider and Sylvia Maxfield, "Business, the State, and Performance in Developing Countries," in *Business and the State*, pp.21-29.

inclusion? As much as one may desire the achievement of hard and fast lessons, the reality is that the answer lies along a continuum of extremes. To find the proper measure of exclusion and inclusion (realizing policy influence but discouraging collusion), one must make room for the particulars of the situation and contingent factors.

VI
STATE AND BUSINESS IN THE ARAB WORLD

1. REVIEWING THE ARGUMENTS

Whether one is neo-liberal or statist oriented, there is a consensus among social scientists that the interests and actions of the private sector are crucial issues of analysis among developing world countries. In the Arab World in particular, business has assumed new positions of prominence in many countries as state officials struggle to balance revenues needs with the imperatives of economic growth.[1] Yet even though Arab businessmen organized associations of collective action long before their own states' political independence, there has been relatively little study of organized business in the Arab World.

This study addressed this shortcoming by analyzing patterns of successful and unsuccessful business association lobbying in two Arab countries. The states of Jordan and Kuwait dealt similarly with their private sectors and associational representatives through three comparable periods: close relations during early state development, cooption and state autonomy during the finance boom, and openness after the decline in rents. Formed along similar functional lines, each association forged close, influential relations with state and monarchy in the early period. Each association weathered a period of reduced influence in the 1970s when revenue rich state officials ignored and limited business influence. David Vogel in his book *Fluctuating Fortunes: The Political Power of Business in America* (Basic Books, 1995) examined the exact

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[1] For example: Parliamentary elections in Egypt and Yemen in 1997 and 1998 resulted in the election of a number of businessmen. In Syria in 1998, a prominent critique of the government's economic policies was elected to the presidency of the Damascus Chamber of Commerce. In addition, Moroccan and Tunisian business associations have played increasingly important roles in those countries' economic liberalization programs.

same variations in state-business relations in the U.S. He found that periods of economic boom correlated to an anti-business bias among public officials, but in times of recession pro-business positions took root. In the cases of Jordan and Kuwait, despite facing equally vulnerable states in the 1980s and 1990s, only the Kuwaiti association achieved meaningful policy influence. Two inter-related arguments were deployed to explain this divergence.

First, sectoral endowment is of undoubted importance to understanding the evolution of private sector institutions. The character of external resource flows into the domestic economy figure into the degree of interest conflict within the business community and into the type of links that predominate between large and small merchants. Sectoral attributes in each case were to a significant extent the product of the type and level of exogenous resource flows. Sudden and very high oil rents created an extreme form of the Dutch Disease and a homogenized private sector in Kuwait. Significant, but not extreme, labour remittances and foreign aid income allowed more sectoral development (Stauffer's non-depletable GDP) in Jordan. Hence, efforts to fashion an industrial sector succeeded to a greater extent in Jordan than in Kuwait. What resulted in Jordan was a private economy still weighted toward services but with a well-defined industrial sector. Further, these same contrasting rent features helped structure different intra-merchant relations in each country. The high purchasing power of upper-income Kuwait encouraged import monopoly regimes centred on the leadership of the Kuwait Chamber of Commerce and Industry (KCCI). This market control tied small and middle retailers to the larger merchants much more than was the case in middle-income Jordan. Sectoral diversity and intra-merchant relations carried key implications for the type of business community resident in each Chamber. But this is not enough.

Sectoral attributes shape the trajectory and constraints of each association, not their fate. A second argument stresses the importance of how an association structures its own representation. Timing is important. In Jordan, changes in important organizational features occurred shortly before the industrial sector became distinct. From its founding until 1961, voting rules in the Amman Chamber of Commerce (ACC) stipulated that only the elite could vote or nominate candidates to serve on the executive board. These restrictions crafted an electoral process that ensured elite cohesion and maintenance. Since its founding, the KCCI maintained voting rules stipulating that every type of membership could vote--subsidiaries, branches, and agency licenses included. Hence, the largest, multi-sector merchants could multiply their votes. Only certain categories of membership required annual renewal, so most membership was voluntary. These exclusionary features protected majority voting blocks among the elite 24 board members that were not easily challenged.

Divergence came in 1961. The Jordanian Chamber successfully lobbied municipal authorities to make membership obligatory for all businesses. By-law changes extended suffrage to the lower, more numerous category of members. By the late 1970s those who began to run for the Chamber organized lists of candidates. Presidential candidates were forced to compile lists designed to capture blocks of the lower category voters. Religious and origin considerations trumped candidate selection based on business success, state contacts, or sectoral interests. Since it was possible to gather an entire list representing only one or two sectors, sectoral balance on the executive board suffered. Sectoral interests, then, went largely unaddressed in the Chamber leadership at precisely the time intra-business mediation was needed most, when internal articulation of the economy deepened in the 1970s and 1980s.

Elite cohesion at the leadership level became more difficult as electoral politics took on a more competitive and complex character. Winning the board of the ACC became a zero-sum game. Changes in the board not only meant a new president but often new managerial staffs, and most importantly, new lobbying styles. Because of the difficulty of winning election and of securing enough autonomy from the rank and file to lobby, the largest and most influential businessmen abandoned the Chamber for other associations by the 1980s. Leadership of the Chamber suffered, institutional capabilities stagnated, and state perceptions were adversely impacted. Correspondingly, the KCCI leadership faced similar pressures, albeit not purely sectorally based. State efforts to promote a rival merchant class in the 1970s and early 1980s did encourage a new elite (Shia, Bedouin, and non-asil Sunni); however, by the late 1980s and 1990s when this new class sought representation in the KCCI, organizational advantages allowed KCCI elites to deal effectively with the challenge. The best evidence of these contrasting internal dynamics was found in the 1992 KCCI elections and the 1994 ACC elections. Both elections were remarkably similar. Traditional, standing elite merchants were challenged by relative outsider, charismatic merchants for the leadership. In Kuwait, the challenge was defeated and new elements of the business community--not previously present on the board--were integrated into the new board. In Jordan, the challenge succeed, and for the first time in the Chamber's history a post-1948 Palestinian gained the leadership of the Chamber.

Contrasting leadership and institutional capabilities obtained different levels of lobbying success. Despite facing similarly vulnerable states, the Kuwaiti Chamber was able to leverage its access and realize key goals in legislative debates.[2] The Jordanian Chamber was a proactive failure and was largely ignored by state elites. Differences in lobbying outcomes highlighted important specifics of the state-business relationship. Maxfield and Schneider list four aspects that define successful state-business collaboration: information, reciprocity, credibility, and trust.[3] During the period of economic downturn, the evidence was clear that the Kuwaiti association achieved a good degree of each of these elements, whereas its Jordanian counterpart failed at each. Trust and credibility facilitated movement from simple policy advocacy to policy participation in Kuwait. Efforts to enjoin policy participation in Jordan were notable failures. Beyond a sole focus on business association lobbying, these findings engage several other strands of literature .

2. PERSPECTIVES ON THE POLITICAL ECONOMY OF THE ARAB STATES

A primary target of this study is rentier theory and the question of what happens after rent. Rentier theory and the importance of a state's fiscal resources have been important contributions from the comparative study of Arab states. This literature, moreover, has broader--if often unrecognizable--significance for other developing areas. In 2005, it is expected that the former Soviet states of Kazakhstan, Azerbaijan, Uzbekistan, and Turkmenistan will begin receiving billions in windfalls from their oil exports.[4] The insights of rentier theory enjoy the advantage of

[2] The comparison is made stronger when one realizes the policy environment of Kuwait in the 1980s and 1990s was more competitive than in Jordan.

[3] Maxfield/Schneider, "Business, the State and Economic Performance," in *State and Business*, pp.6-15.

[4] *New York Times*, 15 February 1998.

being put to the test in the near future. The great deal of effort that went into understanding what rent booms do to state institutions and state-society relations should form the base lines of inquiry into these new cases. For the Arab states of today, however, the pressing question is how much insight do these theoretical expectations give us into the post-rent period? By charting a specific state-society relationship through the boom and bust periods, this study engages both ends of the inquiry: business/state during the rent boom and business/state after.

Weak policy influence by organized business during the boom period confirmed the link between a state's resource base, autonomy, and relations with the private sector. But there is more to the story. Work by Crystal, Chaudhry, and Karl emphasize the social, political, and structural legacies (merchant-ruler pact, ties between business and state, and structure of state institutions) of the boom in examining political-economic outcomes once rents decline. A focus on sectoral endowment suggests another important boom legacy. Work by Shafer, Rogowski, and Frieden individually stress how a country's sectoral endowment figures into a state's ability to restructure, how sectoral attributes determine political preferences, and which preferences predominate.[5] The argument here emphasizes another legacy within the sectoral endowment approach; how sectoral attributes shape the membership of the business association and the conflicts resident within the association. First, evidence from the comparison highlights a strong tie between the type/level of external rents and the degree of sectoral diversity. Following the logic of the Dutch Disease, the higher the direct rents, the less domestic economic articulation.

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[5] Michael Shafer, *Winners and Losers: How Sectors Shape the Developmental Prospects of States* (Ithaca: Cornell University Press, 1994); Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton: Princeton University Press, 1989); Jeffery Frieden, *Debt Development, and Democracy: Modern Political Economy and Latin America, 1965-1985* (Princeton: Princeton University Press, 1991).

Second, the more sudden and the greater volume of rents, the greater dependency of small merchants on the large. Sectoral diversity and intra-merchant relations are therefore two legacies of significance to state-business relations in this study. A purely sectoral approach, however, is path dependent. It sets you on the right analytical road, but it cannot get you there.

An exclusive focus on the structural aspects of the boom period misses dynamics that come into play once the bust comes. As Shafer notes, a purely sectoral approach cannot get at how businesses preferences are communicated, how they are shaped, or what explains different capacities for collective actions among business groups.[6] These issues are of the utmost importance once rents decline because organized business is usually a front-line player in determining how a state weathers these forces. This was clearly highlighted in the early stages of the Manakh crisis when the research capabilities of the Chamber and the National Bank of Kuwait were used to supplant weak state information gathering agencies. A lesson from the comparative evidence is that sudden declines in rent cannot solely account for patterns of lobbying success and failure.[7] That is, change is expected from rent declines but to specify what change and in which direction, one needs to incorporate more variables. One must consider not only how rents affect the state and business community, but how the effects are manifest at the level of the business association or in any social association. Taking into account the divisions and organization of important social actors, like business, gives some idea as to the extent which sectoral dynamics can be felt. This is not meant to ignore the important changes rent brings to the state but to add

[6] Michael Shafer, "The Political Economy of Sectors and Sectoral Change: Korea Then and Now," in *Business and the State in Developing Nations*, pp. 90-91.

[7] To return to a key comparative element, a basic expectation from rentier theory is that greater voice and influence by business should occur once rents decline.

an element that is important in these cases.

The answer to the what happens after rent, then, is not complete. A key area to explore is certainly organized business, where interests are more clearly delineated and lobbying easier to pinpoint. Others groups in Arab countries are equally important to focus on, especially political Islam. Thus, studying the political-economy of state and business in the Arab world is an important part of the puzzle, but it is not all.

3. PERSPECTIVES ON THE BUSINESS ASSOCIATION

A significant amount of work on the private sector in the developing world has focused on exogenous factors, such as position within global capitalism or the structure and extent of state interventions. The question of this study and a majority of the thesis has sought to focus more squarely on business itself, its elites, and its organization. This is not because exogenous factors are unimportant, but because not enough is known about how intra-business organization affects interests, elites, and relations with the state in developing countries. Moreover, in the wake of fiscal strain and economic stagnation in many developing countries, business groups have undertaken significant reorganization in isolation from state control.[8] Putting them at the center of analysis can pay dividends. Two of these bear on some of the literature about organized business: unpacking the connection between elite control and lobbying, and engaging Mancur Olson's argument about encompassingness.

[8] Three of the most prominent have been Egypt, India, and Thailand.

Elites, organization, and lobbying

The study's historical narrative elaborated the connections between elite control and successful lobbying. Research on the structure of business associations among the developed democracies is quite mature. Concerted work on analogous associations among developing nations has recently begun, and besides its own relevance to politics of the region, such work is also of interest to the extent it borrows from, builds on, or disregards previous research. While there may be some pitfalls in comparing developed democracies with the states of the Middle East, there is nevertheless some areas of common theoretical concern. For example:

> There are virtually no systematic empirical studies that investigate comparatively and over time success and failure of national business communities in formally integrating their collective action and representation...In particular, we know little about the causal connection between organizational cohesion and political access.[9]

This study offers some potential answers of focus by showing how elite cohesion impacted lobbying success through three interrelated elements: leadership autonomy, associational attributes, and state perceptions.

First, elite cohesion reinforces leadership autonomy from rank and file. A leadership secure in its position (i.e., electoral position) is more likely to lead the membership rather than follow it. In much the same way as state autonomy is believed to increase state capabilities, William Coleman and Philippe Schmitter have shown that similar autonomy for a business association is one key to playing its own policy role. Autonomous leadership can rise above the particulars of membership conflicts, seek out the longer term advantage, and more easily mediate

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[9] William Coleman and Wyn Grant, "The organizational cohesion and political access of business: a study of comprehensive business associations," *European Journal of Political Research* 16 (1988), p.483-484.

between members and state interests.[10] This was clearly exemplified by the balanced debt proposals espoused by the KCCI leadership in the 1980s. It effectively mediated conflicting internal interests to chart a clear, steady policy throughout the decade. By contrast, the Jordanian leadership, dependent upon lower category votes, appeared far more bound to rank and file concerns. Eventually, its lobbying, instead of representing a mediation of membership concerns, actually reflected them through particularistic lobbying.

Second, favourable institutional structures and attributes also flow from sustained elite cohesion. Literature on business associations has agreed upon four organizational attributes that strengthen the policy capable association. These are presented in figure one.

Advantageous Lobbying Attributes	Disadvantageous
Horizontal differentiation:	
--differentiation by product, sector, or function	--little or uneven differentiation
Vertical integration:	
--integration through interaction between committee and executive structures	--flat structure, little interaction
Horizontal links:	
--good relations with other associations	--competition with other associations
--little competition for membership	--competition for members loyalty
Resources:	
--diverse resource base	--finances primarily from dues
--presence of staff professionals	--little professional staff, dependence on executive board
--capability to order complex information and develop long term research skills	--weak research arm and capability to generate information

Figure 1 Association's Structural Attributes Affecting Lobbying
Source: Adapted from, Coleman *Business and Politics*, p.55.

[10] William D. Coleman, *Business and Politics: A Study of Collective Action* (Montreal: McGill-Queens University Press, 1995); Philippe Schmitter and Wolfgang Streeck, "Community Market, State--And Associations?" in *Private Interest Governance*, edited by W. Streeck and P. Schmitter (London: Sage, 1985).

Horizontal differentiation refers to the presence of sub-structures or boards within an association designed to address specific classes of membership interests or pursuits. For the business association, these interests are defined along sectoral lines. When power is delegated to these bodies to provide input to Chamber policy, then a better crafted policy position results. The more differentiated the internal structure the more flexibility and resources an association can bring to bear on a variety of problems. Therefore, in the 1970s, we saw the KCCI establish permanent committees to deal with specific sectoral concerns. Its research and studies division was upgraded and augmented with other companies' resources controlled by the leadership. By contrast, the ACC only considered establishment of sectoral committees in the 1996. The comparative point is that the more coherent, secure leadership at the KCCI was able to embark on these organizational initiatives and see them through. The Jordanian Chamber attempted at different times to institute useful structural changes (upgrading research in the 1970s, and upgrading staff in the 1990s), but a vacillating leadership was never able to follow through.

Not only does horizontal differentiation aid policy formulation, but it can alleviate interest clashes as well. Dating back to the industrial split from the ACC, a frequent complaint heard by different sectors of Jordanian members was that their sectoral concerns were not being heard. Since the largest elites controlling multi-sectoral concerns were unable to maintain the leadership, there was little sectoral diversity on the executive board over time. Loss of these multi-sectoral elites damaged the ability of the board to mediate among competing sectoral claims. In Kuwait, competing sub-sectoral associations actually sought out representation on the executive board. Given the multi-sectoral nature of board members there, the chances of sectoral mediation was far greater.

Vertical integration refers to the extent of interaction between any sub-structures present and the leadership. Strong vertical integration ensures that the executive leadership stays involved and effectively manages staff level functions. In comparison to horizontal integration, vertical links are not that important in the case of smaller associations such as the ACC and the KCCI. Large labour and business associations in Europe with extensive staffs require strong vertical integration to manage association activities effectively. What is important in the case of these smaller associations is that executive board members should be actively involved with or lead the sub-committees. In the case of the KCCI, al Sagr consistently appointed executive board members to these boards, thereby ensuring leadership involvement in Chamber activities. Board members of the ACC were more apt to be actively involved with boards located outside the Chamber (i.e. international Chamber meetings that allow for foreign travel). When ACC executive board members were assigned to internal committees, there was little delegation. Postings were often *ad hoc* and reserved for board members closest to the president.

Effective horizontal linkages mean other associations desire to work with and integrate into Chamber actions. These links enhance collective efforts to lobby policy, and they are clearly an effect of coherent leadership and associational strength. In Jordan and Kuwait there was no legal relationship between the Chambers and the other sectorally specific business groups (i.e. Food Stuffs Union, Sweets Manufactures, and so on). What links that did develop, occurred as a result of associational politics. In Kuwait, sub-sectoral associations desired representation within the KCCI, especially since the mid-1980s. Heads of sub-sectoral associations ran for KCCI board positions, or the association petitioned the Chamber to be represented on one of its sub-committees dealing with that organization's interests. The weaker leadership image of the ACC has hurt its relationship with other associations. Most of its relationships can be described as a rivalry, particularly with the more elite Jordanian Businessmen's Association, and the Amman Chamber of Industry. The ACC directly competed with these associations for membership loyalty and state patronage. Smaller sub-sectoral associations also tended to remain independent from the ACC, fearing the institutional lethargy and end-fighting within the ACC. Any cooperation that did occur, during the sales tax debate for instance, was a product of similar interests not an institutionalized relationship. Poor horizontal relationships have damaged lobbying initiatives since collective action or bandwagonning of associations with the ACC was nearly impossible. .

Finally, a diverse resource base refers not only to financial resources, but staff resources as well. In both aspects, a diverse resource base increases associational leadership autonomy by reducing reliance on membership dues or outside expertise. Financial resources are key. In both cases, the primary source of association funding came from membership dues. It is worth recalling that one of the reasons ACC officials decided in the 1960s to push government officials to enforce obligatory ACC membership for all businesses was because of their desire to increase revenues. The KCCI, instead, invested Chamber finances, early in its history, in land and other fixed investments to secure an independent source of funds. ACC officials, on the other hand, remarked in interviews that the executive boards have always been wary to invest Chamber funds for fear of passing on debts to future boards. The more secure KCCI leadership could look to the long term, whereas ACC leaders were hamstrung by short-term calculuses.

A key skill required of a successful business association is the ability to order and process complex information, specifically economic data that supports policy positions. The association usually carries out this task through its information and research division. The KCCI established its research division when it was founded and staffed it with professionals. The ACC did not form its own research and information branch until the 1980s, and though one head of the department was well regarded, frequent leadership changes meant numerous staff changes. As a result, the ACC has relied to a greater extent on outside expertise and the skills of executive board members to generate policy research. This has severely impaired the quality of their policy presentations before state officials. Interviews with Jordanian state officials consistently noted the weakness of ACC proposals and the lack of background research. While successful lobbying is rarely the sole result of the best policy paper, a well-documented policy presentation gives the policymaker a clear objective factor to defend his decision to other officials. Consequently, an association that can order and produce complex information can increase its lobbying advantages.

To summarize, these four associational features mirror the conditions of the autonomous state. An entrenched leadership, like an entrenched bureaucracy, can develop and implement structural change over the long term. When the executive board undergoes frequent change--or cohesion is impaired through leadership changes--implementing long-term plans is difficult. Initiatives undertaken under one administration are abandoned in the next. A leadership that believes in its own longevity is more apt to expand the resource base through long-term investments. Transition leaderships are unwilling to embark on such endeavours, if they will not be around to reap the credit. New lobbying techniques, sub-structures, or contacts developed under one administration could go undeveloped under another.

Third, elite cohesion influences state attitudes toward the business association. Elites, by their definition, share some characteristics with state elites. Especially in small and medium sized developing nations like Jordan and Kuwait, elites, public and private, often cross paths. Degrees of elite control and cohesion over private sector associations are not lost on state officials. When the most capable elites are not in the leadership or their position is not secure, state elites are more apt to ignore or disregard Chamber policy input. If the leadership is overly weighted toward one sector or the leadership is perceived to represent only personal interests, then state elites will view lobbying more suspiciously. Most importantly, a coherent leadership can gain a degree of trust from state elites. Continual interaction between them can build forms of trust, which can be lost if the leadership ebbs and flows. For association elites, this allows for many learning instances over time; lobbying strategies can be fine tuned; tactics can be experimented with and discarded; and issues of sensitivity can be explored and filed away for future exploitation. Consequently, the KCCI's success in the 1980s set the stage for renewed influence in the 1990s. For state elites, trust built up can result in greater incorporation of Chamber activities in policy making. The line between lobbying and policy participation can be crossed paying dividends for state and business interests.

On these three points, elite cohesion provides a useful variable in explaining widely accepted attributes of a developed business association. The Kuwaiti association best exemplified this. By contrast, an underdeveloped association owes its flaws to a lack of cohesive, elite leadership. Stephen Bell's description of an underdeveloped association best summarizes the situation of the Jordanian association:

> "underdeveloped" business associations are closely tied and dependent on their membership and relate to the state largely on a membership, lobbyist basis. Often in competition with other associations for membership, resources, and state recognition or access, the activities of such associations are directed by imperatives of short-term survival and organizational maintenance. Their capacity to perform complex policy tasks involving

information collection and policy analysis, together with a capacity to keep tabs on policy activity within the state, may be limited. Therefore, the capacity of such associations to play an active and relatively independent role in the public process is limited.[11]

The logic of encompassingness

In his work on collective action and pressure groups, Mancur Olson advances a trade-off logic to explain a business association's policy effectiveness. Its steps should be familiar. The encompassing association (one representing all or most of the economy) espouses policies beneficial to the entire economy, but it lacks lobbying strength.[12] Conversely, the more narrowly based association enjoys more policy influence (economically detrimental according to Olson) but does not espouse the "statelike" policies of the broader association.[13] The policy prescriptions following this logic would suggest the need for developing countries to encourage formation of large, obligatory associations to dilute particularist interests and provide a better interlocutor with state officials. But is encompassingness alone sufficient?

Recent work has come to doubt the comprehensiveness of Olson's conclusions. Ronald Rogowski, for one, found that, "since even narrow coalitions can act to achieve greater efficiency--productively rather than distributionally--Olson's theory must be modified."[14] While not

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[11] Bell, "Between the Market and the State," *Comparative Politics*, p.28.

[12] Mancur Olson, *The Rise and Decline of Nations*, p.50.

[13] Eric A. Nordlinger, *On the Autonomy of the Democratic State* (Cambridge: Harvard University Press, 1981), p.35.

[14] Ronald Rogowski, "Structure, Growth, and Power: Three Rationalist Accounts," in *Toward a Political Economy of Development: A Rational Choice Perspective*, edited by Robert Bates (Berkeley: University of California Press, 1988), p.317. Also, the Maxfield/Schneider volume contains numerous accounts of narrow-sector associations pursuing productive policies.

conclusive, the evidence of this study proposes one variable, in addition to encompassingness, to predict policy effectiveness and policy content. In the Jordanian case, the structure of representation (inclusive voting rules) certainly magnified the adverse effects of encompassingness on lobbying, but it also perverted the expected statelike view. Lobbying during the sales tax debate, weak response to the Amman Summit, and perceptions by state officials confirmed that the encompassing ACC behaved more like a narrow sectoral association pursing individual aims. Although the Kuwaiti association was less encompassing, it nevertheless espoused the more economy-wide policies. Its comprehensive debt proposals balanced competing internal interests in a way that spread the pain and offered the best chance for economic recovery. Even the presence of a strong debtors lobby within the Chamber could not persuade the executive board to pursue further debt concessions once Law 41 was amended in 1995.

The explanation of this study is admittedly less parsimonious than Olson's, but it is clear. The inclusive features of the Amman Chamber resulted in an encompassing membership being governed by a non-encompassing leadership. Conversely, the exclusive features of the Kuwaiti association guaranteed control by encompassingness interests, the multi-sectoral elites. These counter-intuitive findings were due to the way voting and nomination were structured in each. When combined with the encompassing or non-encompassing nature of each membership, electoral and intra-associational dynamics encouraged elite control on the one hand and discouraged it on the other hand. The comparative outcomes, thus, make sense. Clearly, the way an association structures representation does matter.

4. PERSPECTIVES ON BUSINESS AND THE STATE

One reason for a focus upon the business association is eventually to gauge what this means for broader state-business relations and the development/implementation of economic policy. In this vein, Peter Evans has led the way by arguing that a degree of state autonomy from leading social actors, like business, is necessary at the onset of economic liberalization. State officials need to formulate initial policy ideas in isolation from particular societal interests. However at the later stages of policy negotiation and implementation, a degree of "embeddedness" is required, that is, connections with social actors. "Embedded autonomy provides the structural basis for pursuit of a joint public-private project of economic transformation in which the state lowers risk and enables individual business to pursue a more Shumpeterian program of entrepreneurship."[15]

Evans relies on state-level variables (degree of Weberian bureaucracy) to explain the success or failure of the embeddness project. Because this study reverses the standard question of state autonomy by asking about associational autonomy, it can engage the question of economic performance from the business perspective. The inquiry is made clearer because Jordan and Kuwait compare very favourably on the kind of state-level variables emphasized by Evans. Each state evolved principally distributive agencies to govern the domestic economy. The Prime Minister's office and the ministries of finance and commerce/industry were the principal players in making economic decisions. When the crunch came, it was clear officials in both states were

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[15] Peter Evans, "State Structures, Government-Business Relations, and Economic Transformation," in *Business and the State in Developing Countries*, p.67; see also, Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in *The Politics of Economic Adjustment*, edited by Stephen Haggard and Robert R. Kaufman (Princeton: Princeton University Press, 1992).

divided over economic policies. Stop and go policies were evident in each country. The similarity of these state level variables allows one to see the important role of the two business associations to embeddedness. The Kuwaiti association was better able to take advantage, the Jordanian association essentially failed. This outcome suggests that an association's organizational features are fundamental to the nature and success of the embeddedness project. Simple state openings to organized business are not enough; there must be strong associations there to respond.

Therefore, despite an attempt in the mid-1980s and again in the 1990s, state openings to the largest private sector representative in Jordan proved fruitless. Poorly prepared to advocate policy, the Jordanian Chamber proved equally unable to participate in policy with the state, even on projects (such as the Amman Summit and privatization) that benefited a majority of its members. On the other hand, the Kuwaiti Chamber proved adept at working closely with state officials to craft complicated legislation on the debt problems and economic reform. It could provide state officials with sound projections on economic repercussions and guarantee that most of the debtors and the largest private companies would go along with the reforms. Comparatively, the presence or absence of a cohesive elite was important. This contribution to Evan's argument has its limits, however.

The success of the KCCI showed signs of evolving into policy collusion. Close government-KCCI coordination on privatization and planned limitations on the cooperatives threatened to transform embeddedness into an economically and socially destructive relationship. This is a crucial problem of embedded autonomy that Evans recognizes:

> As government-business relations evolve, a more encompassing set of state-society

networks that includes institutionalized ties between the state and other social groups may provide a better means of sustaining future transformation.[16]

The question left unanswered is how (or can) business organization limit the chances for a positive state-business relationship to evolve into collusion. Clearly, some balance between exclusion and inclusion is necessary.

5. HESITANT DEMOCRATIZATION AND THE PRIVATE SECTOR

As these findings bear on state-business relations and the development/implementation of economic policy, they also invite speculation about their relevance to political reform and democratization in the Middle East. What is now evident to all observers is the comparative insulation of Arab countries to the waves of democratization and political reform that swept many regions in the late 1980s and 1990s. The hesitant liberalization steps that were taken in Kuwait, Jordan, Morocco, Yemen, Egypt, Tunisia, and Bahrain now appear stalled or even reversing. Elite splits within regimes (the soft-liner, hard-liner conflicts that Philippe Schmitter and Guillermo O'Donnell emphasized), that might advance liberalization, appear limited. The old nationalist/leftist elements in many Arab states are divided and ineffective. The powerful currents of political Islam, while not spent politically, appear unwilling or unable to challenge the *status quo* in ways that compare with the "resurgence of civil society" in Latin America and Eastern Europe.[17] What of the role of the private sector and its elites, then? Or, to quote Richard Doner and Ben Ross Schneider: "the issue is not so much to determine whether capitalists exercise

[16] Evans, "State Structures," p.67.

[17] Philippe Schmitter, "The Consolidation of Democracy and the Representation of Social Groups," *American Behavioral Scientist* 35, No.4/5 (March/June), p.430.

disproportionate influence and to seek ways to reduce it, but rather how to make the inevitable exercise of their power less dysfunctional for democracy?"[18] This comparative study certainly does not solve the issue, but it offers comment on two aspects of this problem, the indirect and direct role of business.

As an indirect factor, private sector support is undoubtedly an element in the success of political reform. The actions of organized business may produce positive externalities that support the political future of democracy. Especially when political liberalization accompanies economic reform, the support of the domestic private sector is crucial. The freedom to vote and voice are clearly positive features of democratization, but, if a domestic economy remains in shambles, citizens and elites may come to doubt the usefulness of political reform. In the words of Douglass North, "reductions in the relative well-being of groups of constituents from what has come to be accepted as just will lead to a reassessment of the legitimacy of an existing economic order."[19] Backsliding or even a reversal of democratization may follow.[20] The stagnation of Jordan's political liberalization in the 1990s cannot solely be blamed on the lack of private sector support. However, it is clear that the inability of state and organized business to come to terms

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[18] Richard Doner and Ben Ross Schneider, "Business Associations, Development, and Democracy," unpublished manuscript, Emory University, 1997.

[19] Douglass C. North, *Structure and Change in Economic History* (New York: W.W. Norton & Company, 1981), p.65.

[20] A good example of business's indirect facilitation of democratic transition was Chile's successful economic growth and transition after business and state entered into a pact in 1982. Eduardo Silva, "Business Elites, the State, and Economic Change in Chile," in *Business and the State*.

on a shared economic vision has not made the process any easier.[21] The state has not even been able to share the blame for a tenuous economy and needed austerity measures with the private sector. Ironically, the study did discover some evidence for the positive externality of even the weak lobbying of the Jordanian association. The ACC's role in pushing for future tax phases to be submitted to Parliament hinted at the link between taxation and representation. If the association were more capable, this externality might suggest hope for future positive contributions. But, inertia is important in politics. Therefore, the unfortunate fact was that this successful aspect of lobbying was hardly due just to Chamber efforts. Alliance with the more powerful opposition elements in Parliament greatly facilitated this success. Had the Chamber not enjoyed the support of the more politically active opposition elements, compromises on the future authority over tax phases would not have been achieved. Consequently, where issues of economic accountability arise in conjunction with issues of importance to the broader opposition, the indirect role of business will be its most effective.

The direct role of organized business in pushing for greater political liberalization was also evident in this study. Outside the Middle East, there are many instances of business joining democracy movements or directly petitioning governments to deliver political reforms. The old suspicions of the anti-democratic tendencies of capitalists have given way to more nuanced analyses that look at the particular history of state-business relations and what encouragements

[21] In 1996 and 1997, IMF observers lauded Jordan's economic performance and adherence to loan guidelines, despite the fact the business community continued to complain about slow growth and little policy input. In 1998, IMF officials learned that the GDP growth figures the Jordanian government had given for those years (5.2 percent and 5 percent, respectively) were actually much lower (0.8 percent and 2.7 percent). Indeed, poor state-business relations do impact economic performance, and further, without business assistance, accurate statistics are difficult to obtain. *Economist*, 4 July 1998.

exist to draw business into the pro-democracy movement. In the Middle East, analysts are coming to appreciate the role organized business can play. However, we still do not know enough about the changing structural conditions in many Arab countries that may or may not encourage business's active support of greater reform. The cases of Jordan and Kuwait offer two examples.

Organized business in Kuwait has played a unique role among Arab countries. The leadership core of the KCCI has historically been tied to the pro-parliament, pro-democracy opposition. In the 1960s and 1970s, observers deemed this support pragmatic because the KCCI leadership wielded considerable influence in Parliament. By the 1980s, merchant representation gave way to Islamic and tribal representatives, but the leadership's active role in the pro-democracy movement did not diminish. Why?

Part of the reason can be derived from the perspective of lobbying. When the Emir dissolved Parliament in the mid-1970s, there was little outcry from the KCCI. This was because by 1976 Parliament proved generally useless as a means of leverage against the fiscally autonomous Kuwaiti state. Once the state entered the crisis period and merchants lost control of Parliament, the KCCI was able to leverage its assistance to the state against the new opposition in Parliament. The state needed allies and the KCCI came to the fore. When Parliament was again dissolved in 1986, KCCI leaders voiced little protest because this allowed implementation of the KCCI-government bank bailout plan. Once this victory was behind them, al Sagr came out as a prominent voice in the pro-democracy movement before and after the Iraqi invasion. The return of an even stronger Islamic opposition pushed the state into closer relations with the KCCI. While not to dispute the importance of the merchant's traditional democratic opposition role, the on-again, off-again support for Parliament belies a more instrumental calculus. The presence of a "bad-cop" Parliament certainly assisted KCCI leverage with the state. Likewise, periods of Parliament's absence at a crucial point aided the formulation and implementation of shared government-merchant policies. Little of the Chamber's pro-democracy stance could have been realized without the institutional strength and elite leadership of the association. Had the KCCI not managed significant resources or maintained its respected leadership, it would have been very difficult for the association to leverage itself as a useful ally against opposition groups in Parliament.

Jordan presented the opposite example. On the one hand, ACC elites traditionally played only a tangential role in the history of Jordan's elected assemblies. On the other hand, there have been ample opportunities in the 1980s and 1990s for the Chamber to play a similar balancer role with the state. It tried but it failed. Suffering from weak leadership and poor profile, the association never impressed state officials. Those same factors impaired the association's ability to forge links with or control over a political party.[22] Parliament only presented problems and no promise for the ACC. Unlike the Kuwaiti case, any ACC support for democracy or a specific opposition issue was fraught with uncertainly. How would state officials react? What reward from the opposition could be achieved? Seen from this vantage, a cohesive elite leadership helps lower the transaction costs involved in estimating the repercussions of voice. ACC officials did

[22] An interesting comparison can be found with the other professional associations in Jordan. Other professional associations such as the lawyer and engineer syndicates have proven quite vocal in favour of greater liberalization. This has been an effect of the control of these associations by Parliamentary opposition groups. Various opposition groups succeeded in forging their own backward linkages into professional associations and using those associations to argument their own political projects. The Chamber failed to forge its own forward linkages into Parliament, and thus there has been no incentive to voice in favour of reform.

work in tandem with opposition leaders but only under highly conditional circumstances--the opposition goal of Parliamentary oversight dovetailed with Chamber needs to gain tax concessions. It was no surprise then that ACC officials saw no gain in publicly pushing for more democratization, it did not pay off.[23] Indeed, they feared that doing so would injure their relations with the state.

To conclude that business support for democracy is conditional is not novel. What are the conditions? One answer is to look at their lobbying capabilities and relations with the state as one factor. The more policy capable the institution, the more coherent and elite its leadership, and the higher its profile in state eyes, the less uncertainty there will be in pursuing purely political goals. Conversely, if an issue of political accountability is clearly tied to an association's economic benefit, then support for an ostensibly democratic element will be forthcoming. From the associational perspective, it is doubtful organized business in the Arab World will play the kind of direct role in pushing for greater democracy that has been observed in other parts of the developing world. Further alterations in the state or regime support base may be necessary to obtain this kind of change. However, if Arab business associations can effectively reorganize and exploit state vulnerability to gain greater voice in economic policy, then business in general can become an important ally for opposition elements. If business representation remains weak, it will be difficult for business leaders to risk isolation from state patronage/access and pursue an uncertain, pro-democratic future.

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[23] Interviews with past and present Chamber officials confirmed as much. Obviously, they were reticent to be seen as anti-democratic, so instead they tended to respond that openly aggravating for more democracy would only injure their relationship with the state and monarchy.

APPENDIX

Table 1: Sectoral Comparision: Percentage of GDP

	1960-73	1965-73	1970-81
Commerce Sector(a)			
Jordan	35.8	35	35.1
Kuwait	n.a.	26.8(e)	27.7
Industrial Sector			
Jordan	10.4(c)	11.19(c)	13.4(d)
Kuwait(b)	n.a.	3.6(e)	4.3

Source: World Tables, World Bank, various years
(a) includes construction, transport/communications, trade/finance; (b) oil mining is excluded; (c) includes government; (d) government mining is excluded; (e) years 1960-70.

Table 2: Per Capita GNP Comparision: constant US dollars

	1972-76	1976-80	1980-84	1984-88	1988-1993
Jordan	470	996	1642	1842	1396
Kuwait	7854	17104	20392	15366	14053

Source: World Tables 1987, 1996. World Bank.

Table 3: Adjusted Stauffer GDP: Non-oil/aid GDP

	Total GDP		**Adjusted GDP (% actual)**	
	<u>Jordan</u>	<u>Kuwait</u>	<u>Jordan</u>	<u>Kuwait</u>
(million JD)	(million KD)			
1970	211.8	1,026	137.8 (65)	393.14 (38)
1975	379.1	3,485	192.19 (51)	
1980	1,151.2	7,755	736.88 (64)	3015.66 (39)
1985	2,020.2	6,450	1,67.5 (83)	2,319.88 (36)
1990	2,668.3	5,328	2,363.87 (89)	133.59 (3)
1995	4,190.6	7,214	3,833.44 (91)	

Sources: *International Financial Statistics Yearbook*, IMF, various years; *Yearly Statistical Series (1964-1993)*, Central Bank of Jordan, 1994; *Statistical Abstract in 25 Years*, Ministry of Planning, State of Kuwait, 1990.

<u>Calculation:</u>

CONVENTIONAL GDP

minus Tax and royalty income from oil or foreign aid grants

minus Oil/aid financed domestic government expenditures

equals

Non-oil/aid GDP, non-depletable GDP

Table 4: Comparative Government Reveunes: Oil, Remittances, and Foreign Grants

	JORDAN		KUWAIT
	Remittances (million US)	Aid (% total revenue)	Oil (% total revenue)
1963			92
1964			93
1965			92
1966			84
1967			91
1968			91
1969			87
1970	n.a.	48	92
1971	n.a.	39	92
1972	n.a.	44	93
1973	44.7	40	97
1974	74.8	39	97
1975	166.7	47	96
1976	390.4	32	95
1977	443.7	36	93
1978	469.6	24	97
1979	540.6	45	95
1980	714.6	40	92
1981	929.4	33	90
1982	975.5	30	92
1983	1110.0	28	91
1984	1237.0	16	89
1985	1021.0	22	86
1986	1184.0	16	88
1987	939.0	15	86
1988	894.0	16	91
1989	623.0	24	90
1990	500.0	14	77
1991	450.0	16	88
1992	800.0	8	84
1993	n.a.	14	85
1994	n.a.	13	86
1995	n.a.	12	85

Sources: *Yearly Statistical Series (1964-1993)*, Central Bank of Jordan; *Statistical Abstract in 25 Years* (1990), Ministry of Planning, Kuwait; *Quarterly Statistical Bulletin* (April-June 1995), Central Bank of Kuwait; *International Financial Statistics Yearbook 1996*, International Monetary Fund; *World Tables 1995*, World Bank.

Table 5: Amman Chamber of Commerce, Membership by Number and Catagory

	Membership Catagory						
	Mumtaz	1st	2nd	3rd	4th	5th	Total
1923	--	--	23	34	34		91
1925	--	--	2	13	61		76
1930	--	--	11	14	58		83
1935	--	1	12	1	20		34
1937	--	1	6	10	17		34
1940							300
1950							500
1960							2,000
1970							2,100
1975	89	161	132	993	2,702	1,116	5,193
1980	323	223	253	2,652	2,887	1,249	7,587
1982							
1984							
1985	790	374	452	4,874	6044	533	13,067
1986							
1987							
1988							
1989							
1990	663	371	416	5,589	10,726	1,636	19,401
1991	660	459	442	6,701	12,401	1,438	22,101
1992							
1993							
1994							
1995	1,044	869	569	9,413	16,008	1,007	28,910

Source: Amman Chamber of Commerce Data, Information and Research Department; Al Taqrir Al Sanawy, Ghurfat Tijarat Amman [Yearly Report, Amman Chamber of Commerce] various years.

Table 6: Kuwati Chamber of Commerce and Industry, Membership Totals

Year	Membership Total	Percentage Growth over previous year
1960	1,579	--
1965	2,434	7.0 percent average
1970	2,994	3.8 percent average
1975	4,483	7.8 percent average
1976	4,890	9
1977	5,610	13
1978	6,341	12
1979	7,109	11
1980	8,616	18
1981	n.a.	--
1982	n.a	--
1983	11,161	23
1984	12,483	11
1985	13,284	4
1986	12,114	-9
1987	13,484	10
1988	13,040	-3
1989	15,419	14
1990	21,952	30
1991	16,296	-26
1992	22,905	29
1993	36,817	38
1994	n.a.	--
1995	46,987	22

Source: Al Taqrir Al Sanawy, Ghurfat Tijarat wa Sanaat Al Kuwait [Yearly Report, Kuwait Chamber of Commerce and Industry] various years.

Table 7: KCCI Membership Breakdown 1990s

Membership Class	1990	1993	1995
Proprietor	661	661	535
Establishment	15,395	28,273	34, 614
Partnership Company	762	1297	2,005
Joint Liability Company	959	1,381	1,874
With Limited Liability	3,855	4,857	5,502
Kuwait Shareholding Company	n.a.	n.a.	52
Kuwait Shareholding Company (closed)	236	259	289
Gulf Shareholding Company	n.a.	6	6
Shareholding Company (open)	49	49	1
Kuwait Shareholding Companies	n.a.	n.a.	4
Cooperative Society	27	26	29
Craft	n.a.	n.a.	911
Branch (Subsidiary)	n.a.	n.a.	81
Union	8	8	10
Branch with limited liability	n.a.	n.a.	220
Branch of partnership	n.a.	n.a.	59
Branch of joint liablity	n.a.	n.a.	71
Bracnh of Kuwait shareholding	n.a.	n.a.	30
Commercail Agency (Trade)	n.a.	n.a.	576
Commercial Agency (Services)	n.a.	n.a.	53
Commercial Agency (Contracting)	n.a.	n.a.	92

Source: Figures provided by KCCI, Foreign Affairs Department.

Table 8:
Executive Board KCCI, 1965-1995

<u>1965</u>
Abdul Aziz H. Al Sagar, President
Yousef Fulaij, 1st Vice President
Abdullah Yousef Fahim, 2nd Vice President
Muhammed Yousef Al Nisf
Hamoud Al Zaid Al Khalid
Abdullah Aziz Ahmed Al Bahar
Abdul Mohsen Al Thuwaini
Abdullah Yousef Al Ghanim
Yousef Ibrahim Al Ghanim
Yaqub Al Hamad
Muhammed Al Khourafi
Badr Al Saalam
Abdul Aziz Al Bahar
Abdul Allatif Al Nisf
Fahad Marzouq

<u>1970</u>
Abdul Aziz H. Al-Sagar, President
Yousef Fulaij, 1st Vice President
Muhammed Al Khourafi, 2nd Vice President
Muhammed Yousef Al Nisf, Treasurer
Hamoud Al Zaid Al Khalid
Yaqub Al Hamad
Yousef Ibrahim Al Ghanim
Abdullah Aziz Ahmed Al Bahar
Muhammed Abdul Rahim Al Bahar
Hussein Makki Al Jumaaa
Abdul Mohsen Faisal Al Thuwaini
Yaqub Yousef Al Humaidi
Abdul Rahman Abdullah Rowaih
Abdul Razzak Khalid Al Zaid
Ahmed Salah Al Shayaa
Abdul Salam Shuaib
Badr Al Salam Abdullah Al Wahab
Sulieman Abduallah Al Eiban
Ibrahim Abdullah Al Qatan
Nasser Abdul Whaib Al Qatami

<u>1975</u>
Abdul Aziz H. Al Sagar, President
Yousef Fulaij, 1st Vice President

<u>1975 cont'd</u>
Muhammed Al Khourafi, 2nd Vice President
Muhammed Yousef Al Nisf, Treasurer
Abdul Razzak Khalid Al Zaid
Yaqub Al Hamad
Yousef Ibrahim Al Ghanim
Muhammed Abdul Rahim Al Bahar
Hussein Makki Al Jumaa
Abdul Mohsen Faisal Al Thuwaini
Yaqub Yousef Al Humaidi
Ahmed Salah Al Shayaa
Abdul Salam Shuaib
Badr Al Salem Al Abd Al Wahab
Muhammed Hamad Al Aliqi
Ali Abdul Rahman Al Umr
Suleiman Abdullah Al Eiban
Hamad Yousef Al Issa
Saud Abdul Aziz Al Fawzan
Ibrahim Abdullah Al Qatan
Nasser Abdul Wahab Al Qatami
Barak Abdul Muhsin Al Mteir
Yousef Abdul Aziz Mezeini
Abdul Baqi Abdallah Al Nouri

<u>1980</u>
Abdul Aziz H. Al Sagar, President
Yousef Fulaij, 1st Vice President
Muhammed Al Khourafi, 2nd Vice President
Muhammed Yousef Al Nisf, Treasurer
Abdul Razzak KhAlid Al Zaid
Yaqub Al Hamad
Yousef Ibrahim Al Ghanim
Ibrahim Abdullah Al Qatan
Ahmed Salah Al Shayaa
Barak Abdul Muhsin Al Mteir
Hussein Makki Al Jumaa
Hamad Yousef Al Issa
Saud Abdul Aziz Al Fawzan
Khaled Issa Al Saleh
Suleiman Abdullah Al Eiban
Abdul Baqi Abdallah Al Nouri
Abdul Mohsen FaisAl Al Thuwaini

Abd Al Majid Al Sayyed Ahmed Al Ghirballi
Ali Abdul Rahman Al Umr
Muhammed Abdul Rahman Al Bahar
Muhammed Abdul Salam Shuaib
Nasser Abdul Wahab Al Qatami
Yaqub Yousef Al Humaidi
Yousef Abdul Aziz Mezeini

1985

Abdul Aziz H. Al Sagar, President
Yousef Fulaij, 1st Vice President
Muhammed Al Khourafi, 2nd Vice President
Abdul Razzak Khalid Al Zaid, Treasurer
Yousef Ibrahim Al Ghanim
Nasser Abdul Wahab Al Qatami
Yaqub Al Hamad
Ibrahim Abdullah Al Qatan
Ahmed Khalif Al Jasem
Ahmed Saleh Al Shayaa
Badr Ali Al Daoud
Hammoud Yousef Al Nisf
Khalid Issa Al Saleh
Suleiman Abdullah Al Eiban
Salah Fahd Marzouq
Abdul Baqi Abdallah Al Nouri
Abdul Mohsen Faisal Al Thuwaini
Ghanim Hamad Jasem Al Dabbous
Qays Abdullah Thunayan Al Ghanim
Ali Mohammed Thunayan Al Ghanim
Muhammed Abdul Rahim Al Bahr
Abdul Salam Shuaib
Hilal Mushari Hilal Al Mteiri

1990

Abdul Aziz H. Al Sagar, President
Yousef Abdul Aziz Fulaij, Vice P.
Muhammed Al Khourafi, 2nd Vice President
Abdul Razzak Khalid Al Zaid, Treasurer
Yousef Ibrahim Al Ghanim
Nasser Abdul Wahab Al Qatami
Yaqub Al Hamad
Ahmed Salah Al Shayaa
Hamoud Yousef Al Nisf
Khalid Issa Al Salih
Sami Ali Al Ghanim Al Dabbous
Jayer Badr Muhammed Al Sayer

1990 cont'd

Suleiman Abdullah Al Eiban
Salah Fahd Al Marzouq
Abdul Mohsen FaisAl Al Thuwaini
Abd Al Majid Al Sayyed Ahmed Al Ghirballi
Ali Mohammed Thunayan Al Ghanim
Ghanim Hamad Jasem Al Dabbous
Qays Abdullah Thunayan Al Ghanim
Mubarak Abdul Aziz Al Hasawi
Muhammed Abdallah Al Uraifan
Muhammed Abdul Rahman Al Bahr
Muhammed Abdul Salam Shuaib
Nasser Muhammed Al Sayer

1995

Abdul Aziz H. Al Sagar, President
Abdul Razzak KhAlid Al Zaid, 1st Vice P
Yousef Ibrahim Al Ghanim, 2nd Vice P
Yousef Abdul Aziz Fulaij
Hamoud Yousef Al Nisf
Muhammed Abdul Rahman Al Bahr
(1)Abdul Wahab Al Wazzan
Nasser Muhammed Al Sayer
Salah Fahad Al Marzouq
Ali Mohammed Thunayan Al Ghanim
Ahmad Saleh Al Shayaa
Abdul Baqi Abdulla Al Nouri
FaisAl Ali Al Mutawa
Muhammed Abdul Salam Shuaib
Suleiman Abdullah Al Eiban
Abdul Mohsen FaisAl Al Thuwaini
(2)Abdul Razzik Abdullah Maarafi
(3)Abdullah Muhammed Saud Al Baijan
(4)Jameel S. Al Essa
(5)Muhammed Hamoud Zamel Al Fajji
Muhammed Abdullah Ahmad Al Uraifan
(6)Salah Khalifa Talal Al Jari
Muhammed Abdul Mohsen Al Sayegh
(7)Jawad Ahmad Bu-Khamseen

New Member Profiles:
1. Young, Shia
2. Shia
3. Former Brotherhood
4. Young entreprener
5. Brotherhood sympathies
6. Bedouin, former Parliamentarian 1985
7. Shia, prominent in Manakh crash debts.

Table 9:
Executive Board ACC, 1923-1995

1923
Yousef Asfour, President
Said Al Kurdi
Ali Al Kurdi
Abdal Rahman Madi
Asad Sabir
Khairu Al Saudi
Hasan Al Shurbaji
Ahmad Malhas
Amin Manku
Salim Al Wirr
Muhammad Othman Al Battikhi

1926
Mohammed Tahir Al Jaqqa, President
Mohammed Shareem, Vice President
Mohammed Al Saudi
Ahmed Malhas
Hamdi Manku
Asad Al Saber
Ismael Haqqee
Awees Al Mosharbash
Khalil Al Talhouni
Khairo Al Diraniya

1928
Zaki Al Idlabi, President
Mohammed Shareem, Vice President
Hassan Al Sharbaji
Subri Al Tabba
Subhi Al Haj Hassan
Khalil Shuqayr
Ahmed Malhas
Mohammed Al Saudi
Mohammed Al Kurdi
Abdul Rahman Madi
Awees Al Mosharbash
Khalil Talhouni
Asad Al Saber

1935
Abdul Dhyab, President

1935 cont'd
Mohammed Shareem, Vice President
Hamdi Manku
Subri Tabba
Mohammed Ali Bdeir
KhAlil Shuqayr
Hashem Tabba
Umar Al Mualbaki
Ahmed Malhas
Shawkat Asfour
Tawfiq Qattan
Jameel Al Safadi

1941
Subri Tabba, President
Hamdi Manku, Vice President
Umar Al Mualbaki
Shawkat Asfour
Rashid Darouza
Salem Bakheet
Subhi Al Halabi
Hashem Tabba
Isameel Al Bilbaysi
Ramzi Al Haffar
Yaseen Al Talhouni

1943-46
Records incomplete

1946
Subri Tabba, President
Hamdi Manku, Vice President
Adel Al Safadi
Umar Al Mualbaki
SAlem Bakheet
Khairo Al Diraniya
Shafeeq Al Hayek
Hashim Touqan
Wajeeh Al Baghdadi
Abdul Rahim Al Nowari
Faris Al Saudi

1946 cont'd
Hashim Tabba
Yaseen Al Talhouni
Subhi Al Halabi
Abdul Rahman Madi
Ramzi Al Haffar

1948
Mohammed Ali Bdeir, President
Umar Al Mualbaki, Vice President
Yaseen Al Talhouni
Tawfiq Qattan
Jawdat Shaashaa
Mounir Shaqeer
Khairo Al Diraniya
Ibrahim Manku
Shafeeq Al Hayek
Rashid Darouza
Abdul Raheem Abu Hassan
Jawdat Al Bitar
Hassan Aziziya
Husni Sido Al Kurdi
Hashim Touqan
Subri Tabba
Abdul Raheem Al Nouri
Ramzi Al Haffar
Hashim Tabba
Ilyas Al Maashar
Subhi Al Usta
Mohammed Khario Abu Arsheed

1949
Subri Tabba, President
Muhammed Ali Bdeir, Vice President
Jawdat Shaashaa
Said Malhas
Yaseen Al Talhouni
Hamdi Al Safadi
Tawfiq Qattan
Muhammed Madi
Abdul Raheem Abu Hassan
Abdul Raheem Al Nouri
Shafeeq Al Hayek
Sami Asfour

1954
Ibrahim Manku, President
Shafeeq Al Hayek, Vice President
George Dib
Saleem Hassan Arafa
Muneer Al Asmar
Faisel Al Tabba
Wajeeh Murad
Hashim Touqan
Arafat Al Bitar
Daoud Ahram
Shaher Al Hamli
Husni Sido Al Kurdi

1958[1]
Ibrahim Manku, President
Muhammed Ali Bdeir
Malik Al Masri
Said MAlhas
George Dib
Zuhair Asfour
Mustafa Abu Zeid
Hashim Touqan
Jawdet Al Bitar
Saleem Hasan Arafa

1962
Ibrahim Manku, President
Tawfiq Tabba, Vice President
Malik Al Masri
Ibrahim Al Zein
Misbah Al Zamili
Rashad Barakat
Hatim Alloush
Adel Al Nouri
Musa Abu Al Raghib
Ahmad Yaseen
Abdul Raheem Abu Hassan
Fareed Kassab

1966
Muhammed Ali Bdeir, President

[1] This board alternated president and vice president each year.

1966 cont'd

Zuhair Asfour, Vice President
Malik Al Masri
Ali Manku
Muhammed Tahir Al Hadhad
Adel Al Nouri
Said Shaheen
Hashim Touqan
Muneer Al Asmar
George Khannuf
Abdul Raheem Abu Hassan
Tawfiq Tabba

1970

Muhammed Ali Bdeir, President
Zuhair Asfour, Vice President
Mamdouh Abu Hassan
Ahmed Ratib Ghaneem
Muhammed Tahir Al Hadhad
Adel Al Nouri
Ihsan Nimr Abu Dabbi
Muhammed Khalil Ashour
Ibrahim Abdo Al Rajjal
Umar Muhammed Al Banna
Jameel Arif Barakat
Hashim Touqan

1974

Muhammed Ali Bdeir, President
Zuhair Asfour, Vice President
Jameel Arif Barakat
Ahmed Ratib Ghaneem
Mamdouh Abu Hassan
Muhammed Tahir Al Hadhad
Muhammed Kheir Bahjat Al Humsi
Hashim Touqan
Tawfiq Amin Qaawar
Umar Muhammed Al Banna
Khalil Yaseen Al Talhouni
Umar Mustafa Abu Zeid

1978

Muhammed Ali Bdeir, President
Zuhair Asfour, Vice President
Jameel Arif Barakat
Said Uthman Matook

1978 cont'd

Ahmed Ratib Ghaneem
Umar Muhammed Al Banna
Hashim Touqan
Hamdi Tabba
Muhammed Kheir Dib
Tawfiq Amin Qaawar
Mamdouh Abu Hassan
Hassan Jameel Zakariya

1982

Hamdi Tabba, President
Muhammed Al Hajj Deeb, Vice President
Said Uthman Matook
Muhammed Marwan Yousef Zubda
Ahmed Ratib Ghaneem
Hashim Touqan
Tawfiq Amin Qaawar
Umar Mustafa Abu Zeid
Muhammed Kheir Bahjat Al Humsi
Adnan Abdul Kareem Darouza
Hani Al Hajj Hassan
Abdul Aziz SAlhab

1986

Muhammed Asfour, President
Adnan Abdul Kareem Darouza, Vice P.
Hani Al Hajj Hassan
Ahmed Ratib Ghaneem
Muhammed Kheir Bahjat Al Humsi
Yousef Ahmad Al Sardi
Haidar Murad
Riyad Al Saifi
Saleem Mustafa Kharfan
Samir Mansour Maashar
Muhammed Al Hajj Deeb
Umar Mustafa Abu Zeid

1990

Muhammed Asfour, President
Haidar Murad, Vice President
Muhammed Al Muhtasib
Ismael Marshad Al Tarayra
Saleem Mustafa Kharfan
Yousef Ahmad Al Sardi
Riyad Al Saifi

1990 cont'd

Muhammed al-Hajj Deeb
Ghassan Shakeeb Kharfan
Muhammed Kheir Bahjat Al Humsi
Waleed Hashim al-Khateeb
Hani al-Hajj Hassan

INTERVIEWS

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Waleed T. Alami, businessman, 27 June 1995, 3 July 1995
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Sami Ghammo, former Minister of Finance, 3 July 1995
Mustafa Hamarneh, Director, Strategic Studies Institute, University of Jordan, Summer 1996
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