The Evolution of the Merchant Class in Gulf Countries

By Mia MOISIO

Paris School of International Affairs, Sciences Po
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"There are two things that do not mix - running a government and making money. Do not compete with the merchants and they will not compete with you"

Abdelaziz ben Abderrahman al-Saoud, first king of the third Saudi state (1932-1953)

The above quote is, according to historian Robert Lacey, the advice that King Abdulaziz gave his sons to ensure the stability of the historical balance between the Nejdi ruling family and the Hejazi merchant class in Saudi Arabia. In the past few decades, this advice seems to have been sidelined by the Saudi royal family as it effectively penetrated the country's economic sphere (Wilson 1994). Looking at Saudi Arabia's history, and more generally the Gulf countries' history, one may however observe that for several centuries, merchant and ruling families were in fact operating in a mutually beneficial and non-competitive way. During the pre-oil time, the merchant class acted in many ways as a system of checks and balances to the ruling family, and the two factions influenced each other's actions through various channels. The advent of oil wealth broke this subtle balance, as the rent accumulated by the ruling class allowed them to enfranchise from the merchant class who consequently lost much of their historical bargaining power. (Crystal 1995)

In light of such a development, can one however truly claim that the merchant class has been sidelined once and for all from the decision-making process? The general trend across the Gulf has indeed gone in this direction, but at the same time different trajectories in different countries show a more subtle picture. While many of the *traditional* merchant class families have been marginalized from formal politics – and sometimes even from business life – some did manage to retain privileged economic and administrative positions by negotiating novel alliances with the ruling class and building networks of patronage. We thus observe a situation where the traditional composition of power and prestige networks has changed but in fact, the fundamental dynamics of mutual protection often have remained, albeit in different forms. This essay will thus explore the transformation of the complex relationship between the ruling and merchant families over time, and the impact this has had on the power of the merchant class. In order to fully understand this transformation, the first two sections will explore the historical links between the two factions and the ways in which oil revenues have changed its premises, highlighting different examples across the Gulf countries but focusing on the cases of Kuwait and Saudi Arabia, two countries with a historically strong trading activity and powerful merchant families. The final section will take a closer look at recent developments throughout the Gulf Cooperation Council (GCC) countries and show the potential of business classes in addressing some of their countries' key challenges, such as employment of nationals and diversification. Throughout the essay, we will also see that the definition of the 'merchant class' in the context of the Gulf countries has evolved over time, and is now often referred to as the 'entrepreneurial class', the 'business elite', 'the Gulf capitalists' or even the 'bourgeoisie'.

I. The pre-oil period: a fully symbiotic relationship

Far from being isolated from the rest of the world, the Arabian peninsula has for several centuries been connected to surrounding regions through trade. Indeed, due to the harsh conditions of living in the desert, the Beduins were compelled to trade in order to survive and thrive (Hourani 2003). The networks of trade led to the development of urbanized and oftentimes cosmopolitan merchant families who connected the local tribes and rulers to vital supplies from the outside world. In exchange for protection from the rulers, the traders paid taxes that constituted a crucial source of income for the ruling class. (Crystal 1995)

Taxation with representation

This agreement that existed between the powerful ruling tribes and the merchant class was in fact a classical arrangement of taxation *with* representation. According to Jill Crystal, the merchants paid customs dues and taxes and in return not only received protection but were also endowed with two ways of influencing decision-making. (1995) The first was through the *majlis*, or local councils, where merchants could directly voice their concerns to the ruling tribe. The second, more indirect way, was trough marriage; indeed, it was common for members of powerful merchant classes and the ruling family to intermarry in order to reinforce their ties and thereby have a two-way channel of influence. Despite the intermarriages, these two classes never effectively merged and clear-cut limit between "those with power" and "those with money" remained for centuries. (Crystal 1995) In fact, there was a tacit understanding between the ruling tribes and the merchants that they would not interfere in each other's affairs – the influence they had on each other was primarily a way to guarantee that their respective interests were represented and safeguarded. Such an symbiotic relationship was particularly visible in the Najd, Kuwait and Dubai but existed all throughout the Gulf in places where trading took place. (Peterson 2007)

Cosmopolitan trading and contact with the British empire (1820-1971)

The contact with the British empire was also key in assigning the merchants with political responsibility: as Michael Onley shows, the British further shaped the political landscape of the Gulf by employing locally operating merchant families as their primary source of intelligence. (2007) This reinforced a "dynamic power triangle" between the Empire's Resident, native merchant agents and the ruler, who together formed the core of Britain's 'informal empire' in the Gulf (Onley 2007). In exchange for the political information they provided, the merchants were granted favors and further protection, which allowed them to thrive throughout the British sphere of influence (Onley 2007). This mechanism reinforced the position of influential, cosmopolitan merchant families in the Gulf such as the Safar and Kanoo families, which operated throughout the region in Arabia, Iraq, Persia and India (Onley 2004). Indeed, before the politicization of Gulf Arab identity in the 1960s, Gulf traders found prestige in their cosmopolitan identity, and many of the most powerful regional trading families were based throughout the region. The House of Kanoo, although originating from Najd, had moved to the Southern Persian coast and was based there in the eighteenth and nineteenth century, after which it relocated to Bahrain. (Onley 2004) It is likely that this cosmopolitanism, although downplayed today, had and still has a significant impact on the conduct of business in the region. A list of the still influential Kanoo family business offices throughout the Gulf and beyond (see Annex A) shows this well; their historical business connections have undoubtedly helped their business expansion starting from the 1950s.

Ironically, the very first threat to the merchants' bargaining power also from the British who had initially assigned them political importance. The stipends and diplomatic support given by the British crown to the Gulf rulers starting from the nineteenth century allowed them to take a first step towards independence from the merchants (Hertog 2013). The amounts were not significant enough to initiatiate a structural change and the merchants were still key in providing community services and infrastructure that the state was too weak to take care of, but this did show for the first time that the merchants' position was not fully immune to outside influence.

The interwar economic crisis: emerging cracks to a fragile balance

The traditionally harmonious balance between the merchant and ruling classes saw its first structural cracks emerge during the economic crisis of the interwar period. Due to a general decrease in the pearl trade, the Great Depression, and conflict with the Al-Saud, much of the Gulf trade in Kuwait, Qatar and Bahrain collapsed and with it a number of influential merchant families as well, particularly where the trade was not diversified - as was the case in Qatar. The merchant classes subsequently realized they needed more direct channels for expressing their interests. In Kuwait, the merchant class that had been politically conscious since a rebellion in 1921, which was subsequently organized into a formal movement demanding for more political representation, in the 1938 Majlis Movement (Crystal 1995). As such, a politically active and organized merchant class emerged even before the commercialization of oil in the late 1930s. However, the transformations initiated with the advent of oil were so profound that while these developments did have a long-lasting impact (Kuwait, for instance, is still today the only parliamentary monarchy in the Gulf), the political positioning of the merchant classes throughout the Gulf was to be fundamentally altered. Through this process they lost, to some extent, the opportunity to have an enduring and authoritative say in their country's politics. (Crystal 1995)

II. From actors to clients: doing away with the merchants' political influence?

With the increasing oil wealth flowing into Gulf countries, the formerly 'embryonic' state turned into a much more powerful, bureaucratically organized entity that could use the oil rent to become increasingly independent from society – a process Michael Herb has reversely labeled as "no representation without taxation" (2003). The following sections will detail the channels through which this change operated, the consequent transformation in the social structure and the reaction of the business classes in various Gulf countries.

The advent of oil wealth: co-opting economic elites

The key means for the state to ensure the complacency of the merchants was to co-opt them through clientelism, a process that in Luis Roniger's definition involves "*asymmetric but mutually beneficial*, open-ended transactions based on the differential control by individuals or groups over the access and flow of resources in stratified societies" (Hertog 2010, p.21, *emphasis added*). Hertog adds that in the case of the Gulf, what can be observed is in fact a variation of this which he calls segmented clientelism, "a heterogenous system of formal and informal, rent-based clientelism in which vertical links dominate." (Hertog 2010, p.5)

To illustrate this process in practice, Jill Crystal takes the example of Kuwait to clearly shows the two ways in which the Kuwaiti state succeeded in "buying off" the merchant class in her book '*Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar*'. As wealthy merchant families owned large amounts of land in the centre of Kuwait City, the state's first step was to buy a significant part of that land for infrastructure and public service projects at high, above-market prices. The state would thereafter resell the land to the merchants, who made considerable profits from the transaction. In a second stage, the state also took a strong role in promoting business and easing the position of business classes by giving them grants, cheap loans and monopoly concessions. The merchants thus became modern contractors and brokers, occupying middleman positions – a phenomenon witessed across the Gulf (Hertog 2010). To contain their political influence, the states generally diversified their support base by building alliances with several different constituences, in the Kuwaiti case primarily with Beduin tribes and the Shia. (Crystal 1995)

Nevertheless, some scholars, such as Ann Colton, argue that the power of the merchant class has in fact not withered and is in many ways on par with what it was a century ago; in her view, the political power of the merchant class has in fact always been marginal. (2012) She claims that in many parts of the Gulf, the mutually beneficial relationship between the merchants and the rulers still exists, particularly when it comes to preserving the very foundations of the state. As she demonstrates for the case of post-oil Kuwait, the merchant class did not contest the regime even in times of economic hardships, such as during the collapse of oil prices in the 1980s or the collapse of the unofficial Souk Al-Manakh stock market in 1982. Despite these events, inscribed in a broader wave of discontent towards policies that had been taken throughout the 1970s and 1980s, the business elite did not directly challenge the power of the state as they had done a few decades earlier with the 1939 Majlis Movement. The state, on the other hand, realized this was a dire situation and the ruling family subsequently decided to pay many of the debts incurred by the merchants (Colton 2012). Ultimately, Colton's conclusion is not so different from Crystal's: her examples in fact further highlight the success of the state in co-opting the Kuwaiti merchant class.

The tale of a few (lucky) opportunists

Despite the general decline of the merchant class' political influence in the Gulf, some families managed to retain important positions in their shift from merchants to brokers. As Hertog highlights for the case of Saudi Arabia in '*Princes, Brokers and Bureaucrats*', while the Saudi royal family was at the core of the development of the state, a somewhat random pattern occurred by which *some* merchants were promoted to high administrative functions and thereafter enjoyed "distributional leeway" and upward mobility (Hertog 2010). One family that came to be part of such a merchant and bureaucratic mobility and most benefited from the opportunities given by the state to its clients was that of the Sulaiman al-Hamdan family. At the origin of this success was Abdallah Suleiman, a Nejdi clerk who managed to work his way up to eventually become the minister of finance and a close confident of King Abulaziz. Along with him, his entire family was promoted as clients to the regime and benefited from the government's largesse, many without doing much in return. Upon his retirement in 1954, Sulaiman al-Hamdan owned several hotels and trading companies, and his family is still today one of the most powerful merchant families in Jeddah. (Hertog 2010) Suleiman's story is perhaps the most spectacular example, but it is far from being the only one: during his time, numerous other business families such as the Alireza, the Khashoggi, Juffali, etc. were similarly promoted to high positions by the ministry of finance and other government entities (Hertog 2010). With the growth of bureaucracy, the ruling family also needed educated civil servants to contribute to the development of the state apparatus. Educated Hejazi merchants were thus hired en masse and promoted to the rank of technocrats (Yamani 2009). This overall process of upward mobility occurred up until the 1970s, after which these positions came to be 'locked in'. (Hertog 2010) The trend was in fact even reversed in 1975 when King Fahd's first cabinet started the process of "Sudeirization" of the government and displaced many of the Hejazi technocrats in favor of ministers, governors and administrators from the Nejdi elite (Yamani 2009). Yet this process did not evict all merchants families from government circles, and a few privileged merchant families still enjoy today a position of both economic and political power.

From princes to merchants

While a few lucky merchants rose to high administrative positions, the growing ranks of male royal family members also experienced their own social ascendancy. The case of Saudi Arabia is, again, a compelling example to illustrate this trend. Whereas from the 1950s to the 1970s the al-Saud were primarily concentrated in government positions, starting from the 1980s Saudi princes started flocking the business spheres. Prince Saud bin Naif bin Abdulaziz highlighted the issue at stake: "You have to understand one simple fact. Since it is a big family and we can't all have government jobs, some have to make a living. That's only fair." (Wilson 1994, p.23)

Starting from then, many business projects that would have previously been granted to merchants were in fact granted to members of the royal family. The Ford case of 1989 illustrates well such a conflict of interest: in 1989 the Ford company, that had previously been boycotted due to its business activity in Israel, established itself in the Saudi Kingdom. While many were expecting the contract to be awarded to business figures with longstanding experience, such as Hajji Abdullah Alireza or Sulaiman Olayan, it was eventually granted to the son of the crown prince, Prince Miteb bin Abdullah bin Abdulaziz, despite his inexistent track record in the world of business (Wilson 1994). Since government expenditure is what primarily moves the economy, being close to those who decide on these expenditures is key, and this is something that has not changed since. Up until today, connections still play a vital role for large-scale business projects, and as such maintaining good ties with the royal family is of crucial importance. (Hertog 2013)

Lobbying for policy reform

Despite all these changes, arguing that the economic elites of the Gulf have no more say in the decision-making process of their respective countries since the influx of oil revenues ignores the multi-faceted bargaining power that these elites have had and still exercise over the decision-makers. Notably from the 50s to the 80s the business elites did strongly voice out their desire for increased government protection in their business ventures. In the United Arab Emirates, for example, such a process could be observed as early as in the 1950s with the emergence of the Dubai National Front (1953-1959). Contrary to other similar movements in the Gulf (such as in Kuwait), the demands of the group were essentially of economic and not political in nature, as they merely sought to acquire protection from the state against foreign competition. In the 50s and 60s, most Gulf countries also passed legislation that favored business activity and protected business elites against foreign competition. Most of them stipulated that business had to be at least 50% national and that foreigners needed a local 'kafeel' to start a business. (Crystal 1995)

Today private businesses also voice their concerns about issues such as competitiveness and many are highly reluctant to the nationalization programmes promoted by Gulf governments. Saudi businesses have expressed their discontent with the "nitaqat" programme of Saudization and similarly the Qatar Chamber of Commerce and Industry (QCCI) has been very vocal about wishing to maintain a strong 'kafalah' system – particularly in the wake of the World Cup. (Hertog 2013) This goes to show that business classes have not ceased to voice their concerns – simply that these concerns are largely confined to the realm of business and that ultimately their influence is subordinate to that of royal family. Knowing however that business and politics do strongly influence each other, we may expect the voice of the business elites to be increasingly heard if the state promises for diversification do not deliver, as we will see in the next section.

III. Addressing unemployment and diversification: a new role for the business classes?

According to scholars such as Giacomo Luciani, business actors in the Gulf have in fact gained significant political leverage over the past years, as the ruling families and the business elites of the Gulf have been and continue to be 'closely intertwined in a variety of ways' and tied to each other by a 'continuum of interests' (Luciani 2005, p.181). Despite their close ties to ruling class, many are however arguing that businesses should play a more visible role in their societies by addressing pressing concerns of Gulf nationals, such as employment.

The invisible actor of the Gulf social contract

Steffen Hertog shows that the marginalization of business classes is far more acute than simply a mere absence from policy-making; in fact, he claims it is possible to say that the business classes have ceased to play a role in the social contract altogether (2013). According to him, "without significant employment for locals or tax contributions, GCC business has no organic function in the Gulf social contract, which is built on state employment and other forms of state-orchestrated rent distribution" (Hertog 2013, p.19). The structural isolation that businesses have faced in Gulf countries may however be slowly changing. Since the 2000s, there has indeed been a transfer of functions to businesses in previously state-dominated sectors such as education, health, telecoms, heavy industry and air transport (Hertog 2013). Hertog also predicts that while the Gulf business class has indeed been more of a 'policy-taker' in the past decades, it is likely that it will want to play a more active role in the near-future, which would be a first step away from the present clientelism model.

Some in the business classes seem to have understood their need to contribute more actively to the lives of the nationals for their businesses to be sustainable in the long-run. One initiative that shows this is that of the powerful UAE-based Al-Ghurair Group, that has publicly embraced the concept of 'Emiratization' instead of opposing it and in 2010 even announced ambitious targets to nationalize its own workforce. Their policy seems to have borne its fruits, as the Al-Ghurair-owned Mashrek Bank announced in 2012 a full nationalisation of their mid-managerial 'Branch Managers' positions. (Mashrek Bank 2012) It is possible that such initiatives are mainly marketing stunts to enhance the company's public image in the eyes of Emiratis, yet they at least show a difference in the discourse. This also highlights a more fundamental interaction: the ruling family and business establishment profit from cooperating to secure their country's long-term stability rather than working towards opposite goals. As Hertog observes, business classes in the Gulf tend to be a conservative group in the sense that they view electoral democracy as a threat to their interests (2013). As such, we may note that the merchant class represents in fact no less than a powerful ally for the regimes in maintaining the status quo and guarantee regime stability.

Conclusion

Finally, it is possible to observe that far from being a monolithic bloc, the merchant classes has evolved over time, dynamically adapting to new bargaining positions with the state. While they did lose political bargaining power with the gradual strenthening of the rentier state, the merchant classes never ceased to influence the broader political and economic landscapes of their countries. The pre-oil era was characterized by an organic symbiosis between the rulers and the merchants; in the current period, however, the relative strength of merchant families lies in the negotiated, *mutually beneficial* alliances and patronage links they have managed to secure with the ruling families. The relationship between the two groups has thus undoubtedly changed: while they used to operate in distinct spheres, the ruling class has increasingly entered the world of business in the past few decades across the Gulf. Yet, despite these challenges, the merchant classes still largely benefit from the links with, and protection from the ruling family to run their businesses. The reason there has been no substantial challenge to the ruling families from business elites shows that clientelism has in fact worked and that ultimately they are satisfied with a status quo that promotes their interests. We may also argue that with the ambitious diversification plans that the governments have set, the business class will undoubtedly have a strong role to play in the near to mid-future. Indeed, the transition to the so-called 'knowledge economy' pursued by Gulf countries will necessarily involve the private sector, in order to bring the kind of productive and diversified employment required. The merchant classes, far from being maginalized, may then well be at the very core of decision-making.

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Appendix

A. House of Kanoo offices

Country	Office Location	Established
Bahrain	Manamah (HQ)	1890
Saudi Arabia	Ras Tannurah	1950
	Ras Mishab	1950
	Dammam (HQ)	1953
	Riyadh	1963
	Jeddah	1968
UAE	Dubai (HQ)	1963
	Abu Dhabi	1963
	Sharjah	1963
Oman	Muscat	1975
USA	Houston, Texas	1975
UK	London, England	1978

Source: Onley, James. "Transnational merchants in the nineteenth century: the case of the Safar family" 2004