The Political Economy of Free Zones in the GCC: Commercializing Rents, Elites, and Competition



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Abstract

Free zones (FZs) in Gulf Cooperation Council (GCC) countries displayed substantial variation in the timing, scale, and scope of development between 1985 and 2017. This dissertation argues that the utilization of FZs as political instruments – both domestically and internationally – is critical for understanding FZ development outcomes in the region. The work tests this hypothesis using a comparative analysis of FZ development cases structured along three analytical dimensions: hydrocarbon dynamics, elite relationships, and global competition. Field visits to 44 of the 51 FZs observed in the work, 77 interviews with government and business officials associated with FZ development, and an extensive collection of primary source materials provide the data for this study.

As the first political economy analysis of the GCC's FZ system, this research employs a qualified version of rentier state theory (RST) and a new conceptual categorization of rents associated with FZs – described in this work as *commercialized rents*. The concept builds upon existing scholarly applications of RST in the GCC by revealing previously unexplored rentier structures and the embeddedness of local and international elites in non-hydrocarbon development processes. Other aspects of FZ development trajectories, however, qualify RST's ability to comprehensively account for economic development initiatives in the region.

The subsequent findings reveal that both resource-scarce and resource-abundant territories across the region employed FZs to generate rents, encourage rent-seeking behavior, and accomplish other political objectives. The specific trajectories of FZ development depended upon domestic, regional, and international factors, which could constrain or encourage FZ proliferation as well as shape FZ policies in a given

territory. The work provides an academic foundation for future studies on FZs in the GCC and a broader methodological framework for researchers seeking to unpack the political economy of FZs in other countries and regions.

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Abbreviations and Acronyms

ABRFZ	Ahmed Bin Rashid Free Zone	GCC	Gulf Cooperation Council
ADAFZ	Abu Dhabi Airport Free Zone	HFZ	Hamriyah Free Zone
ADGM	Abu Dhabi Global Market	IE	Industrial Estate
ADNOC	Abu Dhabi National Oil Company	IHC	International Healthcare City
ADPC	Abu Dhabi Ports Company	JAFZA	Jebel Ali Free Zone Authority
AFZ	Ajman Free Zone	JV	Joint Venture
BIA	Bahrain International Airport	KBSP	Khalifa Bin Salman Port
BIIP	Bahrain International Investment Park	KFTZ	Kuwait Free Trade Zone
BIW	Bahrain Investment Wharf	KIZAD	Khalifa Industrial Zone Abu Dhabi
BLZ	Bahrain Logistics Zone	KOM	Knowledge Oasis Muscat
DAZ	Dubai Auto City	LNG	Liquified Natural Gas
DBRZ	Dammam Bonded and Re-Export Zone	NREC	National Real Estate Company
DHCC	Dubai Healthcare City	OBU	Offshore Banking Units
DIAC	Dubai International Academic City	PEIE	Public Establishment for Industrial Estates
DIC	Dubai Internet City	QFC	Qatar Financial Centre
DIFC	Dubai International Financial Centre	QSTP	Qatar Science and Technology Park
DMC	Dubai Media City	RAK	Ras Al Khaimah
DMCC	Dubai Multi Commodities Centre	RAK FTZ	Ras Al Khaimah Free Trade Zone
DTMFZ	Dubai Technology and Media Free Zone	RAKIA	Ras Al Khaimah Investment Authority
DUBAL	Dubai Aluminum	RST	Rentier State Theory
EC	Economic City	SAGIA	Saudi Arabian General Investment Authority
EDB	Bahrain Economic Development Board	SAIF	Sharjah International Airport Free Zone
EPZ	Export Processing Zone	SEZ	Special Economic Zone
EZW	Economic Zones World	SEZAD	Special Economic Zones Authority in Duqm
FDI	Foreign Direct Investment	SFZ	Salalah Free Zone
FFZ	Fujairah Free Zone	SOE	State-Owned Enterprise
FTA	Free Trade Agreement	TECOM	Dubai Technology and Media Free Zone Authority
FTZ	Free Trade Zone	UAQ FTZ	Umm Al Quwain Free Trade Zone
FZ	Free Zone	VAT	Value-Added Tax
GAFTA	Greater Arab Free Trade Area	WTO	World Trade Organization

Transliteration and Style

Transliteration and translation conventions vary considerably across countries, organizations, and individual preferences. This dissertation's extensive use of quotations and source materials in British English, American English, and Arabic made achieving complete consistency a difficult task. Therefore, the applied transliteration and stylistic conventions prioritize readability and ease of cross referencing materials and citations.

Arabic transliterations of sources, names, and places generally follow the guidelines used in the *International Journal of Middle Eastern Studies* (IJMES). Citations of Arabic sources, specifically laws, decrees, archival materials, and collected FZ materials, are fully transliterated and include English translations in parenthesis. Given the larger quantity of Arabic media sources with hyperlinks, the author opted to use English translations of article titles and included [Arabic] at the end of the citation. In the case that a hyperlink to an Arabic media source did not exist, the author fully transliterated the source citation.

The dissertation uses commonly accepted English versions of names and places according to individual preferences or when readily available in formal documents, publications, and websites. The author instituted small tweaks to IJMES conventions for names of individuals and places to increase readability and consistency. For example, the dissertation refers to the late King Abdullah bin Abdulaziz Al Saud and the current King Salman bin Abdulaziz Al Saud in the same commonly-accepted format rather than employing two different formats for living and deceased figures. The names of locations follow a similar format: Al Hidd rather than al-Hidd. For general stylistic and citation formats, the dissertation adheres to the Chicago Manual of Style.

Introduction

Background and terminology

This thesis examines the political economy of free zones (FZs) in Gulf Cooperation Council (GCC) countries. GCC governments began establishing FZs in the late 20th century, although the free zone concept emerged much earlier and is not exclusive to the GCC region. Early FZ concepts existed in ancient Phoenicia, Greek city-states, the Roman Empire, and European ports,[1] but Patrick Neveling contends that Puerto Rico opened the first modern FZ in 1947.[2] The Shannon Free Zone in Ireland, created in 1959, served as a model for early FZ development in Shenzhen, China during the 1980s.[3] Within the Middle East, Aden operated as a free port under British colonial rule from 1853 until 1970,[4] and British diplomats described Beirut's FZ as a haven for gold smuggling in 1949.[5] Jordan, Egypt, Syria, and Israel adopted FZs during the 1970s to utilize strategic ports and waterways,[6] and the ruler of Dubai laid the foundation for the Gulf's first FZ by constructing the Jebel Ali port in 1980. The consequent Jebel Ali Free Zone officially opened in 1985 to facilitate the warehousing and storage of shipments entering the port.

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[1] Susan Tiefenbrun, *Tax Free Trade Zones of the World and in the United States* (Massachusetts: Edward Elgar Publishing, 2012), 5.
[2] Patrick Neveling, "Free Trade Zones, Export Processing Zones, Special Economic Zones and Global Imperial Formations 200 Bce to 2015 Ce," in Immanuel Ness and Zak Cope, eds., *The Palgrave Encyclopedia of Imperialism and Anti-Imperialism* (Basingstoke: Palgrave Macmillan, 2015), 1010.
[3] Matt Kennard and Claire Provost, "Story of cities #25: Shannon – a tiny Irish town inspires China's economic boom," *The Guardian,* April 19, 2016, accessed April 21, 2016, https://www.theguardian.com/cities/2016/apr/19/story-of-cities-25-shannon-ireland-china-economic-boom.
[4] Maria Holt, "Memories of Arabia and Empire: An Oral History of the British in Aden," *Journal of Contemporary British History* 18.4 (2004): 94.
[5] File 8/2 II. "Gold Smuggling." September 23, 1949. [50r] (99/120). British Library: India Office Records and Private Papers. IOR/R/15/5/310; and Charles Stewart, "The Changing Middle East Market," *Journal of Marketing* 25.3 (1961): 48.
[6] Gokhan Akinci and James Crittle, *Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development* (Washington DC: The World Bank Group, 2008), 28.

Governments have long leveraged FZs to accomplish strategic and commercial objectives in the global arena. Susan Tiefenbrun describes early Greek and Roman examples of FZ-like entities as "launching pads for political and economic domination,"[7] while an international delegation designated the German ports of Hamburg and Stettin as "free zones" for 99 years to ensure adequate international oversight of key ports during the post-war period in 1919.[8] The international airport in Shannon, Ireland, which hosts the Shannon Free Zone, was an agreed initiative by the governments of the United States, Canada, and Britain.[9] Shannon's strategic geographic and commercial location provided a convenient entry-point for multinationals seeking to enter European markets. Governments also portray FZs as solutions to domestic challenges. The Iranian secretary for the High Council of Free Zones contrasted high employment rates in FZs with lower rates in the domestic economy,[10] and a British member of parliament suggested free ports as a method of boosting manufacturing output, trade, and employment in a post-Brexit United Kingdom.[11]

Global interests in FZs also extended to the Gulf region, highlighting the nexus between FZ development and international political economy. In the late 1930s, the British viewed the idea of an Iraqi FZ in Kuwait as a viable foreign policy option and

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[7] Tiefenbrun, *Tax,* 5.
[8] Commission on the International Regime of Ports, Waterways and Railways: Additions to Clauses to be inserted in the Preliminary Peace Treaty concerning Ports, Waterways and Railways, Article 21, 1919, Box 21, Folder 6: Free Ports, James Brown Scott Papers, The Booth Family Center for Special Collections, Georgetown University Library.
[9] Since 2001, the US has used Shannon Airport for its military planes transporting troops to Iraq and Afghanistan. See: "Shan-Zhen – How a small Irish town influenced the mega-city Shenzhen," *ArchDaily*, January 26, 2016, para 3, accessed January 29, 2016.; Kennard and Provost, "Story."
[10] "Unemployment Lowest in Free Trade Zones," *Financial Tribune*, January 3, 2018, accessed January 4, 2018, https://financialtribune.com/articles/economy-business-and-markets/79198/unemployment-lowest-in-free-trade-zones.
[11] Rishi Sunak, *The Free Ports Opportunity: How Brexit could boost trade, manufacturing and the North* (Surrey: Centre for Policy, 2016), 4.

even contemplated funding the project.[12] Donald Hawley, a British political agent during the 1950s, helped design Dubai's real estate ownership regulations and served on the Port Committee, which established the physical and regulatory foundations for the FZ at Jebel Ali.[13] Leaked diplomatic cables reveal more recent U.S. government concern over the potential for arms smuggling, the transfer of technology for weapons of mass destruction, and counterfeiting in GCC FZs.[14] Indeed, an Organisation for Economic Co-operation and Development (OECD) report found that the introduction of one new export processing zone (EPZ) – one type of FZ – into an economy increased counterfeiting by 5.9 percent on average.[15] Meanwhile, China's Belt and Road Initiative includes investments in FZs across Africa and the Middle East.[16]

With estimates of the number of FZs across the globe ranging from 3,000 to 3,500 entities,[17] careful consideration of terminology and definition is essential for a work focusing on FZs in the GCC. There are various terms and tabulations relating to the free zone concept and its various manifestations over time and across geographies.[18]

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[12] File 53/87 II (D 152), "British Policy in Kuwait," [74r] (158/430), British Library: India Office Records and Private Papers, IOR/R/15/1/541, accessed from the Qatar Digital Library, https://www.qdl.qa/archive/81055/vdc_100023485565.0x00009f.
[13] Easa Saleh Al-Gurg, *The Wells of Memory: An Autobiography* (London: Albemarle Street, 1998), 79.
[14] See: United Arab Emirates Dubai, "Dubai Establishes Biotechnology Free Zone," Wikileaks Cable: 06DUBAI3808_a, dated June 19, 2006, http://wikileaks.org/plusd/cables/06DUBAI3808_a.html; United Arab Emirates Dubai, "Irbis Follow-up – Sharjah, Ras Al-Khaimah, and Fujairah," Wikileaks Cable: 06DUBAI4121_a, dated July 5, 2006, http://wikileaks.org/plusd/cables/06DUBAI4121_a.html.
[15] OECD/EUIPO, *Trade in Counterfeit Goods and Free Trade Zones: Evidence from Recent Trends* (Paris: OECD Publishing, 2018), 73.
[16] Djibouti is building the largest FZ in Africa with help from the Chinese, and the Duqm FZ project in Oman also relies on substantial Chinese funding. See: "Port of Djibouti (PDSA)," *Djibouti Ports & Free Zone Authority*, accessed April 24, 2017, http://dpfza.gov.dj/?q=facilities/pdsa; Abdourahim Arteh, "Djibouti breaks ground on massive Chinese-backed free trade zone," *Reuters*, January 16, 2017, accessed January 17, 2017, http://www.reuters.com/article/china-djibouti-idUSL4N1F649H.; "Oman Counts on Chinese Billions to Build Desert Boomtown," *New York Times*, September 5, 2017, accessed September 20, 2017, https://www.nytimes.com/reuters/2017/09/05/business/05reuters-oman-china-investment.html.
[17] Akinci and Crittle, *Special*, 7; Neveling, "Free," 1007; Hassan Hakimian, "Iran's Free Trade Zones: Back Doors to the International Economy?," *Iranian Studies* 44.6 (2011): 853.
[18] The World Bank prefers to use special economic zones (SEZs) as an umbrella term, while much of the global literature on the topic cites the traditional term free trade zone (FTZ). Free zones (FZs), economic zones (EZs), export processing zones (EPZs), and foreign-trade zones (FTZs) are other common appellations used globally.

However, this dissertation employs the term *free zone* for two reasons. First, the term demonstrates a particularly high usage in the GCC region and therefore is both representative and accurate for a GCC-specific study. The term's equivalent in Arabic, *al-manṭaqa al-ḥurra*, proved to be the most common appellation in Arabic discussions, Arabic media, and formal Arabic reports.[19] Second, the term free zone helps avoid potential conflation with regional free trade agreements (FTAs), such as the Greater Arab Free Trade Area, or bilateral FTAs akin to the one between Oman and the United States. These agreements establish trading blocs that are commonly known as free trade zones. Since FTAs and their consequent free trade zones feature in the forthcoming chapters, it is important to minimize potential misunderstandings of terminology relating to the key term of analysis. This dissertation also employs the terms *Gulf Arab territories* and *GCC territories* when referencing geographic locations. The former term applies to earlier historical contexts, while the latter term refers to the time period following the creation of the Gulf Cooperation Council. Since Iran does not feature as a prominent case study, this work affords minimal attention to addressing contested geographic terminology relating to the Arabian or Persian Gulf.

In addition to consistent terminology, a study of FZs requires a working definition for the free zone concept. FZs can be broadly defined as demarcated geographic areas contained within a territory's national boundaries where the rules of business are different from those that prevail in the national territory.[20] The relative economic autonomy of individual emirates within the UAE, an integral country case when examining GCC FZs, suggests that FZs are better defined within autonomous

[19] The Arabic plural form for FZs is *al-manāṭiq al-ḥurra*. In some cases, textual sources use *al-manāṭiq al-iqtiṣādiyya*, which translates to economic zones.
[20] See: Claude Baissac's definition in Thomas Farole, *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experiences*, The World Bank, Washington DC (2011), 23. Baissac's emerging markets perspective is appropriate for GCC states, where governments balance autocratic political systems with demands for partial economic liberalization.

territories rather than within national boundaries by default. More specifically, FZs in the GCC differ from their onshore counterparts in three crucial areas: permitting full foreign ownership of commercial entities, offering reduced workforce nationalization requirements, and providing duty and tax exemptions. The FZs observed in this work demonstrated at least two of the three aforementioned characteristics.[21] It is important to note that other GCC economic zones, like industrial zones and industrial estates (IEs), do not differ substantially from the rules regulating onshore commercial activity in their territories and therefore are not considered FZs in this analysis. While the work briefly addresses how industrial zones and IEs influence FZ development but does not comprehensively incorporate these zone entities into the study to ensure the consistency of the FZ system.

The rapid proliferation of GCC FZs in the late 1990s and early 2000s coincided with a noticeable decrease in and harmonization of regional tariff rates, relating to the ascension of GCC states to the World Trade Organization (WTO) and the beginning of negotiations over the implementation of the GCC customs union.[22] Despite overarching regulatory environments, similar economic issues confronting the region, and sociocultural homogeneity between these territories, significant variation in the outcomes of FZ development across the GCC exists. The timing of establishment, scale, and scope of FZs in the GCC underscore these divergent development outcomes. For example, FZs emerged in Dubai and the northern emirates during the 1980s; however, Qatar and Abu Dhabi built their first FZs in the mid-2000s. The UAE possessed 39 operating FZs by the end of 2016 – with the emirate of Dubai alone

[21] Refer to Appendix A for a complete list of the FZs observed in this work.
[22] The Supreme Council of the GCC agreed in December of 2002 to launch a customs union amongst GCC states. See: United Arab Emirates Federal Customs Authority, "Customs Union for GCC States," *Federal Customs Authority*, accessed July 10, 2017, https://www.fca.gov.ae/en/homerightmenu/pages/uniongccstates.aspx?SelectedTab=9.

managing 24 FZs. During this period, Kuwait operated one struggling FZ, and Saudi Arabia contained two smaller-scale bonded and re-export zones.

Country	Operating FZs	First FZ (yr.)
United Arab Emirates	39	1985
Oman	5	1999
Saudi Arabia	2	1999
Bahrain	2	2005
Qatar	2	2005
Kuwait	1	1995

Table 1: FZ distribution in the GCC (1985-2016)

Commercial policies and structural characteristics of FZs in the GCC often hampered or actively undermined objectives traditionally associated with FZs. A range of interdisciplinary literature considers the primary objectives of FZs as attracting foreign direct investments (FDI), bolstering export industries, achieving long-term economic diversification, generating local employment, and transferring new technology and skills to the local population.[23] Others view FZs as producing a "catalyst effect" for local exporters or functioning as second-best initiatives that encourage broader trade reform.[24] Yet, according to the International Monetary Fund (IMF), FZs complicated the collection of non-oil tax revenues across the GCC,[25] and the region's FDI had not improved the quality and sophistication of exports.[26] Policy divergence within the GCC's FZ system also sent mixed signals regarding the centrality of local employment generation as an objective behind FZ creation. FZ

[23] See: Lotta Moberg, *The Political Economy of Special Economic Zones: Concentrating Economic Development* (Abingdon: Routledge, 2017), 1; Xia Lu, "The Development Process, Function Evaluation, and Implications of World Free Trade Zones," *World Review of Political Economy* 5.3 (2014): 366; Akinci and Crittle, *Special*, 34; Hakimian, "Iran's," 853; Sherzod Shadikhodjaev, "International regulation of free zones: an analysis of multilateral customs and trade rules," *World Trade Review* 10: 2 (2011): 190.
[24] Helena Johansson and Lars Nilsson, "Export Processing Zones as Catalysts," *World Development* 25.12 (1997): 2115-2116.
[25] International Monetary Fund (IMF), *Diversifying Government Revenue in the GCC: Next Steps* (Riyadh: IMF, 2016), 5.
[26] Tim Callen et al., *Economic Diversification in the GCC: Past, Present, and Future*, IMF Staff Discussion Note (2014), 21.

policies in Oman and Bahrain required clients to meet workforce nationalization targets, whereas FZs in the UAE, Kuwait, and Qatar openly advertised unrestricted access to expatriate labor.

The individuals occupying leadership positions in FZ bureaucracies, composition of FZ clientele, and FZ policies revealed multiple, often unstated and occasionally contradictory, motivations underlying FZ development. For example, the UAE contained the majority of the GCC region's FZs, but the country was among the last countries to legislate commercial reforms related to foreign ownership regulations. Saudi Arabia, on the other hand, continued developing FZs after the implementation of country-wide commercial reforms. Thus, a holistic political economy mapping of FZs is necessary to determine their objectives, overarching institutional arrangements, and embeddedness in local and international political economy.

Primary research question and hypothesis

By developing a political economy of FZs in the GCC, this work seeks to answer the following primary research question: *What explains varying FZ development in the GCC from 1985 until 2017*? The work argues that the employment of FZs as political strategy instruments rather than simply economic initiatives played a key role in varying FZ development. Timing of creation, scale, and scope of GCC FZs reflect the primary measures of variation in development outcomes, whereas the specified periodization, covering the emergence of continuously-operating FZs during the mid-1980s and ending after the completion of primary research collection in late 2016, narrows the study's principal focus to functioning FZs. The thesis occasionally covers quasi-FZ entities that existed prior to 1985 and incorporates relevant data from newer FZs that emerged following on-the-ground research in the field.

In order to test the hypothesis that political factors played an instrumental role in the causal mechanisms behind FZs development, the resultant research subjects each case study to three dimensions of analysis: i) real and perceived notions of hydrocarbon scarcity and abundance, ii) evolving relationships between royal families and business elites over the recycling of rent sources and control over foreign investment, and iii) competition among territories for the economic benefits of FZs in terms of regional trade, investment, and services. These three analytical dimensions analyze the macro-level political economy of natural resources and competition for global capital flows as well as the meso- and micro-level politics and social dynamics associated with FZ development. This systematic, multi-tiered analysis sheds light on the often-ignored power relationships and social structures behind economic choices in Gulf Arab states.[27]

An examination of the specific factors behind variation in FZ development outcomes offers new perspectives on growth narratives of both non-hydrocarbon and hydrocarbon polities in the Gulf. In this vein, the work's secondary research questions link FZs to wider discussions concerning the political economy of the GCC region:

- *To what degree have FZs helped GCC economies diversify away from hydrocarbon resources and promote private sector development?*
- *How do FZs reflect political structures and the distribution of power in GCC societies?*
- *What do FZ-facilitated international linkages reveal about relations among GCC territories and relations between host territories and non-GCC states?*

[27] Mazhar Al-Zoby and Birol Baskan, "State-Society Relations in the Arab Gulf Region: Dilemmas and Prospects," in Mazhar Al-Zoby and Birol Baskan, eds., *State-Society Relations in the Arab Gulf States* (Berlin*:* Gerlach Press, 2014), 2.

The process of deciphering between the politics and economics of FZ development mirrors a broader scholarly debate over opposing approaches to political economy. Charles Maier describes these two political economy approaches as either analyzing political choices based on the concept of economic maximization or analyzing economic choices in terms of political forces.[28] The latter approach "interrogates economic doctrines to disclose their sociological and political premises," and therefore "regards economic ideas and behavior not as frameworks for analysis, but as beliefs and actions that must themselves be explained."[29] This latter approach offers a more suitable vehicle for explaining variation in the GCC's FZ system because it highlights the role of institutions in decision-making processes related to FZ development in the GCC.

Sources and scope

The sources used to test the hypothesis combine diverse qualitative sources, macro-level data analysis, and meso- and micro-level observations from onsite FZ visits in the GCC. Seventy-seven semi-structured interviews conducted in English and Arabic with confidential informants across the UAE, Oman, Bahrain, Qatar, Kuwait, and London serve as one component of these qualitative sources.[30] This work employed a snowball sampling method, a "second best" but nevertheless effective technique in environments rife with distrust and suspicion,[31] to identify interview participants. In addition, the thesis references a substantial media database on FZs within and outside of the GCC. The media research utilized daily news monitoring

[28] Charles S. Maier, *In search of stability: Explorations in historical political economy* (New York: Cambridge University Press, 1987): 2-3.
[29] Ibid., 4-6.
[30] These interviewees were largely composed of FZ officials, government officials, employers operating within FZs, commercial attachés in embassies based in the GCC, prominent Emirati businessmen, journalists, academics, and a notable ruling family member from the emirate of Sharjah.
[31] Nassim Cohen and Tamar Arieli, "Field research in conflict environments: Methodological challenges and snowball sampling," *Journal of Peace Research* 48.4 (2011): 423.

services since November 2015 to build a catalogue of Arabic and English news articles pertaining to FZs. Digital libraries and platforms such as Factiva and Lexis-Nexis News Service provided older media articles and publications.

The qualitative sources likewise contain archival materials from the Booth Family Center for Special Collections at Georgetown University, India Office Records and Private Papers from the British Library, the Qatar Digital Library, the National Archive of the United Arab Emirates, the African and Middle Eastern Reading Room of the Library of Congress in Washington D.C., and the Sir Geoffrey Arthur Collection at the Middle East Centre Library of St Antony's College. Commercial laws and royal decrees were gathered both in-person and remotely from locations such as the Emirates Center for Strategic Studies and Research Library in the UAE, the Official Gazette of Abu Dhabi, and the Qatar Legal Portal. Diplomatic cables from Wikileaks reveal previously inaccessible information concerning FZs in the GCC, and key secondary source works on the GCC supplement the process tracing and institutional analysis elements of the thesis.

The empirical component of the research examines the causal system of FZs in the GCC using original data collected from these onsite visits combined with data mined from local statistics centers and global research organizations. The thesis utilizes macro-level data on employment, foreign investment, trade, and demographics from official statistics centers in the GCC.[32] An initial survey of regional statistics centers and their available content highlighted the contentious politics of data in the region, where major gaps in reporting regularly exist, and certain territories lack dedicated statistics centers altogether. Thus, comparative figures and reports from leading global

[32] Sources of data include the Statistics Centre – Abu Dhabi (SCAD), Dubai Statistics Center (DSC), Sharjah Department of Statistics and Community Development (DSCD), Fujairah Statistics Centre, Oman's National Centre for Statistics and Information, Bahrain's Central Information Organization, and the Kuwait Central Statistical Bureau.

organizations like the IMF, WTO, World Bank, OECD, and United Nations Conference on Trade and Development (UNCTAD) helped address gaps in quantitative materials. Field visits to 44 of the region's 51 operating FZs yielded additional micro-level data.[33]

Researchers should "problematize" their role as foreign observers to mitigate against biases, misunderstandings, intentional ambiguities, and active concealment when operating in authoritarian environments or other conflict settings. To alleviate respondents' suspicions and encourage frank discussions, the author guaranteed anonymity for interviewees.[34] Many economic policy decisions occur in the notoriously impenetrable upper echelons of GCC government bureaucracies, while the more accessible mid-tier government employees tend to demonstrate the espoused nature and purpose of FZs. To address this knowledge gap, interviews with commercial attachés from U.S. embassies in GCC states and other regional diplomats as well as government cables from Wikileaks helped embed interview materials within broader political and economic trends and decipher carefully-crafted government rhetoric.

As for the scope of this work, the thesis does not offer wide-ranging performance measurements of FZs. Magazines like *fDi Intelligence* already provide annual rankings of global FZs. Moreover, disentangling FZ effects from the myriad other effects of trade liberalization policies and other forms of economic liberalization introduces additional challenges for any study focusing primarily on FZ performance.[35] The purposes or objectives of FZs can vary considerably from one territory to another,

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[33] For example, fieldwork yielded a list of the 5,985 firms operating in Sharjah's Hamriyah Free Zone as of the second quarter of 2016 – complete with firm activity, country of origin, and names of managers – and a substantial amount of promotional and informational material, such as brochures and company registration forms, available at FZ locations.

[34] Philipp Amour, "Practical, Theoretical, and Methodological Challenges of Field Research in the Middle East," *Historical Methods* 45.3 (2012): 147.

[35] See: United States Government Accountability Office, *Foreign Trade Zones* (Washington, D.C.: GAO, 2017), 18; Eddy Lee, "Trade Liberalization and Employment," *DESA Working Paper* No. 5 (2005): 3.

and this variation affects the benefit or utility of FZs in a host economy. Therefore, any specific discussions of FZ performance within this thesis relate to the degree that FZs accomplish the purported interests of various actors in GCC states and the global arena.

Methodology and case studies

Case study selection and order follow a most-similar systems design consisting of a structured comparison of cases that are similar on many variables but differ in outcome.[36] The objective of the research is to determine the main causal mechanisms, or "the pathway[s] or process[es] by which an effect is produced,"[37] behind FZ development in each case study. The methods include process tracing because this technique "inherently analyzes trajectories of change" and can uncover new causal insights and hypotheses.[38] The descriptive quality of process tracing and its sequencing of multiple variables also afford necessary attention to the context in which causal mechanisms operate – a key ingredient for producing credible social scientific explanations.[39] As a result, the structure of the thesis proceeds case-by-case, and the chapters adhere to a strict organizational symmetry.

Most of the selected cases represent national units of comparison wherein each chapter examines the FZ system within a national entity of the GCC. However, the UAE introduces an element of methodological complexity. Since individual emirates of the UAE demonstrate a high degree of political autonomy over economic development issues relating to FZs as well as substantial variation among emirate-level FZ systems, analyzing the UAE as a national unit would negatively impact the richness of the study.

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[36] For more information about the advantages of comparing similar systems, see: Sidney Tarrow, "The Strategy of Paired Comparison: Toward a Theory of Practice," *Comparative Political Studies* 43.2 (2010): 234.
[37] John Gerring, "Causal Mechanisms: Yes, But...," *Comparative Political Studies* 43.11 (2010): 1500.
[38] David Collier, "Understanding Process Tracing," *Political Science and Politics* 44.4 (2011): 824.
[39] Tulia Falleti and Julia Lynch, "Mechanisms in Political Analysis," *Comparative Political Studies* 42.9 (2009): 1144.

Richard Snyder argues that researchers can combine within-nation and between-nation strategies for subnational comparative analysis,[40] adding that:

> *A focus on subnational units strengthens the capacity of comparativists to accurately code cases and thus make valid causal inferences. Finally, subnational comparisons better equip researchers to handle the spatially uneven nature of major processes of political and economic transformation.*[41]

The practice of mixing individual emirates with country case studies is not unusual,[42] especially when researchers seek to address issues better explained by federal dynamics.

Therefore, Dubai, Abu Dhabi, and the northern emirates form three distinct case studies, while the cases of Oman, Bahrain, and Qatar are discussed in a further three separate chapters. Given Kuwait's historically-limited FZ system, the Kuwait Free Trade Zone better functions as a comparative case situated within the chapter on Qatari FZs rather than a stand-alone chapter, and the final chapter covers Saudi Arabian FZs. The consequent approach reflects a hybrid comparative method of both national and sub-national units, with the aim of addressing the skewed distribution of FZs in the region, covering each sovereign state in the GCC, and giving due credence to semi-autonomous federal territories, like the northern emirates, that are often ignored in broader GCC analyses. While the work's geographic breadth is broad, the analytical focus on the region's FZ system is narrow and specific. The intended effect is to produce a comprehensive and representative work that can be used as a foundation for future scholars.

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[40] Richard Snyder, "Scaling Down: The Subnational Comparative Method," *Studies in Comparative International Development* 36.1 (2001): 97.
[41] Ibid., 93.
[42] For an example, see: Philip Robins, *Middle East Drugs Bazaar: Production, Prevention and Consumption* (London: Hurst & Company, 2016).

Chapter breakdown

The first chapter contextualizes FZs in the GCC by thoroughly assessing relevant literature on the political economy of global FZs, the political economy of Gulf Arab states, and trade liberalization and policy. The chapter then discusses the theoretical considerations required to link secondary source materials with the key research findings. Building upon these key theories, the author introduces the concept of commercialized rents – or FZ rents – as a new typology of rent streams. The final section identifies alternate analytical avenues for approaching the political economy of FZs in the GCC and opportunities for integrating the integral elements of these approaches into the overarching analysis.

The second chapter presents a focused history of Gulf Arab territories and their later transition into GCC states that can inform specialists as well as generalists. It focuses on three crucial historical processes within the region: the transformative effect of hydrocarbon resources, the evolution of foreign influence, and the region's integration into a globalized world economy. The chapter touches on earlier historical narratives to highlight examples of persistence in relevant economic and political institutions, but it ultimately places greater emphasis on the formative state-building years beginning in the mid-20th century.

The third chapter attributes the expansive proliferation of FZs in Dubai, which possesses nearly half of all GCC FZs, to a confluence of factors: a real and perceived lack of hydrocarbon revenues, an institutional propensity for adopting FZ models, and an incentive to resist the political encroachment of Abu Dhabi. The chapter commences by tracing relative hydrocarbon scarcity in Dubai's history and its consequences for economic policy in the emirate. This economic history sets the context for an in-depth examination of the Jebel Ali Free Zone, Dubai's pioneering FZ, and select analyses

from the remaining twenty-four operating FZs in the emirate. The chapter then illustrates the vested interests of the ruling family, business elites, and national citizens in Dubai's FZ development. The final section of the chapter reveals how Dubai leveraged FZs to manage federal politics, advance regional interests, and establish strategic international linkages.

The fourth chapter attributes the relatively late and limited development of FZs in Abu Dhabi to the territory's abundant hydrocarbon wealth, patterns of rent distribution to tribal allies, and protection of local merchants from foreign competition. Renewed economic diversification initiatives and efforts to capture a larger share of commercial activity from a rapidly expanding FZ sector in the country eventually led Abu Dhabi to develop its own FZ sector in the early 2000s. However, FZ development in the emirate remained closely linked to the hydrocarbon sector, and the ruling family employed the new FZ bureaucracies and policies to reinforce the elite status of prominent merchant families and tribal allies. Rather than leading a coordinated federal policy for FZ development, Abu Dhabi leveraged its fiscal and political power to compete with media and financial FZs in other emirates and mitigate the negative commercial effects of emerging GCC-wide initiatives and regulations.

The fifth chapter argues that FZs in the northern emirates of Sharjah, Ras Al Khaimah, Fujairah, Ajman, and Umm Al Quwain function primarily as revenue-generating mechanisms for the ruling families. The unequal distribution of hydrocarbon resources in the UAE helps contextualize individual economic strategies of the northern emirates, of which FZs constituted an essential component. While the larger northern emirates, like Sharjah, contain influential merchant families, the primary beneficiaries of FZs in these territories remained the ruling families in the time period under review. Commercially-oriented citizens, large foreign firms, and expatriate consultants also

engaged in rent seeking within parallel FZ sectors across these emirates. Finally, federal politics in the UAE heightened competition between FZs in the northern emirates and encouraged international linkages that, at times, conflicted with national foreign policy.

Chapter six demonstrates that Oman's FZs are intrinsically linked to local and international politics. A discussion of the country's modest hydrocarbon resources and the consequent power-sharing arrangements between Sultan Qaboos and business elites illustrates the political foundations of the modern Sultanate of Oman. These political foundations frame government motives behind FZ development in the historically rebellious governorate of Dhofar, the politically contentious city of Sohar, and the chronically underdeveloped province of Duqm in the governorate of Al Wusta. At the same time, the country's fiscal malaise, renewed focus on economic diversification in the late 1990s, and persistently high unemployment rates forced Oman's government to seek both local and foreign partnerships for the creation and management of the country's FZs. The government left much of the meso- and micro-level management of FZ affairs to business elites, and this permitted these social actors to entrench themselves and their family firms in FZ development activities. China, Iran, and other GCC states also invested heavily in Oman's five FZs. These international linkages reveal how Omani FZ development is embedded in flows of global capital and shaped by the competing interests of states operating in the international arena.

Chapter seven postulates that Bahrain's economic orientation toward Saudi Arabia and the institutions established by the GCC single market ultimately diminished the utility of traditional FZs in Bahrain. While hydrocarbon scarcity in Bahrain encouraged early experimentation with quasi-FZ entities, regulations surrounding GCC integration limited FZ proliferation. Thus, the beginning of the chapter contextualizes

Bahrain's early FZ experiences in the 1960s and 1970s by explaining the country's hydrocarbon politics, depicting Bahrain's transformation into an important banking hub for capital surpluses from oil revenues, and revealing the centrality of the Saudi market to Bahrain's economy. The chapter then examines how FZ policies, such as workforce nationalization quotas, intersected with the vested interests of the ruling family, merchant families, and foreign companies. The final section of the chapter describes how the government created ambiguous zone entities to secure both free zone and non-free zone benefits for clients – a decision that increased tensions with customs officials in Saudi Arabia and Kuwait.

The eighth chapter links the relatively late establishment of Qatari FZs in the 2000s to the role of liquefied natural gas (LNG) reserves in Qatar's economic history. Drawing comparisons with FZs in Abu Dhabi, the chapter demonstrates that Qatari FZs neither constituted a significant source of government revenue nor aimed to attract substantial numbers of expatriates required for revenue generation through service provision. Instead, the FZs in Qatar represented a carefully controlled manner of economic reform meant to prevent a shift in economic power from the state to the private sector. The prevalence of ruling family members amongst the country's business elites mitigated the potential for political liberalization owing to these reforms. A comparative section on the Kuwait Free Trade Zone reveals how differing merchant dynamics influenced FZ development in neighboring Kuwait, where the government clashed with a private sector firm over management rights to the country's FZ. The final section of the chapter focuses on the international dimensions of Qatari FZs. In particular, the GCC diplomatic crisis beginning in June 2017 and consequent economic embargo highlighted both the vulnerabilities and new strategic significance of Qatar's planned SEZs.

The ninth chapter on Saudi Arabian FZs begins by examining the impact of oil abundance upon three distinct stages of FZ development: the creation of smaller-scale re-export zones in the late 1990s, the incorporation of FZs into larger economic cities in the early 2000s, and proposals for large-scale FZ projects under King Salman bin Abdulaziz Al Saud and his son, Mohammed bin Salman. The second section of the chapter explores how ruling and business elites embedded themselves within each FZ development stage, while the final section links the latest FZ proposals to changes in Saudi Arabia's foreign policy stance within the region.

The conclusion assesses the primary factors driving FZ development outcomes across the GCC case studies. In the process, the conclusion measures the effects of hydrocarbon scarcity and abundance upon FZ development, weighs the vested interests of ruling families and business elites, and shows what regional and international linkages inherent within FZs reveal about the competitive nature of GCC states and territories. The conclusion distills these findings into theoretical implications for state-business relations in the rentier economies of the GCC. Following a recap of the research aims, the conclusion draws out practical implications for policy and maps areas for further research in the fields of Middle East studies and international political economy.

1 Contextualizing Free Zones: Literature, theory, and concepts

1.1 Background literature and contribution

In order to develop a political economy of FZs in the GCC, this work draws heavily on three bodies of literature: political economy works on global FZs, key publications on the political economy of Gulf Arab states, and trade liberalization and policy scholarship. The existing literature covering the political economy of FZs tends to focus on case studies outside of the GCC. Lotta Moberg employs a robust political economy framework that analyzes the capability and incentives of policymakers to pursue beneficial policies through FZs in India, China, and the Dominican Republic.[43] She assesses FZ performance in these cases based on the assumption that policymakers responsible for FZ development possess imperfect knowledge and self-interested motives.[44] Triyakshana Seshadri's study of Indian FZs contends that policymakers in the country prioritized trade liberalization over the promotion of export zones.[45] Meanwhile, George Crane argues that political pressures complicated FZ implementation in China and led to poor investment deals.[46] Hassan Hakimian focuses on Iranian FZs' ability to connect isolated countries like Iran to the international economy,[47] whereas Jafar Alavi and Henry Thompson's early attempt to advance a rudimentary theory of FZs relies heavily on a description of foreign-trade zones in the United States.[48]

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[43] Moberg, *The Political,* 24.
[44] Ibid., 23.
[45] Triyakshana Seshadri, *The Political Economy of Special Economic Zones in India*, PhD Dissertation: George Mason University (2011): 9.
[46] George T. Crane, *The Political Economy of China's SEZs* (Armonk, New York: M.E. Sharpe Publishers, 1990), 7.
[47] Hakimian, "Iran's," 851-874.
[48] Jafar Alavi and Henry Thompson, "Toward a Theory of Free Trade Zones," *The International Trade Journal* 3.2 (1988): 203-216.

An academic foundation for GCC-centric studies on FZs is limited – often approaching the topic from a purely economic perspective or through an exceedingly narrow selection of case studies – but nevertheless exists. Arang Keshavarzian offers one of the few political economy works focusing on FZs in the GCC region. His article compares Dubai's Jebel Ali Free Zone with Iran's Kish Free Trade Zone in order to demonstrate that FZs project territorial sovereignty in turbulent geostrategic settings and direct rents to domestic and international members of elite coalitions.[49] Keshavarzian contends that Dubai's first FZ carved out an autonomous territory and protected Dubai's sovereignty from the encroaching political influence of Abu Dhabi.[50] In a comparative analysis of media FZs, Stephen Quinn, Timothy Walters, and John Whiteoak compared the underlying visions, ownership structures, and likelihood of success associated with Dubai Media City, Jordan Media City, and Egypt Media Production City.[51] Although two of their case studies exist outside of the GCC, the authors nevertheless conclude that the FZs "compete in a tiny marketplace."[52] In both instances, GCC case studies are compared against non-GCC cases.

Key works on the political economy of Gulf Arab states sporadically discuss FZs but do not treat the concept as a central analytical category. For example, Adam Hanieh views FZs as part of important economic changes in the 1980s that laid the foundation for the growth of Gulf capital across the GCC.[53] The main focus of Hanieh's work concerns the internationalization of Gulf capitalism throughout the 21st century, and he considers the creation of Jebel Ali Free Zone and consolidation of Bahrain's offshore

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[49] Arang Keshavarzian, "Geopolitics and the Genealogy of Free Trade Zones in the Persian Gulf," *Geopolitics* 15.2 (2010): 263.
[50] Keshavarzian, "Geopolitics," 263-89.
[51] Stephen Quinn, Timothy Walters, and John Whiteoak, "Tale of three (media) cities*," Australian Studies in Journalism* 12 (2003): 129-149.
[52] Ibid., 147.
[53] Adam Hanieh, *Capitalism and Class in the Gulf Arab States* (New York: Palgrave MacMillan, 2011), 82.

banking market as playing a facilitating role in this process.[54] Karen Young writes that FZs in the UAE serve international capital markets, foreign investors, and government entities as part of a negotiation between the *majlis* [Ar. a council or gathering of people with common interests] and the market.[55] Christopher Davidson divides the UAE's elites into two socioeconomic groups, the "old rentiers" and the "new rentiers," noting that the latter socioeconomic group derives economic rents from FZs and industrial parks.[56] Davidson considers Dubai to be a "post-oil rentier state" and warns that new economic sectors focusing on FDI risk increasing the emirate's precarious reliance on foreign economies.[57] According to Jessie Moritz, the Sohar Port and Freezone is one of various government-commissioned megaprojects that ultimately failed to address the underlying problems of unemployment in Oman and represents elite embeddedness in development initiatives.[58]

Other GCC-focused works on elite accommodation to government interests and economic integration into the global economy overlook or minimize the role of FZs in these processes. Khalid Almezaini describes how private sector elites in the UAE linked economic, political, and social interests with the interests of ruling families and the government, but he does not identify FZs as a prime apparatus for facilitating these linkages.[59] Kristian Coates Ulrichsen documents the uneven integration of Gulf Arab

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[54] Ibid., 2.
[55] Karen Young, *Political Economy of Energy, Finance and Security in the UAE: Between the Majilis and the Market* (London: Palgrave MacMillan, 2014), 37.
[56] Christopher Davidson, *The United Arab Emirates: A Study in Survival* (Boulder: Lynne Rienner Publishers, 2005), 232.
[57] Christopher Davidson, *Dubai: The Vulnerability of Success* (London: Hurst & Company, 2008), 150 & 177.
[58] Jessie Moritz, *Slick Operators: Revising Rentier State Theory for the Modern Arab States of the Gulf,* D.Phil Thesis: The Australian National University (2016): 211.
[59] Khalid Almezaini, "Private Sector Actors in the UAE and Their Role in the Process of Economic and Political Reform," in Steffen Hertog, Giacomo Luciani, and Marc Valeri, *Business Politics in the Middle East* (London: Hurst & Company, 2013), 44.

territories into the global economy without mentioning FZs.[60] He concludes that the Iraqi invasion of Kuwait and the end of the Cold War both broadened and deepened the Gulf states' integration into the global economy in ways that moved beyond the hydrocarbon sector.[61] Ulrichsen's later study on the UAE, however, does briefly mention FZs as part of the country's efforts to project power and influence in an intensely globalized setting.[62]

In a broad sense, FZs represent a subset of trade liberalization policy. The literature on trade liberalization and policy, while not necessarily focusing specifically on FZs, nevertheless helps structure the complex relations and competing interests shaping FZ development. Herbert Grubel, examining American and European FZs within the context of deregulation, argues that free economic zones reflect a practical compromise between powerful local interest groups supporting partial deregulation and others opposing general deregulation.[63] This view resonates with Moberg's depiction of FZs as "a middle way between liberalization and protectionism,"[64] and the dichotomy of "new rentier" reformers and "old rentier" conservatives in the UAE. Alan Richards and John Waterbury take a similar stance on trade liberalization policy as it applies to Middle Eastern contexts, asserting that liberalizing foreign trade "produces winners and losers."[65] However, this binary approach offers a rather simplified explanation of the forces behind FZ development in the GCC.

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[60] Kristian Coates Ulrichsen, "The Political Economy of Gulf Arab States," *The James A. Baker III Institute for Public Policy* (2015): 1-26.
[61] Ulrichsen, "The Political," 25-26.
[62] Kristian Coates Ulrichsen, *The United Arab Emirates: Power, Politics, and Policymaking* (Abingdon: Routledge, 2017), EBook section 23.5.
[63] Herbert G. Grubel, "Towards a theory of free economic zones," *Review of World Economics* 118.1 (1982): 39.
[64] Moberg, *The Political*, EBook section 298.
[65] Alan Richards and John Waterbury, *A Political Economy of the Middle East* (Boulder: Westview Press, 2009), 218.

Dani Rodrik provides a more adaptable trade liberalization framework that accounts for how elites simultaneously participate in both FZ and non-FZ activities. Rodrick's political economy conceptualization of trade policy consists of a supply side, composed of policymaker preferences and the institutional structure of government, and a demand side, dictated by individual preferences and affiliated interest groups.[66] This framework can be modified to examine the political economy of FZs in the GCC, wherein the supply side consists predominantly of Gulf ruling family members involved in governing and the institutional structures of their territories' governments. A robust political economy analysis, as applied by Moberg, treats these FZ policymakers as imperfect in their knowledge and ultimately self-interested.[67] The corresponding demand side of GCC FZs, then, consists mainly of local business elites and foreign firms aiming to maximize favors, employment opportunities, contracts, subsidies, and preferential policy treatment from the government.[68] Other groups, like non-elite Gulf citizens and expatriates, may be invested in FZ development; however, these groups are less likely to form lobbies capable of influencing government decisions.

Any adapted trade liberalization framework suitable for GCC FZs must demonstrate sufficient flexibility to incorporate actors with overlapping public and private interests. For example, local merchant elites often play a leading role in FZ development and determining policies, and ruling family members tend to occupy prominent roles in FZ bureaucracies or broader business communities. Fluctuating social demographics and fiscal capabilities can increase the demand-side bargaining

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[66] Dani Rodrik, "Political Economy of Trade Policy," in G. Grossman and K. Rogoff, eds., *Handbook of International Economics*, Vol. III (Oxford: Elsevier Science, 1995), 1459.
[67] Moberg, *The Political*, 24.
[68] James Buchanan, "Rent Seeking and Profit Seeking," in *Toward a Theory of the Rent-Seeking Society,* ed. by James M. Buchanan et al. (Texas: Texas A&M University Press, 1980), 9.

power of local citizens and foreign firms as ruling elites evaluate their "political incentive compatibility constraints"[69] – or what they must do to stay in power. This flexible and blurred relationship between supply and demand forces of FZ development aligns closely to Judith Goldstein's view that trade liberalization depends on a complex mixture of the distribution of economic interests, collective action costs of organizing, and the institutional rules and norms that channel social forces into policy.[70]

As the first comprehensive and comparative political economy study of FZs in the GCC, this thesis offers a substantive contribution to all three of the aforementioned bodies of existing literature. The work bridges political economy studies focusing either on global FZs or on Gulf Arab states, while also illustrating trade liberalization dynamics in the region. The resultant mapping of the region's FZ system augments prevailing theoretical notions and frameworks employed to understand economic and political outcomes in Gulf Arab states.

1.2 Theoretical considerations

Theoretical considerations relating to institutions, rentierism, and development are necessary for linking evidence from secondary sources with the author's fieldwork findings. This dissertation relies upon Douglass North's view that institutions "are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction."[71] His definition is especially important when distinguishing between institutions and GCC government agencies, the state apparatus, and other organizations. New Institutional Economics stresses that "organizations often

[69] Daron Acemoglu and James Robinson, "Economics versus Politics: Pitfalls of Policy Advice," *Journal of Economic Perspectives* 27.2 (2013): 177.
[70] Judith Goldstein, "Trade Liberalization And Domestic Politics," in Martin Daunton, Amrita Narlikar, and Robert M. Stern, eds., *The Oxford Handbook on The World Trade Organization* (New York: Oxford University Press, 2012), 2.
[71] North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 3.

invest in changing the rules of the game but fundamental changes are usually stepwise and cumulative,"[72] and that institutions both constrain and incentivize the behavior of social actors.

Thus, North's argument that all big economic institutions are ultimately political institutions because they must have a political end in order to survive and protect their interests[73] helps explain the competing political interests behind FZs. Daron Acemoglu and James Robinson echo North by noting that "what economic institutions arise in equilibrium depends on the distribution of political power."[74] In addition, Acemoglu and Robinson provide an important link between North's view of institutions and the concepts of autocracy and family rule by asserting that political institutions and the distribution of resources explain how elites gain power and co-opt systems in their favor.[75] They argue that political incentive compatibility constraints determine the behavior of political elites[76] and that unproductive institutions and policies accomplish the interests of elite social groups holding political power.[77]

This thesis also employs rentier state theory (RST) as a complementary theoretical tool rather than a comprehensive explanation for the FZ system across the GCC. Rents are "a reward for ownership of all natural resources"[78] and represent income derived from selling goods and services at prices significantly above their production costs. Thus, it is clear that FZs play a role in the rentier economies

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[72] Thrainn Eggertsson, "Quick guide to New Institutional Economics," *Journal of Comparative Economics* 41.1 (2013): 1.
[73] North, Douglass et al., *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (New York: Cambridge University Press, 2009), 146.
[74] Daron Acemoglu and James Robinson, "Paths of economic and political development," in Barry R. Weingast and Donald Wittman, eds., *Oxford Handbook of Political Economy* (Oxford: Oxford University Press, 2009), 12.
[75] Acemoglu and Robinson, "Paths," 4.
[76] Acemoglu and Robinson, "Economics," 186.
[77] Daron Acemoglu, "Why not a political Coase theorem? Social conflict, commitment, and politics," *Journal of Comparative Economics* 31 (2003): 620.
[78] Hazem Beblawi and Giacomo Luciani, eds., *The Rentier State* (London, New York, Sydney: Croom Helm, 1987), 49.

described by Hazem Beblawi as those in which rents predominate, rents are externally derived, a small minority is involved in rent generation, and the government is the main recipient of rents.[79] Early RST literature often ascribes structural homogeneity and patterned outcomes to rentier states. For example, Dirk Vandewalle,[80] Terry Lynn Karl,[81] Jill Crystal,[82] Michael Ross,[83] and Douglas Yates[84] conclude that oil rents produce negative effects on democratization and economic development, while other studies suggest that natural resource abundance depresses growth.[85] Under the traditional rentier bargain, citizens forego democratic practices in return for a share of rents accrued by the state. This early rentier literature likewise asserts that rentier states only require expenditure policies and do not need coherent economic policies.[86]

Yet early RST literature does not provide a sufficiently expansive framework for analyzing the differing development outcomes of FZs in the rentier economies of GCC territories. This view also fails to explain how and why governments, especially in the UAE and Oman, positioned FZs as key pillars of overarching economic policies. Instead, a theory of "late rentierism," which accounts for historical dynamics, differentiation in rent types, and international conflicts, remains more useful for this

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[79] Beblawi and Luciani, *The Rentier State*, 87-88.
[80] Dirk Vandewalle, *Libya Since Independence: Oil and State Building* (Ithaca: Cornell University Press, 1998).
[81] Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro States* (Berkeley: University of California Press, 1997).
[82] Jill Crystal, *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar* (New York: Cambridge University Press, 1995).
[83] Michael Ross, "Does Oil Hinder Democracy?," *World Politics* 53 (2001): 325-361.
[84] Douglas A. Yates, *The Rentier State in Africa: Oil Rent Dependency and Neocolonialism in the Republic of Gabon* (Trenton, NJ: Africa World Press, 1996).
[85] Jeffrey Sachs and Andrew Warner, "Natural Resource Abundance and Economic Growth," NBER Working Paper 5398 (1995): 7.
[86] For an example on the relationship between rentierism and economic policy, see: Giacomo Luciani, "Allocation vs. Production States: A Theoretical Framework," in Giacomo Luciani, ed., *The Arab State* (London: Routledge, 1990), 76.

analysis.[87] This latter version of RST utilizes rentier concepts to understand how states distribute rents and manage elite relationships but does not treat rentierism as a comprehensive explanation for a complete system.[88] Those authors considered here as part of the late rentierism trend – including Steffen Hertog,[89] Adam Hanieh,[90] and Michael Herb[91] – emphasize that the effect of strategic rents varies from country to country according to endogenous and exogenous influences. Similarly, Young stresses the centrality of federal politics in the UAE when arguing that the rentier state is more complex than many rentierists believe,[92] while Ferdinand Eibl and Adeel Malik link rentierism with trade liberalization by revealing how Middle Eastern and North African governments with significant distributive responsibilities generate rents through partial economic liberalization.[93] This nuanced understanding of RST provides a more expansive view of rent generation, rent distribution, and rent-seeking behavior, thereby incorporating alternative rentier activities – such as FZ fees and policies – that do not fit as neatly into traditional rentier frameworks as receipts from hydrocarbon exports.

The concept of rent seeking, or "behavior in institutional settings where individual efforts to maximize value generate social waste rather than social surplus,"[94] manifests in the GCC through the dynamic interplay of institutions and rentierism. James Buchanan details three types of rent seeking useful for this analysis: i) entrants

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[87] Matthew Gray put forth this theory of "Late Rentierism" as an organizational category built upon existing RST works. See: Matthew Gray, "A Theory of 'Late Rentierism' in the Arab States of the Gulf," *Georgetown University Center for International and Regional Studies*, Working Paper No. 7 (2011): 18-19.
[88] Ibid., 16.
[89] Steffen Hertog, *Princes, Brokers and Bureaucrats: Oil and the State in Saudi Arabia* (Ithaca: Cornell University Press, 2010), 10.; Steffen Hertog, "Defying the Resource Curse: Explaining Successful State-Owned Enterprises in Rentier States," *World Politics* 62.2 (2010): 261-301.
[90] Hanieh, *Capitalism*.
[91] Michael Herb, *The Wages of Oil: Parliaments and Economic Development in Kuwait and the UAE* (Ithaca: Cornell University Press, 2014).
[92] Young, *Political,* 86.
[93] Ferdinand Eibl and Adeel Malik, "The Politics of Partial Liberalization: Cronyism and Non-Tariff Protection in Mubarak's Egypt," *CSAE Working Paper*, 2016.
[94] Buchanan, "Rent Seeking," 4.

seek advantageous behavior and opportunities related to unequally-distributed rents, ii) jobseekers waste resources to attain lucrative public sector positions over comparable positions in the private sector, and iii) differential treatment by the government.[95] All three forms of rent seeking apply to GCC FZs, wherein government officials and local citizens receive unequal opportunities to generate rents from foreign firms, public sector positions in FZs and related authorities represent favorable employment positions, and FZ firms secure differential treatment through FZ policies. Employing rent seeking as a theoretical concept also helps to determine whether FZs are ultimately adding value to host economies through profit seeking or contributing to social waste through rent seeking. Inherent within the concept of rent seeking is the notion that similar behaviors can produce very different social consequences under diverse sets of institutions.[96] This notion reaffirms the combined institutional and late rentierism approach of the thesis.

That this rent-seeking behavior occurs within an economic development context aptly described as state capitalist is additional evidence of the applicability of a late rentierist approach.[97] State capitalism is an economic system wherein the state serves as the leading economic actor and uses markets mainly for political gain.[98] This framework is commonly used by authors working on the political economy of Gulf Arab states and is fitting for this analysis.[99] Moreover, this economic system aptly

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[95] Ibid., 13-14.
[96] Ibid., 4.
[97] Matthew Gray considers "entrepreneurial state capitalism as a key feature of the late rentier state. See: Gray, "A Theory," 32.
[98] Ian Bremmer, "State Capitalism Comes of Age: The End of the Free Market?" *Foreign Affairs* 88.3 (2009): 41.
[99] Gray prefers to use the term "entrepreneurial state capitalist" as a feature of his late rentierism categorization in Gray, "A Theory," 32; Young refers to a "hybrid economic and political strategy that is liberal in its economic openness to icons of global capitalism, yet controlled in its local ownership and state direction" in Young, *Political*, 113-114; and Ulrichsen discusses a distinct form of Gulf capitalism that emerged from merchant activity in industries related to the oil and gas sectors or initiated through state assistance in Ulrichsen, "The Political," 23.

applies to the social context of natural states, or limited access social orders, wherein rents and personal relationships determine the incentives that manage violence and facilitate cooperation.[100]

Within the GCC, state capitalism revolves around an economic node consisting of the state as the primary means of production and a private sector that is deeply embedded but nevertheless subservient to the state.[101] Addressing domestic instabilities that threaten ruling elites becomes a pivotal aspect of business initiatives under such a system[102] – thus underlying the links between FZs and politics. By the same token, big business often works in accordance with ruling elites in the government to drive development.[103] This view of *business-led development*, when applied to the state capitalist context of the GCC, neatly coincides with both Hanieh and Ulrichsen's understandings of Gulf capitalists and their relationship to the state as well as FZ-facilitated cooperation between foreign firms and governments. The precise relationship between ruling families, local business elite, and foreign firms is explained in more detail within each of the case study chapters.

1.3 Commercialized rents: A conceptual categorization

In addition to an expanded rentier framework that better incorporates GCC institutions and development trajectories, the standard typologies of rents are found lacking for an analysis of FZs in the GCC. Discussions of rents in GCC economies overwhelmingly refer to those extracted from hydrocarbon resources. Resource-abundant states, as argued by Philip Lane and Aaron Tornell, engender more rent-

[100] North et al., *Violence and Social Orders,* 37.
[101] Adam Hanieh attributes the development of a domestic capitalist class in the Gulf to temporary migrant labor flows and the redirection of oil revenues to merchant families and other elites, but he stops short of describing the state as a collection of social actors. Hanieh, *Capitalism*, 12-13 & 60.
[102] Bremmer, "State Capitalism," 45.
[103] Ben Schneider, "Elusive Synergy: Business-Government Relations and Development," *Comparative Politics* 31.1 (1998): 101-102.

seeking behavior than their resource-scarce counterparts because the domestic politics of the former revolve around capturing resource endowment rents.[104] There are, of course, other forms of rents: regulatory rents, remittances, and foreign aid.[105] For example, Anne Peters and Pete Moore demonstrate how the Jordanian regime relied on a diverse array of geopolitical rent donors to retain power during periods of late development, political crises, and neoliberal conditionality.[106] Regulatory rents, or government manipulation of prices to benefit a particular group, align most closely to FZ rents. Licensing can also encourage rent-seeking behavior and generate new rent streams for specific coalitions of individuals or firms.[107] However, this existing typology of rents is not sufficient for addressing the extent of rentier structures across the GCC region.

Thus, this thesis introduces the new concept of commercialized rents, or rent streams related to FZs. In contrast to Lane and Tornell's findings, commercialized rents encourage actors in resource-scarce territories to engage in similar types of rent-seeking behavior found in resource-abundant territories. The concept of commercialized rents moves beyond the narrow taxonomy of "new rentiers," a socioeconomic group deriving economic rents from FZs and industrial parks in the UAE.[108] Instead, commercialized rents provide a more comprehensive conceptual mechanism for analyzing the GCC's FZ system and other FZ systems beyond the region.

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[104] Philip Lane and Aaron Tornell, "Power Concentration and Growth," *Harvard Institute of Economic Research*, issue 1720 (1995).
[105] Marc Badia-Miro, Vincente Pinilla, and Henry Willebald, *Natural Resources and Economic Growth: Learning from History* (New York: Routledge, 2015), 33.
[106] Anne Peters and Pete Moore, "Beyond Boom and Bust: External Rents, Durable Authoritarianism, and Institutional Adaptation in the Hashemite Kingdom of Jordan," *Studies in Comparative International Development* 44.3 (2009): 256.
[107] Anne Krueger, "The Political Economy of the Rent-Seeking Society" in James M. Buchanan, Robert D. Tollison and Gordon Tullock. *Toward a Theory of the Rent-Seeking Society* (Texas: Texas A&M University Press, 1980), 52; Fernando Antonio Ribeiro Soares and Tito Belchior Silvar Moreira, "Rent-seeking Trade Policy and Economic Welfare," *Modern Economy* 2 (2011): 34.
[108] Davidson, *The United Arab Emirates: A Study,* 232.

Commercialized rents reflect a paradoxical combination of expanding governmental interference in the economy and opening markets to a wider group of local and international business actors. This opening is facilitated by GCC governments: rent generation occurs through commercial licensing, service fees, and real estate provision, while heavy regulation mitigates negative impacts on local, politically-connected firms. The underlying foundation for commercialized rents remains a reward for the ownership of natural resources, namely real estate availability and geostrategic locations, and the ability to control access to markets through firm registration. GCC territories possess varying propensities for commercialized rent generation and mitigating the negative social impacts from these processes.

Local and international elites participate in *commercializing* these rent streams. Local elites help transform FZs into sustainable corporate entities by providing the business acumen required to attract foreign investment and, to varying degrees, by serving as veritable investors themselves. Successful FZ enterprises require diversified and continuous flows of foreign investors, inexpensive foreign labor, and subsidized commercial services. Consequently, commercialized rents are not based solely upon tangible commodities but rather the perceptions of investors and the ability to implement attractive commercial policies. This dynamic ensures that the supply of commercialized rents is not fixed. While GCC policymakers exert substantial control over business environments within FZs, they have less control over global market forces, capital flows, and the social consequences of FZ policies.

The web of actors involved in the generation of commercialized rents and non-commodity foundation of the rent source complicates the distributive responsibilities facing governments dependent on rents from FZs. On the one hand, commercializing rents fit neatly into increasing calls for greater private sector involvement in these

countries, particularly as a means for governments to divide certain distributional responsibilities amongst foreign and local members of the private sector without extending substantial economic authority or political power to these groups. On the other hand, the FZ-related interests of GCC governments, local business elites, and global firms are not necessarily aligned. The precise relationship between generating commercialized rents and promoting the welfare of national citizens, for example, remains a contentious issue.

1.4 Alternative analytical approaches

There are, of course, other analytical angles for examining the political economy of FZs in the GCC. The potential for FZ-led democratization in rentier societies provides one possible avenue of analysis. FZ revenue streams generated directly from foreign investments and new opportunities emerging from an open and competitive business climate should, theoretically, encourage a new business class to seek greater political representation and rights as the strength of historical rentier bargains diminish. Moberg alludes to the potential role for FZs to initiate such a process by arguing that the optimal benefits of FZs are political and include empowering an elite minority to push for reforms that encourage the transition from rent-seeking structures to liberalized open markets.[109] However, Moberg is careful to note that it is rare for FZs to encourage a genuine political opening and, in some instances, can instead be a means for avoiding liberalizing reforms.[110]

Hinting of this approach, Davidson suggests that internet and media FZs in Dubai may inadvertently encourage greater democratic practices, namely through the promotion of non-censored internet connections and the short-term advertisement of

[109] Moberg, *The Political,* 100.
[110] Ibid., 99.

greater freedom of the press.[111] He argues that the UAE's ruling families unintentionally introduced local citizens to democratic practices and transparent corporate structures as part of a strategy to prioritize economic liberalization over political liberalization.[112] Yet these examples represent isolated incidents rather than a patterned response that could be extrapolated across FZs in GCC territories. Moreover, there is little evidence suggesting that the limited democratic practices in specific GCC FZs have inspired broader calls for political reform and democratization by GCC nationals.

Rather, the distinct experiences of FZs in the GCC suggest that FZ development has not functioned as a primary vehicle for greater democratization. Jill Crystal's assessment of economic and political liberalization in the Gulf region, whereby rulers calculate economic liberalization efforts to prevent an associated extension of political liberalization, helps explain why GCC FZs failed to incorporate this political benefit.[113] "Economic and political liberalization share some similarities. Each is a top-down affair: a calculated, and limited, move by rulers to maintain power. That it occurs in the presence of pressure from below should not obscure this fact," emphasizes Crystal.[114] FZs in the GCC represent top-down economic initiatives implemented and owned, almost exclusively, by regional governments. Thus, GCC governments can limit the political consequences of their FZs to a greater degree than private FZ counterparts in other regions of the world.

A basic comparison between the cases of Dubai and Kuwait provides further evidence that FZ development has not necessarily correlated with greater

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[111] Davidson, *The United Arab Emirates: A Study*, 229-234.
[112] Christopher Davidson, "The United Arab Emirates: Economy First, Politics Second," in Joshua Teitelbaum, *Political Liberalization in the Persian Gulf* (London: Hurst & Company, 2009), 245.
[113] Jill Crystal, "Economic and Political Liberalization: Views from the Business Community," in Joshua Teitelbaum, *Political Liberalization in the Persian Gulf* (London: Hurst & Company, 2009), 43.
[114] Ibid., 43.

democratization.[115] Dubai possessed 24 operating FZs by the end of 2016, whereas Kuwait contained only one FZ. Despite the plethora of FZs in Dubai, the emirate is markedly less democratic than Kuwait.[116] Kuwait's parliament affords the citizen majority a voice in determining economic policy, resulting in a manner of participatory politics that does not exist in the UAE.[117] This narrow comparison seemingly contradicts the view that open societies are linked with the open market enclaves commonly associated with GCC FZs. At the very least, the comparison suggests that FZs alone have not significantly contributed to GCC democratization efforts. Thus, an in-depth discussion of the relationship between FZs and democratization in the GCC must rely heavily on hypothetical scenarios. Authoritarian institutional design and its effect on economic policy and performance, however, will inform the levels of analysis focusing on hydrocarbon dynamics and relationships between ruling families and business elites.

The politics of labor represent an alternative avenue for analyzing the political economy of FZs. Several works discuss the employment potential of global FZs,[118] while other literature focuses on how FZs influence labor conditions.[119] Since FZs reduce workforce nationalization requirements and encourage the employment of cheap, low-skilled expatriates, analyses of these entities can contribute to studies on the

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[115] This does not preclude the possibility for a reverse scenario wherein the existence or absence of democratic institutions influences FZ development.
[116] Davidson, *The United Arab Emirates: A Study*, 92.
[117] Herb, *The Wages,* 2.
[118] Ibrahim Organ, "Do tax-free zones create employment? The case of Turkish free zones," *South-East Europe Review for Labour and Social Affairs* 4 (2006): 127-140.; Deepak Shah, "Special Economic Zones in India: A Review of Investment, Trade, Employment Generation and Impact Assessment," *Indian Journal of Agricultural Economics* 64.3 (2009): 431-44;
[119] Mary Jane Bolle and Brock R. Williams, "U.S. Foreign-Trade Zones: Background and Issues for Congress," *Congressional Research Service* R42686 (2013); Ana Liberato and Dana Fennell, "Gender and Well-being in the Dominican Republic: The Impact of Free Trade Zone Employment and Female Headship," *World Development* 35.3 (2007): 396.

relationships between GCC nationals and expatriates[120] as well as ethnographic works concerning the economic and societal roles of expatriate workers in GCC states.[121] FZs likewise shape class formation by enriching a narrow political and economic elite involved in FZ development – whether they be "new rentiers"[122] in the UAE or a subgroup of Gulf capitalists.[123]

Nevertheless, the widespread use of expatriate labor in the GCC also exists outside of FZs, and workforce nationalization regulations in FZs vary considerably both within and across GCC territories. While FZs may employ a sizeable segment of the labor force in territories like Dubai, the overall effect of FZs on labor politics in other territories, like Bahrain, Kuwait, and Saudi Arabia, are relatively limited due to much smaller ratios of FZ employees to the total national workforces. Rather than designate labor politics as a separate analytical category, it is more useful to integrate the politics of FZ labor into propositions relating to the dynamic interactions between rulers and business elites. In this way, the politics of labor can inform how specific groups of elites utilize labor regulations within FZs to advance their interests in case studies where such an investigation is warranted.

Urban planning and geography represent a third possible approach to the political economy of FZs in the GCC, given the interplay of offshore, onshore, and

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[120] See: Andrzej Kapiszewski, *Nationals and Expatriates: Population and Labour Dilemmas of the Gulf Cooperation Council States* (Reading: Ithaca Press, 2001); George Naufal, *Expats and the labor force: the story of the Gulf Cooperation Council countries* (New York: Palgrave Macmillan, 2012); Christopher Davidson, "Expatriates and the Gulf Monarchies: Politics, Security and the Arab Spring," *Asian Affairs* 65.2 (2014): 270–288.; Ragui Assaad, "Making Sense of Arab Labor Markets: The Enduring Legacy of Dualism," *IZA Journal of Labor & Development* 3.1 (2014): 1-25.
[121] Andrew M. Gardner, *City of Strangers: Gulf Migration and the Indian Community in Bahrain* (Ithaca: Cornell University Press, 2010); Omar AlShehabi, Adam Hanieh and Abdulhadi Khalaf, *Transit States: Labour, Migration and Citizenship in the Gulf* (London: Pluto Press, 2013).
[122] Davidson, *The United Arab Emirates: A Study*, 225.
[123] Hanieh, *Capitalism*, 60-82.

overlapping spatial activities related to FZ activity.[124] The Gulf's rapid economic development inspired various works on urban transformation and the geographies of development.[125] Citing Dubai and Doha, Thomas Sigler argues that FZs function as key institutions of "relational cities," or those entities capable of connecting global and regional systems.[126] While FZs in the GCC often incorporated narratives of sustainability with respect to urban ecosystems, Federico Cugurullo contends that discussions on the sustainable development of Masdar City in Abu Dhabi mask the fundamental goal of capital accumulation.[127] Moreover, Agatino Rizzo finds that purportedly "green" megaprojects in Qatar actually sought to "put the country on the map while consolidating the political grip of the ruling family."[128]

Other authors focusing on the political economy of the Gulf specifically refer to the role of real estate when seeking to understand political and economic outcomes in the region.[129] In Kuwait, the government transferred revenue from the state to merchants by purchasing urban real estate and reselling it at bargain prices in the mid-20th century.[130] The country's Kuwait Free Trade Zone lies within the Shuwaikh port area; Farah Al-Nakib describes this area as the product of a symbolic urban shift from

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[124] The author's fieldwork demonstrated that the geographies of GCC territories play an important role in FZ development. For example, Dubai has copious amounts of flat, unoccupied land located relatively close to the commercial center of the emirate. Bahrain is significantly more constrained in terms of available real estate, which is best evidenced by the fact that the current zone area and industrial sites are sitting atop reclaimed land. Oman possesses plenty of land but not necessarily around the key commercial centers of Muscat and Salalah. Moreover, the mountainous terrain of the country complicates the feasibility of building commercially-viable FZs.

[125] Yasser Elsheshtawy, *Dubai: Behind an urban Spectacle* (Abingdon: Routledge, 2010); Farah Al-Nakib, *Kuwait Transformed: A History of Oil and Urban Life* (Stanford: Stanford University Press, 2016); Andrew Gardner, "How the City Grows: Urban Growth and Challenges to Sustainable Development in Doha, Qatar," *University of Puget Sound, Sound Ideas* (2014); James D. Sidaway, "Spaces of postdevelopment," *Progress in Human Geography* 31.3 (2007): 345–361.

[126] Thomas J. Sigler, "Relational Cities: Doha, Panama City, and Dubai as 21st Century Entrepots," *Urban Geography* 34.5 (2013): 616.

[127] Federico Cugurullo, "How to Build a Sandcastle: An Analysis of the Genesis and Development of Masdar City," *Journal of Urban Technology* 20.1 (2013): 34.

[128] Agatino Rizzo, "Sustainable urban development and green megaprojects in the Arab states of the Gulf," *International Planning Studies* 22.2 (2017): 96.

[129] Davidson, *The United Arab Emirates: A Study*, 225; Young, *Political,* 56.

[130] Crystal, *Oil*, 76.

the historic port complex to a new, government-funded industrial area.[131] Bahrain's FZs sit atop reclaimed land in the Al Hidd area of the country, and Omani officials hope that Oman's newest FZ will transform the country's most underdeveloped governorate into a thriving urban center.

Rather than serving as a primary analytical angle, urban planning and geography considerations will instead inform how real estate provision influenced FZ development processes and illustrate the links between FZ geographies, regional relations, and state-led attempts to generate international recognition. Incorporating explanatory theories, a new conceptual understanding of rents, and specific insights from existing academic works, however, requires a historical background to reinforce that FZ development was "built on what already exists,"[132] in the GCC.

[131] Al-Nakib, *Kuwait Transformed,* 118.
[132] Karl, "Paradox," 74.

2 Historical Foundations: Adjusting institutional frameworks

"The huge variation we see in the world today in both economic and political outcomes is the result of long-run historical processes,"[133] explain Acemoglu and Robinson. Their claim suggests that historical trajectories are an important consideration for understanding cross-state variation in FZ development outcomes. Indeed, New Institutional Economics stresses the intrinsic link between politics and economics; however, applying this link to an analysis of FZ development requires a firm grounding in the history of the GCC region. FZ development in the GCC did not occur in a vacuum: FZs both emerged within a set of institutional constraints and "gradually altered the institutional framework"[134] across the region.

Therefore, this chapter provides a focused history of Gulf Arab territories that can inform specialists as well as generalists. The chapter's overarching objective is not to list every major historical development in Gulf Arab states but rather to offer sufficient historical context for claims made in the subsequent chapters and to introduce the primary institutional constraints – or the "rules of the game"[135] – shaping the behavior of individuals and organizations involved in FZ activities. While touching upon earlier historical narratives to highlight examples of persistence in relevant economic and political institutions, the chapter ultimately places greater emphasis on the formative state-building years beginning in the early 20th century.

Reducing the rich history of Gulf Arab territories to a handful of thematic categories is a formidable challenge, and the final selection regrettably ignores many

[133] Acemoglu and Robinson, "Paths," 1.
[134] North, *Institutions*, *Institutional Change*, 8.
[135] Ibid., 3.

more topics than it includes. Nevertheless, this chapter focuses on three crucial historical processes within the region: the transformative role of hydrocarbons, the evolution of foreign influence, and the integration into a globalized world economy. These processes, while not exhaustive, offer a targeted summary of significant historical developments in the region as well as provide historical context pertaining to FZ development and related activities.

2.1 The transformative effect of hydrocarbons

Long before global businessmen and wealthy tourists poured into glitzy Gulf airports, tribal rulers and merchants ruled the sparsely-populated, desert terrain of the Arabian Peninsula. Early tribal rulers, known as shaykhs, controlled territory that "had previously been determined by the patterns of tribal alliances which were not always permanent."[136] Their authority often depended on a powerful merchant class that generated revenue for rulers, provided loans, and transformed territories into flourishing commercial centers. While Gulf shaykhs and merchants profited from date plantations,[137] the fishing industry,[138] camel breeding,[139] religious pilgrimages, and even the slave trade,[140] pearling proved among the most lucrative of the region's pre-oil economic activities.

The pearling industry intertwined the fortunes of rulers and merchants. Rulers extracted taxes from pearl merchants and captains – or accepted other gifts in return for

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[136] Rosemarie Said Zahlan, "The Impact of the Early Oil Concessions in the Gulf States," in R.I. Lawless (ed.), *The Gulf in the Early 20th. Century: foreign institutions and local responses* (Durham: University of Durham, 1986), 69.
[137] Income from date plantations constituted approximately one quarter of the ruler of Kuwait's revenue in the pre-oil period. See: Herb, *Wages,* 78.
[138] Robert Looney, "The Omani and Bahraini Paths to Development: Rare and Contrasting Oil-based Economic Success Stories," *World Institute for Development Economic Research* (2009): 4.
[139] Frauke Heard-Bey, *From Trucial States to United Arab Emirates: A Society in Transition* (Michigan: Longman Publishing Group, 1984), 198-199.
[140] Treaty, *Engagement towards the British Government, entered into by the Chief of Sohar, for the prevention of Slave Trade*, 22nd May, 1849, in Lewis Hertslet, *Hertslet's Commercial Treaties: A Collection of Treaties and Conventions, Between Great Britain and Foreign Powers*, Vol. IX (London: Butterworths, 1856), 715.

tax exemptions[141] – and generated revenues from customs duties and service provision to an increasingly wealthy population.[142] Merchants received protection and patronage from rulers in return for financial support. Before the creation of independent nation states, merchants often leveraged the threat of relocation: "People evaluated demands by rulers for tax or military service against the efficacy of the protection being offered in return, and often found it wanting."[143] Pearling also employed a broad swathe of local residents – Bahrain's total population of 99,000 people included approximately 17,500 pearl divers in 1905, and the number rose to over 20,000 at the height of the industry in 1929.[144] However, the lucrative industry declined following the commercialization of the Japanese cultured pearl in 1918 and the onset of the Great Depression.[145] Bahrain and Dubai returned to other forms of trade, including smuggling goods into Iraq and Persia.[146] Yet it was the discovery of hydrocarbon resources that initiated a transformation in the socioeconomic hierarchy of social actors in the Gulf.

The subsequent revenues, initially from concessions for exploration and then receipts from hydrocarbon exports, decreased the rulers' historical reliance upon merchants. In the 1950s, ruling families in both Qatar and Kuwait promptly settled their merchant debts and lowered customs duties.[147] This newfound economic autonomy, according to Herb, helped ruling families to capture newfound petro-

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[141] Allen Fromherz, *Qatar: A Modern History* (London: I.B. Tauris & Co, 2012), 4.
[142] Wall text, *Natural History and Technology*, Bahrain National Museum, Manama, Bahrain.
[143] William Lancaster and Fidelity Lancaster, *Honor is in Contentment: Life before oil in Ras al-Khaimah (UAE) and Some Neighboring Regions* (Berlin: De Grruyter, 2011), 299.
[144] Wall text, *Natural*, Bahrain National Museum.
[145] There is some disagreement over the precise beginning of the commercial sale of cultured pearls, with various sources suggesting dates ranging from 1918-1928. See: Kihohito Nagai, "A History of the Cultured Pearl Industry," *Zoological Science* 30 (2013): 784; and Alexander E. Farn, *Pearls: Natural, Cultured and Imitation* (Letchworth: Butterworth & Co, 1986), 108.
[146] Roger Owen and Sevket Pamuk, *A History of the Middle East Economies in the Twentieth Century* (London: I.B. Taurus, 1998), 83.
[147] Crystal, *Oil,* 7 & 73.

states.[148] Using hydrocarbon rents, rulers purchased the political acquiescence of merchants. Oil revenues also permitted ruling regimes to secure the loyalty of local residents and later national citizens through employment in public sector bureaucracies, subsidies, and other forms of wealth transfers. This process produced a ruling bargain, or a rentier social contract, between the state and society, wherein society surrendered political representation in return for economic rewards in the form of goods and services provided by the state. "Where economic elites once entered politics to protect their economic interests, after oil, merchants left the realm of formal politics to preserve those interests,"[149] explains Crystal.

Structural factors ensured that the process of negotiating ruling bargains did not apply uniformly across Gulf Arab territories. The relative strength and weakness of pre-oil merchants, as Crystal aptly demonstrates in her study on Kuwait and Qatar, affected their political power vis-à-vis rulers following the discovery of oil.[150] Varying quantities of hydrocarbon reserves and population demographics ensured that *resource abundance* was not necessarily synonymous with *resource wealth*. "In comparison with Qatar, Abu Dhabi and Dubai, Bahrain is a poor country, for its per capita income in 1968 was estimated at $390, or just about one-tenth that of Qatar," describes a 1972 report on the newly independent shaykhdoms.[151] The nature of hydrocarbon commodities also impacted bargaining dynamics: longer-term and stable contracts associated with Qatari natural gas contrasted with the price fluctuations accompanying oil reserves in other Gulf Arab territories.[152] Moreover, the level of state formation and

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[148] Michael Herb, *All in the Family: Absolutism, Revolution, and Democracy in the Middle Eastern Monarchies* (Albany: State University of New York Press, 1999), 21.
[149] Crystal, *Oil*, 1.
[150] Ibid., 6.
[151] Muhammad Sadik and William P. Snavely, *Bahrain, Qatar, and the United Arab Emirates: Colonial Past, Present Problems, and Future Prospects* (Massachusetts: Lexington Books, 1972), 213.
[152] Matthew Gray, *Qatar: Politics and the Challenges of Development* (London: Lynne Rienner Publishers, 2013), 93.

the strength of institutions at the introduction of hydrocarbon wealth – a reflection of the importance of timing and sequence of historical events – also shaped the ruling bargain between social groups. Just as hydrocarbon resources reinforced existing institutions and created new ones, the evolution of foreign influence demonstrated similar historical continuities and ruptures.

2.2 Foreign influence in the Gulf

Foreign merchants and governments exerted substantial economic and political control in the early histories of Gulf territories. "In the seventeenth century, Venetians, Jews from Aleppo, and Banias from Gujarat were the chief exporters of Gulf pearls,"[153] describes Andrew Gardner, and nearly half of Qatar's population prior to the oil era were foreign Baharinah, Iranians, and Africans.[154] Banian merchants in Muscat played an important role in the internationalization of foreign trade beyond the Indian Ocean basin by importing European and American products in the late 19th century.[155] In addition to diverse populations, foreign merchants' control of strategic industries in the Gulf heightened tensions with locals and led to an uncomfortable dependence upon foreign expertise. For example, in late 19th-century Dubai, Persian immigrants managed the retail service and foodstuff sectors. British subjects from India controlled the banking and shop keeping sectors, which played a major role in financing the pearling expeditions that kept Dubai's economy afloat.[156]

Beyond the influence of foreign merchants, external powers and governments extended political and economic control over Gulf Arab territories. The Persians, Portuguese, and Ottomans long competed for influence over the region's strategic

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[153] Gardner, *City*, 35.
[154] Rosemarie Said Zahlan, *The Creation of Qatar* (London: Croom Helm, 1979), 18.
[155] Fred H. Lawson, "International Regimes and Commercial Hegemony: Control of the Arabian Littoral, 1800-1905," *The International History Review* 5.1 (1983): 96.
[156] Fatma Al Sayegh, "Merchants' role in a changing society: the case of Dubai: 1900-90," *Middle Eastern Studies* 34.1 (1998): 88-89

waterways; however, it was Britain that played an instrumental role in the modern development of Gulf Arab states.[157] "Britain's attempts to protect that trade by prevention of violent actions by the sea-faring Arabs of the southern Gulf provided the basis for its strong position in Arabia at the end of the nineteenth century,"[158] writes Frederick Anscombe. Through the General Treaty of 1820, which imposed anti-piracy policies, the shaykhdoms of the modern-day UAE and Bahrain became British protectorates. The treaty shaped internal affairs between the shaykhdoms by, for example, recognizing the coastal towns of Umm Al Quwain and Ajman as independent states to ensure that small territories controlled by independent chiefs would serve as buffers between the Qawasim ports of Sharjah and RAK.[159] Under the Perpetual Maritime Truce of 1853 with the British, the future emirates of the UAE became known as the Trucial States until their independence.

Foreign influence also affected economic institutions in the Gulf, a natural consequence of the links between economic and political institutions. The 1849 treaty between the British government and the Shaykh of Sohar in Oman intended to suppress the area's slave trade.[160] So strong was British influence in the region that the transition from the silver standard to the British gold standard across the Indian Ocean in the late 19th century caused silver prices to plummet and exhausted Oman's currency

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[157] Britain's role in the Gulf is a source of historical contention, with some authors arguing that other regional powers, like the Ottomans, played influential but underemphasized role in regional affairs. James Onley argues Britain's guardianship role was "not imposed coercively," while other authors view British influence strictly within a colonial framework. See: Frederick F. Anscombe, *The Ottoman Gulf: The Creation of Kuwait, Saudi Arabia, and Qatar* (New York: Columbia University Press, 1997); James Onley, "Britain and the Gulf Shaikhdoms, 1820-1971: The Politics of Protection," *Center for International and Regional Studies*, Working Paper No. 4 (2009).
[158] Anscombe, *Ottoman,*14.
[159] Andrea B. Rugh, *The Political Culture of Leadership in the United Arab Emirates* (New York: Palgrave McMillan, 2007), 179.
[160] Treaty, *Engagement towards the British Government, entered into by the Chief of Sohar, for the prevention of Slave Trade*, 22nd May, 1849, in Lewis Hertslet, *Hertslet's Commercial Treaties: A Collection of Treaties and Conventions, Between Great Britain and Foreign Powers*, Vol. IX (London: Butterworths, 1856), 715.

supplies.[161] Fred Lawson's fascinating work on free trade in the Arabian littoral between 1800 and 1905 finds that open trading orders were not a consequence of British political and economic hegemony but rather more likely to occur when relatively equal foreign powers competed for access to markets in the region.[162] He suggests that trading patterns in Muscat, Aden, and al-Mukha "may have been determined by the character and intensity of local political struggles within these countries themselves, rather than by aspects of their interactions with foreign powers."[163]

Foreign commercial influence in the region intensified following the discovery of oil during the early 20th century. One of the earliest oil agreements was signed in 1923 for oil operations in the Hasa province of present-day Saudi Arabia.[164] Saudi Arabia later signed a commercial agreement with a group of American oil companies in 1933 – forming an arrangement that would later become the Saudi Arabian Oil Company known as Aramco – but the country nevertheless depended heavily upon loans based on future oil reserves until the conclusion of World War II.[165] Even territories that did not yield substantial hydrocarbon reserves benefitted from early oil agreements. The ruler of Ras Al Khaimah's limited concession for oil exploration constituted more than half of his annual income.[166]

As certain Gulf shaykhdoms prepared to become independent nation states, Britain sought to retain influence in the region. Saudi Arabia achieved independence in 1927 through the Treaty of Jeddah with the British. In 1946, Britain's Gulf Residency

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[161] Mark Speece, "Aspects of Economic Dualism in Oman, 1830-1930," *International Journal of Middle East Studies* 21 (1989): 501.
[162] Lawson, "International," 109.
[163] Ibid., 111.
[164] Zahlan, "Impact," 64.
[165] Toby Craig Jones, *Desert Kingdom: How Oil and Water Forged Modern Saudi Arabia* (Cambridge: Harvard University Press, 2010), 28.
[166] Lienhardt, *Shaikhdoms of Eastern Arabia*, 167.

moved from Bushire of Persia to Bahrain, and the Gulf Resident oversaw subordinate political agents in Muscat, Sharjah, Doha, Kuwait, Abu Dhabi, and Dubai.[167] The residency permitted Britain to monitor and influence Gulf Arab affairs, especially in territories that remained under British protection, and preserve the notion of a Pax Britannica in the Gulf. Nevertheless, Britain's 1951 Treaty of Friendship, Commerce, and Navigation granted formal independence to Oman. Britain also rendered obsolete the Anglo-Kuwait agreement of 1899, paving the way for Kuwait's formal independence in 1961.[168]

The January 1968 announcement of Britain's departure from the Gulf by 1971 – part of the "East of the Suez" departure plan – encouraged the remaining protectorates to become independent countries. In February 1968, Qatar's ruler led negotiations, known as the Dubai Agreement, to create the Union of Arab Emirates among Qatar, Bahrain, Abu Dhabi, Dubai, Sharjah, Ras Al Khaimah, Umm Al Quwain, Ajman, and Fujairah. Various issues surrounding the location of a capital, immigration concerns, and the basis for determining representation prevented the formation of the proposed union.[169] Qatar and Bahrain elected to pursue independence separately, and the remaining territories collectively formed the United Arab Emirates in 1971. Following the Islamic Revolution in Iran and the outbreak of the Iran-Iraq War, the newly independent Gulf Arab states revisited the concept of creating a regional framework for cooperation through the Gulf Cooperation Council. Formally launched in 1981, the GCC afforded Gulf Arab states greater clout in the international arena[170] and

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[167] Onley, "Britain," 4.
[168] Richard Scott, "Independence for Kuwait: UK protection withdrawn," *The Guardian*, June 20, 1961, accessed May 10, 2018, https://www.theguardian.com/theguardian/1961/jun/20/fromthearchive.
[169] Letter, File 1/8, pg. 2, "Translation From Ahmad Ben Ali Al Thani (Ruler Of Qatar) To Sheikh Zayed Ben Sultan Al Nhayyan (Ruler Of Abu Dhabi)," 1970, Sir Geoffrey Arthur Collection, Oxford University, Middle East Centre Archive.
[170] Philip Robins, *The Future of the Gulf: Politics and Oil in the 1990s* (London: Royal Institute of International Affairs, 1989).

functioned as a symbolic security enterprise.[171] The independence of Gulf Arab territories by the early 1970s and the creation of the GCC marked significant institutional developments that would inform why and how FZs emerged in the 1980s.

Foreign influence in Gulf Arab states led to the creation of institutions that protected the commercial interests of locals. For example, GCC states codified foreign ownership laws requiring foreign-owned companies to cede 51 percent of their venture to local sponsors in order to shield local firms from foreign competition. Comparable practices existed prior to the independence period: "all foreign firms seeking to set up business interests in Abu Dhabi were charged an 'entrance fee,' and were made well aware of Shakhbut's dislike for non-Abu Dhabi merchants,"[172] notes Davidson, referring to steps taken by the ruler of Abu Dhabi from 1928-1966. In the same vein, new laws required branches of foreign-owned companies to employ local agents and distributors to access the domestic economy. According to Hanieh, these agency regulations also represented a historical continuity with existing economic institutions:

> *[O]ne of the fundamental means that rulers had to win the support of leading merchants was the granting of sole agency rights for foreign imports. In the postcolonial period, this pattern was codified through laws that prevented imports without the representation of a local agent.*[173]

Sponsorship, agency, and distributorship, according to Young, are "all effective non-tariff barriers to investment."[174] However, FZs offered foreign firms the option to maintain full ownership of their ventures, thus circumnavigating one level of non-tariff barriers.

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[171] Matteo Legrenzi, "Defense Cooperation: Beyond Symbolism?" in Mary Ann Tetreault, Gwenn Okruhlik and Andrzej Kapiszewski (eds.), *Political Change in the Arab Gulf States* (Colorado: Lynne Reinner Publishers, 2011), 278.
[172] Davidson, *Dubai: The Vulnerability*, 78.
[173] Hanieh, *Capitalism,* 75.
[174] Young, *Political*, 59.

In addition to reducing foreign commercial competition, GCC governments took steps to safeguard national citizens' privileged position in the labor market. The population of the GCC region grew from four million in 1950 to 28 million in 1997, creating a demographic situation wherein expatriates constituted between 70 and 90 percent of the total workforce depending on country.[175] Despite growing national populations, the percentage of GCC nationals in the workforce declined from 49.2 percent in 1975 to approximately 30 percent in 1997.[176] In response, GCC governments implemented workforce nationalization policies, mainly enforced through the imposition of labor quotas, to increase the quantity and quality of job opportunities for locals. Hertog argues that "the first Saudization quotas, in fact, were codified as early as the late 1940s, but never consistently implemented."[177] In 1970, the Saudi government wishfully declared that 75 percent of the workers in all businesses should be Saudi and that they should receive at least 51 percent of the company's total salary requirements. [178] Early state inventions in the labor market focused on public sector entities because government bureaucracies already served as distributive mechanisms and consequently represented the low-hanging fruit of the labor reform domain.

The first significant legal requirements for workforce nationalization in the private sector emerged in Oman in 1994,[179] while a 1995 ministerial decree in Saudi Arabia required private employers with at least twenty employees to increase their employment of Saudis by five percent each year. [180] Other countries followed with country-specific versions of workforce nationalization policies: Bahrainization,

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[175] Andrzej Kapiszewski, *Nationals and Expatriates: Population and Labour Dilemmas of the Gulf Cooperation Council States* (Reading: Ithaca Press, 2001), 4.
[176] Kapiszewski, *Nationals,* 70.
[177] Steffen Hertog (ed.), *National Employment, Migration and Education in the GCC* (Berlin: Gerlach Press, 2012), 92.
[178] Gene Lindsey, *Saudi Arabia* (New York: Hippocrane Books, 1991), 237.
[179] Kapiszewski, *Nationals*, 226.
[180] Ahmed Al-Asfour and Sami A. Khan, "Workforce localization in the Kingdom of Saudi Arabia: issues and challenges," *Human Resource Development International* 17:2 (2014): 246.

Emiratization, Kuwaitization, and Qatarization. "Yet paradoxically, increasing the available work opportunities for nationals in the private sector requires an equivalent increase in the number of foreign workers," explains Onn Winckler.[181] FZs represented a related contradiction by exempting – either in full or partially – employers from meeting workforce nationalization targets. Thus, workforce nationalization remained an important economic institution that distinguished the onshore commercial environment from FZs.

2.3 Integration into a globalized world economy

While economic activities surrounding the pearling and hydrocarbon industries as well as growing engagement with European and American powers contributed to the region's integration into the world economy, prominent actors in Gulf Arab territories also encouraged gradual, if not always smooth, processes of integration into an increasingly globalized world economy. Gulf Arab territories exploited shifting trading centers and capital flows, owing to colonial dynamics, civil wars, sanctions, and the recycling of petro-dollars. Dubai proved particular adept in this regard. A late ruler of Dubai, Shaykh Maktoum bin Hushur Al Maktoum, astutely positioned the emirate to capture trade from the Persian Port of Lingah.[182] Lingah lost its free port status in the 1887 and then confronted additional customs regulations under Belgium control after 1902. Shaykh Maktoum abolished a five percent duty on trade and removed fees and licensing regulations – further incentivizing trade by reducing barriers.[183] Dubai generated additional profits through the re-exportation of Indian goods to Pakistan,

[181] Onn Winckler, "Labor and Liberalization: The Decline of the GCC Rentier System," in Joshua Teitelbaum, *Political Liberalization in the Persian Gulf* (London: Hurst & Company, 2009), 83.
[182] Rosemarie Said Zahlan, *The Origins of the United Arab Emirates: A Political and Social History of the Trucial States* (London: The MacMillan Press, 1978), 12.
[183] Davidson, *Dubai: The Vulnerability*, 68.

"thus thriving on the political and economic difficulties which restrict direct trade between these two neighbors."[184]

In a similar vein, Dubai benefitted from shifting trade flows following the decline of Yemen's Aden Port. Once considered a "key link in Britain's military structure,"[185] the withdrawal of the British in the late 1960s and independence ended Aden's free port status.[186] Bahrain's reputation as a financial hub grew substantially after the 1975 outbreak of Lebanon's civil war, which sparked an outflow of investments toward more stable financial hubs. The Iran-Iraq War also shifted port activity in the northern Gulf to safer hubs in southern Gulf states; the U.S. Navy selected Jebel Ali as its regional port in the 1990s.[187] GCC countries also participated as veritable capitalists in the region: Kuwait represented the largest single foreign holder of British sterling in 1967,[188] affirming Hanieh's assertion that Gulf countries are more complex entities than "simply monarchies that sit atop an oil spigot."[189]

The construction of trade, logistics, and transportation infrastructure helped Gulf Arab territories exploit broader changes to the international economic order. The first modern FZ emerged in 1959 at Ireland's Shannon International Airport; the small town of Shannon served as a transatlantic gateway for American multi-nationals looking to enter European markets.[190] The subsequent creation of new airports in Gulf Arab territories coincided with the rise of commercial aviation as an integral element of

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[184] Leinhardt, *Shaikhdoms* (1957), 48.
[185] Simon C. Smith, *Britain's Revival and Fall in the Gulf: Kuwait, Bahrain, Qatar, and the Trucial States, 1950-1971* (London: RoutledgeCurzon, 2004), 25.
[186] Holt, "Memories of Arabia and Empire," 94; Stephen Ramos, *Dubai Amplified: The Engineering of a Port Geography* (Abingdon: Taylor and Francis, 2010), 126.
[187] Ramos, *Dubai*, 128.
[188] W. Taylor Fain, *American Ascendance and British Retreat in the Persian Gulf Region* (New York: Palgrave Macmillan, 2008), 3.
[189] Hanieh, *Capitalism*, vii.
[190] "Shan-Zhen – How a small Irish town influenced the mega-city Shenzhen," *ArchDaily*, January 26, 2016, accessed January 29, 2016, para 3, http://www.archdaily.com/780950/shan-zhen-the-unlikely-influence-of-a-small-irish-town-on-mega-city-shenzhen.

international commerce. New man-made waterways, like the Suez Canal in 1969, reduced the maritime distance between European and Asian markets and increased the significance of Middle Eastern ports. Thus, dredging shallow channels and building deep-water ports increased the maritime capacity of Gulf Arab ports and cultivated fertile environments for future FZs.

The shift in worldwide production from the Atlantic region to East Asia also reoriented the GCC region as a geographic hub between emerging markets. China established four SEZs in 1979 to increase foreign participation in industrialization programs without causing major disruptions to the existing economic, political, and social systems.[191] Jiang Zemin, the Chinese senior vice minister of the State Imports and Exports Administration, visited Shannon in 1980 to study its relationship to regional economic initiatives before reproducing a similar FZ model in Shenzhen. Over twenty years, the Shenzhen SEZ transformed a small area of 20,000 people and a total industrial output of $10,000 into a major city possessing 3.5 million people and a per capita GDP of $4,000.[192] The perceived success of Chinese SEZs prompted neighboring India to rapidly expand the scale of export zones and SEZs in the country – India had created its first export processing zone as early as 1964.[193] The Asia and Pacific region oversees the largest segment of FZs world-wide: a 2007 study found that the Asia and Pacific region accounted for 991 of the 2,301 zones found globally.[194] Though representing a smaller share of global FZs, GCC FZs nevertheless serve as important logistics and transshipment hubs for goods headed to European and American markets.

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[191] Xie Wei, "Acquisition of Technological Capability Through Special Economic Zones (SEZs): The Case of Shenzhen SEZ," *Industry and Innovation* 7.2 (2000): 203.
[192] Ibid., 202.
[193] Seshadri, "Political," 8-11.
[194] Akinci and Crittle, *Special,* 18.

GCC territories further entrenched themselves into the global economic system through FTAs, customs unions, and membership in international organizations. In 1997, the six countries of the GCC joined the Greater Arab Free Trade Area (GAFTA) to remove tariff and non-tariff barriers on trade between members of the agreement. GCC states sought to integrate their economies by implementing a customs union, which would impose a standard five percent duty on goods from outside the GCC, and creating a shared point of entry system for all foreign goods. Though the vision for a customs union emerged in 2003, its full implementation was delayed over a decade because of disagreements concerning tariff rates and the mechanism for sharing customs revenue.[195] Dubai, a transshipment hub, and Saudi Arabia, a country with a history of heavily subsidizing infant industries, clashed over the appropriate tariff level for industrial goods.[196] Matteo Legrenzi argues, "The abolition of the right to set external tariffs is felt not only as a major abdication of sovereignty, but also as the weakening of the link to an extremely important constituency" – namely the merchants.[197] All of the GCC states became WTO members between 1995 and 2005, with Saudi Arabia being the last country to receive member status.

[195] Martin Dokoupil, "With customs union, Gulf edges toward closer economic ties," *Reuters*, July 23, 2012, accessed July 24, 2016, https://www.reuters.com/article/us-gulf-integration/with-customs-union-gulf-edges-toward-closer-economic-ties-idUSBRE86M0F920120723.
[196] Matteo Legrenzi, *The GCC and the International Relations of the Gulf: Diplomacy, Security and Economic Coordination in a Changing Middle East* (London: I.B. Tauris, 2011), 65.
[197] Ibid., 5.



Figure 1: Timeline of selected free trade agreements in the GCC

The transition from trading societies to hydrocarbon economies illustrates how political consequences follow economic transformation, thus providing a historical backdrop for the dynamics underpinning FZ development. The long history of foreign influence in the region likewise resulted in political and economic institutions that protected local interests during the post-independence periods; these institutions became inextricably bound to the objectives behind FZs in later GCC states. The region's gradual global integration further resulted in both commercial opportunities and constraints affecting FZ development. While this chapter examined three broad historical processes, it does not suggest that these processes unfolded uniformly within each case study. Rather, the subsequent chapters begin by incorporating these historical processes into the development narratives of FZs within each of the respective case studies.

3 Dubai: The great free zone experiment

> "*Dubai's exceptional port facilities and the subsequent foundation of the Free Zone at Jebel Ali have contributed more, perhaps, than any other innovation to the present success which Dubai enjoys."*[198] --Easa Saleh Al-Gurg

Referencing the World Economic Forum's global competitiveness report for 2012-2013, the UAE's Ministry of Economy suggested that UAE territories "have succeeded in the application of their strategy to diversify their economies through the creation of free zones in specific sectors, allowing them to evolve and shift from a trading economy to a knowledge based economy."[199] This statement implicitly implies that FZ growth was balanced across UAE territories with defined FZ strategies, that FZs played a critical role in diversification efforts, and that FZs facilitated an evolution from a trading economy to a knowledge-based economy. A political economy of FZs in Dubai, however, reveals that FZ growth in the UAE was incredibly unbalanced amongst territories, FZ-led diversification efforts met the greatest success in territories that already lacked natural resources, and reexports and imports remained an integral component of Dubai's FZ activity. With 24 functioning FZs by the end of 2016, Dubai contained nearly half of the entire FZ system across the GCC region.

Dubai does not fit neatly within traditional rentier categories, nor are the territory's initial conditions consistently incorporated into critical analyses of development narratives. The wide range of scholarly literature both describes Dubai as a "post-oil rentier state," wherein most citizens live above the wealth creating process,[200] or not a rentier entity at all because the emirate never transitioned from a production state to an allocation state.[201] For example, Hvidt argues that the emirate's

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[198] Easa Saleh Al-Gurg, *The Wells of Memory: An Autobiography* (London: Albemarle Street, 1998), 80.
[199] United Arab Emirates Ministry of Economy, *The Annual Economic Report 2015, 23rd Edition* (Abu Dhabi: UAE Ministry of Economy, 2015), 60.
[200] Davidson, *Dubai: The Vulnerability*, 150.
[201] An allocation state is concept put forth by Giacomo Luciani to describe states in which distribution dominates the domestic fiscal activity of a given country.

economic model offers an alternative to GCC neighbors seeking to displace the rentier state model.[202] Dubai remains difficult to categorize within rentier typologies because hydrocarbon dynamics in the emirate are not straightforward. Limited hydrocarbon revenues played a targeted role in Dubai's development at critical economic junctures, while the emirate's indirect association with Abu Dhabi's hydrocarbon resources – and those of the greater region – increased the territory's commercial attractiveness for global firms. Moreover, a clear articulation of rents from GCC FZs did not exist prior to this dissertation.

The expansive proliferation of FZs in Dubai relates to a confluence of factors: a real and perceived lack of hydrocarbon revenues, a royal family and business elite with vested interests in FZ development, and an incentive to resist political and economic interference from federal and regional powers. Given Dubai's modest proven hydrocarbon reserves, trading and services remained critical economic activities and primary rent sources for the ruling elite. Rents specifically generated through FZs – defined in this thesis as commercialized rents – function as a mechanism for authoritarian institutional design and resource distribution within Dubai and other hydrocarbon-scarce GCC polities. Rapid FZ proliferation in the 1990s and 2000s ensured continued rent streams for the government and coincided with the depletion of the emirate's limited hydrocarbon reserves. Ruling and business elites jointly led FZ formation, generated FZ rents, and shared responsibility for assigning commercial benefits through FZ policy. However, the government did not relinquish ownership of FZs to the private sector. Leveraging the success of Jebel Ali Free Zone, Dubai's

[202] Martin Hvidt, "Economic and Institutional Reforms in the Arab Gulf Countries," *Middle East Journal* 65.1 (2011): 88.

government safeguarded a free trade atmosphere in the emirate as well as shaped the global FZ environment by aggressively exporting its FZ model across the globe.

3.1 Hydrocarbon Dynamics

Despite observations that Dubai's economy is "heavily reliant"[203] on free zone activities, specific details of this reliance are not comprehensively explored nor are the rentier structures of these activities systematically examined in the available literature covering FZs in Dubai. This chapter commences by tracing relative hydrocarbon scarcity in Dubai's history and its consequences for economic policy in the emirate. This economic history sets the context for an in-depth examination of the Jebel Ali Free Zone, Dubai's pioneering FZ, and select analyses from the remaining FZs in the emirate. The chapter then illustrates the vested interests of the ruling family, business elites, foreign firms, and national citizens in Dubai's FZ development. The final section of the chapter reveals the international political economy of Dubai's FZs, which the emirate leveraged to manage federal politics, advance regional interests, and establish strategic international linkages.

3.1.1 A trading society

The centrality of trade and foreign merchant activity in Dubai provides a useful historical context for the rise of FZs and the associated institutions governing FZ development. From the middle of the 1700s until the late 1800s, Dubai served as little more than a small village composed of a few huts scattered along the shores of a strategic water inlet of the Arabian Gulf.[204] Dubai originally fell under the greater sovereignty of the powerful Bani Yas tribal confederation from Abu Dhabi. However, a division in the Bani Yas tribes permitted the Al Maktoum family sufficient autonomy to establish an independent shaykhdom in 1833. The local population specialized in

[203] Davidson, *Dubai: The Vulnerability*, 153.
[204] Ibid., 9.

pearl diving and trading, two occupations considered to be especially honorable professions,[205] during this early period in Dubai's history.

Early foreigners living in Dubai tended to be merchants from Persia or India, and the cosmopolitan nature of the city enabled these merchants to trade freely with the Arab locals.[206] Hvidt argues that the special relationship between Dubai's rulers and early foreign merchants explains the modern role of non-national residents in Dubai:

> *The current development effort in Dubai must be viewed as a continuation of events that took place in the early 20th century, when the Al Maktoum ruler provided significant incentives to the Persia-based merchant class to persuade them to relocate to Dubai. This "branching point" or "critical juncture" instituted an extremely pro-business environment and openness toward foreigners in business and in society in general.*[207]

While some tensions between locals and foreigners existed,[208] Dubai's ruling family and other prominent local merchants generally valued the economic contribution of foreign residents.[209]

Dubai's rulers also constructed economic institutions to extract rents from foreign merchants and expatriate residents. Beyond extracting taxes on the pearling industry and customs duties on foreign trade, the ruling family relied upon Dubai's population for revenue extraction. "Sources of income that the Sheikh of Dubai specifically had were his family's control of the ferrying service across the Creek, such that no one else was allowed to have such a service, and the taxi service in Dubai, and between Dubai and Sharqah,"[210] explains Aqil Kazim. The modern emirate continues

[205] Fatma Al Sayegh, "Merchants' role in a changing society: the case of Dubai, 1900-90," *Middle Eastern Studies* 34.1 (1998): 87-102.
[206] Al Sayegh, "Merchants' role," 88.
[207] Martin Hvidt, "The Dubai Model: An Outline of Key Development-Process Elements in Dubai," *International Journal of Middle Eastern Studies* 41 (2009): 401.
[208] In 1928, furious Dubai nationals attacked foreigners' houses in the city's Bastakiyya quarter, and local mobs assaulted prominent Persian merchants in the streets: Davidson*, Dubai: The Vulnerability*, 75.
[209] Ibid., 76.
[210] Kazim, *The United,* 188.

to rely on service provision; Dubai derives between eight and twelve percent of GDP by providing services through state-owned enterprises (SOEs) to foreign residents.[211] British consultants also helped prepare a master urban plan for Dubai in 1960. The resulting property rights regime categorized land as a state asset and ensured that Dubai's ruler owned large segments of land[212] – a significant legal caveat given that rents accrued through real estate and the provision of state services in Dubai later played a crucial role in the business models of Dubai's FZs.

Hydrocarbon discoveries in 1966 and subsequent exports did not fundamentally alter the economic "rules of the game"[213] in Dubai: reliance on customs duties for government revenue, rent generation from service provision, and dependence on foreign commercial activity. Nearly 75 percent of Dubai's total revenues were accounted for by customs duties in 1968, whereas oil royalties and taxes accounted for approximately 97.1 percent of total revenues in neighboring Abu Dhabi.[214] Dubai possessed approximately four percent of the UAE's total proven crude oil reserves, and the depletion of these resources led to a steep decline in the significance of hydrocarbons for Dubai's GDP.[215] By 2007, the oil and gas sector in Dubai accounted for a meagre 1.8 percent of the emirate's total GDP on official government ledgers,[216] while wholesale and retail trade represented the largest contribution to GDP, constituting 28.9 percent.[217] "Its commercial sector, based on a strong trading tradition, made it prosperous long before the Emirate became an oil producer,"[218] explains Al

[211] Hvidt, "The Dubai Model," 409.
[212] Keshavarzian, "Geopolitics," 273.
[213] North, *Institutions*, *Institutional Change*, 3.
[214] Kazim, *The United,* 230.
[215] Oxford Business Group, *The Report: Abu Dhabi 2014* (Oxford: Oxford Business Group, 2014), 203.
[216] The oil and gas sector is included within the economic activity of mining and quarrying.
[217] Dubai Statistics Centre, "Gross Domestic Product at Current Prices – Emirate of Dubai: 2007-2006," *Government of Dubai*, accessed June 6, 2018, https://www.dsc.gov.ae/Report/Gross%20Domestic%20Product%20at%20Current%20Prices%202007-2006.pdf.
[218] Al Sayegh, "Merchants' role," 88.

Sayegh. There remains, however, some debate over the precise role of hydrocarbon resources in Dubai's economy. Herb, for example, estimates that the oil and gas industry accounted for between 25 percent and 33 percent of Dubai's government revenue from 2003 to 2008 and that transfers from Abu Dhabi provided additional revenue.[219]

Indeed, hydrocarbons indirectly shaped major development initiatives of the 20th century that served as precursors for Dubai's FZs. Concessions from hydrocarbon exploration and loans from resource-abundant neighbors provided funds for ambitious infrastructure investments, which increased Dubai's reputation for free trade, benefited local merchants, and attracted new waves of immigrants. Hvidt explains that "Dubai chose to invest its oil revenues in economic activities that could strengthen the income-earning potential of its traditional income earners, namely, traders and service providers."[220] The first of these major infrastructure projects included a dredging of the Dubai Creek, the traditional hub of mercantile activity in Dubai, during the 1950s. Dubai's ruler, Shaykh Rashid Al Maktoum, also embarked on an electrification program, development of the Dubai port, further improvements to the Dubai Creek, and the building of Dubai's airport as part of his administration's development projects in the 1960s.[221] Although the Dubai Creek served as a bustling commercial hub for centuries, the creek's shallow waters prevented the trading hub from receiving large maritime vessels. After various attempts to dredge the creek, as well as the opening of Port Rashid in 1972, Shaykh Rashid commenced plans to construct the Jebel Ali Port a further 50 kilometers along the coastline toward Abu Dhabi.

Hydrocarbon reserves injected capital into the economy during this critical

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[219] Herb, *Wages*, 28.
[220] Hvidt, "The Dubai Model," 400.
[221] Kazim, *The United Arab Emirates,* 237-239.

juncture in Dubai's history, as evidenced by the expansion of Dubai's economy by sevenfold between 1968 and 1973.[222] Within this context, Ramos credibly argues that oil revenue permitted Shaykh Rashid to realize monumental projects like Jebel Ali;[223] however, substantial rent streams from hydrocarbon exports were short-lived. An Emirati manager at Jebel Ali Free Zone echoed a common national narrative by explaining: "oil just acted as a springboard. The leadership, Shaykh Rashid [bin Saeed Al Maktoum], understood that oil would not last and economic diversification was necessary."[224] Shaykh Rashid formally signed the decree establishing the first FZ authority, the Jebel Ali Free Zone Authority (JAFZA), in 1980.

3.1.2 Jebel Ali Free Zone

The new FZ organized commercialized rent generation within a government-controlled entity. This permitted the Al Maktoum ruling family and Dubai's government to expand their active role in rent generation and distribution processes common across the Gulf. The Jebel Ali Free Zone officially opened in 1985 to facilitate the warehousing and storage of shipments entering the port. A former JAFZA consultant explained the decision to build Jebel Ali as an effort to "pull industry away from the creek and to a place with more room for expansion and potential,"[225] while Stephen Ramos portrays the Jebel Ali project as "based on a large trade facility and with a more cosmopolitan free port policy that was truer to Dubai's pre-oil origins and merchant vocation."[226] Introducing a political dimension, Keshavarzian contends that the FZ possessed the overt objective of safeguarding economic autonomy from Abu Dhabi: "JAFZA set an important precedent for a whole roster of subsequent free trade

[222] Zahlan, *The Origins,* 185.
[223] Ramos, *Dubai*, 129.
[224] Interview 3, Emirati manager at Jebel Ali Free Zone, *Dubai,* March 31, 2016.
[225] Interview 35, former consultant at JAFZA and managing director of consultancy focusing on special economic zones, *Dubai*, May 31, 2016.
[226] Ramos, *Dubai*, 114.

zones established in Dubai that directly contravened UAE's federal law that inhibited foreign business."[227] This view resonates with Herb's argument that Dubai's rulers promoted economic growth to avoid becoming subjects of the Al Nahyan ruling family in Abu Dhabi.[228]

Within the context of autonomy, Jebel Ali Free Zone afforded the government of Dubai commercialized rent streams largely outside of the hydrocarbon sector and partially insulated the emirate's economy from the political influence of Abu Dhabi. When the Jebel Ali Free Zone officially opened in 1985, the FZ hosted 19 companies. By 2016, it sustained more than 7,000 fee-paying companies, 207,000 jobs, and 60,000 residents. Moreover, JAFZA attracted approximately 32 percent of the UAE's FDI in 2015.[229] Compared with other UAE FZs, JAFZA represented a trade behemoth. The FZ handled approximately 66 percent of imports, 45 percent of non-oil exports, and 29 percent of reexports between the UAE's domestic market and the country's FZs – considered foreign direct trade by the UAE's customs authority – in the first five months of 2014.[230]

JAFZA trade as % of total UAE FZ trade[231]			Company & employment figures			FDI
Imports	Non-oil exports	Reexports	Companies	Jobs	Residents	% of UAE total
66%	45%	29%	~7,000	207,000	60,000	32%

Table 2: Snapshot of JAFZA's economic contribution

Within the domestic economy of Dubai, JAFZA performed a role comparable to that of state-owned oil and gas companies in Abu Dhabi and neighboring GCC states. Its companies contributed more than 21 percent of Dubai's GDP and facilitated a

[227] Keshavarzian, "Geopolitics," 275.
[228] Herb, "A Nation of Bureaucrats," 380. The competitive dynamics of Jebel Ali Free Zone's location and policies will be discussed in greater detail in the final section of the chapter.
[229] Jebel Ali Free Zone, *Jafza, Dubai. Where business comes together* (Dubai, JAFZA, 2015), 1-2.
[230] Federal Customs Authority, *Emirates Customs: Monthly Statistical Bulletin* (Abu Dhabi: United Arab Emirates, 2014), 54.
[231] Table includes data estimates corresponding to a period between 2014 and 2016, with the goal of providing an overview of the FZ's economic contribution to Dubai and the UAE.

quarter of non-oil trade volume in 2016.[232] The FZ generated AED 1.95 billion (~$531 million) in revenue for 2017, of which approximately AED 1.68 billion served as net profits.[233] Easa Saleh Al-Gurg – a prominent UAE government advisor and former long-standing Ambassador to the UK – describes the Jebel Ali port and FZ as having "contributed more, perhaps, than any other innovation to the present success which Dubai enjoys."[234] A report from the Crown Prince Court in Abu Dhabi, which marked the 40th anniversary of the UAE, prominently lists the creation of Jebel Ali Free Zone as a main economic milestone in the country's history.[235] Moreover, the FZ actively positioned itself as a key enabler to the development of Dubai; a brochure celebrating the 30th anniversary of JAFZA describes Dubai as "a gateway to world trade" and as having growth "built almost entirely on non-oil resources."[236]

The perceived success of JAFZA encouraged the creation of additional FZs in the emirate. Jebel Ali Free Zone Authority operates under an umbrella company known as Economic Zones World (EZW), which was established in 2006. A senior manager at EZW described the purpose of the company: "The idea behind EZW is that it would help Jebel Ali grow and would be a way to structure the growth of smaller zones."[237] Also operating under the umbrella of EWZ, Dubai Auto Zone, Dubai Textile City, and National Industries Park[238] emerged to derive additional commercialized rent streams. Another FZ-oriented umbrella company, Dubai Technology Electronic Commerce and

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[232] Jebel Ali Free Zone Authority, "Dubai Industrial Strategy," in *The Zone – Jebel Ali Free Zone*, Issue 47 (July, 2016), 5.
[233] "Free zone exports exceed 225 billion dirhams in 2017," *al-iqtisadi*, August 12, 2018, accessed August 15, 2018, https://aliqtisadi.com/1173674-نمو-صادرات-المناطق-الحرة-في-الإمارات/. [Arabic]
[234] Al-Gurg, *The Wells,* 80.
[235] Crown Prince Court, Emirate of Abu Dhabi, *United Arab Emirates: 40 Years of Progress | Retrospective Analysis of Key Indicators* (Abu Dhabi: CPC, 2011), 17.
[236] Jebel Ali Free Zone, *Jafza*, 5.
[237] Interview 46, senior manager at Economic Zones World, *Dubai, UAE*, July 23, 2016.
[238] National Industries Park is not a FZ but rather an onshore investment park. Refer to Appendix A.3. for a list of similar entities.

Media Free Zone (TECOM), formally came into existence through Law 1 of 2000, although the group started developing FZs prior to the issuing of this law.

TECOM launched its first FZ, Dubai Internet City (DIC), in 1999 with the goal of becoming the region's premier technology hub. A leading UAE telecoms company, Du, started operations in DIC,[239] thus demonstrating how local governments utilize FZs as incubators for SOEs and semi-government organizations. TECOM also established Dubai Media City (DMC) and Dubai Knowledge Village in 2000 and 2003 respectively. The group refers to these FZs as *business communities*, and their clients tend to operate in service-oriented industries more than imports and exports. TECOM managed eleven FZs and oversaw 5,100 companies employing 76,000 individuals by August 2016. At the end of 2016, Dubai contained an expansive and diverse group of 24 operating FZs. The emirate's FZ system included two airport FZs, a healthcare city, an equestrian park, and a humanitarian aid-focused FZ.

The total economic contribution of FZs illustrates the symbolic value of commercialized rent streams and their allocative potential. Dubai's FZs managed between 90 and 91 percent of the UAE's total FZ trade during 2014 and 2015,[240] and FZs in Dubai contributed approximately 30 percent to the UAE's total trade in 2015. In terms of non-oil FZ exports, Dubai accounted for 47 percent of the country's total, while FZs in Sharjah, Fujairah, and Ras Al Khaimah accounted for 32 percent, 13 percent, and 8 percent respectively.[241] Hamad Buamim, president of the Dubai Chamber of Commerce and Industry, estimated that Dubai's FZ may account for 75

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[239] Interview 17, managing director of an economic zones services company sponsored by TECOM, *Dubai, UAE*, May 23, 2016.
[240] Federal Customs Authority, *Emirates Customs: Free Zones*, Issue 40 (Abu Dhabi: Electronic Statistical Bulletin, 2015), 3-4.
[241] Federal Customs Authority, *Emirates Customs: Free Zones*, 3-4.

percent of the emirate's total exports,[242] while other estimates suggest FZs produce as much as 80 percent of non-oil exports.[243]

These trade statistics provide an impressive macroeconomic view of FZs' contribution to the economy of Dubai. The director general of both the Dubai Free Zone Council and Dubai Airport Freezone, Dr. Mohammed Al Zarooni, described FZs as "the most important [local form of] economic support to the Emirate of Dubai."[244] FZs accounted for 33 percent of Dubai's GDP and sustained 330,000 jobs by the end of 2016.[245] As there were only an estimated 112,513 economically-active Emiratis in Dubai in 2016,[246] FZs could easily employ the entire national labor force in the emirate. Approximately half of the emirate's 18 industrial areas possessed FZ status – an important qualification given that industrial sector contributed between 11 and 14 percent of Dubai's GDP.[247] However, the bulk of the emirate's FZ trade did not promote traditional productive activity. A comparison of imports and exports from Dubai's FZs revealed that the value of imports exceeded that of non-oil exports by a ratio of nearly 22 to one; and non-oil exports represented a mere 2.5 percent of Dubai's total FZ trade in the first half of 2015.[248]

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[242] "Dubai's free zone model key to diversifying Latin American Economies," *Trade Arabia*, November 11, 2016, accessed February 10, 2018, http://www.tradearabia.com/news/IND_316555.html.
[243] Jim Coleman and Simon Thurley, "SEZ Performance Within OIC Member Countries," Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation, Meeting Trade Working Group presentation, Ankara, November 2, 2017, accessed June 15, 2018, http://www.comcec.org/en/wp-content/uploads/2017/11/10-TRD-PRE-3.pdf.
[244] "Free zone companies in Dubai become accustomed to how implement value added," *Emarat Al-youm*, October 22, 2017, accessed February 10, 2018, http://www.emaratalyoum.com/business/local/2017-10-22-1.1037415. [Arabic]
[245] Ibid.
[246] Statistics rely on population estimates of 223,430 Emirati citizens for 2016 and Dubai Statistics Center – Labor Force Survey 2016 figures that only 48.2 percent of Dubai citizens are economically active. See: Dubai Statistics Center, "Number of Population Estimated by Nationality – Emirate of Dubai (2017-2015)," *Government of Dubai*, accessed July 9, 2018, https://www.dsc.gov.ae/Report/DSC_SYB_2017_01%20_%2003.pdf.
[247] Government of Dubai, *Dubai Industrial Strategy 2030: Dubai Plan* 2021 (Dubai: Government of Dubai), 5.
[248] Federal Customs Authority, *Emirates Customs: Free Zones*, 3.

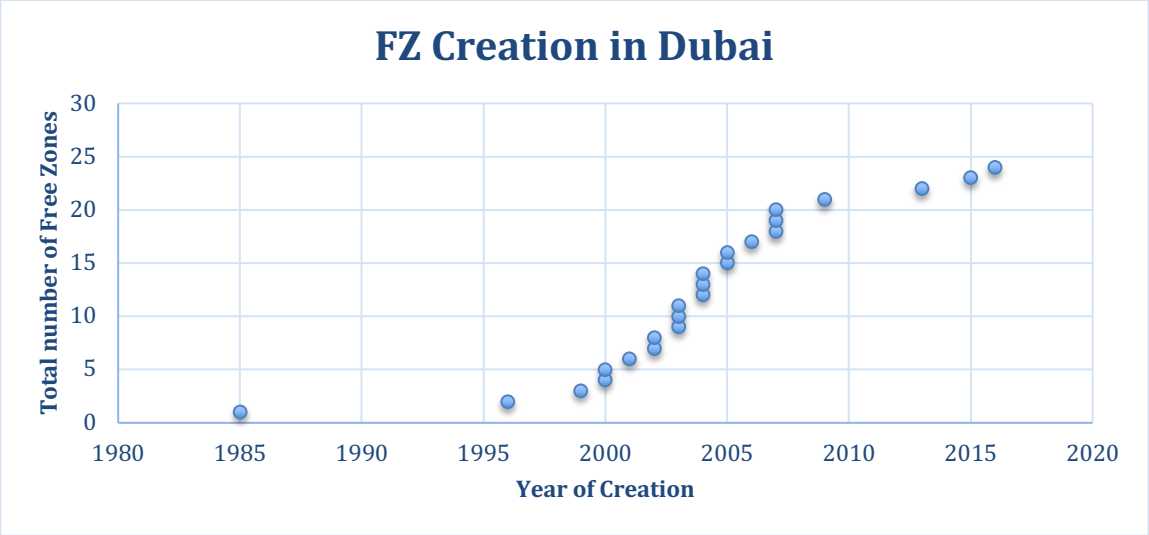


Figure 2: Graph of operating FZs in Dubai

Growing GCC government coffers in the 2000s resulting from rising hydrocarbon commodity prices created a favorable business environment for Dubai's free zones. Foreign investment and commercial real estate figures from this period contextualize the degree of demand. FDI inflows in the UAE increased from $1.18 billion in 2001 to $12 billion in 2005.[249] The sum of these investments totaled nearly three times the amount of FDI inflows in neighboring Saudi Arabia during the same period. Moreover, the supply of office space in the emirate rose from one million square meters in 2007 to 3.4 million square meters in 2010, achieving an occupancy rate of 98 percent in 2008.[250] The increasing demand from investors encouraged the government of Dubai to continue replicating FZ models to capture investments from new sectors.

Government officials in Dubai furthermore believed that FZs dampened the impact of an economic slowdown or crisis. The aforementioned Dr. Zarooni – who also serves as CEO of Dubai Silicon Oasis (DSO) – explained:

[249] The McKinsey Quarterly, *Beyond oil*, 9.
[250] Robin Bloch, "Dubai's Long Goodbye," *International Journal of Urban and Regional Research* 34.4 (2010): 946.

> *While free zones can't stay completely insulated from global growth dynamics, they are less insecure in the sense that a slowdown or stagnation isn't likely to impact free zones as severely given that they are often special enclaves that generally enjoy governments' policy and fiscal support.*[251]

Dr. Zarooni's perception of FZ growth ascribes substantial agency to the state as the primary actor responsible for maintaining macroeconomic stability in turbulent settings – a view resonating with Dani Rodrik's understanding that generating growth through openness requires strong institutions of conflict management.[252] In contrast to Dr. Zarooni's optimistic view of a FZ-enabled resilience to economic downturns, Davidson argues that Dubai's dependence on FZs and tourism fostered a precarious link between the confidence of the international community and the sustainability of Dubai's "whole development model."[253]

While FZs in the GCC enjoy state support and funding, these entities are inextricably connected to local elite networks and international relationships. Ruling and business elites worked in tandem to develop an extensive FZ system, which in turn facilitated the emirate's integration into global capital flows. The next section explores precisely how and why Dubai's elites focused on FZs as a fundamental element of Dubai's development model.

3.2 Elite Relationships

3.2.1 Al Maktoum and FZ development

Since political institutions and the distribution of resources explain how elites gain power and co-opt systems in their favor,[254] it is necessary to discuss how

[251] Keith Fernandez, "Economic slow down less likely to impact free zone," *Gulf News*, May 8, 2016, accessed May 12, 2016, http://gulfnews.com/gn-focus/special-reports/free-zones/economic-slowdown-less-likely-to-impact-free-zones-1.1821631.
[252] Dani Rodrik, *The New Global Economy and Developing Countries: Making Openness Work* (Washington D.C.: Overseas Development Council, 1999), 17.
[253] Davidson, *Dubai: The Vulnerability*, 153.
[254] Acemoglu and Robinson, "Paths," 4.

prevailing political institutions in Dubai utilized FZs. Keshavarzian argues that FZs "maintain the de facto power of rulers (or domestic sovereignty) by solidifying ruling coalitions and creating new modes of capital accumulation without disrupting the existing socio-political hierarchies and ruling coalitions."[255] The ruling Al Maktoum family ensured symbolic and physical links to FZs in the emirate because the economic contribution of these entities enhanced the political legitimacy of the ruling family. These links align with the description of emirate-level decision-making as "still dominated by hereditary rulers and their appointees in what would appear a hybrid neopatrimonial government of seemingly modern institutions grafted onto powerful traditional authorities."[256] Crucially, the structural characteristics of FZs and the nature of commercialized rents reinforced political legitimization efforts. Unlike hydrocarbon exports, the perceived success of FZs requires long-term planning and implementation that can be linked to the visions of specific individuals or state initiatives.

Within this context, JAFZA connected narratives of state formation with the political leadership of the ruling family. For the 30-year anniversary of JAFZA's establishment, the FZ's corporate magazine stated:

> *Jebel Ali Free Zone (Jafza) is a local and regional role model in excellence and fulfillment. This is embodied in the strategic vision and wise leadership of the nation that anticipated the future and predicted international economic developments. Jafza was founded 30 years ago thanks to the strategic vision of His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai, to attract foreign investment to the emirate and diversify the economy from oil.*[257]

[255] Keshavarzian, "Geopolitics," 265-266.
[256] Davidson, *The United Arab Emirates: A Study*, 238.
[257] Jebel Ali Free Zone Authority, "Dubai Industrial Strategy," 5.

This description fits Keshavarzian's portrayal of the existing narratives of FZ development in Dubai as overly focused on the farsighted benevolence of Dubai's rulers: "This explanation for Dubai's economic success and the creation of the free trade zones is overly consequentialist and attributes prophetic pre-science to the ruling class."[258] Alternative accounts of economic development that contradicted this historical narrative confronted stiff resistance. For example, the Dubai government imposed a temporary ban on *Arabian Business*, a popular news organization based in the DMC free zone, for reporting on several failed real estate projects in the emirate.[259] The banning of news outlets operating in the media FZ demonstrated the limits of FZ firm autonomy from local government interference.

The depiction of JAFZA as a strategically-implemented vision of Dubai's leadership should be critically evaluated. An interviewee with close ties to senior JAFZA leadership noted that a former CEO "may very well debunk the misperceptions that Jebel Ali was a perfectly conceived, strategic plan. There was a lot of trial and error involved in setting up Jebel Ali – they [Dubai officials] had no idea about the success that it would later bring."[260] Easa Saleh Al-Gurg, a prominent advisor to Dubai's ruling family and former Executive Director of the Trucial States Development Board, similarly noted that Jebel Ali Free Zone "was originally conceived and constructed ad hoc, with very little real planning."[261] Other external observers viewed the project as a white elephant intended to boost the prestige of Dubai; however, this view changed once the Iran-Iraq War increased demand for the FZ.[262]

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[258] Keshavarzian, "Geopolitics," 272.
[259] "Dubai bans Arabian Business for one month over report," *Al Jazeera*, July 27, 2017, accessed February 12, 2018, http://www.aljazeera.com/news/2017/07/dubai-bans-arabian-business-month-report-170726204008250.html.
[260] Interview 14, managing director of an economic zones consultancy and secretary general of a global EPZ association, *remote call from Dubai*, May 11, 2016.
[261] Al-Gurg, *The Wells,* 110.
[262] Ulrichsen, *The United,* Ebook section 326.2.

In addition to symbolic links to FZs, ruling family members held prominent chairmanships and leading roles in key FZs across the emirate. These leadership positions legitimized the authoritarian political structures of ruling families operating under what Young describes as a rentier capitalism framework.[263] Shaykh Mohammed bin Rashid Al Maktoum – the current ruler but then crown prince – established the Ports, Customs, and Free Zone Corporation (PCFC) by ruler's decree in 2001 and served as its chairman.[264] PCFC managed the Dubai Ports World, Dubai Customs, Dubai Port Authority, and JAFZA. Shaykh Mohammed also launched the Dubai International Financial Centre (DIFC) in 2002.

The ruler's son and the deputy ruler of Dubai, Shaykh Maktoum bin Mohammed Al Maktoum,[265] serves as the president of the DIFC. Unlike JAFZA, DIFC operates under an independent judicial system based on English common-law."[266] Every other FZ in Dubai, while being exempt from certain federal and local laws and regulations, technically operates under UAE law. The DIFC's separate legal framework enhances its structural isolation, yet it remains embedded as a central commercial and urban structure of Dubai. Thus, the DIFC retains a degree of embedded autonomy by maintaining both regulatory independence and links to ruling elites. Shaykh Maktoum also possesses links to CommerCity, a new $735 million e-commerce FZ run jointly by Dubai Airport Freezone and *wasl* Asset Management Group, a major real estate

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[263] Karen Young, "The Coming Economic Disorder: The Political Perils of Economic Liberalization in the Gulf," *Market Watch*. September 14, 2017, accessed February 15, 2018, para. 22, http://www.agsiw.org/coming-economic-disorder-political-perils-economic-liberalization-gulf/.
[264] Jason Davis, "Structure and Leadership of Dubai Ports Operations," Wikileaks Cable: 06DUBAI1067_a, February 26, 2006, https://wikileaks.org/plusd/cables/06DUBAI1067_a.html.
[265] Sheikh Maktoum formerly served as chairman of Dubai Technology and Media Free Zone Authority (DTMFZA), which oversaw the development of TECOM's zones before being rebranded as Dubai Creative Clusters Authority (DCCA) by Law 15 of 2014 as part of Dubai's strategy to promote innovation across the emirate.
[266] Dubai International Financial Centre, *Gateway to Growth* (Dubai: DIFC, 2015), 5.

company created by the Dubai Real Estate Company and chaired by Shaykh Maktoum.[267]

Shaykh Ahmed bin Saeed Al Maktoum, the billionaire uncle of the ruler, likewise held several prominent positions in FZs across the emirate. He serves as chairman of Dubai Aviation City Corporation, the corporate entity responsible for developing the Dubai South airport free zone. Dubai South emerged alongside the opening of Dubai World Central Airport in 2010,[268] and the area contains a custom bonded free zone extending to Jebel Ali Port.[269] He also chairs the Dubai Airport Freezone, which accounted for approximately 18 percent of Dubai's FZ trade in 2016.[270] Shaykh Ahmed assumed the chairmanship of Dubai World, which oversees Jebel Ali Free Zone and the other FZs under EZW, following the removal of the former chairman, Ahmed bin Suleyman, in 2010. Moreover, Shaykh Ahmed presides as chairman of Emirates Group, another major holding company that manages four of Dubai's FZs. When Shaykh Mohammed transformed the Dubai World Trade Centre into a FZ through Law 9 of 2015, he appointed Shaykh Ahmed as vice chairman and Shaykh Hamdan bin Rashid Al Maktoum, the crown prince of Dubai, as chairman.[271]

Additional FZs portrayed the Dubai ruling family as filling a specific global or local need. International Humanitarian City (IHC), created in 2003 as a global humanitarian logistics FZ, reflects the philanthropic intentions of the ruling family

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[267] Dubai Government Media Office, "AED 2.7 billion joint venture between DAFZA & wasl to boost Dubai's leading position in global trade," *Government of Dubai*, October 28, 2017, accessed January 13, 2018, http://www.mediaoffice.ae/en/media-center/news/28/10/2017/dubai-commercity.aspx?TSPD_101_R0=bd6a4e135dc25f75faca5713e7a1c0c2dH10000000000000000c7938c45ffff00000000000000000000000000005a7c5f3d000d36150d.

[268] The DWC airport is also known as Al Maktoum International Airport.

[269] Dubai South, *Welcome to the City of You* (Dubai: Dubai South, 2015), 10.

[270] Sarah Townsend, "Dubai free zones unite to boost foreign investment flows," *The National*, June 1, 2018, accessed June 1, 2018, https://www.thenational.ae/business/economy/dubai-free-zones-unite-to-boost-foreign-investment-flows-1.735701.

[271] "Dubai World Trade Centre becomes a free zone," *Gulf News*, May 18, 2015, accessed July 9, 2018, https://gulfnews.com/business/economy/dubai-world-trade-centre-becomes-a-free-zone-1.1513216.

upon a global stage. The Dubai Media Office prominently features IHC in their public description of the ruler of Dubai's philanthropic activities.[272] The publicity conforms with Keller Easterling's argument that IHC "exists to support some of the chief critics of zone politics and abuses."[273] In December 2016, Shaykh Mohammed announced plans to expand IHC in response to increasing demands for humanitarian aid around the world, and the ruler's wife, Princess Haya bint Hussein, is chairperson of IHC. By the end of 2016, the FZ hosted nine UN agencies and more than fifty humanitarian organizations.[274] Dubai Healthcare City (DHCC) serves a similar purpose, but its orientation is decidedly domestic. Shaykh Mohammed founded DHCC in 2002 to become an internationally recognized center for healthcare, wellness, medical education, and research. "The UAE's leadership realized early on that a thriving healthcare sector is key to the long-term growth and sustainability of the country," noted a manager at DHCC.[275]



Image 1: Meydan Race Track, July 18, 2016, Dubai, UAE

Other FZs signified an anthropomorphism of the ruler's personal interests, demonstrating that the highly-personalized pattern of political rule in Dubai extends to FZ initiatives in the emirate. Meydan Free Zone, described as "the visionary concept of His Highness Sheikh Mohammed Bin Rashid Al Maktoum,"[276] is dedicated to

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[272] Government of Dubai, "Ruler of Dubai," *Dubai Media Office*, accessed December 15, 2017, http://www.mediaoffice.ae/en/public-info/ruler-of-dubai.aspx.
[273] Keller Easterling, "Zone: The Spatial Softwares of Extrastatecraft," *Places Journal* (June 2012), accessed March 12, 2018, para. 28, https://doi.org/10.22269/120610.
[274] "Dubai ruler orders expansion of International Humanitarian City," *Arabian Business*, December 7, 2016, accessed November 9, 2017, http://www.arabianbusiness.com/dubai-ruler-orders-expansion-of-international-humanitarian-city-655572.html.
[275] Interview 52, remote interview question responses with Dubai Healthcare City, *Dubai, UAE,* July 26, 2016.
[276] Meydan, "About Us," *Meydan*, accessed November 10, 2016, http://www.meydan.ae/about/.

international horse racing, equestrian events, luxury hospitality, sports, and amusement services. The project aims to "create not just a venue for horseracing, but an integrated city that is sustainable, environmentally responsible and one that positions Dubai at the centre of the competitive global business stage."[277] Shaykh Mohammed previously established an equestrian investment group, Godolphin, as a means of consolidating his personal interests and related investment portfolios. The Meydan FZ exemplifies how Dubai's ruler leveraged FZs to further link his equestrian tastes to broader development initiatives in the emirate.

Beyond reinforcing the political legitimacy of specific individuals, FZs extended state institutions and state power across important sectors. A comparison of the traditional Gold Souq with the modern Gold and Diamond Park illustrates how FZs linked commercial entities and other market forces to the state apparatus. Dubai remains a lucrative market for trading in precious commodities: approximately 40 percent of the world's physical gold trade passed through the emirate in 2013.[278] The original Gold Souq located near the Dubai Creek still features a dense cluster of gold and jewelry merchants; many of these merchants are of Indian and Pakistani origin. Yet companies operating in the Gold Souq are unable to apply for FZ licenses. Instead, investors seeking FZ licenses must apply through the Gold and Diamond Park, a glitzy free zone mall located much farther south along Shaykh Zayed Road, to receive a FZ license through a special agreement with the Jebel Ali Free Zone.[279] The park building displayed the branding of Emaar, the UAE's premier real estate developer, and brandished the national flag of the UAE atop the building.

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[277] Ibid.
[278] "Gold industry shifts east as Dubai plans huge refinery," *Arabian Business*, May 5, 2014, accessed May 30, 2018, http://www.arabianbusiness.com/gold-industry-shifts-east-as-dubai-plans-huge-refinery-549091.html.
[279] Interview 31, manager at Gold and Diamond Park, *Dubai, UAE*, May 15, 2016.



Image 2: Traditional Gold Souq (left) and the Gold and Diamond Park (right) in Dubai

The government of Dubai played a central role in the creation of Emaar and retained approximately 30 percent of the company's shares through the Investment Corporation of Dubai.[280] In 2007, the ruler technically secured a majority stake in Emaar by increasing the ownership stake of Dubai Holding, which is wholly owned by the ruler, to 27.9 percent of the company's shares.[281] The government also established the DMCC free zone, the UAE's largest market for diamonds and commodities, in 2002 as an alternative option for investors operating in the commodities trade. Through the creation of the Gold and Diamond Park FZ and DMCC, the state co-opted traditional market forces by assimilating commercial activities of an important industry into the neat conformity of state-run FZ environments as well as regulating businesses through state-led registration processes and annual license renewals.

Although the proliferation of FZs in Dubai suggests a diversified private sector, most FZs are entirely or partially-owned by state-run investment vehicles and government conglomerates. Apart from the semi-government ownership structure of

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[280] Andre Oliveira Santos, *Integrated Ownership and Control in the GCC Corporate Sector* (Washington: IMF Working Paper, August 2015), 9.
[281] International Monetary Fund, *United Arab Emirates: Selected Issues and Statistical Appendix*, IMF Country Report No. 11/112 (Washington: IMF, 2011), 5; Daliah Merzaban and James Cordahi, "UPDATE 3-Land-for-stock deal gives Dubai control of Emaar," *Reuters*, March 18, 2007, accessed August 31, 2018, https://www.reuters.com/article/emaar-dubaiholding-stake/update-3-land-for-stock-deal-gives-dubai-control-of-emaar-idUSL1855404220070318.

the Gold and Diamond Park, all of Dubai's FZs operate under Dubai Holding, Dubai World, Emirates Group, or directly through the government.[282] Dubai Holdings is a government-owned industrial conglomerate that, through its management of TECOM Group, oversees free zones and business parks as part of its portfolio.[283] A rival conglomerate, Dubai World, operates DMCC, Jebel Ali Free Zone, and the other FZs under EZW. Emirates Group, a subsidiary of the Investment Corporation of Dubai, manages several FZs linked to the aviation industry. The Dubai government directly controls the DIFC, Meydan, and IHC FZs. Therefore, the entire FZ industry in Dubai technically operates under the commercial management of "Dubai Inc.," a broader commercial entity often described as "the interpenetration of the al-Maktoum family and the government's business interests."[284] Local business elites have noted the direct links between the royal family and commercial entities responsible for managing FZs development: a close advisor, Mohammed Al Abbar, formerly complained that Shaykh Mohammed, then crown prince, was too closely tied with SOEs under the Dubai Inc. umbrella.[285] "DMC is really run and operated for the benefit of the Al-Maktoum family and its business friends," explain Quinn, Walters, and Whiteoak.[286]

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[282] Abdulrazak Al Faris and Soto Raimundo, eds., *The Economy of Dubai* (Oxford: Oxford University Press, 2015), 116.
[283] For an in-depth company overview of Dubai Holdings, see: "Dubai Holdings Company Overview," *Bloomberg*, accessed October 31, 2016, http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=12952607.
[284] Bloch, "Dubai's," 945.
[285] Michele J Sison, "Dubai Businessman Criticizes Dubai Crown Prince and Comments on President Khalifa's Finances," Wikileaks Cable: 05ABUDHABI1170_a, dated March 14, 2005.
[286] Quinn, Walters, and Whiteoak, "Tale," 137.

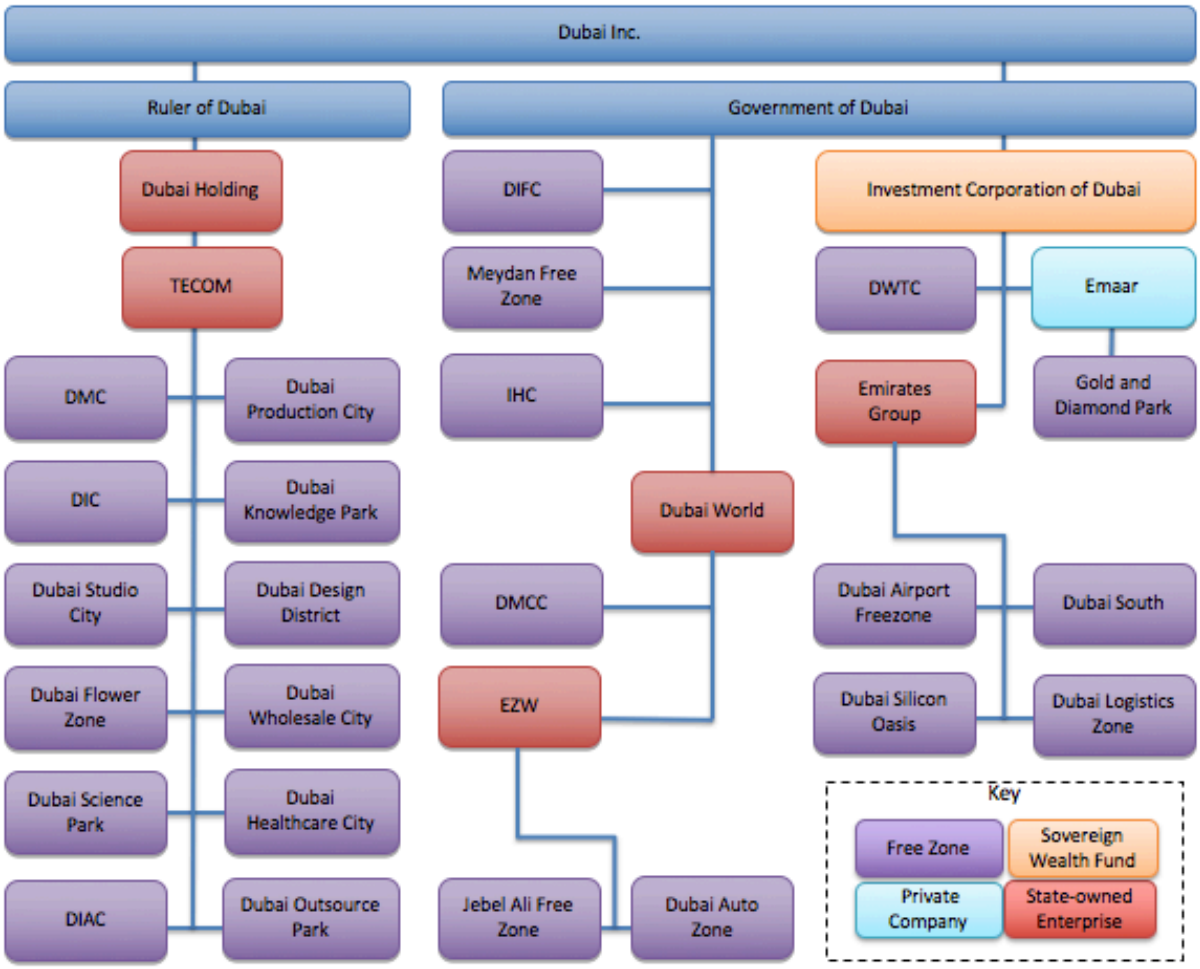


Figure 3: Organizational hierarchy of FZs in Dubai[287]

The systematic extension of state control over FZ rents coincides Adeel Malik and Bassem Awadallah's argument that "private sector development is both a political and regional challenge. In so far as the private sector generates incomes that are independent of the rent streams controlled by the state, it can pose a direct political challenge."[288] Thus, Dubai's ruling family and government maintained control over commercialized rents by installing ruling family members in top FZ positions, linking FZ ownership and management to government-owned commercial entities, and co-opting key non-hydrocarbon sectors of the economy through government-led FZ

[287] The figure created by the author reflects majority shareholders and subsidiary entities in order to paint a broad picture of FZ ownership; it does not, for example, convey potential minority shareholders.
[288] Adeel Malik and Bassem Awadallah, "The Economics of the Arab Spring," *World Development 45* (2013): 296.

development. While Dubai's ruling elites carefully linked FZ entities to the corporate structure of Dubai Inc., this ruling coalition nevertheless relied upon local "networks of privilege"[289] composed of business elites for developing and managing FZ entities.

3.2.2 Elite FZ dynasties

Dubai's political leadership and the government orchestrated FZ development in a manner that would allocate commercialized rents to specific coalitions of business elites without radically challenging existing political and economic structures. Indeed, economic reform tends to reorganize rent-seeking structures in a way that disproportionately benefits certain elite coalitions.[290] The involvement of business elites in Dubai's FZ development is embedded within prevailing political institutions but, unlike Abu Dhabi, enduring tribal structures are less apparent.[291] Rather, "The [Jebel Ali] zone became a mechanism to solidify the regime through an alliance with the powerful mercantile class," argues Keshavarzian.[292]

A small coterie of Emirati businessmen-cum-royal advisors built the foundations of Dubai's FZ sector. Sultan bin Sulayem, a childhood friend of the current ruler,[293] played a leading role in the creation of Jebel Ali Free Zone, and he serves as chairman and CEO of DP World.[294] Sultan's son, Ahmed bin Sulayem, is currently executive chairman of the Dubai Multi Commodities Centre free zone, and Mohammed Al Gergawi built the TECOM Group. According to Young, Sultan bin Sulayem and Gergawi are "risk-takers and adept at rapidly expanding the holdings and operations of the government-related entities,"[295] while Ulrichsen considers the men to be

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[289] Steven Heydemann, *Networks of Privilege in the Middle East: The Politics of Reform Revisited* (New York: Palgrave, 2004), 2.
[290] Ibid.
[291] Herb, *All in the Family*, 55.
[292] Keshavarzian, "Geopolitics," 277.
[293] Ulrichsen, *The United,* Ebook section 118.3.
[294] DP manages Economic Zones Word, a corporate entity that includes Jebel Ali Free Zone and Dubai Auto Zone as part of its portfolio.
[295] Young, *Political,* 70-71.

"lieutenants" of Shaykh Mohammed.[296] Other close advisors to Shaykh Mohammed include Mohammed Al Abbar[297] and Omar bin Suleiman. Abbar is chairman of the real estate development company Emaar, which owns the Dubai Gold and Diamond Park, and Suleiman played a central role in the development of the prestigious DIFC.

Unlike Abu Dhabi, where Emirati business elites have often been shuffled in and out of individual FZ entities to reward tribal affiliations, Dubai's top business elites established larger corporate entities that included FZ development as part of their commercial portfolios over a period of decades. "The firms were strongly encouraged to outdo one another in developing very large-scale, expensive and — often seen from the outside as garish and overblown — 'iconic' projects,"[298] writes Robin Bloch. Yet increased economic authority did not necessarily imply autonomy from the Al Maktoum royal family. Suleiman was removed from his post as governor of DIFC in 2010 after an audit revealed that he had personally acquired $14 million by issuing annual bonuses.[299] He was replaced by Ahmed Humaid Al Tayer, who comes from an established merchant family in Dubai. Ahmed's brother, Saeed, serves on the Dubai Free Zone Council. Ahmed bin Suleyman also lost his position as chairman of Dubai World in 2010 and was replaced by the ruler's uncle, Shaykh Ahmed.

The Dubai Free Zones Council, one of the only formal mechanisms of horizontal coordination amongst FZs in the GCC, further reveals how business elites are embedded within FZ development in the emirate. While Shaykh Ahmed chairs the council, the remaining ten members reveal strong representation from prominent Dubai families like Al Tayer, Al Gurg, and Al Zarooni. Saeed Humaid Al Tayer presides on

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[296] Ulrichsen, *The United,* Ebook section 343.2.
[297] A Wikileaks cable suggests Al Abbar may have fallen out with Sheikh Mohammed and no longer remained part of his "small coterie of close advisors" – see: Sison, "Dubai," Wikileaks Cable: 05ABUDHABI1170_a.
[298] Bloch, "Dubai's," 945.
[299] Awad Mustafa, "Former DIFC chief freed after repaying Dh51.5m," *The National*, May 21, 2010.

the Dubai Free Zones Council owing to his position as chairman of the board and CEO of Meydan City Corporation.[300] The Al Tayer is an established merchant family in the UAE and maintains close commercial ties with Dubai's ruling family – even helping to run their family businesses.[301] The Al Tayer family's increasing role in Dubai's economic affairs reflected a "return of an old guard" after the 2008 financial crisis.[302] Likewise, Dr. Raja Easa Al Gurg is both a member of the Dubai Free Zones Council and a managing director of the Easa Saleh Al Gurg Group LLC (ESAG). ESAG serves as a partner for over 370 international brands operating in the region.[303] The patriarch of this merchant family of Persian origin, Easa Al-Gurg, created the company in 1960 and served as a royal advisor during the creation of Jebel Ali.[304] Dr. Al Zarooni, CEO of Dubai Silicon Oasis Authority and director general of Dubai Airport Freezone Authority, hails from one of the UAE's oldest landowning families.[305] The Al Zarooni Group offers customs clearance as a main service line, citing "a very good rapport with port departments [air and sea] to ensure smooth operations to complement our various services."[306]

Dubai's influential merchant class has, at times, opposed state-led FZ development. For example, the JV between the Textile Merchants Group (Texmas), a major body of Dubai-based wholesale trade merchants, and Dubai Ports and Customs

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[300] Dubai Free Zones Council, "Council Members," *Dubai Free Zones Council*, accessed November 28, 2017, http://www.dfzc.ae/aboutus/council-members.html,.
[301] J.E. Peterson, "Rulers, Merchants and Shaikhs in Gulf Politics: The Function of Family Networks," in Alanoud Alsharekh, *The Gulf Family: Kindship Policies and Modernity* (London: London Middle East Institute, 2007), 32; Christopher Davidson, *Abu Dhabi: Oil and Beyond* (London: Hurst & Company, 2009), 233; Almezaini, "Private," 51.
[302] Bloch, "Dubai's," 949.
[303] Easa Saleh Al Gurg Group, "About ESAG," *Easa Saleh Al Gurg Group*, accessed November 28, 2017, http://www.algurg.com/About-Esag.
[304] Almezaini, "Private," 49.
[305] "Company Overview of Al-Zarooni Group," *Bloomberg*, accessed November 28, 2017, https://www.bloomberg.com/research/stocks/private/person.asp?personId=5436375&privcapId=5436419.
[306] A R Al Zarooni Group of Companies, "Customs Clearance," *Al Zarooni Group*, accessed November 28, 2017, http://www.alzarooniworld.com/customs.html.

Authority exemplified merchant resistance to initiatives perceived as excessive state co-optation. The partnership led to the creation of Dubai Textile City, a quasi-free zone entity described by Texmas as "a state-of-the-art operational facility exclusively for its members."[307] Although Dubai Textile City was intended to function as a FZ, "the idea found little support among traders who feared they would have to divulge too many 'trade secrets' to customs officials in order to enjoy their duty-free status."[308] Merchant resistance to state-led reforms possesses a historical backdrop. Hanieh mentions preexisting internal divisions between merchants and rulers in the emirate,[309] and Almazaini argues that some merchants in Dubai have rose to prominence without strong links to Dubai's ruling family – a situation that did not occur in Abu Dhabi and the northern emirates.[310] Yet, most merchants involved in Dubai's FZ activities worked in tandem with ruling elites in the local government to preserve business-friendly commercial regulations and did not overly contribute to a sphere of merchant-ruler elite contestation.

3.2.3 FZ policies in Dubai

Business elites engaged with the state – both in terms of local government agencies as well as federal laws and regulations – through a dynamic interplay of FZ policies and federal commercial regulations. "Free trade zones are enclaves of truly free markets where entrepreneurs are liberated from restrictive commercial, labour, and manufacturing regimes,"[311] writes Keshavarzian. In particular, UAE FZs permitted employers to circumnavigate federal and emirate-led workforce nationalization policies

[307] "About TEXMAS," *Textile Merchants Group*, accessed October 28, 2016, http://texmas.com/about-texmas/.
[308] Husain Shakir, "Textile City likely to open this year," *Gulf News*, May 16, 2008, accessed October 28, 2017, http://gulfnews.com/business/economy/textile-city-likely-to-open-this-year-1.105512.
[309] Hanieh, *Capitalism,* 58.
[310] Almezaini, "Private," 50.
[311] Keshavarzian, "Geopolitics," 265.

and initiatives meant to increase local employment.[312] The prevalence of FZs in the emirate of Dubai is so widespread that "about 90 percent of the market has access to free zones,"[313] estimated a specialist on GCC workforce nationalization.

The structural isolation and vertical integration of FZs weakened the government's ability to implement effective and consistent workforce nationalization policies, known as Emiratization. While Dubai's FZ sector provided employment opportunities for Emirati citizens in FZ bureaucracies, companies operating in FZs overwhelmingly hired expatriate employees. An HR consultant for an oil and gas company explained the poor performance of Emiratization in 2014 by remarking, "Free zone companies do not have to follow Emiratization regulations and policies. They operate freely with no incentives [to follow Emiratization policy]."[314] Many FZ officials declined to reveal Emiratization rates among their staff, and other estimates suggested that Emiratization rates in newer FZs were far below the relatively high Emiratization rate of Jebel Ali. For example, an Emirati manager from JAFZA estimated that Emiratis only constituted a small minority of approximately 10 percent of the FZ staff in "newer FZs" like DIFC and DMCC.[315]

Free Zone[316]	FZ Staff	Emirati Staff	FZ Companies	FZ Jobs Created
Jebel Ali Free Zone	400	300	7,600	135,000
Dubai Healthcare City	250	40	360	8,500
Dubai Auto Zone	17	13	400	3,000

Table 3: Employment figures in select FZs in Dubai

[312] Robert Mogielnicki (the author), "Beyond Perceptions: The Challenge of Emiratization in Abu Dhabi and Dubai," M.Phil thesis (Oxford University, 2015).
[313] Interview 9, consultant specializing in Saudization for major HR consultancy, *Dubai*, August 19, 2014.
[314] Interview 3, HR consultant in oil and gas sector, *Dubai*, July 30, 2014.
[315] Interview 19, Emirati manager at Jebel Ali Free Zone, *Dubai,* March 31, 2016.
[316] National employment figures are estimates from empirical data collected during fieldwork ending on September 2016 and reported/suggested Emiratization rates for that period.

The government remained the ultimate authority for setting how FZ policies engage with federal labor law. An expert on GCC workforce nationalization remarked, "The government is not curbing unemployment as much as they are appeasing certain segments of the population [with Emiratization policy]."[317] In this context, FZs perpetuated the deep dualism of Arab labor markets resulting from government intervention for political appeasement.[318] The inherent contradiction between government support for FZ policies, which benefit business elites, alongside Emiratization efforts intended to increase the supply of local employment opportunities stoked tensions between various socioeconomic groups in Dubai. An interviewee closely associated with government Emiratization efforts explained:

> *There is talk that they [the Dubai government] would begin introducing quotas in the free zones. The only reason companies in free zones are engaging in nationalization is because they see a strategic value in having Emiratis or they feel a social responsibility.*[319]

Meanwhile, a director of a major business school in Dubai confirmed that "free zones complicate the matter…and laws need to be changed regarding how companies in free zones can act."[320] In 2013, the UAE's Federal National Council considered changing labor laws in FZs to require FZ companies to meet Emiratization targets.[321]

Efforts to reform labor regulations inside FZs and institute Emiratization requirements have not yielded tangible results. Although segmented clientelism applies directly to Saudi Arabia, Hertog's concept helps illustrate how the structural

[317] Interview 9, consultant specializing in Saudization for major HR consultancy, *Dubai*, August 19, 2014.
[318] Assaad, "Making," 1-25.
[319] Interview 12, owner of consultancy specializing in emiratization, *Oxford*, October 30, 2014.
[320] Interview 7, regional director of a graduate business school, *Dubai*, August 14, 2014.
[321] Samir Salama, "Emiratisation Efforts Falling Short," *Gulf News*, November 19, 2013, accessed April 10, 2015. http://gulfnews.com/news/uae/government/emiratisation-efforts-falling-short-1.1257040.

organization of FZs in Dubai blocked labor reform efforts. "The system has created a number of institutional, regulative and distributive 'fiefdoms', sometimes with strongly overlapping areas of jurisdiction. This increases the number of stakeholders and channels of formal or informal access, but makes the creation of 'reform coalitions' a formidable task," argues Hertog.[322] Indeed, Dubai's expansive FZ sub-system created a similarly varied set of institutional, regulative, and distributive fiefdoms. The motivations behind early FZ development in Dubai – like concerted efforts to sidestep the political encroachment of Abu Dhabi – provide additional barriers to federally-implemented reform of Dubai's FZs policies. The competitive dynamics of Dubai's inter-emirate and global relationships, which constitute the third section of this chapter, elucidate the effect of these external linkages on FZ development in the emirate.

3.3 Global Competition

3.3.1 Preserving federal autonomy

Broader political conflicts between the country's emirates shaped early FZ development in Dubai. The location of the port and FZ at Jebel Ali served as a disputed territory between Dubai and Abu Dhabi until the 1960s, which supports Keshavarzian's argument that the development of Jebel Ali "followed a territorial logic, and must be interpreted in the context of intra-emirate conflicts."[323] British intelligence files from 1948 reveal that Dubai's ruler complained to the British political officer in Bahrain about the stationing of guards from Abu Dhabi in the Jebel Ali camp.[324] In 1966, Dubai's ruler constructed a radio tower in the disputed Jebel Ali area to establish

[322] Steffen Hertog, "Saudi Economic Reform Efforts," in Paul Aarts and Gerd Nonneman, eds., *Saudi Arabia in Balance: Political Economy, Society, Foreign Affairs* (New York: New York University Press, 2005), 116.
[323] Keshavarzian, "Geopolitics," 247.
[324] Interestingly, the ruler's complaint also included the presence of "foreign labour" in Jebel Ali. See: File 8/16, "Bahrain Intelligence Summary," 1948, [4r] (7/174), British Library: India Office Records and Private Papers, IOR/R/15/2/320, accessed from the Qatar Digital Library. https://www.qdl.qa/archive/81055/vdc_100026022427.0x000008.

sovereignty over the location, and Abu Dhabi only ceded the area to Dubai in 1968 following the agreement signed in Al Sameeh that paved the way for a federal union.[325]

The subsequent FZ at Jebel Ali guaranteed Dubai's government a mechanism for retaining autonomy over the emirate's economic policy.[326] "Dubai went ahead and flouted every law because they needed to make money," explained an Abu Dhabi-based business correspondent.[327] This economic sovereignty became especially important when the federal government in Abu Dhabi promulgated Law 8 of 1984, known as the Commercial Companies Law. Article 22 of the law required UAE companies to demonstrate Emirati sponsors holding at least 51 percent of company shares. The Jebel Ali Free Zone exempted foreign firms from the regulations of the new commercial law and consequently offered an alternate avenue for market entry into the country.

The Dubai government's autonomy in commercial spheres was not absolute. Rather, the competitive characteristics of the country influenced the industrial inputs and services available in Dubai's FZs. Jebel Ali Free Zone's industrial activities required between 60-120 million cubic feet of natural gas per day, and Dubai exhausted supply options from Oman and Umm Al Quwain before eventually sourcing the gas from Abu Dhabi.[328] Dubai also relied on the UAE's second-largest telecoms operator, Du, to provide unrestricted internet access for the emirate's FZs. This service contrasted with the strict proxy server provided by Etisalat, the state-run telecoms incumbent.[329] The unfettered access represented an important commercial incentive for

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[325] Ramos, *Dubai,* 107.
[326] Keshavarzian, "Geopolitics," 275.
[327] Interview 49, correspondent at Thomson Reuters, *Abu Dhabi, UAE,* July 24, 2016.
[328] Naomi Sakr, "Federalism in the United Arab Emirates: prospects and Regional Implications," in Tim Niblock, ed., *Social and Economic Development in the Arab Gulf* (London: Croom Helm, 1980), 185.
[329] Davidson, "The United Arab Emirates: Economy," 225-226.

DMC and DIC; however, Du began restricting internet usage in April of 2008 as per regulations set by the Telecommunications Regulatory Authority.[330]

Dubai's minority stake in the shareholder structure of Du further illustrates how federal constraints can shape the emirate's utilization of services. Dubai Holding owned 19.5 percent of Du's existing shares. The UAE federal government, Mubadala, and public shareholders held the remaining 39.5 percent, 20.08 percent, and 20.92 percent respectively.[331] Thus, the federal government and Abu Dhabi's sovereign wealth fund managed a controlling stake in the telecoms operator and could determine how the firm engaged with federal authorities. While Davidson refers to DIC's non-censored internet connections and DMC's short-term advertisement of greater freedom of the press as inadvertent steps towards greater democratic processes,[332] these developments more accurately reflected a tension between Dubai's development trajectory and federal government objectives. Despite the perception that FZs offered autonomous, enclave authorities, these entities remained susceptible to power negotiations between local and federal governments.

The competitive dynamics associated with Dubai's FZs extended beyond the emirates of Dubai and Abu Dhabi. A FZ specialist from the World Bank described GCC territories as "all competing over the same pie,"[333] in terms of FZ development. A circular report on DP World's proposed acquisition of EZW confirms the concern that Dubai's FZs, especially Jebel Ali Free Zone, confronted not only competition from KIZAD in Abu Dhabi but also from other FZ and integrated port projects in the

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[330] "UAE starts restricting internet access," *Business Report*, April 15, 2008, accessed February 10, 2018, https://www.iol.co.za/business-report/technology/uae-starts-restricting-internet-access-903817.
[331] Du, "Shareholders Structure," *Du*, accessed November 28, 2017, http://www.du.ae/about-us/corporate-governance/shareholders.
[332] Davidson, *The United Arab Emirates: A Study*, 226-234.
[333] Interview 44, analyst at International Trade Department, World Bank, *Washington, DC,* June 20, 2016.

northern emirates, Qatar, and Oman.[334] Several clients from the Gold and Diamond Park in Dubai relocated to the Hamriyah Free Zone because the Sharjah-based FZ offered substantial plots of free land to new clients.[335] Meanwhile, a senior manager at EZW considered RAK Free Zone and Khalifa Industrial Zone Abu Dhabi as the closest competitors to Jebel Ali Free Zone; he explained, "We need to ensure than any organization coming to Dubai gets what they need."[336] His statements flout the notion of inter-emirate cooperation regarding FZs and align with Tetreault's view of the UAE as a competitive state that engages in decentralized supply-side resource allocation for the local populations and economies of individual emirates.[337]

Instead of creating entirely new "rules of the game,"[338] FZ development in Dubai reinforced existing economic and political institutions amid externalities. The commercial spheres created by FZs preserved a substantial duty-free zone in Dubai and protected the emirate from future trade barriers enacted by the federal government or other GCC member states. In 1994, the UAE's federal government imposed a four percent duty on certain goods. "Although a relatively low figure," explains Davidson, "Dubai's merchants have relied upon a tax-free trading environment for much of the twentieth century."[339] In a similar vein, the implementation of the GCC customs union in early 2003 levied a five percent duty on all goods originating outside the GCC, further eroding the free trade status of the emirate. The UAE attempted to secure an agreement with GCC members to allow duty-free entry of goods produced in UAE

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[334] DP World Limited, *Proposed Acquisition of Economic Zones World FZE* (Dubai: DP World, November 13, 2014), accessed May 10, 2018, http://web.dpworld.com/wp-content/uploads/2014/01/Project-Arsenal-Final-Circular-for-Stamping.pdf, 24.
[335] Interview 31, manager at Gold and Diamond Park, *Dubai, UAE*, May 15, 2016.
[336] Interview 46, manager at Economic Zones World, *Remote conversation from Dubai, UAE,* July 23, 2016.
[337] Mary Ann Tetreault, "The economics of national autonomy," *Middle East Policy* 6.4 (1999): 4-7.
[338] North, *Institutions,* 3.
[339] Davidson, *The United Arab Emirates: A Study*, 229.

FZs, but the proposal ultimately failed.[340] Opposition stemmed from a desire to avoid the penetration of foreign firms into domestic markets from a FZ base in the UAE.

Dubai's bilateral relationships with other GCC states also shaped FZ development in the emirate and across the region. For example, the Jebel Ali Free Zone unsuccessfully sought to secure a 50 percent stake in Oman's Salalah Free Zone because the deep-water port in southern Oman represented a potential competitor.[341] In November 2017, the UAE and Saudi Arabia agreed on an initiative to double the trade volume between the two countries and decrease import and export costs. The chairman of DP World attended the meeting, revealing the importance of Dubai's FZs in facilitating this cooperation.[342] One of Dubai's largest real estate firms, Emaar, which owns the Gold and Diamond Park, is also involved in the development of Saudi Arabia's King Abdullah Economic City on the Red Sea.[343]

While Dubai's FZs did not possess direct commercial links with Qatari FZs, the emirate's FZs historically functioned as a transshipment hub for Qatar-bound goods and services. The GCC crisis beginning in June 2017 and the subsequent economic embargo disrupted these trade flows. A spokesperson for the parent company of Jebel Ali Free Zone downplayed the material impact of the ensuing embargo on trade volume in the FZ.[344] However, FZ statistics from 2015 revealed that Qatar was responsible for

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[340] Michele Sison, "Scenesetter For First Round of US-UAE FTA Negotiations," Wikileaks Cable: 05ABUDHABI992_a, dated March 2, 2017, https://wikileaks.org/plusd/cables/05ABUDHABI992_a.html.
[341] Oman Muscat, "Obstacles Hinder Salalah Free Zone Growth," Wikileaks Cable: 07MUSCAT939_a, dated October 8, 2007, http://wikileaks.org/plusd/cables/07MUSCAT939_a.html.
[342] "Saudi and emirates sign agreement of 'economic cooperation'," *Al-Sharq Al-Awsat*, November 7, 2017, accessed November 8, 2017, https://aawsat.com/home/article/1075741/السعودية-والإمارات-توقعان-اتفاقية-«المشغل-الاقتصادي». [Arabic]
[343] Interview 30, managing director of an economic zones consultancy and secretary general of a global EPZ association, r*emote call from Dubai*, May 11, 2016; Emaar, "Emaar Saudi Arabia, The Economic City," *Emaar*, accessed December 1, 2017, https://www.emaar.com/en/what-we-do/communities/saudi-arabia/king-abdullah-economic-city.aspx.
[344] "'No Serious Impact from Qatar Ban on Container Volumes,' Says DP World," *albawaba*, July 26, 2017, accessed December 1, 2017, https://www.albawaba.com/business/dp-world-qatar-container-volumes-1001866.

9.4 percent of imports and 7.3 percent of reexports passing through UAE FZs.[345] Thus, the embargo with Qatar likely placed downward pressure on trade volumes through Dubai's FZs, which handled a majority of the country's overall FZ trade.

3.3.2 A global reach

Historical ties with the Indian subcontinent and weak trade linkages amongst GCC territories likewise influenced the nature of capital investments in Dubai's FZs. The breakdown of local, regional, and global clients in the Dubai Technology Entrepreneurship Centre, a program of Dubai Silicon Oasis, offers a useful visualization of these capital flows. Indian companies represented the largest national segment of clientele, occupying 30 percent of the FZ's clients, and Pakistani firms contributed another 7.3 percent of the total.[346] GCC companies accounted for a mere five percent of the FZ's clients, and only 23 Emirati companies operated amongst the FZ's total client base of 802 firms. Non-GCC, Middle Eastern firms provided the second-largest segment of FZ clients after Asian firms. Much of this investment originated in war-torn or struggling economies like Syria, Egypt, and Jordan, which together constituted approximately 78 percent of the FZ's Middle Eastern clients.

Top Nationalities	Firms	%
Indian	243	30.3%
Jordanian	63	7.9%
Egyptian	59	7.4%
Pakistani	58	7.2%
Syrian	56	7.0%
British	30	3.7%
…		
TOTAL	802	100%

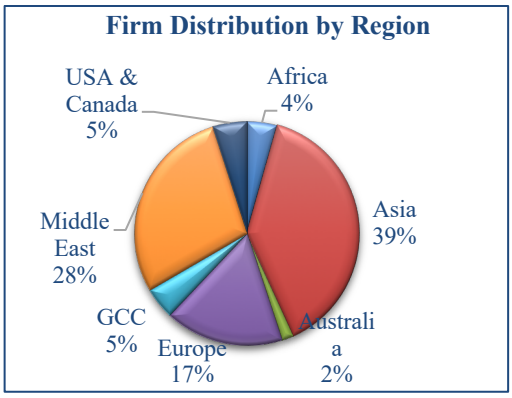


Table 4: Dubai Technology Entrepreneurship Centre, Dubai Silicon Oasis FZ firm registrations

[345] Federal Customs Authority, *Emirates Customs: Free Zones*, 6.
[346] Figures refer to registration numbers as of December 2017. The author remotely collected this data on December 13, 2017 from an employee of Dubai Technology Entrepeneurship Centre, a program of Dubai Silicon Oasis.

In contrast to its GCC neighbors, Dubai demonstrated an ability to export its FZ model and expertise on a global scale. Other GCC territories either did not possess globally-recognized FZ sectors or elected to import FZ expertise from Dubai. The emirate exported its FZ model beyond the confines of the GCC through the World Free Zones Organization (World FZO) and various SOEs. Created under the auspices of the ruler in 2014, the Dubai-headquartered entity markets itself "the only truly international, multi-lateral organization for free zones."[347] EZW, a subsidiary of Dubai World, provides global FZ consultancy, management, and operational services through Jafza International, a global FZ development company. Jafza International's high-profile client relationships included a contract to manage the multi-billion dollar Djibouti Port and Free Zone, and EZW is heavily engaged in the development the Misurata Free Zone in Libya.[348] DP World, also a subsidiary of Dubai World, possesses an agreement with Somaliland to manage their port for 30 years in return for a 65 percent stake in the venture, and the Dubai-based company will build the new Berbera Free Zone to complement the port's development.[349] As part of the agreement, DP World will pay the government of Somaliland $5 million a year in addition to ten percent of the port's revenues.[350]

Similar agreements exist between Dubai's firms and FZs in Thailand, Senegal, Rwanda, the Democratic Republic of the Congo, Mozambique, Mali, Algeria, and

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[347] World Free Zones Organization, "Background," *World Free Zones Organization*, accessed June 1, 2018, https://www.worldfzo.org/Pages/Background.aspx.
[348] "EZW inks pact with Libyan free zone authority," *Gulf News*, October 3, 2007, accessed December 1, 2017, http://gulfnews.com/business/sectors/general/jafza-inks-pact-with-libyan-free-zone-authority-1.205273.
[349] "Dubai's DP World to develop free zone in Somaliland," *Arabian Business*, November 6, 2017, http://www.arabianbusiness.com/industries/construction/382868-dubais-dp-world-to-develop-free-zone-in-somaliland.
[350] Global Construction Review, "DP World to invest half a billion in Somaliland port," *GCR*, May 31, 2017, accessed December 4, 2017, http://www.globalconstructionreview.com/news/dp-world-invest-half-billi7on-somalila7nd-po7rt/; Taimur Khan, "UAE and the Horn of Africa: A Tale of Two Ports," *The Arab Gulf States Institute in Washington*, March 8, 2018, accessed June 20, 2018, http://www.agsiw.org/uae-horn-africa-tale-two-ports/.

Egypt.[351] Dubai's investments in Asian and African ports and free zones resemble a modern, re-focused version of how Britain managed commercial affairs in the Arabian littoral during the 18th and 19th centuries.[352] Taimur Khan argues that these investments reflect the UAE's strategy to become an "essential component of China's Belt and Road Initiative and secure Dubai's Jebel Ali as the key logistics and trade hub linking Asia to Africa via DP World infrastructure, in the face of competition by a glut of new ports built by rivals with similar ambitions."[353]

It is unsurprising, then, that economic statecraft efforts packaged in FZ and port management contracts have led to backlashes in certain host economies. The government of Djibouti seized the Doraleh Container Terminal from DP World after losing a case submitted with the London Court of International Arbitration Tribunal concerning a renegotiation of the port concession, which Djibouti government officials believe was secured through bribes. The relationship between DP World and Djibouti deteriorated further as DP World finalized the terms of a new port and FZ project in Somaliland, a potential competitor to Djibouti's monopoly over access to Ethiopian markets. In response, Djibouti awarded construction and management contracts for a $3.5 billion free trade zone, the Djibouti International Free Trade Zone, to Chinese firms.[354]

On a similar note, DP World's intentions to establish a FZ in the Sinai through a JV with the Suez Canal Zone aroused a fierce debate over how Egyptian FZs would compete against Jebel Ali Free Zone. The chairman of DP World issued a formal

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[351] Global Construction Review, "DP World reveals ambitious plans for Senegal and Mali," *GCR*, October 4, 2017, accessed December 4, 2017, http://www.globalconstructionreview.com/news/dp-world-reveals-ambitious-plans-senegal-and-mali/.
[352] Lawson, "International," 85.
[353] Khan, "UAE."
[354] The Djibouti Ports and Free Zone Authority and China Merchants Holdings, a Chinese SEO, will manage the FTZ, while the Dalian Port Corporation, of which China Merchants Holdings is one of the largest shareholders, received the development contract.

statement assuring Egyptian stakeholders that the Emirati company remained merely "facilitators" of the project.[355] DP World also backed out of a deal to manage six American ports following pressure from the U.S. Congress. A byproduct of the post-September 11th political climate, members of Congress expressed concern over the security implications of having strategic entry points to the United States managed by foreign companies.[356]

The incentives offered by FZs in Dubai at times conflicted with the aims of other international coalitions and organizations. Tax incentives within Dubai's FZs led the EU to place the UAE on a tax haven blacklist for approximately two months beginning in December 2017. As a result, EU institutions were not allowed to conduct financial operations with the country, and financial transactions with the UAE faced heavy scrutiny.[357] The UAE's official designation on the EU's tax blacklist threatened to disrupt long-term capital flows as firms and individuals weighed the benefits of moving money through the country. Other concerns over illicit activities associated with UAE FZs have been longstanding; an IMF report from 2008 found that the majority of criminal activity in the UAE involved trans-shipment of prohibited goods or financial crimes and fraud-related offenses in the global financial sector.[358] According to the report, busy financial centers with FZ entities that perpetuate variable regulation standards attract organized criminal groups.[359]

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[355] "Chairman of DP World to Egyptian Government…," *Youm7*, accessed December 4, 2017, http://www.youm7.com/story/2017/11/7/3499761/رئيس-موانئ-دبى-للحكومة-المصرية-لن-نسبب-لكم-ضررا-أنتم . [Arabic]
[356] David Sanger, "Under pressure Dubai company drops deal," *The New York Times*, March 10, 2006, accessed December 4, 2017, http://www.nytimes.com/2006/03/10/politics/under-pressure-dubai-company-drops-port-deal.html.
[357] Nawied Jabarkjyl and Tom Arnold, "UAE must do more on transparency to get off tax blacklist: EU consul," *Reuters*, December 6, 2017, accessed December 8, 2017, https://uk.reuters.com/article/us-eu-emirates-tax/uae-must-do-more-on-transparency-to-get-off-tax-blacklist-eu-envoy-idUKKBN1E01XK.
[358] International Monetary Fund, *United Arab Emirates: Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism* (Washington: IMF, 2008), 15.
[359] Ibid., 34.

3.4 Concluding Remarks

Dubai's reputation as an archetypal territory for FZs is self-reinforcing because it relies heavily on the initial conditions present in Dubai and the embeddedness of ruling and business elites in the FZ development process. Hydrocarbon scarcity in the emirate created an economic impetus to develop an alternative method of rent generation that offered similar political benefits. Despite national narratives attributing FZ development to far-sighted economic diversification, Dubai's FZ trade did not demonstrate substantial productive capacity. Imports, reexports, and oil-related exports constituted 97.5 percent of Dubai's FZ trade in the first half of 2015, leaving minimal room for non-oil exports. Thus, FZ development in Dubai did not produce a radical economic transformation so much as it helped initiate an evolution in the region's traditional rentier structures.

Unlike hydrocarbon rents, commercialized rents from FZs require a diverse array of business partners and consequently offer additional illustrations of power dynamics in GCC territories. The ruling family derived political legitimacy through the perceived economic success of Dubai's FZ sector. Therefore, narratives of state formation credited the success of Jebel Ali Free Zone to the strategic vision of Dubai's rulers. Members of the ruling family also assumed leadership positions in Dubai's most influential FZs, and other FZ initiatives demonstrated the ruling family's humanitarian interests and concern for the health of local residents. In addition to symbolic political legitimization, FZs and related services generated rents for the ruling family and the state through a tightly-linked network of SEOs and state-run investment vehicles. Moreover, FZs facilitated perpetuated flows of expatriate labor – further ensuring the economic viability of state-owned service provision.

Ruling and local merchant elites in Dubai overwhelmingly cooperated on FZ development initiatives. A small group of Emirati advisors closely associated with the ruler of Dubai built the state-run corporations and investment vehicles that oversaw FZ development. These empowered individuals and their corporations competed against one another, which further propelled the expansion of FZs across the emirate. The Dubai Free Zones Council contained members from prominent merchant families, and the council fostered a degree of horizontal cooperation between FZs in the emirates. This level of horizontal cooperation regarding FZs – a byproduct of the ruling family's willingness to participate in economic development initiatives and an extensive network of private sector actors operating within boundaries clearly defined by the state – did not exist in other GCC territories.

A late rentierism approach to political and economic development suggests that partial openings to globalization enhance structural inequality and increase the dependence on international branding of local economic development schemes.[360] Indeed, the state-controlled openness associated with FZ commercial activity in Dubai enriched a small group of ruling and business elites, while FZ policies – especially labor regulations – perpetuated a deep inequality between rents extracted by business elites, employment opportunities available for ordinary Emirati citizens, and the wages of expatriate residents. Commercialized rent streams also depended on continued foreign investments that, as Davidson points out, were precariously linked to external factors beyond the control of Dubai's policy makers.[361] FZs successfully circumnavigated foreign ownership laws instituted by the federal government in Abu Dhabi and ensured tariff-free spheres following the implementation of the GCC

[360] Moritz, *Slick Operators,* 251.
[361] Davidson, *Dubai: The Vulnerability*, 153.

customs union. However, observers and policymakers in Oman, Egypt, and Djibouti critically questioned the motivations of Emirati SOEs involved in local FZ projects. Moreover, taxation policies in FZs placed the UAE on an international blacklist that threatened to disrupt capital flows through the emirate's FZs.

4 Abu Dhabi: The strong do what they please

> *"It was the discovery of oil and gas in the late 1960s that provided the opportunity to build and diversify a strong economy in line with the vision of the late Sheikh Zayed Bin Sultan Al Nahyan."*
> --Abu Dhabi Global Market Free Zone Brochure[362]

Given that "[t]he process of state formation sweeps up what resources have been to hand,"[363] it is unsurprising that Abu Dhabi's hydrocarbon resources played a critical role in the emirate's early modern history and remain an influential force behind political, economic, and social development across the UAE. Substantial hydrocarbon wealth delayed the timing of FZ creation in Abu Dhabi, limited the overall scale of FZ development in the emirate, and minimized the total contribution of FZs to the emirate's economy. Abu Dhabi's relatively late adoption of FZs in 2006 coincided with a renewed focus on economic diversification efforts across the UAE and within the emirate.

Despite the small scale of FZ trade in the capital emirate, FZs accomplished other aims related to showcasing diversification intentions and advancing patronage politics. An examination of FZ corporate structures and related government entities portrayed FZs as an important link between the Al Nahyan ruling family and established tribal-cum-merchant families in Abu Dhabi. While the ruling family of Abu Dhabi was not directly involved in the day-to-day management of FZs, both the ruler and crown prince of Abu Dhabi nevertheless leveraged FZ bureaucracies and policies to reinforce the co-optation of tribal and merchant elites.

Processes of federal and regional integration also forced the emirate to consider FZs as a means of safeguarding local businesses from competition. On a federal level,

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[362] Abu Dhabi Global Market, *Chairman's Message* (Abu Dhabi: ADGM, brochure collected from Abu Dhabi Global Market offices in July of 2016).
[363] Paul Dresch and James Piscatori, eds., *Monarchies and Nations: Globalisation and Identity in the Arab States of the Gulf* (London: I.B. Taurus, 2005), 11.

policymakers in Abu Dhabi viewed FZ firms from other emirates in the UAE as a threat to local business interests and unlikely contributors to Abu Dhabi's economy. While Abu Dhabi's well-funded FZs mitigated certain risks, the entities simultaneously competed with older entities in resource-scarce emirates, exacerbating tensions with officials in the northern emirates. Emerging GCC-wide conventions also clashed with the traditional methods that the Abu Dhabi government used to secure foreign investments – further encouraging the late formation of FZs in the emirate.

4.1 Hydrocarbon Dynamics

The political and economic growth trajectory of Abu Dhabi offers convincing evidence for Acemoglu and Robinson's argument that political institutions and the distribution of resources guide all of the other variables in a given system.[364] Indeed, wealth from hydrocarbon resources afforded Abu Dhabi "the luxury of central planning, stability and isolation."[365] Tracing institutional development alongside resource distribution in Abu Dhabi reveals three distinct periods in the territory's economic history prior to FZ formation: the reliance on traditional economic activities until the crash of the pearl market (1760-1928), the beginning of oil exploration and a re-organization of economic models under Shaykh Shakhbut bin Sultan Al Nahyan (1928-1966), and the consolidation of an oil-led economy under Shaykh Zayed bin Sultan Al Nahyan (1966-2004). These three periods formed the institutional foundations through which Abu Dhabi's FZs emerged in the early 21st century – a period marked by high oil prices and a renewed focus on economic diversification in Abu Dhabi. FZs reinforced existing political institutions and, rather than presenting an

[364] Acemoglu and Robinson, "Paths," 4.
[365] Young, *Political,* 73.

alternative to hydrocarbon revenues, often depended on hydrocarbon wealth for commercial viability.

4.1.1 A strong rentier history

The earliest reports of the town of Abu Dhabi emerged following the discovery of drinking water in the area around 1760.[366] During the early history of Abu Dhabi, the local Bani Yas tribal federation confronted military competition from the Qawasim tribe of current-day Sharjah and Ras Al Khaimah.[367] The Qawasim reached their zenith as a maritime power in the middle of the 18th century; however, the destruction of their maritime fleet at the hands of the government of Bombay and subsequent truces with the British set the stage for their eventual decline in significance over the 19th and early 20th centuries.[368] The decline of the Qawasim resulted in the strengthening of the position of the land-based Bani Yas and increasing commercial importance of Dubai as a major trading hub at the start of the 20th century.[369] The Bani Yas tribesman who constituted the early residents of Abu Dhabi worked as camel breeders, date farmers, and, as was popular throughout the Gulf region, pearl fishermen.[370] However, the lucrative pearling industry collapsed following the commercialization of the Japanese cultured pearl in 1918 as well as the onset of the Great Depression.[371] "Abu Dhabi was extremely hard hit by the pearling depression, and only Dubai was able to sustain an

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[366] Peter Lienhardt, *Shaikhdoms of Eastern Arabia* (Hampshire: Palgrave, 2001), 114.
[367] Peter Lienhardt, *Shaikhdoms of Eastern Arabia,* D.Phil Thesis: The University of Oxford (1957), 174.
[368] Zahlan, *The Origins,* 14.
[369] Ibid.
[370] Frauke Heard-Bey, *From Trucial States to United Arab Emirates: A Society in Transition* (Michigan: Longman Publishing Group, 1984), 198-199.
[371] There is some disagreement over the precise beginning of the commercial sale of cultured pearls, with various sources suggesting dates ranging from 1918-1928. See: Kihohito Nagai, "A History of the Cultured Pearl Industry," *Zoological Science* 30 (2013): 784; and Alexander E. Farn, *Pearls: Natural, Cultured and Imitation* (Letchworth: Butterworth & Co, 1986), 108.

economy, albeit small, which was built on the traffic in gold,"[372] explains Ragaei El Mallakh.



Figure 4: Timeline of Abu Dhabi's rulers (1912-2018) [373]

The oil explorations that took place under Shakhbut bin Sultan during the late 1930s initiated a structural reorganization – though not immediate actualization – of prevailing economic models. The most significant economic development involved the granting of concessions for oil exploration that began in Abu Dhabi in 1939;[374] however, it is worth noting that past rulers had derived non-oil economic rents from natural resources like guano deposits on islands near Abu Dhabi.[375] Yet, Shakhbut bin Sultan did not utilize the full commercial potential of Abu Dhabi's oil reserves, leading Clarence Mann to argue, "It is necessary to come to the conclusion that he [Shakhbut] believes that large sums of money will bring more woes than benefits to Abu Dhabi."[376] Estimates of Abu Dhabi's entire revenue in 1962 totaled a mere $150,000, and the majority of the shaykhdom's commodities, equipment, and vehicles were procured via Dubai.[377] Shakhbut bin Sultan even prohibited construction within Abu Dhabi unless he had personally signed off on the project.[378] Many local traders and

[372] Ragaei El Mallakh, *The Economic Development of the United Arab Emirates* (London: Croom Helm, 1981), 21.
[373] Jayanti Maitra, *Qasr Al Hosn: The History of the Rulers of Abu Dhabi, 1793-1966* (Abu Dhabi: Centre for Documentation and Research, 2001).
[374] El Mallakh, *The Economic*, 88.
[375] Davidson, *The United Arab Emirates: A Study*, 88; Ibrahim Al Abed, ed., *United Arab Emirates: a new perspective* (London: Trident Press, 1997), 73.
[376] Clarence Mann, *Abu Dhabi: Birth of an Oil Sheikhdom* (Beirut: Khayats, 1964), 113.
[377] Mann, *Abu Dhabi,* 112-114.
[378] Daron Acemoglu and James Robinson, "The Strange Tale of Sheik Shakhbut," *Why Nations Fail Blog*, published September 25, 2012.

ruling family members considered the shaykh's cautious development approach unfitting for the aspirations of an emerging petro-state.[379]

The economic transformation of Abu Dhabi evolved further following the bloodless coup led by Zayed bin Sultan in 1966, after which oil-related activity began to consume a disproportionately large portion of the economy. Estimates of Zayed bin Sultan's income in 1967 totaled approximately $84 million – an exponential increase compared to his brother's annual income of $150,000 in 1962.[380] At the same time, oil royalties and taxes accounted for approximately 97.1 percent of Abu Dhabi's total revenues in 1968.[381] This contrasted greatly with the neighboring Dubai where, during the same year, customs duties accounted for nearly 75 percent of total revenues.[382] While Dubai and the northern emirates had to generate new rent streams through customs duties, service provision, and eventually FZs, Abu Dhabi's hydrocarbon resources constituted the majority of the emirate's economic rents.

Increasing hydrocarbon rents coincided with Zayed bin Sultan's political consolidation efforts. In February of 1968, Abu Dhabi and Dubai agreed to form a union intended to "preserve stability…and achieve a better future for the people [of their respective territories]."[383] The initial agreement with Dubai foreshadowed the political marginalization of the northern emirates, while subsequent agreements between Abu Dhabi and the remaining emirates in April 1968 ensured that any union would not threaten the economic autonomy and hydrocarbon resources of Abu Dhabi.

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[379] Jayanti Maitra and 'Afrā' al-Ḥijjī, *qaṣr al-ḥuṣn: tārīkh ḥukām ābū dhabī 1893-1966 (*ābū dhabī: markiz al-withā'iq wa-l-baḥūth, 2001): 248; (*Qasr Al Hosn: The History of the Rulers of Abu Dhabi, 1793-1966* (Abu Dhabi: Centre for Documentation and Research, 2001)). [Arabic]
[380] Mann, *Abu Dhabi,* 112.
[381] Aqil Kazim, *The United Arab Emirates A.D. 600 to the Present: A Socio-Discursive Transformation in the Arabian Gulf* (Gulf Book Centre, 2000), 230.
[382] Kazim, *The United,* 230.
[383] ittifāqiyyat ittiḥād al-imārāt al-'arabiyya (written on website as Nine Sheikhdoms' Union Treaty) Pg. 1, 1968, The National Archives, United Arab Emirates, http://www.na.ae/en/archives/historicalarchives/union.aspx. [Arabic]

Cooperation instead focused on foreign affairs, defense and security, education and health, and immigration.[384] These early negotiations, partly motivated by the British withdrawal from the Gulf and briefly including Qatar and Bahrain, provided the groundwork for the establishment of the UAE and crafted an institutional framework that encouraged economic competition between emirates.

The oil boom in Abu Dhabi facilitated the growth of a fledgling merchant class that mainly emerged in the late 1960s and 1970s to facilitate the importation of goods required for large-scale development projects undertaken by Zayed bin Sultan.[385] In contrast to the cosmopolitan character of merchants in Dubai and the northern emirates, Abu Dhabi's merchants represented a more homogenous cluster of families that traced their lineage back to prominent Arab tribes. Moreover, Abu Dhabi's local merchant class remained small compared to that of neighboring Dubai. During this period, "politically influential merchants in Abu Dhabi numbered fewer than twenty, and the Chamber of Commerce was the only organization that represented their interests."[386] As an early reflection of intra-emirate competition, this small group of merchants successfully petitioned the ruler to implement a ten percent duty on all goods not directly imported into Abu Dhabi as a protectionist measure against Dubai's more powerful merchant class.[387]

The hydrocarbon sector remained the largest and most lucrative economic activity in the emirate throughout the remainder of the 20th century, during which time Abu Dhabi pursued a "relatively risk free" path of development based on hydrocarbon-

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[384] ittifāqiyyat ittiḥād ābū dhabī wa-ūmm al-qaywayn ("Union Treaty [Between the] Emirates of Abu Dhabi and Umm Al Quwain"), 1968, The National Archives, United Arab Emirates, http://www.na.ae/en/archives/historicalarchives/union.aspx. [Arabic]
[385] The pearling industry attracted a small number of Persian and Indian merchants, the latter coming from the Sind Province. See: Heard-Bey, *From,* 201-202.
[386] Kazim, *The United,* 273.
[387] Ibid.

fueled industrialization and overseas investments.[388] Abu Dhabi's early long-term industrial strategy began to take shape with the 1982 inauguration of the Ruwais industrial complex, which aimed to diversify downstream petroleum operations.[389] By 2017, nearly half of the manufacturing activity in Abu Dhabi took place in industrial zones managed by ZonesCorp,[390] a developer and operator of economic zones created by the government in 2004.[391] Abu Dhabi also began recycling surplus oil wealth into sovereign wealth funds and other investment portfolios during the 1970s; these investment funds were worth an estimated one trillion dollars by 2009.[392] Both hydrocarbon-related development paths relate to FZs that emerged in the beginning of the 21st century. KIZAD, one of Abu Dhabi's newer FZs, remains the latest industrial megaproject in the emirate, while Abu Dhabi's substantial investable assets underpin the credibility of Abu Dhabi Global Market (ADGM) as a financial hub and FZ.[393]

4.1.2 FZs and oil-fueled economic diversification

The emergence of FZs in Abu Dhabi occurred during an eventful decade at the outset of the 21st century: the global price of crude oil swung from a low of $26.85 to a high of $156.62,[394] Khalifa bin Zayed Al Nahyan became ruler of Abu Dhabi in 2004, the local and federal governments released Abu Dhabi Vision 2030 and UAE Vision 2021, and the 2008 financial crisis forced Abu Dhabi to provide billions of dollars of debt relief to Dubai. Moreover, the end of the decade coincided with the beginning of

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[388] Christopher Davidson, "The Emirates of Abu Dhabi and Dubai: Contrasting Roles in the International System," *Asian Affairs* 38.1 (2007): 38.
[389] El Mallakh, *The Economic*, 84.
[390] ZonesCorp, "ZonesCorp - Your Gateway to Growth Capital – Abu Dhabi," *ZonesCorp*, updated September 18, 2017, accessed November 20, 2017, http://www.zonescorp.com/en/about-us/zonescorp.
[391] Despite being regularly listed as a free zone in major GCC newspapers, ZonesCorp clearly states on its website that it does not issue free zone licenses and that all companies must maintain an Emirati shareholder with at least 51 percent ownership.
[392] Davidson, *Abu Dhabi,* 73-75.
[393] Abu Dhabi Global Market, *Chairman's*, collected July of 2016.
[394] West Texas Intermediate Crude oil prices for 2007, adjusted for inflation. See: Macrotrends, "Crude Oil Prices – 70 Year Historic Chart," accessed September 5, 2017, http://www.macrotrends.net/1369/crude-oil-price-history-chart.

"Arab Spring" protests across the Middle East and North Africa that, as Ulrichsen argues, "injected urgency into the looming transition from oil-dependent economies toward competitive post-oil economic (and political) structures."[395] Thus, Abu Dhabi's FZs emerged in a paradoxical period characterized by high, but fluctuating, oil prices and increased rhetorical efforts to diversify the emirate's economy away from hydrocarbon resources.

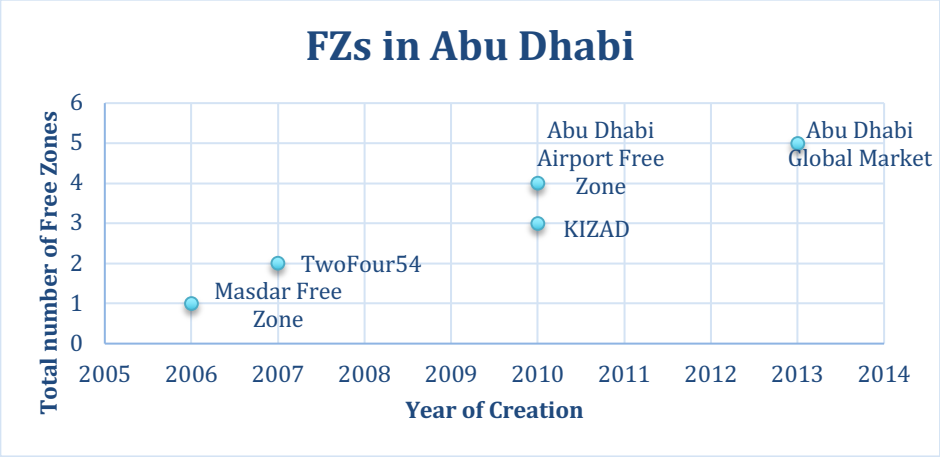


Figure 5: Graph of FZ creation in Abu Dhabi

There are clear links between Abu Dhabi's hydrocarbon resources and FZ development in the emirate. First, the presence of proven oil reserves appears to be a strong demotivating factor for early experimentation with FZs. Abu Dhabi possess 94 percent of the country's proven oil reserves,[396] and it established its first FZ later than any other emirate. Ajman, Umm Al Quwain, and Fujairah do not possess any proven oil reserves, and these emirates adopted FZs in the late 1980s.[397] Those emirates with small oil reserves, Sharjah and Ras Al Khaimah, reflect the middling category for the timing of FZs adoption in 1995 and 2000 respectively.

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[395] Kristian Coates Ulrichsen, *The Gulf States in International Political Economy* (Hampshire: Palgrave Macmillan, 2016), 210.
[396] "The UAE and the Global Oil Supply," *The Embassy of the United Arab Emirates*, accessed February 20, 2017, http://www.uae-embassy.org/about-uae/energy/uae-and-global-oil-supply.
[397] For a complete tabulation of FZ creation and hydrocarbon reserves in the UAE, refer to Table 9 in the northern emirates chapter.

Emirate	Oil Reserves (2015)[398]	Total FZs	First FZ	Timing Average (yrs)
Dubai	4bn barrels	24	1985	2003
Northern emirates	2bn barrels	10	1987	1998
Abu Dhabi	92.2bn barrels	5	2006	2009
TOTAL	98.2bn barrels	39	N/A	N/A

Table 5: UAE FZs, proven oil reserves, and FZ creation

The clear outlier in the group is Dubai, which opened Jebel Ali Free Zone in 1985, but it is worth noting that the emirate did not establish its second FZ until 1996. Thus, if Dubai's early FZ experience is discounted, then the remainder of the emirate's pattern of FZ development aligns more closely with that of Sharjah and Ras Al Khaimah. The average year of FZ creation amongst operating FZs in Abu Dhabi was 2009, compared with an average year of 1998 in the northern emirates and 2003 in Dubai.[399] Relatedly, substantial hydrocarbon reserves appear to correlate inversely with the overall scale of FZ development in the UAE.

Second, there is a strong relationship between Abu Dhabi's hydrocarbon wealth and specific characteristics of the emirate's operating FZs. The emirate's first FZ, Masdar City Free Zone, is a hub for renewable and future energies – 30 percent of the FZ's clients operate in energy generation, storage, distribution, and efficiency.[400] Thus, Abu Dhabi's initial FZ experience reflected what Young considers a twofold strategy of investing in the well-known energy sector and positioning to be the center of the future of global energy finance.[401] "The commercial enterprise based on production and circulation of new green technology started from the very beginning to generate revenues, becoming not a simple feature of the Masdar City project, but its very

[398] "The UAE," *The Embassy of the United Arab Emirates*; Figures from the World Energy Council support these calculations.
[399] The average year of creation for operating FZs in Dubai was 2004.
[400] Data on FZ sector analysis provided remotely by interviewee 23 on April 14, 2016.
[401] Young, *Political,* 83.

engine," argues Curugullo.[402] KIZAD's anchor tenant, Emirates Aluminium, is one of the largest greenfield single-site aluminum smelters in the world,[403] and the availability of cheap energy is a necessary input for the economical production of aluminum.[404] In a similar vein, strong state support for Etihad airlines has helped the emirate become an aviation hub and increased the attractiveness of Abu Dhabi Airports Free Zone.[405] Moreover, statements from ADGM officials suggest that depressed commodity prices have complicated their early efforts to drive sustainable, non-hydrocarbon sector growth through the financial FZ. [406]

Third, the relative value of oil over a given timespan also appears to exert a demonstrable effect on FZ creation in oil-abundant territories like Abu Dhabi. In fact, all of Abu Dhabi's FZs emerged during years of rising oil prices. Quite contrary to belief that low oil prices spur FZ development, Abu Dhabi did not develop FZs during the sustained period of low and fluctuating oil prices from the late 1980s until the early 2000s. Rather, the emirate waited until rebounding prices to begin developing FZs.[407] In the four years prior to Abu Dhabi's adoption of its first FZ in 2006, GCC revenues from oil and gas more than tripled from $100 billion to $325 billion, providing

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[402] Cugurullo, "How," 2013.
[403] Abu Dhabi Ports Company, "The Company," *Abu Dhabi Ports Company*, accessed November 17, 2016, http://www.adports.ae/en/section/the-company.
[404] Australian Atlas of Minerals Resources, Mines & Processing Centres, "Aluminium Fact Sheet," *Geoscience Australia*, accessed September 4, 2017.
[405] A group of airlines has accused Etihad airlines of receiving $15.2bn in capital transfers, interest free loans, and other subsidies since 2004. See: "Airline subsidies in the Gulf: Feeling the heat," *The Economist*, March 6, 2015.
[406] Interview 48, a senior manager at Abu Dhabi Global Market, *Abu Dhabi, UAE,* July 24, 2016; Sarah Townsend, "Can Abu Dhabi's new financial free zone compete?" *Arabian Business*, April 29, 2016, accessed October 17, 2017. http://www.arabianbusiness.com/can-abu-dhabi-s-new-financial-free-zone-compete--630008.html#.VyORMaNcSko.
[407] While government officials did discuss the possibility of creating a FZ on Saadiyat Island in the late 1990s, the FZ project never came to fruition. See: Habib Al Mulla, "DIFC lessons point the way to Abu Dhabi's new free zone," *The National*, June 10, 2013, accessed September 15, 2017, http://www.thenational.ae/business/industry-insights/economics/difc-lessons-point-the-way-for-abu-dhabis-new-free-zone.

additional funds for government spending.[408] In a similar vein, Qatar built its first two FZs in 2005, a year wherein natural gas prices reached historic highs. Correlation between increasing energy prices and FZ creation coincides with other findings linking non-hydrocarbon activities with hydrocarbon prices.[409] For example, a 2014 IMF report on diversification in the GCC found that a steady increase in the share of non-hydrocarbons output in GDP is highly correlated with oil prices,[410] and Young argues that FDI inflows in the UAE principally reflect investments in real estate and oil and gas.[411]

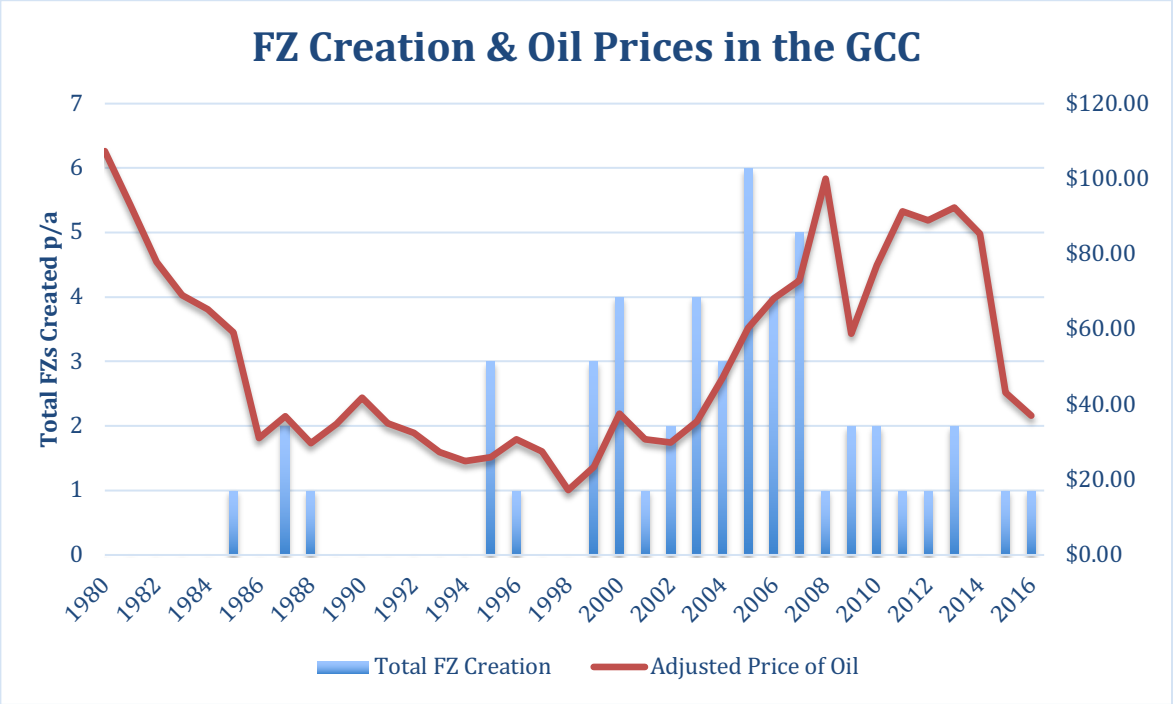


Figure 6: Graph of FZ development in the GCC & adjusted oil prices

FZs eventually featured in government-led narratives concerning economic diversification in the emirate of Abu Dhabi and the greater UAE. An interviewed

[408] The McKinsey Quarterly, *Beyond oil: Reappraising the Gulf States* (Dubai: McKinsey & Company, 2007), 9.
[409] Refer to Appendix D for a graph illustrating the correlation between FZ creation and year-on-year oil prices.
[410] Callen et al., *Economic Diversification,* 4.
[411] Young, *Political,* 56.

correspondent from *Thomson Reuters* noted, "Abu Dhabi came late to the party. There was never [a] need to diversify until oil started falling. Unlike Dubai, Abu Dhabi does niche tourism, like the Formula 1 racing and globally-recognized museums. Then they realized that they needed free zones."[412] Indeed, FZ formation coincided with increased calls for greater economic diversification in Abu Dhabi: specifically the Abu Dhabi Vision 2030 launch in 2008 and the presentation of UAE Vision 2021 at a Federal Cabinet meeting in 2010.[413] The Abu Dhabi 2030 Vision describes FZs as "the primary tools for encouraging foreign investment" in Abu Dhabi,[414] whereas the UAE Vision 2021 portrays the UAE as a "stable and diversified economy, distinguished by flexibility in adopting new economic models and gaining maximum benefit from global economic partnerships."[415] Within the context of economic diversification, Ulrichsen considers FZs central to the UAE's long-term transition from a political economy based on hydrocarbons to a knowledge-intensive economy.[416]

Renewed calls for economic diversification appeared in the Ministry of Economy's Annual Economic Report 2015. The central economic transformation target cited in the report is the contribution of non-oil sectors to 80 percent of the UAE's GDP by 2021.[417] While this report covers the national economy, Abu Dhabi shoulders the overwhelming responsibility for meeting this target because the remaining emirates in the UAE already rely predominantly on non-oil revenues. In 2009, for example, 75

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[412] Interview 49, correspondent at Thomson Reuters, *Abu Dhabi, UAE,* July 24, 2016.
[413] Vision 2021, "UAE Vision," United Arab Emirates, accessed September 5, 2017, https://www.vision2021.ae/en/our-vision.
[414] al-ru'īa al-iqtiṣādiyya 2030 li-imārat ābū dhabī (Abu Dhabi Vision 2030), the Government of Abu Dhabi, 2008, 50. [Arabic]
[415] ru'īat 2021: al-imārāt al-'arabiyya al-mutaḥida, "muttaḥidūn fī al-ṭumūḥ wa-l-'azīma," (Vision 2021: United Arab Emirates, "United in Ambition and Determination,") Abu Dhabi, 2010, 17. [Arabic]
[416] Ulrichsen, *The United*, EBook section 444.1.
[417] United Arab Emirates Ministry of Economy, *The Annual Economic Report 2015* (Abu Dhabi: UAE Ministry of Economy, 2015), 31.

percent of the UAE's non-oil trade passed through Dubai's two main ports,[418] whereas the hydrocarbon sector still represented 56.5 percent of Abu Dhabi's GDP in 2012.[419]

It is within this context that Abu Dhabi's FZs became prime tools to illustrate the emirate's diversification efforts. The Abu Dhabi Ports Company describes its flagship project, KIZAD, as "a cornerstone of the Abu Dhabi Economic Vision 2030," that is expected to contribute 15 percent of Abu Dhabi's non-oil GDP.[420] A press release issued by *Emirates News Agency*, the official news agency of the UAE, portrays KIZAD's activities during 2016 as "a key facilitator of economic diversification…in line with Abu Dhabi Vision 2030," and having "achieved significant growth in its Emiratisation drive."[421] Yet KIZAD only accounted for 3.2 percent of the emirate's non-oil GDP in 2016 – a fraction of that provided by Jebel Ali Free Zone in Dubai.[422] Jebel Ali Free Zone companies contributed more than 21 percent of Dubai's total GDP and facilitated a quarter of non-oil trade by volume in 2015.[423] James Robinson and Ragnor Torvic's work on white elephants, inefficient projects possessing negative social value, suggests that such projects nevertheless possesses political advantages for government officials.[424] Free zones, regardless of commercial success or total economic contribution, accomplish two overt political objectives by employing Emirati citizens and demonstrating initiative to advance the economic interests of Abu Dhabi and its citizens.

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[418] Davidson, *Abu Dhabi*, 173.
[419] Oxford Business Group, *The Report: Abu Dhabi*,18.
[420] Abu Dhabi Ports Company, "The Company," *Abu Dhabi Ports Company*, accessed November 17, 2016, http://www.adports.ae/en/section/the-company.
[421] "KIZAD registers strong performance in 2016," *Emirates News Agency*, January 25, 2017, accessed January 27, 2017, http://www.wam.org.ae/en/print/1395302594031.
[422] "KIZAD registers strong performance in 2016," *Al Bawaba*, January 26, 2017, accessed January 27, 2017,
https://www.albawaba.com/business/pr/kizad-registers-strong-performance-2016-929448.
[423] Jebel Ali Free Zone Authority, "Dubai Industrial Strategy," 5.
[424] James Robinson and Ragnar Torvic, "White Elephants," *Journal of Public Economics* 89 (2005): 197.

Despite a concerted government-led effort to cast FZs as key enablers of economic diversification, there is scant evidence that Abu Dhabi's FZs have made a positive impact on traditional economic indicators. A statistical bulletin issued by the UAE's Federal Customs Authority in 2015 revealed the contribution of Abu Dhabi's FZs to be less than one percent of total FZ trade in the UAE; Dubai accounted for 90 percent of total FZ trade in the country.[425] The value of total FZ trade in Abu Dhabi from January through July of 2015 accounted for a mere AED 579 million (~$158 million), placing the capital emirate only ahead of Ajman's AED 477 million in terms of overall FZ trade value during that period.[426]

In addition to low levels of FZ trade, it is difficult to decipher whether Abu Dhabi's FZs have positively impacted FDI in the emirate. The Statistics Centre Abu Dhabi reports solid growth in Abu Dhabi's FDI from 2007 until 2015; however, SCAD does not have any inward FDI records before 2007. This is unfortunate because all of Abu Dhabi's FZs emerged between 2006 and 2013, whereas no FZs existed during the decade before 2006. Thus, records dating back two decades would have provided useful comparisons between the average growth of inward FDI during periods with and without FZs. Moreover, these years correspond to a period marked by high oil prices and an inflated real estate market, and FDI inflows in the UAE are closely linked to investments in both real estate and oil and gas.[427]

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total FDI	31,500	38,855	43,171	48,446	52,232	60,898	71,931	81,112	88,324
% Change	N/A	23.3%	11.1%	12.2%	7.8%	16.5%	18.1%	12.8%	8.9%

Table 6: FDI in Abu Dhabi, Statistics Centre Abu Dhabi (in millions of AED)

While hydrocarbon resources and subsequent economic diversification efforts can help to illustrate the timing, scale, and certain motivations behind FZ development

[425] Federal Customs Authority, *Emirates Customs: Free Zones*, 3.
[426] Ibid.
[427] Young, *Political,* 56.

in Abu Dhabi, there are nevertheless limits to an analysis of FZs in Gulf Arab territories that focuses exclusively upon hydrocarbon resources and perceptions of resource scarcity and abundance. Pure economic calculus does not necessarily determine FZ formation,[428] and unstated objectives remain rooted in FZ development.[429] Hanieh, for example, argues that the proliferation of FZs removed constraints on internationalized capital and permitted business elites to exploit cheap labor and other resources.[430] Keeping this dimension in mind, the following section elucidates how FZs in Abu Dhabi served as spheres for elite co-optation.

4.2 Elite Relationships

FZs linked rent creation to a specific royal personality, personal relationships, and patronage networks. These linkages helped contain violence in limited access social orders[431] wherein rulers view independent private sectors as a political threat.[432] In this respect, the Al Nahyan ruling family codified its authority over FZ creation and ensured its ability to distribute related rent streams. As part of political entrenchment efforts, the ruling family incorporated an established network of tribal allies and local merchants into FZ bureaucracies. The ruling family provided these elite allies with corporate roles in FZs and granted limited political power to shape FZ policy and arbitrate firm registration through the Executive Council. In turn, business elites leveraged these corporate and political FZ roles to connect their interests to those of the ruling family and the national government. The consequent structural utility of FZs and their associated policies serve the vested interests of both ruling and business elites in

[428] Keshavarzian, "Geopolitics," 265.
[429] Hakimian, "Iran's," 857.
[430] Hanieh, *Capitalism, 46.*
[431] North et al., *Violence and Social Orders,* 37.
[432] Adeel Malik, "The political economy of Arab uprisings," in Steven N. Durlauf and Lawrence E. Blume, *The New Palgrave Dictionary of Economics* (London: Palgrave Macmillan, 2014), para. 18.

Abu Dhabi while also limiting the potential avenues for a politically-threatening private sector to emerge.

4.2.1 What Al Nahyan giveth, Al Nahyan can taketh away

That Gulf Arab ruling families function as key actors within the state and their respective territories is clear. However, the relationship between the ruling family and the concept of the state requires clarification before ruling families' roles in FZ development can be fully understood. Abdulhadi Khalaf argues that "the state is the ruling family; that is to say, more than simply stating that the state is an instrument of the ruling family. Rather, there is a distinct intertwining of state and the ruling families in a relation of indistinguishable organic unity."[433] Alternatively, Hanieh considers the Gulf Arab state "not as a 'thing' or collection of individual social actors, but rather as a particular expression of class formation – with the latter understood as a set of social relations that is continually in the process of coming-into-being."[434] The former conception describes the state as a slightly static composition of elite individuals, whereas the latter view offers a more fluid, dynamic definition of the state based on constantly evolving relationships. A middling view between these two concepts of the state and its relation to ruling families is most appropriate for this thesis, as it acknowledges the persistence of distinct individuals through royal families as well as the flexible evolution of the state through changing local and global relationships.

Unlike Dubai and the northern emirates, Abu Dhabi's Al Nahyan ruling family does not represent a conspicuous presence within FZs. In fact, ruling family members are completely absent from the corporate hierarchies of FZ entities. Yet the influence of the Abu Dhabi royal family over FZs is apparent in other ways. Abu Dhabi's FZs trace

[433] AlShehabi et al., *Transit States,* 45.
[434] Hanieh, *Capitalism,* 12.

their origins back to royal decrees,[435] signifying a historic link between the ruler and FZ creation. Establishing FZs by royal decree conversely means that the ruler remains the final arbiter – or the ultimate source of authority, according to a Dubai-based lawyer experienced in free zone law[436] – for FZ legal regulations and policies. This contrasts with foreign-trade zones in the United States, for example, wherein a rigid legal structure or "set of rules" regulates trade and investment policies.[437]

A less visible role for the ruling family in economic entities like FZs should not be misinterpreted as a waning of the government's control over FZs specifically or the economy more generally. Martin Hvidt argues that Vision 2021 does not indicate a decreased role for the government in the economy, given that the word "private" seldom appears in the document.[438] None of the FZs in Abu Dhabi are privately owned or managed. This public ownership structure differs from the growing trend of private sector involvement in the ownership, development, and operation of global FZs;[439] however, it aligns with the general preference for public FZs in the MENA region.

Region	Public Zones	Private Zones	Total
Americas	146	394	540
Asia and the Pacific	435	556	991
Sub-Saharan Africa	49	65	114
Middle East and North Africa	173	40	213
Central and Eastern Europe and Central Asia	69	374	443
Total	872	1,429	2,301

Table 7: Global distribution of public and private FZs

[435] Abu Dhabi Global Market, emerged following Law 4 of 2013, a royal decree issued by the ruler.
[436] Interview 29, partner at Dubai-based law firm, *Dubai, UAE*, May 11, 2016.
[437] Interview 43, president of national association of foreign-trade zones, *Washington, DC,* June 17, 2016.
[438] Martin Hvidt, "Economic diversification in GCC countries: Past record and future trends," *Kuwait Programme on Development, Governance and Globalisation in the Gulf States* (2013): 33.
[439] United Nations Conference on Trade and Development, "Enhancing the Contribution of Export Processing Zones to the Sustainable Development Goals: An analysis of 100 EPZs and a Framework for Sustainable Economic Zones," *United Nations Report* (2015): 5.

Moreover, the branding of both the Khalifa Industrial Zone of Abu Dhabi (KIZAD) – as well as KIZAD's Khalifa Port Free Trade Zone[440] – is highly personalized to reflect a direct association with Khalifa bin Zayed, the current ruler of Abu Dhabi. Abu Dhabi is the only GCC territory containing an operating FZ named after a member of its ruling family.[441] The remaining FZs in the GCC bear the names of their respective territories, an industry association, or both. Linkages to the royal family, however, can possess downsides.[442] While royal ownership of UAE banks, for example, increases confidence of depositors and investors, it also creates the assumption that state-linked entities are guaranteed by the state.[443]

Although the entirety of Abu Dhabi's FZ creation occurred under Khalifa bin Zayed's rule, elite Emirati actors within the media also linked country-wide FZ creation to the Khalifa's father, Shaykh Zayed bin Sultan. Ibrahim Al Abed, an advisor to the National Media Council and overseer of the *Emirates News Agency*, wrote in *Al Bayan*[444] that country-wide FZ development during Shaykh Zayed's rule attracted international media institutions and transformed the country into a global media hub.[445] These efforts, in effect, subsumed FZ development in Dubai and the northern emirates as part of Shaykh Zayed's legacy narrative.

Nevertheless, the current ruler and crown prince of Abu Dhabi remain in firm control of FZ bureaucracies through royal decrees that quietly reshuffle board members

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[440] The Khalifa Port Free Trade Zone emerged in November 2016 as a separate entity within KIZAD. Prior to the FZs emergence, KIZAD awarded both free zone and non-free zone licenses. Therefore, the free trade zone represented an expansion of existing services rather than the creation of a new entity.
[441] Umm Al Quwain's FZ first bore a royal name but changed to the Umm Al Quwain FTZ in 2014.
[442] Refer to "Royal chairmanships and boardroom thrones" section of the chapter on the northern emirates for a discussion about how FZ linkages to royal families can increase pressure for quick commercial results.
[443] Young, *Political,* 45.
[444] *Al Bayan* is a pro-government newspaper owned by a member of Dubai's ruling family.
[445] Sabri Saqr, "Ibrahim Al Abed, Advisor to the National Media Council: Zayed's idea of the media is free, responsible and unrestricted," *Al Bayan*, July 15, 2018, accessed July 16, 2018, https://www.albayan.ae/year-of-zayed/news-and-reports/2018-07-15-1.3315471. [Arabic]

overseeing FZs or their parent companies.[446] Law 4 of 2013, which established ADGM, illustrates how the royal family asserts authority through FZs. The law, issued by Shaykh Khalifa bin Zayed, notes the FZ will "have an independent legal personality[447] and enjoy full legal capacity and financial and administrative independence."[448] Crucially, the article also mentions that the FZ "shall be affiliated with the Government," and dictates that the chairman of the Executive Council, or the crown prince of Abu Dhabi, shall determine the appointment and remuneration of board members every five years.[449] In this way, ADGM retains a degree of embedded autonomy by maintaining both legal independence under common law and strong links to ruling and business elites.[450]

Crown Prince Shaykh Mohammed bin Zayed regularly exercises his power to appoint board members within the emirate's FZs by issuing resolutions as chairman of the Executive Council. His restructuring of Abu Dhabi Airport Company board in November 2016 occurred at the end of a two-year gap in official press releases from the Abu Dhabi Airports Free Zone.[451] According to its website, the FZ registered its 100th free zone license in November 2014 and then did not issue a press release until January

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[446] Abu Dhabi Ports Company, "Mohammed Bin Zayed restructures ADPC's board," *Abu Dhabi Ports Media Centre*, April 2, 2013, accessed September 21, 2017, http://www.adports.ae/en/media-centre/newslisting/mohammed-bin-zayed-restructures-adpcs-board/.

[447] In the same vein as the DIFC in Dubai, ADGM operates under Common Law for all civil and commercial matters pertaining to free zone clients.

[448] Abu Dhabi Law 4 of 2013, "Concerning Abu Dhabi Global Market," Article 2, http://adgm.complinet.com/net_file_store/new_rulebooks/a/b/Abu_Dhabi_Law_No_4_of_2013.pdf.

[449] Ibid., Article 4.

[450] This dichotomy of legal and regulatory autonomy combined with links to society's elites resembles Peter Evans' concept of embedded autonomy. See: Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995).

[451] qarār ra'īs al-majlis al-tanfīdhī raqm 121 li-sanat 2016, "bi-'ādat tashkīl majlis īdārat sharikat ābū dhabī lil-maṭārāt," *al-jarīda al-rasmiyya* (Chairman of the Executive Council Resolution 121 of 2016, "Restructuring of the corporate board of the Abu Dhabi Airports Company," *The Official Gazette*), General Secretariat of the Executive Council of Abu Dhabi, November 2016, 41-42. [Arabic]; "Zayed restructures Abu Dhabi Airports Company," *Gulf News*, November 14, 2016, accessed November 20, 2016, http://gulfnews.com/business/aviation/shaikh-mohammad-bin-zayed-restructures-abu-dhabi-airports-company-1.1929477.

2017.[452] In June 2017, the FZ reported the issuing of its 200th license. These company registrations figures reflect a small client base and growth rate when compared to other UAE airport FZs. "Free zones are not publicly listed so they don't need to divulge their financials. We have no idea if they are making profits. I think Dubai free zones are making money, but it's hard to say about the other free zones. It doesn't seem like they are making losses,"[453] explained an Abu Dhabi-based business journalist while describing the opaque business environment. The royal juggling of leadership positions and board memberships within FZs relates to the portrayal of the Al Nahyan family as:

> *a resilient and dynamic dynasty whose leading members draw upon enormous personal resources and have successfully co-opted their historic tribal allies and the emirate's business community into an extensive network of distributed powers and 'tribal capitalist' positions.*[454]

The pervasive influence of leading tribal and merchant families within the corporate structures of Abu Dhabi FZs attests to the continuity of elite co-optation in the emirate.

4.2.2 Locally-made: Abu Dhabi's tribal merchants

Abu Dhabi possesses an extensive network of influential merchant families that trace their lineage to prominent local tribes, and FZs function as a means of doling out influential positions to members of these families. Although Dubai is widely considered the Arabian Gulf's primary entrepôt and home to a cosmopolitan mix of merchants,[455] Abu Dhabi's merchants should not be underestimated. In 1908, the ruler of Abu Dhabi relied on taxes from merchants in the pearling industry for 82 percent of

[452] Abu Dhabi Airport Business City, "Press Releases," *Media Centre*, accessed August 29, 2017, http://www.businesscity.ae/english/media-centre/press-releases/.
[453] Interview 49, correspondent at Thomson Reuters, *Abu Dhabi, UAE,* July 24, 2016.
[454] Davidson, *Abu Dhabi*, 94.
[455] Fatma Al Sayegh, "Merchants' role in a changing society: the case of Dubai, 1900-90," *Middle Eastern Studies* 34.1 (1998): 88.

his income.[456] Moreover, Ulrichsen argues that since Abu Dhabi-based merchants provided loans to the ruling family between the collapse of the pearling industry and the start of oil exports in the mid-20th century, the economic power wielded by merchant elites in Abu Dhabi was comparable to that of Dubai – despite possessing a lower overall economic potential.[457]

Proximity to the ruling family, be it chance encounters or interrelated tribal structures, secured the social and economic positions of many Abu Dhabi merchants. Mohamed Al-Fahim, former head of the prominent Al Fahim Group, recounts how his father met Shaykh Zayed bin Sultan while working on the new royal palace project that began in the late 1930s following the signing of oil concessions. Shaykh Zayed was impressed that Mohamed's father could read and write and requested that he become a royal advisor based at Shaykh Zayed's residence in the Al Muwaij'ei Oasis near Al Ain.[458] Similar linkages based on proximity to the ruling family can be traced to this oasis during the middle of the 19th century. While the buildings in the oasis were owned by the Al Nahyan family members, the adjoining barasti huts were inhabited by the other key tribes from the Bani Yas federation: the Al Mazrouei, Al Bu Muhair, and Mehairi.[459]

Thus tribal structures provided a strong foundation upon which prominent social groups transitioned into commercial roles in the emirate. Most local inhabitants of Abu Dhabi belong to four main tribes;[460] however, individuals from branches of the Bani Yas tribe, which is led by Al Nayhan, dominate the corporate hierarchies of FZs

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[456] Kazim, *The United,* 189.
[457] Ulrichsen, *The United*, EBook section 116.5.
[458] Mohammed Al-Fahim, *From Rags to Riches: A Story of Abu Dhabi* (London: The London Centre of Arab Studies, 1995), 52-53.
[459] Shamsa Mohamed Al-Dhahiri, "Reflections on the Social History of Al Muwaij'ei Oasis in the Mid-20th Century," *Liwa Journal of the National Archives* 7:14 (2015): 9.
[460] These four tribes include the Bani Yas, Al Manager, Al Dhawahir and Al Awamir. See: Documentation and Research Bureau of The Emirate Court, *Abu Dhabi: Past and Present* (Beirut: Orient Press, 1969), 19.

in Abu Dhabi. Prominent branches of the Bani Yas include the Al Bu Muhair, Al Qubaisi, Al Marar, Al Rumaithi, and Al Mazrouei.[461] A census from 1968 revealed that 87 percent of local residents claimed tribal descent, leading Herb to assert that Abu Dhabi is "probably the most tribal of all Arabian principalities."[462] The persistence of these dominant tribal relations in Abu Dhabi coincides with Davidson's view of local elites: "Impressively reinvigorated for the post-oil era, Abu Dhabi's elites, still forged from centuries-old alliances, have been reconfigured as development-focused boardroom executives alongside their roles as tribal sheikhs."[463]

A survey of chairmen and chairwomen, board members, and executive leadership roles associated with Abu Dhabi's FZs reveals a significant presence of these elite tribal families, particularly those from the greater Bani Yas tribe. The tribal interlocking of corporate directorships in FZ entities resembles a form of interorganizational elite co-optation, which Michael Allen considers a cooperative strategy by economic organizations to reduce uncertainty in their environments.[464] The Al Muhairi, Al Qubaisi, Al Khoury, Al Marar, and Al Mazrouei are particularly well represented in the corporate structures of Abu Dhabi's FZs.[465] The Al Muhairi are one of the few families in the UAE able to link their wide-ranging economic, political, and social interests with those of the ruling family,[466] according to Almezaini, and Davidson considers them one of the most important tribes in Abu Dhabi.[467] Dhaher bin Dhaher Al Mheiri serves as CEO of the Registration Authority at ADGM, Maryam Al

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[461] Ibid.
[462] Michael Herb, *All in the Family: Absolutism, Revolution, and Democracy in the Middle Eastern Monarchies* (Albany: State University of New York Press, 1999), 55.
[463] Davidson, *Abu Dhabi*, 3.
[464] Michael Patrick Allen, "The Structure of Interorganizational Elite Cooptation: Interlocking Corporate Directorships," *American Sociological Review* 39 (1974): 393.
[465] The author chose to use the English transliterations of as per common usage for the individuals mentioned Thus, the Al Muhairi – or *al-muhayrī* – family name appears in slightly different English versions. Similarly, some slight variations in English transliterations of Al Khoury exist.
[466] Almezaini, "Private," 44.
[467] Davidson, *Abu Dhabi*, 116.

Mheiri is CEO of twofour54 free zone, and Waleed Al Mokarrab Al Muhairi is a board member at Masdar. Moreover, Mohamed Helal Al Muhairi is director general of the Abu Dhabi Chamber.[468]

Al Qubaisi was the section of the Bani Yas tribe most heavily involved in Abu Dhabi's pearling industry.[469] Mohamed Al Qubaisi and Khaled Abdulla Al Qubaisi are board members at ADGM and Masdar respectively. A member of Al Khoury is on every FZ board in Abu Dhabi except that of Masdar. Mohamed Darwish Al Khoori is a board member of ADGM, and Abdulla Abdul Reda Al Khouri is on the board of twofour45. Meanwhile, Abu Baker Siddiq Al Khoori serves on the boards of both Abu Dhabi Ports Company and Abu Dhabi Airports Company. As for Al Marar, Engineer Awaidha Murshed Al Marar is chairman of the Abu Dhabi Airports Company and a board member at KIZAD, while Musabbah Mubarak Al Marar is on the board at Abu Dhabi Airports Company.

Al Mazrouei, on the other hand, provided tribesman to fight for Zayed bin Khalifa Al Nahyan against Wahhabi incursions in the 1800s,[470] and the family possesses a royal connection through the current ruler of Abu Dhabi's first wife, Shamsa Bint Suhail Al Mazrouei. Mohamed Mubarak Al Mazrouei presides over the boards of KIZAD and Abu Dhabi Airport Company, the corporate entity responsible for managing the airport FZ. Staff Major General Pilot Faris Khalaf Khalfan Al Mazrouei is a director of the Abu Dhabi Ports Company, which oversees FZ

[468] Abu Dhabi Chamber, "About Us, DG Message," *Abu Dhabi Chamber of Commerce & Industry*, accessed August 30, 2017, http://www.abudhabichamber.ae/English/AboutUs/Pages/DG-Message.aspx.
[469] Davidson, *Abu Dhabi*,114.
[470] Ibid., 113.

development in the emirate,[471] and he also functions as chief of the General Authority for the Security of Ports, Borders and Free Zones.[472]

The Al Mubarak, Al Jaber, and Al Rumaithi also maintain influential representation within FZ corporate structures and underscore influential commercial and political linkages. For example, Aldar Properties won a contract, valued at $272 million its first stage, to build a new site for the twofour54 FZ.[473] The CEO of Aldar Properties, Mohamed Khalifa Al Mubarak,[474] simultaneously served as a board member for twofour54.[475] Khaldoun Al Mubarak, a confidant of the crown prince of Abu Dhabi and chairman of the Manchester City Football Club, formerly served as chairman of the Abu Dhabi Media Zone Authority.[476] Khaldoun's father, Khalifa Ahmed Al Mubarak, was assassinated in 1984 while serving as the UAE's ambassador to Paris,[477] and the government of Abu Dhabi dedicated a street behind the crown prince's court in his honor in 2014.[478] Meanwhile, Dr. Sultan Ahmed Al Jaber serves as the chairman of both KIZAD and Masdar. Ulrichsen argues that Sultan Al Jaber's high-profile roles, and specifically his appointment to head the Abu Dhabi National Oil

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[471] Company Overview of Abu Dhabi Ports Company, "Faris Khalaf Khalfan Al Mazrouei," *Bloomberg*, accessed August 29, 2017, https://www.bloomberg.com/research/stocks/private/person.asp?personId=382338148&privcapId=34825007&previousCapId=39971744&previousTitle=Abu%20Dhabi%20Airports%20Company.

[472] "Hamdan bin Zayed receives delegation from steering committee of Abu Dhabi Fishermen's cooperative societies," *Emirates News Agency,* June 19, 2017, accessed August 29, 2017, http://wam.ae/en/details/1395302619891.

[473] "Aldar to build new site for Abu Dhabi's free trade zone for media," *Reuters*, May 22, 2017, http://www.reuters.com/article/aldar-abudhabi-contract-idUSL8N1IO2MD.

[474] "About Aldar," *Aldar Properties*, accessed August 29, 2017, https://www.aldar.com/en/About-ALDAR/Pages/Overview.aspx.

[475] "Management Team," *Twofour54 Abu Dhabi*, accessed August 29, 2017, http://www.twofour54.com/en/who-we-are/our-people/.

[476] Nazneen Akbari, "10 most influential people in the United Arab Emirates," *Your Middle East*, April 29, 2013, accessed May 15, 2017, http://www.yourmiddleeast.com/features/10-most-influential-people-in-the-united-arab-emirates_10619.

[477] "Envoy for United Arab Emirates is slain in Paris," *New York Times*, February 9, 1984, accessed November 17, 2017, http://www.nytimes.com/1984/02/09/world/envoy-for-united-arab-emirates-is-slain-in-paris.html?mcubz=3.

[478] Ola Salem, "Street named after assassinated Emirati diplomat Khalifa Al Mubarak," *The National*, February 23, 2014, accessed November 17, 2017, https://www.thenational.ae/uae/government/street-named-after-assassinated-emirati-diplomat-khalifa-al-mubarak-1.326929.

Company (ADNOC),[479] reflects an effort by Crown Prince Mohammed bin Zayed to secure political authority over the most important elements of federal policy.[480] Finally, Ahmed Ali Al Rumaithi is a board member of the Abu Dhabi Airports Company.[481] While elite involvement in Dubai's FZ development is similarly embedded within prevailing political institutions, enduring tribal structures are less apparent in the corporate hierarchies of FZs.[482]

4.2.3 FZ policy: Preserving elite interests

The seemingly contradictory aims of "offshore" FZ and "onshore" domestic policies do not necessarily result in a dichotomous, zero-sum game wherein pro-liberalization elites square off against protectionist counterparts. Crystal constructs such a view by dividing local businesses into those that gain from increased ties to the world economy and those that fear liberalization will threaten their advantages from government protection.[483] This view, however, ignores how business elites across the UAE seamlessly operate within onshore and offshore spheres, accumulating various benefits rather than limiting commercial opportunities based on ideological considerations about economic development.[484] In this context, FZ policies in Abu Dhabi reflect strong government support, ensure elite control over firm entry and

[479] ADNOC was created in 1972 by the government of Abu Dhabi to participate in oil concession ventures. See: Commercial Department of the British Embassy, "Some basic notes on oil companies operating in Abu Dhabi: UAE," CF 08/2432, Page 37, 1975, The National Archives, United Arab Emirates, http://www.na.ae/en/archives/historicalarchives/oil.aspx.
[480] Kristian Coates Ulrichsen, "Evolving Power Dynamics in the United Arab Emirates," *James A. Baker III Institute Blog*, March 1, 2016.
[481] Al Rumaithi is a branch of the Bani Yas tribe and play key roles in the defense and business worlds. See: Davidson, *Abu Dhabi,* 116.
[482] The aforementioned 1968 census found that three quarters of Dubai's local residents did not identify with any tribal affiliation. See: Herb, *All in the Family*, 55.
[483] Crystal, "Economic," 44.
[484] This point is best illustrated by the Emirati interviewee from Hamriyah Free Zone in the northern emirates chapter who discussed the significance of firm sponsorships for many citizens – thus demonstrating how commercially-oriented Emiratis can take derive rents from both onshore and offshore activities.

activity in the local market, and offer legal avenues to evade Emiratization regulations.[485]

KIZAD, which emerged conceptually during the creation of the Abu Dhabi Ports Company by royal decree in 2006, exemplifies governmental backing for FZs and aligns with Bremmer's view that SOEs are primary actors of state capitalism.[486] A KIZAD interviewee explained, "Our price is very competitive because we have support from the Abu Dhabi government. Our goal is to use this support to open businesses."[487] Government attempts to keep FZ prices below competitive levels represents an additional form of rent seeking.[488] The government not only provided generous funding but also serves as the FZ's anchor client.[489] The onsite anchor client of KIZAD, Emirates Aluminum, is a joint venture between Mubadala Investment Company[490] and Dubai Aluminum. Rather than genuine support for an independent private sector, the nature of KIZAD's anchor client suggests a recycling of government-accrued rents.

Instead of driving international competition, FZs in Abu Dhabi function as a mechanism for the government to control firm entry and activity in the local market and protect elite interests. "While often carrying the label of a free-market or free trade policy, SEZs are a way for the government to reorganize economic activity," argues Moberg.[491] The relatively modest number of FZ company registrations in Abu Dhabi indicates the emirate's selective registration process. KIZAD possessed 30 free zone clients and 100 non-free zone clients by mid-2016; this generated an estimated 5,000

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[485] Emiratization is a workforce nationalization policy intended to increase the quantity and quality of employment opportunities for Emiratis, especially in the private sector.
[486] Bremmer, "State Capitalism," 42.
[487] Interview 47, consultant at Khalifa Industrial Zone Abu Dhabi (KIZAD), Abu Dhabi*, UAE,* July 24, 2016.
[488] Buchanan, "Rent Seeking," 10.
[489] Abu Dhabi Ports Company, "The Company," *Abu Dhabi Ports Company*, accessed November 17, 2016, http://www.adports.ae/en/section/the-company.
[490] Masdar Free Zone is a subsidiary of the Mubadala Investment Company, the government-owned sovereign wealth fund of Abu Dhabi.
[491] Moberg, *The Political*, EBook section 102.2.

jobs.[492] Masdar Free Zone, the oldest FZ in Abu Dhabi, only hosted 360 companies after nearly ten years of operations.[493]

These numbers are quite small when compared against the 7,600 companies and 135,000 jobs sustained by JAFZA, Dubai's flagship industrial and trading zone. Yet a KIZAD consultant explained, "KIZAD only focuses on value-adding clients – we are very selective. We want clients that bring unique, industrial and smart projects [to Abu Dhabi]."[494] Masdar Free Zone also carefully regulated which companies obtained FZ licenses. "If you want to do business with the Abu Dhabi government, then you need to be registered within this free zone. There are only a few small exceptions made to this rule when the service is viewed to be in the strategic interest of the government," explained a manager at the Masdar Free Zone.[495] He added that, "ADNOC [Abu Dhabi National Oil Company] and related national energy companies will not consider bids from companies that are not operating within this free zone."[496]

To understand the effect of FZ regulations on the local economy, it is necessary to discuss foreign ownership regulations in the UAE. FZs permit foreign firms to maintain full ownership of their venture, whereas foreign firms engaging in onshore commercial activities in the UAE require local sponsors to own 51 percent of a company's capital.[497] This commercial regulation relates to the Commercial Companies Law, originally codified by Federal Law 8 of 1984 and amended through Federal Law 2 of 2015. Branches of foreign companies do not have to demonstrate local ownership;

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[492] Interview 47, consultant at Khalifa Industrial Zone Abu Dhabi (KIZAD), Abu Dhabi*, UAE,* July 24, 2016.
[493] The earliest official free zone in Abu Dhabi opened in Masdar City, a subsidiary of the government-owned sovereign wealth fund known as the Mubadala Development Company. Masdar Free Zone sits within a city of seven square kilometers and mainly focuses on renewable energy, although the zone increased the scope of industries since its inception in 2006.
[494] Interview 47, consultant at Khalifa Industrial Zone Abu Dhabi (KIZAD), Abu Dhabi*, UAE,* July 24, 2016.
[495] Interview 23, manager at Masdar Free Zone, *Abu Dhabi,* April 14, 2016.
[496] Ibid.
[497] UAE Federal Law 8 of 1984, Article 22, http://www.uaeahead.com/knowledge/laws/doc/10b.htm.

however, branches must operate through an Emirati agent or a fully-owned Emirati company to access the domestic market legally.[498] Emiratis and local firms compete for sponsorship rights over onshore companies owned by non-GCC nationals or to serve as agents for branches of foreign companies. A British owner of a consulting company operating in the UAE likened the local ownership regulation to paying a direct tax to Emirati citizens and described the regulation as "profoundly inefficient."[499]

Foreign companies that desire to retain full ownership of their corporate entity must register in a FZ to receive a license for legal commercial activity. The Commercial Companies Law, amended in 2015, dictates:

> *Other than foreign companies licensed to conduct their activities in free zones in the State, foreign companies may not conduct an activity inside the State or set up an office or branch therein without a license to this effect by the competent authority with the consent of the Ministry.*[500]

In theory, FZ companies are prohibited from providing services to the domestic economy without a local agent, but smaller companies regularly operate in this fashion. Emirate-level governments are reluctant to clamp down on this activity, fearing that it would discourage foreign commercial investment. Meanwhile, many small firms do not submit in-depth audits to avoid detection when they reapply for trade licenses.[501] Larger firms, unable to operate below the radar in official legers, can also receive special consideration through government partnerships. The commercial law regulating foreign companies is "subject to the special agreements made between the Federal

[498] UAE Federal Law 2 of 2015, Article 329, http://ejustice.gov.ae/downloads/latest_laws2015/federal_law_2_2015_commercial_companies_en.pdf.
[499] Interview 22, British owner of consulting firm registered in Abu Dhabi's Masdar Free Zone, *Abu Dhabi.* April 14, 2016.
[500] UAE Federal Law 2 of 2015, Article 327, http://ejustice.gov.ae/downloads/latest_laws2015/federal_law_2_2015_commercial_companies_en.pdf.
[501] Interview 24, senior corporate manager of Fujairah Free Zone, *Fujairah, UAE,* April 18, 2016.

Government or the local Government or any entity of either of them and foreign companies."[502] In this case, the federal or local government acts as a temporary sponsor for foreign firms. Such scenarios are supposedly reserved for instances wherein the achievement of a strategic country goal requires the involvement of a foreign company.

Stringent FZ regulations in Abu Dhabi minimize negative commercial effects upon the business interests of local sponsors and agents.[503] Thomas Farole and Lotta Moberg explain why elites tend to accept FZ initiatives over comprehensive reforms:

> *SEZs can permit a country to develop and diversify exports, while limiting trade exposure to international competition of their protected industries. SEZs are therefore sometimes more likely to be accepted by elites that oppose reform than broader changes in the trade regime.*[504]

To ensure additional protection, local elites populate government bodies responsible for approving FZ licenses and activities. For example, all new FZ registrations are first approved by the Masdar board and then logged for approval by the Executive Council of Abu Dhabi.[505] While the Crown Prince presides as its chairman, the council contains several individuals from the prominent tribes and merchant families discussed in the previous section on FZ bureaucracies – namely Al Mubarak, Al Marar, Al Rumaithi, and Al Mazrouei.[506] In fact, Awaidha Murshed Al Marar is both a member of the Executive Council as well as chairman of the Abu Dhabi Airports Company and a board member of KIZAD. Another council member, Jassim Mohammed Buatabh Al

[502] UAE Federal Law 2 of 2015, Article 327.
[503] Interview 23, manager at Masdar Free Zone, *Abu Dhabi,* April 14, 2016.
[504] Thomas Farole and Lotta Moberg, "It worked in China, so why not in Africa? The political economy challenge of Special Economic Zones," *WIDER Working Paper* 152 (2014): 2.
[505] The Executive Council of Abu Dhabi, created by Law 1 of 1971 and amended by Law 1 of 1974, authorizes projects, laws, and decrees before sending them to the ruler.
[506] The Executive Council has 16 members, of which five are members of the Al Nahyan ruling family. Out of the remaining eleven non-royal members, six contain direct links to merchant families on FZ boards. See: Abu Dhabi Executive Council, "Member's Profiles," *The General Secretariat of the Executive Council*, accessed September 4, 2017, https://www.ecouncil.ae/en/ADGovernment/Pages/MemberProfiles.aspx.

Zaabi, underscores linkages with a board member at ADGM, Ebrahim Obaid Al Zaabi. Much of the Al Zaabi tribe moved to Abu Dhabi from Ras Al Khaimah's territory in 1968 after Shaykh Zayed bin Sultan offered them premier plots of land.[507] Finally, members of Al Qubaisi serve as the chairman of the Economic Development Sub-Committee of the Executive Council[508] as well as on the boards of ADGM and Masdar.

The strong family linkages between the Executive Council and FZs reflect Allen's concept of interorganizational elite co-optation because these links reduce uncertainty in political and economic environments.[509] This allocation of bureaucratic power through intra-family patrimonial politics also resembles the concept of segmented clientelism put forth by Hertog since it encourages unequal forms of exchange around the state apparatus and through parallel structures of the distributive system.[510] These direct, vertical links between prominent families and political institutions associated with FZs serve as a control mechanism to ensure that foreign firms do not overly compete with Abu Dhabi locals and their businesses. Another major incentive of FZs in Abu Dhabi, and hence a factor encouraging the support of the business community, involves firm exemptions from Emiratization requirements.

FZs permit employers to circumnavigate workforce nationalization policies, known as Emiratization, meant to employ a greater share of Emiratis in the private sector. The absence of workforce nationalization requirements within FZs fits neatly within the adapted trade liberalization framework mentioned earlier in the document.[511] The unrestricted use of low-wage, low-skilled expatriate labor in FZs increases demand

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[507] Christopher Davidson, *After the Sheikhs: The Coming Collapse of the Gulf Monarchies* (London: Hurst, 2015), 227.
[508] Mohammed Najm Mohammed Al Qubaisi is chairman of the Executive Council Sub-Committee on Economic Development.
[509] Allen, "The Structure," 393.
[510] Hertog, *Princes,* 12.
[511] See: "Key literature and contribution" section of the first chapter.

by local and foreign merchants for FZ access and licenses because it helps firms extract large rents.[512] On the supply side, ruling families codify these commercial advantages by maintaining legal injunctions and regulations associated with employment. Jean-Francois Seznec explains how such an institution requires collaboration between ruling families and business elites: "The merchants also need the royal families to protect them from the great pressures put on them by the civil service to employ ever larger percentages of local labour."[513]

As was the case across the UAE, the relaxed labor regulations in FZs contradicted efforts to implement Emiratization policies within emirates. Territories with large FZ sectors and small distributive responsibilities, such as Dubai, could partially mitigate the political complications of these contradictory employment policies by creating substantial job opportunities in extensive, multi-tiered FZ bureaucracies. Abu Dhabi's public touting of high Emiratization rates within the KIZAD bureaucracy, which reached 64 percent by the end of 2016, reflected a similar response to these contradictory employment policies.[514] Statements by FZ officials directly linked FZ activity with local employment and private sector development – suggesting additional efforts to mitigate this contradiction. The acting CEO of twofour54, Maryam Al Mheiri, expressed an optimistic view of the FZ's contribution to the local economy:

> *Creative sectors like the media will generate the vast majority of job opportunities in the future, so for our part, twofour54 will continue to focus*

[512] Callen et al., *Economic Diversification,* 24.
[513] Jean-Francois Seznec, "Changing Circumstances: Gulf Trading Families in the Light of Free Trade Agreements, Globalization and the WTO," in Alanoud Alsharekh, *The Gulf Family: Kindship Policies and Modernity* (London: Middle East Institute, 2007), 64.
[514] "KIZAD," *Emirates News Agency*.

> *on developing Emirati and Arab talent, to enable more private sector investment in the local industry and the job creation that comes with this.*[515]

Specific figures detailing how these investments have increased local employment beyond increasing public sector positions in FZ bureaucracies, however, remained ambiguous.

Abu Dhabi's small number of FZs offered a limited absolute potential for generating public sector employment opportunities in FZ bureaucracies. Abu Dhabi possessed a total population of approximately 2,784,490 residents, about 536,741 Emirati citizens, and five FZs by the end of 2016.[516] By way of comparison, Dubai possessed a slightly smaller total population of 2,698,600 residents, approximately 233,430 Emirati citizens, and 24 FZs. An interviewee from Masdar Free Zone admitted that while FZs succeeded in generating revenue and increasing foreign talent, FZs in Abu Dhabi have not been widely successful in generating significant employment for Emirati employees.[517] He viewed Emiratization requirements for free zone companies as unlikely because, in his estimation, "lax restrictions on foreign talent" represented a crucial consideration for free zone registrations.[518]

Abu Dhabi's FZs were not overly focused on generating local employment for macro-economic and structural reasons. The World Bank estimated that the unemployment rate in the UAE was approximately 3.6 percent in 2014, placing the country in the mid- to lower-tier of unemployment rates across the GCC.[519] Expatriates and less-privileged locals in the northern emirates accounted for a disproportionate

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[515] "Predictions 2017: Maryam Al Mheiri, twofour54 acting CEO," *Gulf Business*, January 29, 2017, accessed February 2, 2017, http://gulfbusiness.com/predictions-2017-maryam-al-mheiri-twofour54-acting-ceo/.
[516] Refer to Appendix B for more information on populations in the UAE.
[517] Interview 23, manager at Masdar Free Zone, *Abu Dhabi,* April 14, 2016.
[518] Ibid.
[519] Refer to Figure 10 for more information on unemployment rates in the GCC.

percentage of this official unemployment figure. In fact, an IMF country briefing estimated that as much as 80 percent of the youth unemployment in the country existed in the northern emirates.[520] The small proportion of relatively privileged Emirati citizens in Abu Dhabi, at less than 20 percent of the total resident population, reduced domestic pressure upon the local government. Countries like Oman and Saudi Arabia, which touted much higher employment rates of 7.2 percent and 5.6 percent in 2014 and possess higher ratios of national citizens, are in greater need of economic development projects that provide adequate employment opportunities for locals.

Rather than implement labor regulations that may have discouraged FDI, Abu Dhabi's government opted for other manners of rent redistribution to national citizens through FZs. UAE nationals, for example, are exempt from paying the registration fee of AED 5,000 (~$1,361) at Masdar Free Zone, receive a 33 percent reduction on licensing fees compared with non-nationals, and are eligible for an additional waiver of the first year's business licensing fees if their projects are Khalifa Fund SMEs.[521] For a sense of scale, the Khalifa Fund, a socioeconomic development agency of the government of Abu Dhabi, supported 608 projects between its founding in 2007 and 2013.[522] In this manner, the government leveraged commercialized rent streams to incentivize national employment through entrepreneurism rather than embarking upon the more difficult task of influencing meso-level firm behavior concerning the hiring of nationals.

The federal structure of the emirates also heightened competition between FZs and limited the ability for individual territories to introduce stricter labor regulations in

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[520] International Monetary Fund, *United Arab Emirates: 2011 Article IV Consultation* (Washington D.C.: IMF, 2011), 22.
[521] Data on Masdar Free Zone fees provided remotely by Interviewee 23 on April 14, 2016.
[522] "New Khalifa Fund initiative to support UAE SMEs," *The National*, January 8, 2018, accessed July 18, 2018, https://www.thenational.ae/business/new-khalifa-fund-initiative-to-support-uae-smes-1.118701.

FZs. Older FZs outside of Abu Dhabi entirely exempt FZ companies from restrictions on expatriate labor, and Abu Dhabi's political hegemony does not extend over the area of economic policy in other emirates. Thus, the government of Abu Dhabi would place its FZs at a distinct disadvantage by introducing local employment requirements, like Emiratization quotas, within their FZs because many foreign companies would simply set up operations in a neighboring emirate with more amenable expatriate labor regulations.[523] These federal dynamics offer a useful starting point for exploring territorial competition over the economic benefits of FZs.

4.3 Global Competition

In addition to hydrocarbon-related concerns, such as diversification efforts, and evolving relationships between the ruling family and other merchant and tribal elites, emirate-level politics and regional geo-positioning further influenced the development of Abu Dhabi's FZs. "Patronage politics, or the commonly understood practice of rentierism, is a limited domestic framework for understanding policymaking. It assumes certain homogeneity within the domestic political sphere and does not explain the variance and competing pressures of federal politics and international constraints,"[524] explains Young. Thus, Abu Dhabi's experience with FZs revealed the power and limitations of the emirate's fiscal capacity as it balanced federal constraints, local competition, and demand from global markets. Meanwhile, GCC-wide regulations forced the emirate to develop new methods for preserving elite benefits through FZs.

[523] Although focusing on price comparisons rather than labor regulations, this discrepancy between firm registration and activity constitutes an ongoing issue in the UAE and is discussed in more detail in the "Back doors to the wider UAE economy" section of the chapter on the northern emirates.
[524] Young, *Political*, 78.

4.3.1 Leveraging financial power across the federation

The decentralization of decision-making regarding FZ formation and industry focus to local policy makers, according to Moberg, allows better understanding of market conditions to inform FZ development.[525] However, the decentralized nature of FZ development in the UAE permitted Abu Dhabi's government to construct FZs similar to those in other emirates, which increased competition between federal territories.[526] Two notable examples are Abu Dhabi's media FZ, twofour54, and its financial FZ, ADGM. Although Dubai's FZs – DMC and DIFC – possessed first-mover advantage within each FZ sector, specific environmental factors and capabilities can increase the advantages of late entry into a market sector.[527] Abu Dhabi serves as the political capital of the UAE, received substantial hydrocarbon rents during the key years of FZ development, and managed investment funds worth an estimated total of one trillion dollars in 2009.[528]

Abu Dhabi's decision to launch a media-focused FZ in 2007 was contentious because it increased the total supply of media FZs located in the UAE at the expense of other media FZs in Dubai, Ras Al Khaimah, and Fujairah. These emirates rely heavily on non-oil revenues such as those accrued from FZs.[529] Meanwhile, Abu Dhabi entered a crowded media FZ market during a year in which the price of crude oil increased

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[525] Moberg, *The Political*, EBook sections 135.1-139.9.
[526] Similar competitive dynamics exist in China, where FZ development along the mainland's coast has sparked concerns over the future position of Hong Kong as a gateway between the world and China. See: Sidney Leng, "Will China's free-trade port plan pose a threat to Hong Kong?" *South China Morning Post*, October 27, 2017, accessed October 29, 2017, http://www.scmp.com/news/china/economy/article/2117358/will-chinas-free-trade-port-plan-pose-threat-hong-kong.
[527] Fernando Suarez and Gianvito Lanzolla, "The Half-Truth of First-Mover Advantage," *Harvard Business Review*, April Issue (2015): para. 2.; Roger Kerin et al., "First-Mover Advantage: A Synthesis, Conceptual Framework, and Research Propositions," *Journal of Marketing* 56 (1992): 48.
[528] Davidson, *Abu Dhabi*, 73-75.
[529] For example, in Dubai, which possesses the largest of the UAE's proven oil reserves outside of Abu Dhabi, oil-related activities only contribute 5 percent of the emirate's GDP. See: Kristian Ulrichsen, "The Politics of Economic Reform in Gulf Arab States," *James A. Baker III Institute for Public Policy of Rice University* (2016): 3.

from $70.33 to $111.78.[530] The timing of the decision, as well as the simultaneous financial windfall from rising oil prices, placed Abu Dhabi in an advantageous position to attract media outlets following the global recession and Dubai's ensuing debt crisis in 2009.[531] Abu Dhabi's status as the seat of the federal government also aided its attractiveness as a media hub within the country.

RAK Media Free Zone stopped issuing freelance visas in 2009 and ceased operations shortly thereafter.[532] On the other hand, twofour54 managed approximately 600 freelancers and 430 free zone clients by the end of 2016, and it awarded Aldar Properties a $272 million contract to build a new FZ site on Yas Island.[533] The FZ also signed a three-year contract with a prominent regional network, MBC, and served as the filming location for a Bollywood film titled *Dishoom.* The growing popularity of twofour54 has turned the media FZ into a quasi-hub for free zone activity in the emirate. One interviewee who owned a company registered in Masdar Free Zone said that his flexi-desk options allowed him to work from twofour54's office space, and he took advantage of this opportunity regularly.[534] Another interviewee registered his consulting company at the RAK FTZ branch in the Abu Dhabi Mall, but he regularly worked out of workspaces in twofour54 because he resided nearby in Abu Dhabi.[535]

Abu Dhabi's newest FZ, ADGM, is poised to serve as a rival to the DIFC and

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[530] Macrotrends, "Crude."
[531] Georgina Prodhan and Tamara Walid, "Top media head to Abu Dhabi as Dubai still struggles," *Reuters*, March 8, 2010, accessed November 17, 2017, http://www.reuters.com/article/media-abudhabi-summit/corrected-preview-top-media-head-to-abu-dhabi-as-dubai-still-struggles-idUSLDE62701B20100308.
[532] Refer to the "The federal politics of FZ influence" section of the previous chapter for an in-depth discussion of RAK Media Free Zone.
[533] "Aldar develops the new media FZ headquarters for one billion dirhams," *Al Khaleej*, May 23, 2017, accessed June 1, 2017, http://www.alkhaleej.ae/economics/page/fac480cd-b8d0-42e1-8f72-2a10f11fa062. [Arabic]
[534] Interview 22, British owner of consulting firm registered in Abu Dhabi's Masdar Free Zone, *Abu Dhabi.* April 14, 2016.
[535] Interview 34, partner at UK training company based in Abu Dhabi but registered to RAK Free Zone, *remote conversation from Dubai, UAE*, May 28, 2016.

may challenge Dubai's financial supremacy within the country. Young argues that the "two centers [ADGM and DIFC] are bound to compete and force international firms to have mirror offices in both cities." [536] Much of ADGM's management team previously worked for the DIFC, and ADGM officials hope that the FZ will be both more flexible and friendly than DIFC. [537] The emirate's fifth FZ on Al Maryah Island will not only contend with DIFC in Dubai but also with established and growing financial hubs in Bahrain, Qatar, and Saudi Arabia.[538] To compete with an established field of regional rivals, ADGM officials decided to focus on fintech, which a senior ADGM manager described as a unique proposition.[539]

However, various domestic and international issues hampered ADMG's early growth and ability to compete against established financial hubs. The CEO of ADGM, Richard Teng, explained in an April 2016 interview that "there are challenges in the market at this point in time. Global economic conditions are not the most conducive for investment – there is market volatility, depressed commodities prices and many financial institutions are resizing their global operations and withdrawing from emerging markets."[540] A senior manager at the FZ elaborated on the domestic factors complicating the FZ's growth:

> *We want to be the best financial center for unique knowledge in the whole region, but the problem is implementation. We have a recession with oil prices – which was the key enabler. We are in a difficult position now….We have to deal with various politics and wars with Yemen that are slowing down our growth. And everybody got knocked down by the Brexit vote.*[541]

[536] Young, *Political,* 63.
[537] Interview 48, senior manager at Abu Dhabi Global Market, *Abu Dhabi, UAE,* July 24, 2016.
[538] Bahrain possesses an established reputation as a hub for Islamic banking and finance, Qatar opened the Qatar Financial Centre (QFC) in 2005, and Saudi Arabia developed the King Abdullah Financial District in Riyadh.
[539] Interview 48, senior manager at Abu Dhabi Global Market, *Abu Dhabi, UAE,* July 24, 2016.
[540] Townsend, "Can."
[541] Interview 48, senior manager at Abu Dhabi Global Market, *Abu Dhabi, UAE,* July 24, 2016.

The FZ's CEO cited depressed commodity prices, and the interviewee described oil as the *key enabler* to Abu Dhabi's FZ. These descriptions portray ADGM as the product of an allocative state and underscore the difficulties for Abu Dhabi to develop new FZs without stable financial support systems provided by oil rents. A reporter from *Thomson Reuters* qualified ADGM's response to the tough business environment: "It does not appear that international companies have responded very quickly to ADGM. They [ADGM officials] claim there is a lot of interest. But I think that it will take some time."[542]

4.3.2 Unintended consequences within the GCC

In addition to dynamic interactions between competing emirate-led economic development agendas and exogenous shocks, institutions fostering regional integration between GCC states also shaped FZ development in respective territories. The agreement over the GCC customs union in late 2002 and early implementation stages in 2003 increased barriers to trade in Abu Dhabi because it imposed a five percent duty on previously exempted goods. This new duty consequently increased prices for local importers. To fully appreciate the adverse effects of customs regulations on Abu Dhabi, it is necessary to understand the nature of trade in the emirate. El Mallakh describes the major difference in importation patterns between Abu Dhabi and Dubai:

> *Dubai's composition of imports embodies a substantial amount of re-exports, while Abu Dhabi's trade contains goods primarily for local use. Dubai benefits from its entrepot position and offers low tariff rates and few restrictions on trade. Customs duties are a minuscule 3 per cent and lower for foodstuffs and goods in transit. Gold bullion and precious metals may be imported and exported duty-free…Abu Dhabi requires large imports of machinery and equipment, building materials, road construction and communications equipment.*[543]

[542] Interview 49, correspondent at Thomson Reuters, *Abu Dhabi, UAE,* July 24, 2016.
[543] El Mallakh, *The Economic*, 119.

Unlike the substantial re-exportation of goods in Dubai, Abu Dhabi's importation of goods and services bound for domestic consumption reduced the commercial advantages associated with FZs. In the first seven months of 2015, Dubai re-exported over AED 111 billion (~$30.24 billion) in FZ goods and services, whereas reexports through Abu Dhabi's FZs accounted for a paltry AED 232 million (~$63.2 million).[544]

Before the implementation of the customs union and creation of FZs in Abu Dhabi, the government provided local businesses with direct exemptions on customs duties to compete with incentives offered by FZs in Dubai and the northern emirates.[545] The new GCC regulations, however, prevented Abu Dhabi from granting individual custom exemptions as an investment incentive.[546] The introduction of GCC-wide customs regulations led one form of rent seeking – individual import duty exemptions – to be replaced by another manner of rent seeking. The deputy director of Abu Dhabi Customs Department, Mohamed Khamis, mentioned that a certification procedure involving a letter from the Ministry of Finance or General Industry Corporation could eliminate the GCC duty for certain UAE businesses.[547] Moreover, the UAE unsuccessfully tried to secure an agreement from its GCC partners that goods produced in UAE FZs would be eligible for duty-free entry across the entire GCC.[548] Such a legal stipulation would have served the interests of merchants in both Abu Dhabi and Dubai by widening the geographic scope of duty-free imports and exports.

Other GCC-wide initiatives, like the introduction of value-added tax (VAT) in January 2018, threatened to alter economic institutions associated with the region's

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[544] Federal Customs Authority, *Emirates Customs: Free Zones*, 3.
[545] Thomas E. Williams, "GCC Customs Union Making It Tougher to Do Business in Abu Dhabi?" Wikileaks Cable: 03ABUDHABI221_a, dated January 14, 2003. https://wikileaks.org/plusd/cables/03ABUDHABI221_a.html.
[546] Director General of the Abu Dhabi Chamber of Commerce and Industry, Mohammed Omar Abdullah confirmed the importance of customs exemptions for attracting investment to Abu Dhabi. See: Williams, "GCC," Wikileaks Cable: 03ABUDHABI221_a.
[547] Ibid.
[548] Sison, "Scenesetter," Wikileaks Cable: 05ABUDHABI992_a.

FZs. Interviewed employees from Masdar and KIZAD free zones were unclear about precisely how VAT would be implemented in tax-free environments of UAE FZs.[549] A business editor from a Bahraini daily newspaper suggested that Dubai's FZs could likely avoid VAT implementation because "they actually have free zones" – a simultaneous reference to the ambiguous status of Bahraini FZs.[550] The UAE's Federal Law 8 of 2017, which covers VAT introduction, reserves a wide operating margin for tax exemptions. Articles 50 through 52 of the UAE's VAT law reference a "Designated Zone" that is considered "outside of the State" and thus not liable to pay tax,[551] but the absence of an executive regulation document left the definition of a "Designated Zone" ambiguous.[552]

The wording of "Designated Zone" affords federal policymakers the discretionary power to include only certain types of FZs as well as a much broader selection of commercial entities and industries under this classification. The consequent Cabinet Decision 59 of 2017 categorized three FZs in Abu Dhabi – the Khalifa Industrial Zone, Khalifa Port Free Trade Zone, and Abu Dhabi Airport Free Zone – as designated zones. Under the same resolution, Dubai received seven designated zones, and the remaining northern emirates secured between one and three designated zones each. FZs overlooked by the resolution, like Dubai's DMCC, are directly appealing to the federal government to gain recognition as a designated zone.[553]

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[549] Interview 23, manager at Masdar Free Zone, *Abu Dhabi,* April 14, 2016; Interview 47, consultant at Khalifa Industrial Zone Abu Dhabi (KIZAD), Abu Dhabi*, UAE,* July 24, 2016.
[550] Interview 68, business editor at Gulf Daily News, *Manama, Bahrain,* August 24, 2016.
[551] UAE Federal Law 8 of 2017, "Value Added Tax," accessed September 4, 2017.
[552] Michael Patchett-Joyce, "New VAT law in the UAE: All your questions answered," *The National*, August 30, 2017, accessed September 3, 2017, https://www.thenational.ae/business/economy/new-vat-law-in-the-uae-all-your-questions-answered-1.624166.
[553] Michael Fahy, "Dubai free zone still seeking ways to free commodities firms from VAT liabilities," *ZAWYA*, February 12, 2018, accessed February 13, 2018, https://www.zawya.com/mena/en/story/Dubai_free_zone_still_seeking_ways_to_free_commodities_firms_from_VAT_liabilities-ZAWYA20180212070830/

4.4 Concluding remarks

As hydrocarbon resources played a central role in state formation processes in Abu Dhabi, hydrocarbon-related institutions likewise shaped FZ development in the emirate. Substantial hydrocarbon reserves in the emirate delayed the timing of FZ creation and limited the scope of FZ formation when compared with the bloc of northern emirates and Dubai. Once FZs emerged in the mid-2000s, these entities relied heavily upon the energy sector and fiscal reserves from hydrocarbon export receipts. Relieved of the responsibility for becoming the emirate's primary revenue generation mechanisms, FZs instead reflected visible, physical evidence of the emirate's economic diversification efforts – even if limited FZ activity provided a symbolic, rather than actual, contribution to diversification efforts.

The Al Nahyan ruling family did not directly participate in the day-to-day affairs of Abu Dhabi's FZs, in stark contrast to the behavior of ruling families in the northern emirates, but retained ultimate authority over FZ activities. The ruler of Abu Dhabi established all five FZs through royal decrees, personally branded the KIZAD FZ megaproject, and appointed the crown prince as responsible for filling FZ bureaucracies and umbrella companies. These corporate entities offered new corporate positions for individuals from prominent merchant families and tribal allies. FZ policies safeguarded rents for business elites by maintaining legal access to cheap, expatriate labor and protecting local industries from foreign competition. However, the Al Nahyan ruling family carefully linked these rents to the state apparatus to protect against any curtailment of state authority in economic spheres.

Federal and regional politics further influenced FZ development in Abu Dhabi. As a late entrant to the country's uncoordinated FZ system, Abu Dhabi leveraged its substantial fiscal resources to compete in the media and financial FZ industries.

Negotiations over the introduction of the GCC customs union in the early 2000s forced government officials in Abu Dhabi to exploit FZs in order to protect duty and tax exemptions for Abu Dhabi-based businesses. In response to GCC-wide VAT reforms, federal policymakers codified an ambiguous "Designated Zone" status meant to preserve tax exemptions for specific FZs in Abu Dhabi. This status also applied to FZs in the northern emirates – UAE territories that leveraged FZs as a means of mitigating their economic and political marginalization.

5 The Northern Emirates: The weak suffer what they must

> *"Free zone companies are not obliged to benefit local Emiratis and most of them don't."*
> --Interviewee discussing RAK Maritime City[554]

The northern emirates of Sharjah, Fujairah, Ras Al Khaimah (RAK), Ajman, and Umm Al Quwain[555] began establishing FZs in the late 1980s, and the bloc possessed ten operating FZs by the end of 2016. Limited hydrocarbon resources influenced the timing and scale of FZ development in these emirates, where FZs emerged earlier and more often than their resource-wealthy neighbors in Abu Dhabi, Qatar, and Kuwait. Consequently, FZs provided new rent streams for territories containing roughly one-third of the UAE's total population[556] but accounting for a mere 13 percent of the country's overall economic output.[557]

The balance of power between ruling families and business elites shaped the scope of FZ development in the northern emirates. Lacking substantial hydrocarbon resources, FZ rents enabled ruling families to satisfy critical distributional responsibilities and offer commitment devices. Thus, rulers reserved key positions in FZ bureaucracies for members of their ruling families and, to a lesser degree, individuals from prominent merchant families. However, the relatively limited influence of merchant families in these territories, especially when compared to that of Dubai and Abu Dhabi, increased FZ-related opportunities for other commercially-minded Emiratis and expatriate business elites. Political pressure upon FZs often led to

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[554] Interview 59, source closely associated with RAK Maritime City, *remote conversation in Dubai, UAE,* August 16, 2016.
[555] Dubai is occasionally considered part of the northern emirates categorization, but any reference to the northern emirates in this thesis refers to Sharjah, Fujairah, Ras Al Khaimah, Ajman, and Umm Al Quwain.
[556] Refer to Appendix B for UAE population figures.
[557] Martin Dokoupil, "MIDEAST MONEY – Northern emirates offer cost haven in booming UAE," *Reuters*, April 30, 2014, accessed June 23, 2016, http://www.reuters.com/article/emirates-north-economy-idUSL6N0NJ06F20140430.

poor commercial decisions that produced social waste rather than genuine private sector development, while elite bargaining over FZ policy reduced the positive economic impact of FZ development upon ordinary Emirati citizens.

Competition over the economic benefits of FZs in the northern emirates mainly occurred on a federal level. Separate FZ entities vied to provide attractive offerings in crowded industries, competed to serve as back doors to the more lucrative markets of Dubai and Abu Dhabi, and sought federal subsidies containing commercial value for FZ operations. Northern emirates also utilized FZs to establish broader international linkages with Iran despite considerable consternation in the capital of Abu Dhabi and abroad.

5.1 Hydrocarbon Dynamics

The unequal hydrocarbon resources in the UAE shaped local and federal institutions as well as the methods of resource distribution available to ruling elites. Relative hydrocarbon scarcity in the northern emirates reinforced the economic and political marginalization of these territories and increased the need of local governments to generate new rent streams. FZs functioned as mechanisms that permitted elites keep the system working in their favor.[558] The consequent economic institutions that emerged to extract commercialized rents possessed political objectives[559] such as legitimizing family rule and creating commitment devices.

Colonial dynamics, changing trade flows, and geographic constraints paved the way for economic and political marginalization of the northern emirates before the arrival of oil. While the ruling Qawasim tribe of Sharjah and RAK served as a

[558] Knowledge of political institutions and the distribution of resources is paramount for understanding how elites gain power and keep the system working in their favor. See: Acemoglu and Robinson, "Paths," 4.
[559] North et al., *Violence and Social Orders,* 146.

dominant maritime power in the Gulf during 18th and 19th centuries, Andrea Rugh attributes their reduced role in the region to maritime activities that put them at odds with powerful foreign powers, the uncompromising stance of some leaders against the British, and a competitive family lineage.[560] The British meanwhile awarded varying degrees of support to Gulf shaykhdoms to accomplish strategic and colonial interests. For example, the recognition of the small territories of Umm Al Quwain and Ajman as independent states in 1820 ensured that two coastal towns controlled by independent chiefs would serve as buffers between the Qawasim ports of Sharjah and RAK.[561] The subsequent Maritime Truce with the Trucial States, or the present-day UAE territories, secured British influence in the region from 1835-1971.[562] The Qawasim also lost administration rights over the Port of Lingah in 1887, following customs reforms by the Persian government. When additional customs regulations ended the port's free trade status, Dubai captured a significant portion of Lingah's commerce.[563]

The northern emirates relied heavily on the pearling industry, which collapsed in the 1930s, and found little economic alternative in proven hydrocarbon reserves. Peter Leinhardt describes how the silting up of Sharjah's creek in the mid-20th century wrecked what remained of its trade facilities and simultaneously increased the importance of Dubai's trading industry.[564] Neighboring Ajman's economy was in such dire straits that sales of its collectible stamps constituted a main source of government revenue from 1961 until the early 1970s.[565] Meanwhile, more than half of the income of the ruler of Ras Al Khaimah came from his limited concession for oil exploration.[566]

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[560] Rugh, *The Political,* 123-124.
[561] Ibid., 179.
[562] James Onley, "Britain and the Gulf Shaikhdoms, 1820-1971: The Politics of Protection," *Center for International and Regional Studies*, Working Paper No. 4 (2009): 1-3.
[563] Zahlan, *The Origins,* 12.
[564] Lienhardt, *Shaikhdoms of Eastern Arabia*, 116.
[565] Encyclopedia Britannica, "Ajman," July 20, 1998, accessed August 30, 2017, https://www.britannica.com/place/Ajman-emirate-United-Arab-Emirates.
[566] Lienhardt, *Shaikhdoms of Eastern Arabia*, 167.

The absence of substantial hydrocarbon resource discoveries in the northern emirates compounded the growing economic disparities between these territories and Abu Dhabi and Dubai.

5.1.1 Political and economic marginalization

The limited influence of the northern emirates contrasted with rising economic and political tides of Abu Dhabi and Dubai in the latter half of the 20th century. Abu Dhabi's substantial proven oil reserves and Shaykh Zayed bin Sultan's willingness to inject funds into the economy induced British political support,[567] whereas Dubai's good fortunes relied upon its modest oil reserves and astute exploitation of trade flows to and from Persia, Europe, India, and Beirut.[568] Following the creation of the UAE in 1971, Abu Dhabi and Dubai codified their economic advantages in the country's constitution. Article 23 of the constitution contextualizes the winners and losers of hydrocarbon politics from the early period of state formation in the UAE:

> *The wealth and natural resources in each emirate are considered public property of that emirate, and society shall undertake the maintenance and proper exploitation of the wealth and natural resources in the interest of the national economy.*[569]

The constitution granted authority over natural resources and wealth to both individual emirates as well as society; however, the processes for distributing local and federal resources remained ambiguous.[570] Though hope for commercially-viable hydrocarbon

[567] Herb, *All*, 137.
[568] Rugh, *The Political*, 121.
[569] dustūr dawlat al-imārāt al-'arabiyya al-mutaḥida (The Constitution of the United Arab Emirates), Abu Dhabi: UAE Cabinet, accessed August 17, 2017, https://www.uaecabinet.ae/ar/the-constitution. [Arabic]
[570] Only Abu Dhabi and Dubai contribute funds to the federal budget, and transfers to the other emirates are not clearly documented in official budgets. See: Karen Young, "UAE Fiscal Policy: Shining Light on Federal Resource Sharing," *Market Watch: Arab Gulf States Institute in Washington*, October 20, 2017, accessed October 22, 2017, para. 8, http://www.agsiw.org/uae-fiscal-policy-shining-light-federal-resource-sharing/.

discoveries in the northern emirates lasted into the late 1970s,[571] exploration did not yield lucrative "public property" in these emirates. As a result, the northern emirates controlled neither substantial wealth nor natural resources during the early period of state formation. The minor exceptions to this trend were Sharjah's 1.5 billion barrels of oil and RAK's 500 million barrels of oil and mineral deposits.[572] Sharjah exploited these limited hydrocarbon reserves to develop its industrial manufacturing capacity. By 2013, Sharjah accounted for 33 percent of the UAE's manufacturing sector, and manufacturing contributed 19 percent of the emirate's GDP.[573]

Other political institutions in the UAE, such as the historical status of the country's capital, increased the structural isolation of the northern emirates. Abu Dhabi only served as the temporary capital of the UAE until an amendment in 1996 made the city the permanent capital. Before 1996, the UAE's constitution stipulated that the country's capital would be in an area called Karama.[574] The Sir Geoffrey Arthur Archival Collection documents how tense negotiations led to a decision to locate Karama on the frontiers between Abu Dhabi and Dubai.[575] The negotiations over the country's capital portrayed Abu Dhabi and Dubai as the central political entities in the UAE, while the northern emirates remained both physically and structurally distanced from the country's power centers. The capital city of Karama never materialized, and eventually the de facto capital of Abu Dhabi became the de jure capital. Reflecting the political indifference keenly felt in the northern emirates, Shaykh Mohamed bin Kayed

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[571] Interoffice Memo from J.P Trunz to W.K. Gowen, Jr., "Overview of Hydrocarbon Exploration Effort in Ras Al Khaimah," September 14, 1978, Box 56, Folder 5, James H. Critchfield Papers, The Booth Family Center for Special Collections, Georgetown University Library.
[572] RAK also generates revenue from the cement, gravel, and ceramics industries. See: Rugh, *The Political*, 124-125.
[573] Barbara Njau, "Sharjah's success story," *FDI Magazine*, May 2013, 3.
[574] *United Arab Emirates: Constitution* (Abu Dhabi: Official Gazette, 1971), article 9, accessed April 13, 2015, http://www.refworld.org/docid/48eca8132.html.
[575] Letter, "Translation From Ahmad Ben Ali Al Thani (Ruler Of Qatar) To Sheikh Zayed Ben Sultan Al Nhayyan (Ruler Of Abu Dhabi)," 1970, Sir Geoffrey Arthur Collection, Oxford University, Middle East Centre Archive.

Al Qasimi, chairman of Ras Al Khaimah Department of Economic Development and a member of the RAK royal family, described the Federal National Council elections in the UAE as having no value.[576]

The historical trends of economic marginalization and more concrete examples of political marginalization complicated the significant distributive responsibilities shouldered by the northern emirates throughout the 21st century. Davidson contends that "[i]n relative terms, the wealth has never been spread sufficiently and this has hampered the poorer emirates from developing their own economies."[577] Herb describes the northern emirates as "not much more than villages living on the beneficence of the ruler of Abu Dhabi."[578] Economic indicators from the northern emirates illustrate the extent of development challenges. Fujairah's unemployment rate for national citizens reached 20.6 percent in the tumultuous year of 2009, whereas Dubai exhibited a much lower unemployment rate of 8.7 percent.[579] Other estimates of Emirati unemployment in Fujairah and RAK reached as high as 60 percent,[580] while an IMF country briefing suggested that nearly 80 percent of the youth unemployment in the country existed in the northern emirates.[581] Abdulkhaleq Abdulla, a political scientist at United Arab Emirates University, estimated that the per capita income in the northern emirates was roughly 30 percent of that in Abu Dhabi.[582] It is unsurprising, then, that Khalifa bin Zayed Al Nahyan pledged nearly $680 million in funds to develop rural areas in the northern emirates just months after becoming ruler of Abu

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[576] Justin Siberell, "Ras Al Khaimah Sheikh Discusses Elections, Free Trade Agreement and Iran/Iraq," Wikileaks Cable: 06DUBAI6940_a, dated December 19, 2006, https://wikileaks.org/plusd/cables/06DUBAI6940_a.html.
[577] Davidson, *Abu Dhabi*, 171.
[578] Herb, *All,* 136.
[579] Dokoipil, "MIDEAST MONEY," *Reuters.*
[580] Davidson, *Abu Dhabi*, 171.
[581] IMF, *United Arab Emirates: 2011 Article IV Consultation*, 22.
[582] Dokoipil, "MIDEAST MONEY," *Reuters.*

Dhabi and president of the UAE.[583] Following the outbreak of "Arab Spring" protests, Khalifa bin Zayed promptly ordered a $1.55 billion expansion of electricity and water facilities in the northern emirates – signaling a symbolic, distributive gesture from the resource-abundant capital of Abu Dhabi.[584]

5.1.2 FZs as methods of revenue generation

FZs provided a mechanism for rulers and their governments to generate new rent streams in lieu of revenue from oil rents. Thus, northern emirates completely lacking hydrocarbon resources were the first to establish FZs in the late 1980s. Sharjah and RAK, each possessing modest hydrocarbon reserves, established their first FZs slightly later than Fujairah, Umm al Quwain, and Ajman. It is worth noting that the opening of Dubai's Jebel Ali Free Zone in 1985 served as a model for FZ development in these resource-scarce emirates. Observers often attribute Jebel Ali Free Zone's success to its first-mover advantage;[585] however, this simplistic view ignores Dubai's environmental circumstances[586] and specific capabilities.[587] Dubai's modest endowment of hydrocarbons, hegemonic influence of regional trading patterns, and institutional arrangements governing interactions between ruling and business elites strongly aided FZ development in the emirate.

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[583] Sison, "Scenesetter," Wikileaks Cable: 05ABUDHABI992_a.
[584] See: Ingo Forstenlechner, Emilie Rutledge and Rashed Salem Alnuaimi, "The UAE, The "Arab Spring" And Different Types of Dissent," *Middle East Policy* 19.4 (2012): 54.; "Dh5.7bn allocated for new water and electricity projects in northern emirates," *Emirates 24/7*, March 2, 2017, accessed March 3, 2017. http://www.emirates247.com/news/government/dh5-7bn-allocated-for-new-water-and-electricity-projects-in-northern-emirates-2011-03-02-1.362966.
[585] Interviewees 22 and 30 both suggested that Jebel Ali Free Zone provided Dubai with the first-mover advantage in FZ development in the region.
[586] Suarez and Lanzolla, "The Half-Truth," para. 2.
[587] Roger Kerin et al., "First-Mover," 48.

Emirate	Oil Reserves (2015)[588]	% of Total	First FZ (Year)
Fujairah	None	0%	1987
Umm Al Quwain	None	0%	1987
Ajman	None	0%	1988
Ras Al Khaimah	500mn barrels	0.5%	2000
Sharjah	1.5bn barrels	1.5%	1995
Dubai	4bn barrels	4.0%	1985
Abu Dhabi	92.2bn barrels	94%	2006
TOTAL	~98.2bn barrels	100%	N/A

Table 8: Proven oil reserves and FZ creation (UAE)

The scale of FZ development in the hydrocarbon-scarce economies of the northern emirates outpaced that of Abu Dhabi and other resource-wealthy neighbors in the GCC. As of 2016, the bloc of northern emirates contained ten operating FZs, whereas only twelve non-UAE FZs existed across the remainder of the GCC.[589] Oil reserves also appear to correlate inversely with the scale of FZ development in the region. By 2016, 41 of the GCC's operating FZs existed in territories with a combined total of 11 billion barrels of proven oil reserves, whereas only ten FZs operated in territories with nearly 500 billion barrels of proven oil reserves.[590]

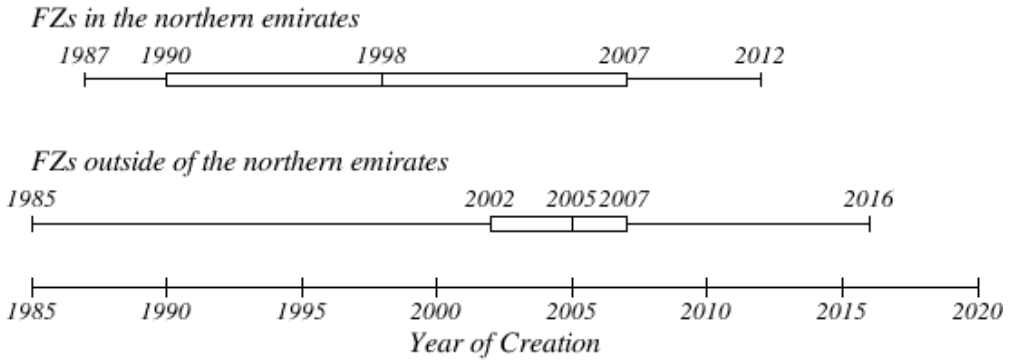


Figure 7: Box and whisker plot of FZs in the northern emirates[591]

[588] "The UAE," *The Embassy of the United Arab Emirates*.
[589] Refer to Appendix A for a tabulation of the GCC's FZ distribution.
[590] Sourced from FZ data collected and organized by author.
[591] Figures sourced from interviews and data collection conducted by the author.

FZ development in the northern emirates is marked by its early, steady pace of development. During the period under observation, half of the FZs in these emirates emerged before 1998. This represented a clear departure from the larger trend in FZ development across the rest of the GCC, where rapid FZ proliferation began in earnest during the early 2000s. An Emirati official from the Fujairah Free Zone viewed the pace of FZ development in the broader UAE as inimical to sustained development: "Free zones made business so convenient that they didn't grow in the right way. There is better manufacturing and production in Saudi Arabia and [formerly] in Syria. We have no local manufacturers."[592] Christian Steiner attributes the rapid pace of urban development to the neopatrimonial, authoritarian character of government, specific governance structures, and spatial planning systems in the Gulf.[593] Indeed, highly concentrated FZ growth during the early 2000s in Dubai and Abu Dhabi stood to capture rent streams that might otherwise have flowed toward the northern emirates. FDI inflows in the UAE swelled from $1.18 billion in 2001 to $12 billion in 2005.[594]

FZ revenues in the northern emirates functioned as a form of rents derived from commercial real estate availability and partial economic reforms. Davidson labels the specific pattern of economic rent accrued from the leasing of free zone plots and industrial parks to productive tenants in the UAE as "new rentier wealth,"[595] and related licensing and services provided additional rents for governments in the northern emirates. Beblawi and Luciani's definition of rents as unearned income streams that are accrued directly by the government, generated by a small minority of a state's

[592] Interview 24, senior corporate manager of Fujairah Free Zone, *Fujairah, UAE,* April 18, 2016.
[593] Christian Steiner, "Iconic Spaces, Symbolic Capital and the Political Economy of Urban Development in the Arab Gulf," in Steffen Wippel et al., *Under construction: logics of urbanism in the Gulf Region* (London: Routledge, 2014).
[594] The McKinsey Quarterly, *Beyond oil*, 9.
[595] Davidson, *The United Arab Emirates: A Study*, 232.

population, and distributed to a majority of citizens readily applies to FZs.[596] Crucially, the majority of FZ rents are extracted from foreign firms and expatriates, thereby relieving the bulk of local citizens from productive responsibilities associated with FZ companies. FZ rents also fit neatly into what Eibl and Malik consider a pattern of rent generation through partial economic reform undertaken by MENA governments with limited natural resources and significant distributional commitments.[597] These "regulatory rents" are essential for maintaining authoritarian political order and serving as "commitment devices" between economic elites and the regime.[598]

The rents accrued by rulers and governments from FZ leasing, licensing, and service fees relate to longstanding economic and political traditions in the northern emirates and the broader Gulf region. Lienhardt views the taxes paid to a ruler as a return for his work and expenses in managing and defending the state,[599] while William Lancaster notes that "payments for services provided were regarded as a form of legitimizing rule, a recognition of a just society,"[600] in Ras Al Khaimah. FZ rents represented returns on specific economic initiatives enacted by ruling families and their coterie of business elites while, at the same time, legitimized the political order. Therefore, the role of FZs in resource-scarce territories like the northern emirates transcended that of pure revenue generation.

In addition, FZs extended government sovereignty over non-oil rent streams and provided new institutions, or commitment devices, for redistribution to elites. The dual process of ensuring government sovereignty over non-oil rent streams while safeguarding commercial opportunities for business elites contributed to the

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[596] Beblawi and Luciani, *The Rentier State*, 51-52.
[597] Eibl and Malik, "The Politics," 5.
[598] Ibid.
[599] Lienhardt, *Shaikhdoms of Eastern Arabia,* 203.
[600] Lancaster and Lancaster, *Honor,* 300.

proliferation of FZs in the northern emirates. While hydrocarbon scarcity illustrates the timing and scale of FZ development in the northern emirates, the symbiotic relationship between ruling families and business elites as well as competition between territories over the economic benefits of FZs further elucidate the scope of FZs in the northern emirates.

5.2 Elite Relationships

As in Abu Dhabi, the societal role of ruling families in the northern emirates both aligns with Khalaf's view that "the state is the ruling family,"[601] and also continues to evolve alongside local and global relationships. "As the rent is externally derived, the state becomes an intermediary between the world capitalist order and the local economy and society,"[602] writes Khalaf, suggesting a process not unlike Young's view of the federal components of the UAE continually negotiating their position between the *majlis* [Ar. a council or gathering of people with common interests] and the market.[603] Unlike the FZ dynamics in Abu Dhabi, the relative economic significance of FZs to the economies of northern emirates encouraged the direct participation of ruling family members in FZ activities. As central actors in FZ development, ruling families derive and distribute related rents as part of a complex balancing of local, federal, regional, and global relationships. It is within this context that ruling families in the northern emirates utilize FZs to project power and control rent streams.

5.2.1 Royal chairmanships and boardroom thrones

Royal families in the northern emirates played a multi-faceted role on the supply side of the trade liberalization framework that has been adapted to examine FZs in the GCC. Since FZs first emerged conceptually as royal decrees, their very creation

[601] AlShehabi et al., *Transit States,* 45.
[602] Ibid.
[603] Young, *Political,* 37.

forged symbolic links with rulers. Various members of the ruling family then established direct, physical links with FZs by assuming leadership roles in FZ bureaucracies – usually in the form of chairmanships or board representation. Acting as FZ officials and in related government capacities, ruling family members can influence the overarching legal regulations within individual emirates as well as incentives offered by FZs, hereby permitting them substantial control over the generation and distribution of FZ rent streams.

In contrast to FZ bureaucracies in Abu Dhabi, royal family members maintained a ubiquitous presence in the corporate structures of FZs in the northern emirates. Shaykh Khaled bin Abdullah bin Sultan Al Qassimi, a member of Sharjah's royal family, serves as chairman of Sharjah's two FZs, Sharjah International Airport Freezone (SAIF) and Hamriyah Free Zone (HFZ),[604] which emerged jointly in 1995 following royal decrees. In neighboring Ras Al Khaimah, Shaykh Ahmed bin Saqr Al Qassimi serves as the chairman of the emirate's two primary FZs: RAK Free Trade Zone (RAK FTZ) and Ras Al Khaimah Investment Authority (RAKIA). Shaykh Ahmed is the eighth son of the late ruler of Ras Al Khaimah, Shaykh Saqr Al Qassimi, and he also serves as chairman of RAK Customs Department and several other government-owned organizations.[605]

The merger of RAK's two FZs in April 2017 to form the Ras Al Khaimah Economic Zone (RAKEZ) further consolidated the royal family's representation in the new FZ's leadership hierarchy.[606] Shaykh Ahmed remained chairman of RAKEZ, and

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[604] Shaykh Khaled bin Abdullah bin Sultan Al Qassimi also serves as chairman of the Department of Seaports and Customs.

[605] Shaykh Ahmed is also chairman of RAK Hospitality Holding, which oversees the management of the emirate's assets in the hotel and hospitality industries, as well as chairman of RAK National Insurance Company, Falcon Technologies and Emirates Sports Culture Club.

[606] The merger placed more than 13,000 FZ companies under the umbrella of RAKEZ; see "RAKEZ offers its services through 5 free zones and 6 offices," *Al Bayan,* April 19, 2017, accessed April 20, 2017, http://www.albayan.ae/economy/local-market/2017-04-19-1.2919800. [Arabic]

Shaykh Mohammed bin Humaid bin Abdullah Al Qassimi, another member of RAK's ruling family and former managing director of RAK FTZ, was appointed managing director of RAKEZ. Even the deposed crown prince, Shaykh Khalid bin Saqr Al Qassimi, leveraged RAK's FZs as part of his public campaign to discredit the existing RAK leadership. Shaykh Khalid alleged that the infamous Victor and Sergei Bout brothers maintained a diamond business in the RAK FTZ and that other RAK officials had facilitated suspicious Iranian involvement in UAE territory.[607]

FZs in Umm Al Quwain, Ajman, and Fujairah also possessed strong physical linkages to ruling families in each emirate. Umm Al Quwain's Ahmed Bin Rashid Free Zone emerged through Royal Decree 2 of 1987. The FZ bore the name of the Shaykh Ahmed bin Rashid Al Muʿalla[608] until 2014, when the local government rebranded the ABRFZ as the Umm Al Quwain Free Trade Zone (UAQ FTZ). The UAQFTZ website prominently displays the current ruler of Umm Al Quwain and the crown prince as patrons.[609] Brothers of the current ruler maintain leadership positions within the UAQFTZ's corporate structure: Shaykh Khalid bin Rashid Al Muʿalla serves as chairman of the board of directors for the Port, Customs, and Free Zone Establishment,[610] and Shaykh Ahmed bin Rashed bin Abdul Aziz Al Muʿalla is also a board member.

The chairman of the Ajman Free Zone (AFZ), Shaykh Ahmed bin Humaid Al Nuaimi, is the son of the ruler of Ajman.[611] Shaykh Ahmed also serves as the chairman of the Economic Department; this dual professional affiliation testifies to the central

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[607] Justin Siberell, "UAE's Ras Al Khaimah: Rogue or Reformer," Wikileaks Cable: 09DUBAI447_a, dated October 18, 2009, https://wikileaks.org/plusd/cables/09DUBAI447_a.html.
[608] Shaykh Ahmed served as ruler of Umm Al Quwain from 1928-1981 and was succeeded by Shaykh Rashid bin Ahmed Al Mu'alla.
[609] Shaykh Saud bin Rashid al Mu'alla is the current ruler of Umm Al Quwain and Shaykh Rashid bin Saud bin Rashid Al Mu'alla serves as the crown prince. See: Umm Al Quwain Free Trade Zone, "Who we are: Backbone of UAQ FTZ," *UAQFTZ*, accessed August 8, 2017, http://uaqftz.com/who-we-are/.
[610] Shaykh Khalid is also the chairman of the Amiri Diwan.
[611] Shaykh Humaid bin Rashid Al Nuaimi is the ruler of Ajman.

role of the FZ in Ajman's economic development strategy. An AFZ employee emphasized the importance of the connection between the FZ and the royal family: "We are the only free zone in Ajman, and we have a direct connection with the government. The chairman of the free zone, Shaykh Ahmed, is the son of the ruler. We can get a lot done because we have a close relationship with the government."[612] In May 2017, the ruler of Ajman presented four government excellence awards to the director general of the Ajman Free Zone during a public ceremony – reinforcing the FZ's links to both the government and the ruling family.[613]

The chairmanship of the Fujairah Free Zone (FFZ), which emerged in 1987 as an entirely government-owned entity located near the Port of Fujairah, lies with Saif bin Hamad bin Saif Al Sharqi, the son of the deputy ruler of Fujairah. Fujairah's second FZ, Creative City, opened in 2007 following Royal Decree 4 of 2007 from Shaykh Hamad bin Mohammed Al Sharqi, ruler of Fujairah. The FZ operates under the administration of the Fujairah Culture and Media Authority, a government entity chaired by the ruler's second-eldest son, Shaykh Rashid bin Hamad Al Sharqi. As in Ajman, the ruler of Fujairah considers the older FZ to be a driving force of the emirate's economy and is directly concerned with the FZ's progress.[614]

The interactions between political institutions and FZs in the northern emirates encouraged rent-seeking behaviors rather than profit-maximizing activities. In particular, the benefits that ruling families derived from physical representation within FZ corporate structures and bureaucracies mapped closely to the three forms of rent seeking described by Buchanan.[615] First, the presence of ruling families in these

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[612] Interview 56, staff member at Ajman Free Zone, *Ajman, UAE,* August 11, 2016.
[613] Sālim, ʻAbd al-Ḥalīm. "ḥākim ʻAjmān yukarrum al-manṭaqa al-ḥurra bi-4 jawāʾiz fī sibāq al-tamayyuz al-ḥakūmī," *al-yawm al-sābiʻ* ("The ruler of Ajman presents the free zone with four government excellence awards," *Youm7*), May 25, 2017. [Arabic]
[614] Interview 24, senior corporate manager of Fujairah Free Zone, *Fujairah, UAE,* April 18, 2016.
[615] Buchanan, "Rent Seeking," 13-14.

government-owned entities ensured royal control over FZ revenues and an unequal distribution of rents. In an ordered market structure, FZ revenue would be allocated in a socially beneficial way; however, FZ rents instead reinforced the link between economic and political power.[616] Second, the bureaucratic structure of FZ initiatives consisted of multiple layers of organizations, authorities, and government departments through which to dole out influential roles and sinecures to elites. Thus, FZs helped rulers address the problem of how to control their expanding families[617] and reward other allies. Third, FZ officials designed policies to generate new rents for business elites. The extent of these material benefits, however, cannot be fully appreciated without contextualizing the economic contribution of FZs.

Year	2013	2014	2015
Free Zone Trade (% of total trade)	52.1%	50.7%	51.2%

Table 9: Fujairah's overall free zone trade[618]

The economic significance of FZs to their host economies underpins the strong links between FZs and the political leadership of the northern emirates. In Fujairah, for example, total free zone trade consumed over half of the emirate's total foreign trade from 2013 to 2015. Fujairah's annual FZ trade in 2015 alone accounted for AED 8.3 billion (~$2.25 billion).[619] Statistics from mid-2015 of total FZ trade in neighboring Sharjah recorded AED 19.9 billion (~$5.4 billion), indicating a FZ sector nearly four times as large in value as that of Fujairah.[620] RAK's free zone activity contributed an

[616] Beblawi and Luciani, *The Rentier State*, 52.
[617] See: Mehran Kamrava et al., "Ruling Families and Business Elites in the Gulf Monarchies: Ever Closer?" *Chatham House Research Paper*, 2016: 1; Lienhardt, *Shaikhdoms of Eastern Arabia*, 165; and Rugh, *The Political*, 162 for discussions on the challenges of maintaining a growing royal family.
[618] Figures sourced from Fujairah Statistics Centre Statistical Yearbook 2015.
[619] Government of Fujairah, *Statistical Yearbook: Nineteenth Issue 2015* (Fujairah: Fujairah Statistics Centre, 2015), 155.
[620] Federal Customs Authority, *Emirates Customs: Free Zones*, 3.

estimated 16.3 percent to GDP in 2013.[621] "It doesn't hurt to also try to develop industrial capacity. This [RAKIA] is a big deal for a small place," explained a RAKIA manager while highlighting the FZ's significance for Ras Al Khaimah.[622] By way of comparison, FZ trade represented approximately 35 percent of total trade in neighboring Dubai, and Jebel Ali Free Zone accounted for 21 percent of Dubai's GDP in 2015.[623]

FZs generated substantial rents for the small territories of the northern emirates. An employee from AFZ stated, "We had [a] financial growth rate of more than 21 percent in the first half of 2016,"[624] but would not elaborate on the FZ's precise revenue figures. However, simple calculations estimated the FZ's annual revenue to be at least AED 178.5 million (~$48.6 million) in license registration fees alone.[625] This rough estimate remains a considerable annual sum for Ajman, the smallest of the UAE's emirates in terms of territory.[626] RAK Maritime City, created by royal decree in 2009, employed a small staff of two individuals and managed a portfolio of approximately 25 clients by mid-2016. All of the tenants held a 25-year lease, and the occupancy rate was around 90 percent.[627] Since the FZ generates income predominantly through real estate activities rather than licensing and services, its

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[621] "Ras Al Khaimah Free Trade Zone set for expansion," *Zawya,* June 26, 2015, accessed October 16, 2017, https://www.zawya.com/story/Ras_Al_Khaimah_FTZ_set_for_expansion-ZAWYA20150629082552/.
[622] Interview 58. Manager at Ras Al Khaimah Investment Authority (RAKIA). *Ras Al Khaimah, UAE.* August 14, 2016.
[623] Jebel Ali Free Zone Authority, "Dubai Industrial Strategy," 5.
[624] Interview 56, staff member at Ajman Free Zone. *Ajman, UAE,* August 11, 2016.
[625] This figure was calculated by multiplying 15,000 companies by AED 11,900, the cheapest annual company registration. Registration fees for executive offices can cost as much as AED 60,000, so the actual revenue generated from licensing and registration was likely much higher than the estimate. Estimates and prices are based on December 2016 figures.
[626] While Ajman is the smallest emirate in terms of territory, it possesses a much higher population than Ras Al Khaimah, Fujairah, and Umm Al Quwain. For more information on UAE population estimates, refer to Appendix B.
[627] Interview 59, source closely associated with RAK Maritime City, *remote conversation in Dubai, UAE,* August 16, 2016.

estimated total revenue for 2015 reached approximately AED 240 million (~$65 million).[628]



Source: Ahmed Ramzan/Gulf News

Image 3: RAK Maritime City launch, May 16, 2011

The ruler of Ras Al Khaimah, Shaykh Saud bin Saqr Al Qassimi, presided over the launch of RAK Maritime City on May 16, 2011, describing the new maritime FZ as an effort to "mimic the past with modern tools" and reconnect with the emirate's maritime tradition of trade.[629] The ruler's symbolic language suggested a return to a vibrant economic past for an emirate often described by UAE residents as sleepy, and his presence reinforced the central role of the royal family in leading economic development initiatives. Concurrent statements by FZ officials indicated that the FZ would create 5,000 jobs and increase trade at the nearby Saqr Port by 25 percent.[630]

Yet a closer examination of the maritime FZ's consequent commercial impact revealed a more complicated picture of the perceived and actual benefits of FZ development in Ras Al Khaimah. Responding to a question concerning the FZ's contribution to the emirate, an interviewee closely associated with RAK Maritime City replied:

> *Nothing…except the revenue that is going to the government…Free zone companies are not obliged to benefit local Emiratis and most of them don't…None of the companies trade with the UAE. All of their activity is in the rest of the Gulf or India or elsewhere. Many were involved in the second*

[628] The FZ rented out approximately six million square meters of real estate in 2015, and the FZ charges 40AED per square meter of leased land.
[629] Deena Kamel Yousef, "Maritime City to Generate Dh40m," *Gulf News*, May 17, 2011, accessed October 17, 2017, http://gulfnews.com/business/sectors/shipping/maritime-city-to-generate-dh40m-1.808771.
[630] Ibid.

> *stage of the Suez Canal or in Iraq or in a big port in Saudi Arabia. It's nothing to do really with bettering and employing UAE people. They don't supply consumer goods to the UAE marketplace.*[631]

The resource-scarce northern emirates carefully balanced initiatives to generate commercialized rents against concerns over the economic contribution of FZ companies. In a confidential discussion with US officials, Shaykh Faisal bin Saqr Al Qassimi, a former chairman of RAK FTZ and member of the royal family, elaborated on this balance. He stated that a failure to encourage foreign companies to better engage with the local economy in RAK would "feed opposition among traditionalist RAK citizens who already oppose the government's aggressive business oriented strategy."[632]

An affiliation to the ruling families – whether through foundational links, leadership ties, or publicly-stated expectations – increased pressure upon FZ administrations to accomplish immediate gains in terms of company registrations and revenue generation. In his analysis of the political economy of SEZs in China, Crane explains how domestic politics can hamper the economic performance of FZs:

> *A more satisfying explanation of SEZ problems focuses on politics…political pressure has confounded policy implementation as the desire for quick results has pushed zone administrators into dubious deals with both foreign and domestic economic agents. In short, it is politics that has undermined economic performance in the SEZs.*[633]

In addition to a royal presence in FZ bureaucracies, many non-royal FZ officials in the northern emirates reported directly to rulers,[634] heightening the likelihood for political

[631] Interview 59, source closely associated with RAK Maritime City, *remote conversation in Dubai, UAE,* August 16, 2016.
[632] Justin Siberell, "Ras Al Khaimah: Open For Business, But Struggling to Grow," Wikileaks Cable: 10DUBAI13_a, dated February 7, 2010, https://wikileaks.org/plusd/cables/10DUBAI13_a.html.
[633] Crane, *The Political,* 7.
[634] Interview 24, senior corporate manager of Fujairah Free Zone, *Fujairah, UAE,* April 18, 2016.

considerations to influence decision-making in FZs. This power hierarchy is especially relevant for state capitalist systems wherein political bureaucrats must make commercial decisions, and political motivations underlie investment decisions.[635]

Competing FZ models in the UAE highlight the inherent tension between encouraging productive activities and securing government revenue. "The traditional or classical free trade zone focuses on production, manufacturing, and exports. You see these starting in the 1990s in the UAE and there is actual, real activity going on. This type of zone is suffering now,"[636] explained an interviewee from Fujairah Free Zone. A newer FZ model, according to the interviewee, mainly derives revenue from licensing and related services and engages in bidding wars to dole out flexi-desks. "This is morally not acceptable, but it is cost-effective. Image-wise it is not great but profit-wise it looks fabulous. But you are just selling a bunch of papers."[637] This description of commercialized rents resonates with Moberg's argument that any FZ can appear successful through profligate spending and fiscal incentives but that the reallocation of resources alone does not create wealth.[638] Fujairah's Creative City seems to fit the latter categorization of FZs that focus on licensing and services. The Creative City manual for company registration lists pre-approved, non-export business activities but also notes, "Specific activities other than the ones mentioned can be provided as per client request, subject to management approval."[639]

While high company registration rates may generate rents from real estate and licensing, the quantity of companies in a FZ does not necessarily translate into broader

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[635] Bremmer, "State capitalism," 44.
[636] Interview 24, senior corporate manager of Fujairah Free Zone, *Fujairah, UAE,* April 18, 2016; Interview 56, staff member at Ajman Free Zone, *Ajman, UAE,* August 11, 2016.
[637] Interview 24, senior corporate manager of Fujairah Free Zone, *Fujairah, UAE,* April 18, 2016.
[638] Moberg, *The Political,* EBook section 46.1.
[639] Creative City, *Manual for Company Registration* (Fujairah: Creative City - Fujairah Media Free Zone, 2016), 10.

economic development progress. In fact, Moberg argues that "a zone that attracts a lot of firms may not be successful and can even be harmful for an economy."[640] The Ajman Free Zone reported hosting approximately 22,000 registered companies in mid-2017,[641] classifying it as the largest FZ in the UAE in terms of company registrations.[642] Yet an interviewee from AFZ noted, "Dubai attracts companies that contribute to economic development. We don't do that yet."[643] SMEs represented approximately 80 percent of AFZ clients, and the FZ aimed to further increase its SME portfolio by 30 percent in 2017.[644] A staff member from SAIF Zone in Sharjah quipped that more companies close than open in AFZ each year,[645] and similar perceptions of RAK's FZ clientele exist. "RAK will take anything [referring to FZ companies]," claimed a manager from an Abu Dhabi-based FZ.[646] While ruling families primarily are responsible for supply-side FZ development in the northern emirates, they have nevertheless delegated certain responsibilities to business elites.

5.2.2 Business elites and commercial adaptation

By accommodating government-led FZ development initiatives, business elites in the northern emirates received positions in FZ bureaucracies and opportunities to benefit from FZ-related institutions and processes. Local merchant families serve as a prominent social grouping amongst this business elite; however, their relationship to ruling families requires elaboration. Both Crystal and Davidson trace the evolution of merchant elites through the strength of respective rentier pacts, or ruling bargains,

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[640] Moberg, *The Political,* EBook section 28.9.
[641] "Ajman Free Zone opens 5 regional offices during 2017," *Al Khaleej*, August 6, 2017, accessed September 10, 2017, http://www.alkhaleej.ae/economics/page/89de8104-1033-45e9-ad13-7d4158e16686. [Arabic]
[642] Most of the investors registered with AFZ are Indian, Russian, or European.
[643] Interview 56, staff member at Ajman Free Zone, *Ajman, UAE,* August 11, 2016.
[644] "Ajman Free Zone aims to increase its portfolio of SMEs by 30% in 2017," *Al Watan,* July 14, 2017, accessed September 10, 2017, http://alwatannewspaper.ae/?p=205632. [Arabic]
[645] Interview 57, staff member at Sharjah International Airport Free Zone, *Sharjah, UAE,* August 11, 2016.
[646] Interview 23, manager at Masdar Free Zone, *Abu Dhabi,* April 14, 2016.

which rest mainly upon the relative strength or weakness of merchant elites at the beginning of the oil era.[647] This distinction illustrates the historical influence of merchant families vis-à-vis ruling families, but it does not serve as absolute evidence of a clear divide between the interests of the two groups.

J.E. Peterson instead argues, "[t]he old distinction between ruling families, whose place lay in politics and leadership of the state, and merchant families, who concentrated on commerce, disappeared long ago."[648] Almazaini writes that merchant elite individuals and families linked widespread economic, political, and social interests with those of the ruling families and general government interests,[649] and Young considers elites to be "expertly accommodated in the UAE through these long-standing informal institutions, practices of patronage, consensus-building, merchant-ruler financial ties and true opportunities for leadership." [650] Other authors agree that both groups of elites share priorities but suggest that merchant elites are subservient to the ruling families and "are obliged to adapt to the latter's business priorities."[651] FZ experiences in the northern emirates and Abu Dhabi suggest that merchant elites, although demonstrating varying degrees of accommodation, are ultimately subservient to the ruling families, and this view conforms with broader state capitalism systems present in GCC societies.

Despite the conspicuous presence of royal family members in FZ bureaucracies, merchant families nevertheless held leadership positions in FZs. The ruler of Sharjah appointed Dr. Khaled Omar Al Midfa as chairman of Sharjah Media City following

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[647] Crystal, *Oil;* Davidson, *The United Arab Emirates: A Study*, 105.
[648] Peterson, "Rulers," 23-24.
[649] Almezaini, "Private," 44.
[650] Young, *Political,* 133.
[651] Mehran Kamrava et al., "Ruling Families and Business Elites in the Gulf Monarchies: Ever Closer?" *Chatham House Research Paper*, 2016: 5.

Royal Decree 12 of 2017.[652] The Al Midfa is a prominent merchant family in Sharjah that emigrated from Oman in the 18th century and is strongly integrated with the ruling family in Sharjah.[653] The family not only remained close advisors to Sharjah's rulers but also established a niche in media and cultural activities across the country. For example, the Sharjah Museums Authority includes Majlis Al Midfa, a literary saloon owned by Ibrahim Bin Mohammed Al Midfa. Ibrahim Al Midfa established the UAE's first newspaper in 1927[654] and served as a senior advisor for several Sharjah rulers and royal family members.[655] Beyond the Al Midfa family, the director of Sharjah's two main FZs, Saud Salim Al Mazrouei, hails from one of the UAE's most powerful families.[656] As a testament to the influence of Al Mazrouei, the first wife of the president of the UAE shares her lineage with this family. Moreover, the executive director of the UAQFTZ is a member of the Al Ali, the predominant tribe in the emirate of Umm Al Quwain.[657]

The smaller established networks of local merchants in the northern emirates, relative to those in Dubai and Abu Dhabi,[658] afforded rent-seeking opportunities to other commercially-oriented local citizens and expatriates. Thus, the following section considers select groups of Emirati citizens and expatriates as part of a larger business elite network operating in the northern emirates because these social actors have

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[652] "Sharjah Ruler reallocates Khaled Al Midfa to chair Sharjah Media City 'free zone'," *Sharjah24*, February 13, 2017, accessed September 15, 2017, https://www.sharjah24.ae/en/sharjah/196370-sharjah-ruler-relocates-khaled-al-midfa-to-chair-sharjah-media-city-free-zone-.
[653] Almezaini, "Private," 63.
[654] hayʿa al-shāriqa li-l-matāḥif, "majlis al-midfa'," (Sharjah Museums Authority, "Majlis Al Midfa,") accessed August 24, 2017, http://www.sharjahmuseums.ae/Our-Museums/Majlis-Al-Midfa.aspx?lang=ar-AE. [Arabic]
[655] Gulf International Trading Group, "Heritage," accessed August 28, 2017, http://www.gulf-group.ae/ibrahim_md_al_midfa.php.
[656] A ranking of the GCC's most powerful families based on board representation found the Mazrouei family to be the third most powerful family in Abu Dhabi and the eighth most powerful family in Dubai (based on unweighted board member representation). See: The National Investor, *Power Matters: A Survey of GCC Boards* (Abu Dhabi: TNI Market Insights, 2008).
[657] Michael Quentin Morton, *Keepers of the golden shore: a history of the United Arab Emirates* (London: Reaktion Books, 2016), 103.
[658] Young, *Political,* 90.

identified strategies to benefit from FZ development and its related economic institutions. The wider group of business elites mainly profited from the foreign ownership regulations perpetuated by FZs, exemptions from labor restrictions, and FZ-enabled land and resource transfers. Dani Rodrik's concept of how ideas can trump the rigid theoretical confines of vested interests, or more specifically the ability of elites to devise strategies for taking advantage of economic opportunities without surrendering power,[659] helps frame how elite social actors embedded themselves within FZ development in the northern emirates.[660]

As in Dubai and Abu Dhabi, FZs permitted foreign firms to maintain full ownership of their venture, whereas foreign firms engaging in onshore commercial activities in the UAE require local sponsors owning 51 percent of a company's capital.[661] Emirati locals competed for sponsorship rights over onshore companies owned by non-GCC nationals or to serve as agents for branches of foreign companies. The diametrically opposed foreign ownership regulations for offshore and onshore activities ostensibly suggests an element of competition between those elites who establish and control FZs and other business elites serving as sponsors and agents for onshore companies.[662] However, the structural consequences of FZ development simultaneously benefitted both sets of elite actors. The interdependent relationship between FZs and foreign ownership regulations in the northern emirates corresponds closely to what Young labels a "hybrid economic and political strategy that is liberal in

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[659] Dani Rodrik, "When Ideas Trump Interests: Preferences, Worldviews and Policy Innovation," *Journal of Economic Perspectives* 28:1 (2014): 197.
[660] As a testament to the influence of merchants in Dubai, Khalid Almezaini notes that many merchants in Dubai have become quite powerful without a close connection to the Maktoum ruling family. See: Almezaini, "Private," 50.
[661] UAE Federal Law 8 of 1984, Article 22, http://www.uaeahead.com/knowledge/laws/doc/10b.htm.
[662] Davidson's categorization of conservative "old rentiers" and reforming "new rentiers" in the UAE implies a clash of socioeconomic groups over the consequences of liberalization reforms. His classification of "old rentiers" remaining reliant on oil-derived rents is less useful for the northern emirates because these territories never possessed significant hydrocarbon resources. See: Davidson, *The United Arab Emirates: A Study*, 225.

its economic openness to icons of global capitalism, yet controlled in local ownership and state direction."[663] Therefore, rather than being forced to support or oppose gradual economic liberalization, local business elites instead reaped benefits from both ends of a static dichotomy consisting of limited economic openness and state control.

The benefits transferred to specific Emirati citizens through these two economic institutions served a political objective by minimizing conflict, confirming North's argument that all economic institutions must have a political end in order to survive and protect their interests.[664] An Emirati from the senior management team at HFZ summarized how local elites utilized both FZs access and foreign ownership regulations to accomplish vested interests:

> *It is a very sensitive topic [changing the foreign ownership law] but I will try to explain [it] to you. All locals are sponsors. I am a sponsor for five or six companies. If the foreign ownership law is changed, locals will be losing out. It will also affect the free zone. So what is the benefit?*[665]

These comments reveal how the interviewee benefitted from two ostensibly competing economic institutions. He maintained several sponsorships with non-free zone companies, affording continual access to rents. Additionally, he held a full-time government position in a FZ that generated government revenues from free zone company registration, licensing, real estate, and related services. The extent of these rent streams was dependent upon the continuation of foreign ownership regulations in the country.

Another Emirati employee at SAIF Zone revealed how local elites adapted economic institutions, such as foreign sponsorships, to fit their interests. According to

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[663] Karen Young, "The Emerging Interventionists of the GCC," *LSE Middle East Centre Paper* Series / 02 (2013): 8.
[664] North et al., *Violence and Social Orders*, 146.
[665] Interview 55, a director from Hamriyah Free Zone, *Sharjah, UAE,* August 11, 2016. [Arabic]

this interviewee, the foreign ownership law exists to ensure that business continues to function smoothly in the case that the foreign investor goes bankrupt, leaves the country, or another crisis disrupts business operations.[666] However, the interviewee suggested that rules regulating foreign ownership are quite flexible. "The rules are the rules – you can't change them. But you can make new rules in brackets," he explained.[667] Here, the interviewee referred to a scenario in which an Emirati may own 51 percent of the shares of a foreign company but only receive a small monthly or annual sum for being a local sponsor. The flexible nature of this economic institution highlights the privileges available to connected members of the elite who either know how to bend the rules or can afford to do so. As foreign ownership regulations are dictated by federal laws, the role of local sponsorships for foreign firms and how this economic institution relates to FZ activity is not unique within the northern emirates, but rather it exists throughout the UAE and, to varying degrees, other GCC states.

5.2.3 Employment dynamics in FZs

As in Abu Dhabi and Dubai, FZs permitted employers to circumnavigate Emiratization policies. Despite supposed tensions between business communities and GCC governments over measures to limit the supply of cheap migrant labor and employ more nationals,[668] all of the FZs in the northern emirates granted full exemptions from Emiratization requirements for FZ-registered firms. This labor exemption existed despite socioeconomic conditions that resembled those in Oman and Bahrain, where FZ employers were required to meet Omanization and Bahrainization targets.[669] The northern emirates have not vigorously pursued Emiratization policies

[666] Interview 57, staff member at Sharjah International Airport Free Zone, *Sharjah, UAE,* August 11, 2016.
[667] Ibid.
[668] Paul Stevens, "Economic Reform in the GCC: Privatization as a Panacea for Declining Oil Wealth," *Chatham House Research Paper*, 2016: 8.
[669] Omanization requirements for companies in Omani FZs range from ten to 25 percent.

within FZs because preserving unfettered access to expatriate labor accomplished the interests of both ruling and business elites.

On the one hand, the unrestricted use of cheap expatriate labor in FZs increased demand by local and foreign merchants for FZ access and licenses because it helps firms extract large rents.[672] The Emirati head of a prominent Abu Dhabi-based holding company supported this view by dismissing the notion that private firms have a specific duty to hire national citizens.[673] On the other hand, ruling families in the UAE derived additional profits through SOE-led service provision to the continued influx of expatriates into their territories. Given that expatriate household income accounted for 52 percent of the UAE's GDP in 2014,[674] the economic pie connected to service provision was substantial. In Dubai, for example, the emirate derives between 8 percent to 12 percent of GDP by providing services through SOEs to foreign residents.[675] This socioeconomic context explains why a senior corporate manager of Fujairah Free Zone described its 10,000 workers as "consumers" when enumerating the FZ's main objectives.[676]

Fujairah Free Zone: 2016 Figures[670]	
Total firms registered in FZ	3,255
Total employees in FZ firms	9,890
National employees in FZ firms	N/A[671]
Total employees in FZ organization	190
National employees in FZ organization	84
New registrations in 2016	240

Table 10: Fujairah Free Zone registration statistics

The positive dynamic effects of FZs, according to Moberg, occur "when multinational companies integrate with the local economy by employing local workers and by buying inputs from

[670] Figures provided by Fujairah Free Zone employee on February 2, 2017.
[671] The Fujairah Free Zone employee did not supply this bit of information; whether they did not have the capacity to measure national employees on a free zone firm level or did not want to release the information is unclear.
[672] Callen et al., *Economic Diversification,* 24.
[673] Interview 6, vice chairman of major real estate company, *Abu Dhabi*, August 7, 2014.
[674] IMF, *Diversifying,* 22-23.
[675] Martin Hvidt, "The Dubai Model: An Outline of Key Development-Process Elements in Dubai," *International Journal of Middle Eastern Studies* 41 (2009): 409.
[676] Interview 24, senior corporate manager of Fujairah Free Zone, *Fujairah, UAE,* April 18, 2016.

domestic firms."[677] Yet, neither FZ organizations nor free zone companies in the northern emirates tend to hire many local citizens. According to Fujairah's Statistics Centre, the Fujairah Free Zone Authority only employed 91 people in 2015, and less than half of the employees consisted of Emirati citizens.[678] The government authority's workforce grew moderately from 76 employees in 2013; however, the overall public-sector employment opportunities in the free zone sector remain relatively limited. As for private sector employment opportunities, the Fujairah Free Zone reported a total of 9,890 employees across its 3,255 registered FZ companies but did not provide the number of national employees in FZ companies.[679] A source closely associated with RAK Maritime City FZ described the FZ as having "nothing to do really with bettering and employing UAE people."[680] The two employees of RAK Maritime City and its 25 clients, which possess no restrictions on hiring foreign talent, minimized the potential for public and private employment of Emirati citizens.

RAK FZs	FZ Employees	Companies	Established
RAK FTZ	480	8,000	2000
RAKIA	180	N/A	2005
RAK Maritime City	2	25	2009

Table 11: Selected Ras Al Khaimah FZ figures

Limited employment of Emiratis by FZ firms was not restricted to northern emirates. As indicated in the previous chapters, Emiratis constituted approximately ten percent of the FZ staff in Dubai's DIFC and DMCC,[681] and a Masdar FZ manager conceded that UAE FZs have been unsuccessful in generating employment for

[677] Moberg, *The Political,* EBook section 46.1.
[678] Government of Fujairah, *Statistical Yearbook: Nineteenth Issue 2015*, 42.
[679] Figures provided by a Fujairah Free Zone employee on February 2, 2017.
[680] Interview 59, source closely associated with RAK Maritime City, *remote conversation in Dubai, UAE,* August 16, 2016.
[681] Interview 19, Emirati manager at Jebel Ali Free Zone, *Dubai,* March 31, 2016.

Emiratis.[682] In the remaining countries of the GCC, expatriates filled 88 percent of the seven million jobs created between 2000 and 2010.[683] These figures suggest that FZ employment has not fundamentally changed a GCC employment paradigm – often referred to as a segmented labor market – wherein low-skilled expatriates fill the overwhelming majority of positions in the private sector.

5.2.4 Legitimizing land and wealth transfers

FZs legitimized an economic process wherein local and foreign business elites received land and other commercially-oriented subsidies from the ruling elite. Such transfers occurred, though less formally, before the creation of FZs in the Gulf. Mohammed Al-Fahim, a prominent Abu Dhabi merchant, recounts how the ruler of Dubai generously responded to his family's commercial proposal:

> *Sheikh Maktoum was more than generous in response: he ordered that a piece of land twice the size of the one we already had be awarded to my father at no charge. The land was a very generous and much appreciated gift from Sheikh Maktoum to our family.*[684]

Similar examples of direct land and wealth transfers from the ruling families to local merchants in Kuwait are well documented.[685] Ghanim al-Najjar's 1984 study, for example, found that the beneficiaries of Kuwait's land acquisition policy ensured the continuation of the policy despite its damaging effects on the economy.[686] Within the context of the UAE, Almezaini considers land ownership be a vital source of wealth

[682] Interview 23, manager at Masdar Free Zone, *Abu Dhabi,* April 14, 2016.
[683] Nearly 85 percent of these expatriates worked in low-skilled roles. See: Callen et al., *Economic Diversification,* 12.
[684] Al-Fahim, *From,* 181.
[685] For a useful study on how land acquisition policy in Kuwait affected power structures amongst the ruling family and merchants, see: Ghanim Hamad al-Najjar, *Decision-Making Process in Kuwait: The Land Acquisition Policy As A Case Study*, D.Phil Thesis: University of Exeter (1984).; Crystal, *Oil*, 76.
[686] Al-Najjar, *Decision-Making*, 458.

and suggests that "most of the residential and commercial buildings in the UAE, with some exceptions in the case of Dubai, are owned by merchant or ruling families."[687]

The introduction of FZs in the 1980s commercialized previously informal transfers. A senior official at the Fujairah Free Zone explained that he could directly approach the ruler of Fujairah if the FZ required additional resources and land for new clients.[688] Similarly, the Ajman government permitted the Gulf Chinese Trading Corporation[689] to retain free zone status for a China Mall operating outside of the Ajman Free Zone. "We gave the Gulf and Chinese Trading Company the land, and they bring in the Chinese brands," explained an AFZ employee.[690] In both cases, influential parties lobbied the government to transfer resources through FZs. These direct collaborations between governments and private sector companies to allocate public goods and incentives through FZs formalized rent-seeking processes as part of state economic development initiatives. Given that this method of state allocation often directly benefitted the foreign firms operating in FZs, it is important to explore how federal and international dynamics affected FZ development.

5.3 Global Competition

"Free zones serve the international capital markets and foreign investors as well as government-related entities. The connections are deep and vascular, but they are not centralized or organized at the service of federal state interests," writes Young. [691] Apart from the Dubai Free Zones Council and Dubai's influential free zone development companies, FZs in the UAE resulted from unilateral decisions undertaken

[687] Almezaini, "Private," 55.
[688] Interview 24, senior corporate manager of Fujairah Free Zone, *Fujairah, UAE,* April 18, 2016.
[689] The Gulf Chinese Trading Corporation is a private company with Gulf, Chinese, and European shareholders.
[690] Interview 56, staff member at Ajman Free Zone. *Ajman, UAE,* August 11, 2016.
[691] Young, *Political,* 37.

by local governments.[692] There existed neither a federal control mechanism for the sector nor an organized free zone lobby. Moreover, Keshavarzian maintains that the timing and location of Dubai's Jebel Ali Free Zone are related to the logic of state formation and geostrategic conditions rather than pure economic calculus.[693]

While northern emirates did leverage FZs to direct rents to domestic and international groups of elites, thus aligning with one element of Keshavarzian's argument,[694] projecting territorial sovereignty was decidedly less central than in the case of Dubai. The related argument that FZ creation in Dubai intended to "side step" the federal Commercial Companies Law of 1984,[695] however, does apply to early FZ formation in the northern emirates during the 1980s. Within the competitive context of the UAE[696] and broader region, FZs in the northern emirates functioned as spheres of commercial competition between emirates, back doors to the UAE economy, and facilitators of occasionally contentious international linkages.

5.3.1 Federal politics of FZ influence

Uncoordinated FZ development in the UAE heightened competition between the country's federal entities. For example, RAK's unsuccessful bid to compete with media-related FZs in Dubai, Abu Dhabi, and Fujairah illustrates how cluster formations can increase competition over a given pool of resources.[697] The RAK Media Free Zone opened in 2006 as part of a strategy by the RAK government to offer a cheaper alternative to Dubai Media City. RAK Media Free Zone initially offered freelance visas

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[692] The semi-government organization TECOM in Dubai, for example, manages eleven free zones and is discussed in greater detail in the third chapter on Dubai.
[693] Keshavarzian, "Geopolitics," 265.
[694] Ibid., 263.
[695] Ramos, *Dubai,* 126.
[696] Mary Ann Tetreault argues that the embeddedness of decentralization and political accommodation in the UAE led to political and economic competition. See: Tetreault, "The economics of national autonomy," 4-5.
[697] Mercedes Delgado et al., "Clusters and entrepreneurship," *Journal of Economic Geography* 10 (2010): 514.



Image 4: A deserted RAK Media Free Zone, August 15, 2016

to media professionals, which, costing AED 10,000 (~$2,725) per year, represented a substantial discount on DMC's annual fee of AED 24,500.[698] However, RAK Media Free Zone cancelled freelance visas in 2009, citing challenges in monitoring the commercial behavior of its freelancers based in Dubai.[699] In 2007, two new FZs entered the UAE's media free zone soiree. The establishment of twofour54 in Abu Dhabi and Creative City in Fujairah compounded the commercial challenges for RAK's fledging FZ. Facing an experienced competitor in Dubai, a well-funded entrant in Abu Dhabi, and a low-budget rival in Fujairah, RAK Media Free Zone was unable to compete commercially in the UAE market. While the precise date of its closure is unclear, media reports on the FZ stopped after 2009, and the FZs was no longer in operation by the summer of 2016.[700] Unphased by RAK's commercial challenges in the media FZ market, Sharjah launched Sharjah Media City, described as a world-class hub for media and creativity, in early 2017.[701] The emirate also established Sharjah Healthcare City in 2012, posing a direct commercial threat to Dubai Healthcare City, an initiative launched by Dubai's government nearly a decade earlier.

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[698] Approximations based on 2006 prices. Keach Hagey, "RAK Media City ends freelance visas," *The National*, August 31, 2009, accessed September 20, 2017, https://www.thenational.ae/business/rak-media-city-ends-freelance-visas-1.527535.
[699] Ibid.
[700] Some interviewees in Ras Al Khaimah, including an employee at another one of the emirate's FZs, suggested that the RAK Media Free Zone was still operational despite it being completely closed and boarded-up upon the author's visit.
[701] "Sultan re-organises Sharjah Media City 'Free Zone'," *The Gulf Today*, February 13, 2017, accessed September 20, 2017, http://gulftoday.ae/portal/5cf903eb-96d6-463e-9ba7-17958e8a3e66.aspx.

FZs outside of the media and healthcare realms likewise employed commercial pricing strategies to attract new clients, heightening the competition between FZs within the country. A HFZ official described the unique selling point of the FZ as being "the most cost-effective free zone in the region, besides Jebel Ali."[702] During the 2008 financial crisis, HFZ permitted companies to pay fees in instalments as an inducement to retain their business during the tumultuous period.[703] A marketing officer at SAIF Zone noted that "smaller, less reputable companies" look toward cheaper zones like RAK FTZ,[704] while RAKIA performed annual price comparisons with Jebel Ali Free Zone and KIZAD.[705] A senior corporate manager at Fujairah Free Zone confirmed that competitive prices remain a central consideration for multinational companies operating in FZs,[706] and the manager of a Sharjah-based regional trade office summed up how price-setting affects FZ behavior: "Sharjah has the most potential because it is cheap – and it all comes down to price."[707]

In addition to pricing considerations, the unequal distribution of political and commercial power across the UAE's federal entities influenced FZ development. FZ officials in Sharjah expressed concern that Abu Dhabi's growing FZ sector would challenge Hamriyah Free Zone in the short-term future.[708] Other attempts by the federal government to regulate FZ-affiliated activity faced resistance in the northern emirates.[709] The UAE Cabinet approved a National Industrial Coordination Council in

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[702] Interview 21, program head at Hamriyah Free Zone, *Sharjah, UAE,* April 12, 2016.
[703] Interview 55, a director from Hamriyah Free Zone, *Sharjah, UAE,* August 11, 2016. [Arabic]
[704] United Arab Emirates, "Sharjah Airport – Irbis Follow-up," Wikileaks Cable: 06DUBAI3675_a, dated June 14, 2006, https://wikileaks.org/plusd/cables/06DUBAI3675_a.html.
[705] Interview 58, manager at Ras Al Khaimah Investment Authority (RAKIA), *Ras Al Khaimah, UAE,* August 14, 2016.
[706] Interview 24, senior corporate manager of Fujairah Free Zone, *Fujairah, UAE,* April 18, 2016.
[707] Interview 45, manager at USA Regional Trade Centre, *Sharjah, UAE,* July 21, 2016.
[708] Interview 21, program head at Hamriyah Free Zone, *Sharjah, UAE,* April 12, 2016.
[709] Coordination of industrial policy has been a concern since the 1970s both within the UAE (see: El Mallakh, *The Economic*, 58-59.) as well as in the wider GCC region (see: Abdullah Al-Yousef, "An Evaluation of Bahrain's major Industries and Their Future Prospects," in Jeffrey Bugent and Theodore Thomas, *Bahrain and the Gulf: Past Perspectives and Alternate Futures* (Kent: Croom Helm, 1985),

April 2016 to ensure cohesion between various governments' industrial policies.[710] A senior FZ official in Fujairah considered the council's aim as an infringement upon the industrial progress achieved by FZs. "Why create another option if a perfectly fine one already exists?" he asked.[711] Criticism over federal interference from Abu Dhabi, however, was balanced against considerations over rent streams from the capital. Young argues that "[t]he fiscal health of the weaker northern emirates will depend on continued transfers and investments from Abu Dhabi."[712] The Abu Dhabi Ports Company, for example, manages both the KIZAD FZ in Abu Dhabi and the Port of Fujairah, which is located adjacent to the Fujairah Free Zone.

Attempts by northern emirates to access federal electricity resources for FZs illustrates how territories competed for rents from federal investments and subsidies. Those emirates that secured better access to federal resources could attract foreign and domestic investors with larger subsidies and reduced registration fees, both of which serve as major incentives for large-scale business operations. These rent-seeking activities related to a general pattern of GCC governments using domestic energy pricing as a tool of social policy and income redistribution.[713] A RAKIA official considered the emirate's easy access to federal electricity to be a major advantage over competing FZs in Ajman, Fujairah, and Umm Al Quwain. "We have electricity from the federal government. The others [FZs in the northern emirates] don't have federal electricity,"[714] explained the RAKIA manager. Abu Dhabi, Dubai, and Sharjah each

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124-128.); Martin Hvidt, "Economic diversification in GCC countries: Past record and future trends," *Kuwait Programme on Development, Governance and Globalisation in the Gulf States* (2013), 40.) Yet no such formal coordination concerning FZs has emerged within the UAE or across the GCC.

[710] "Cabinet approves industrial coordination council," *Gulf News*, April 17, 2017, accessed September 20, 2017, http://gulfnews.com/news/uae/government/cabinet-approves-industrial-coordination-council-1.1714262.

[711] Interview 24, senior corporate manager of Fujairah Free Zone, *Fujairah, UAE,* April 18, 2016.

[712] Young, "UAE Fiscal Policy," para. 8.

[713] Stevens, "Economic Reform," 9.

[714] Interview 58, manager at Ras Al Khaimah Investment Authority (RAKIA), *Ras Al Khaimah, UAE,* August 14, 2016.

operate respective electricity and water authorities. The Federal Electricity and Water Authority (FEWA) services the remaining emirates of Ras Al Khaimah, Ajman, Umm Al Quwain, and Fujairah. However, supplying FZs with federal electricity requires a full industrial city and additional electrical infrastructure. RAKIA invested approximately AED 400 million (~$109 million) to secure access to federal electricity and reduce energy costs for clients.[715]

FZs in smaller emirates, like Ajman and Umm Al Quwain, confronted barriers associated with accessing federal resources. FZs in these emirates could not afford the minimal level of industrial development and investment required for the direct transmission of federal electricity beyond existing FEWA power plants. While FEWA did announce a $354 million plan to expand the northern emirates' energy facilities in 2016,[716] competitive dynamics continued to drive FZ development. "The UAE is a federal entity. As long as they keep stepping on each others' toes, there is unlikely to be much progress there [around FZ cooperation]," noted a manager at a Sharjah-based regional trade office.[717]

5.3.2 Back doors to the wider UAE

Foreign firms and expatriate entrepreneurs also employed FZs in the northern emirates as cheap entry points into the more lucrative markets of Abu Dhabi and Dubai. Local governments encouraged this rent-seeking behavior through inference to keep market entry prices below competitive levels,[718] or the cost of obtaining comparable commercial licenses in Abu Dhabi or Dubai. The notion of FZs acting as back doors to alternative markets is not unusual; Hakimian considers Iran's FTZs and

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[715] Ibid.
[716] Ahmed Shaaban, "Four emirates to benefit from Dh1.3bn federal power aid," *Khaleej Times*, January 7, 2016, accessed September 21, 2017, http://www.khaleejtimes.com/nation/government/four-emirates-to-benefit-from-dh13b-federal-power-aid.
[717] Interview 45, manager at USA Regional Trade Center, *Sharjah, UAE,* July 21, 2016.
[718] Buchanan, "Rent Seeking," 4.

SEZs[719] as efforts to improve the country's international economic integration,[720] and other academic work mentions North Korea's strategy to create FZ linkages with regional neighbors and the global economy.[721] These cases exemplify how isolated territories can utilize FZ development to enhance economic integration with the global economy.

Comments from ruling family members and other FZ officials in the northern emirates reinforce the perception of these emirates as "back doors." Shaykh Faisal bin Saqr Al Qassimi, a member of the RAK royal family, conceded that many first-time foreign company registrants consider the emirate to be a low-cost entry point to Dubai and Abu Dhabi.[722] A marketing and sales officer at SAIF Zone promoted the Sharjah-based FZ as a "cost effective suburb" of Dubai,[723] while Farouk Soussa, Citigroup's chief economist for the Middle East, described the northern emirates as "a safety escape valve. When things get too expensive and too crowded in places like Dubai, they start to look more interesting as opportunities."[724]

Promotional materials for FZs in the northern emirates further perpetuated the view of these FZs as backdoor gateways to the larger UAE market. Surveying official brochures and informational booklets collected from FZs revealed a proclivity for highlighting the distance to Dubai as a major investment incentive.[725] A positive view

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[719] Iran possesses seven free trade zones (FTZs) and sixteen special economic zones (SEZs). The FZs are meant to promote exports and foreign investment, while the SEZs aim to enhance domestic infrastructure and internal trade. For more information, see: The Supreme Council of Iran's Free Trade, Industrial & Special Economic Zones, "Free Zones," *Center for Free and Spatial Economic Zones*, accessed March 7, 2017, http://www.freezones.ir/Default.aspx?tabid=137.
[720] Hakimian, "Iran's," 851-874.
[721] Xiangming Chen, "The Evolution of Free Economic Zones and the Recent Development of Cross National Growth Zones," *International Journal of Urban and Regional Research* 19:4 (1995): 612.
[722] Siberell, "Ras Al Khaimah: Open," Wikileaks Cable: 10DUBAI13_a.
[723] United Arab Emirates, "Sharjah Airport – Irbis Follow-up," Wikileaks Cable: 06DUBAI3675_a, dated June 14, 2006, https://wikileaks.org/plusd/cables/06DUBAI3675_a.html.
[724] Dokoipil, "MIDEAST MONEY," *Reuters*.
[725] See: Umm Al Quwain Free Trade Zone Authority, *Umm Al Quwain Free Trade Zone* (Umm Al Quwain: UAQ FTZ Authority, collected in May 2016), 1.; Sharjah Airport International Free Zone, *SAIF Zone Welcome to the freedom of doing business your way* (Sharjah: SAIF Zone, collected in August 2016), 4-5.; Ras Al Khaimah Investment Authority, *RAK Investment Authority: Doing Business Your*

of these marketing efforts would suggest that FZs in the northern emirates positioned themselves within a FZ industry cluster to reduce barriers to entry for new firms. Clusters can increase entrepreneurship, boost exports, and attract foreign investment.[726] However, these marketing efforts resulted in a backlash from other southern emirates. To limit interference in its local market, the Dubai Land Department (DLD) specifically prohibited foreign companies registered in FZs outside of Dubai from purchasing real estate in areas designated for foreign investment.[727] Instead, a foreign company must register with a DLD-approved FZ before it can acquire real estate in accordance with Dubai's property ownership law.[728]

Certain FZ registration practices and firm behaviors in the northern emirates support the view of FZs as gateways to the larger UAE market. The Ajman Free Zone authorities acknowledged in 2006 that many companies were solely interested in UAE work visas and consequently had to limit visas for new FZ companies.[729] Ajman's FZ nevertheless continued registering smaller firms in large quantities: around 80 percent of the FZ's approximate 15,000 registered companies were SMEs.[730] On a similar note, the RAK FTZ demonstrated a commercial concentration of more than 30 firms per hector, the highest measure in a 2017 study of 23 FZs located in Organization of Islamic Cooperation countries. The average ratio rested at 8.3 firms per hector.[731]

Way (Ras Al Khaimah: Government of Ras Al Khaimah, collected in June 2016), 3.; Mantaqat 'Ajman al-Hurra*, Dalil al-Mustathmir* (Ajman Free Zone, *The Investor's Guidebook*) (Ajman: Ajman Free Zone, no date provided). [Arabic]

[726] Delgado et al., "Clusters and entrepreneurship," 514; Michael E. Porter, "Location, Competition, and Economic Development: Local Clusters in a Global Economy," *Economic Development Quarterly*, 14.1 (2000): 16.

[727] Mohammed Kawasmi and Aruna Mukherji, "Know UAE Law: Tips for investors looking to buy real estate in Dubai," *Thomson Reuters: Zawya*, October 30, 2017, accessed November 1, 2017, https://www.zawya.com/mena/en/story/Know_UAE_Law_Tips_for_investors_looking_to_buy_real_estate_in_Dubai-ZAWYA20171030085208/.

[728] Article 4 of Dubai's Property Ownership Law, Number 7 of 2006, states that all foreign ownership is subject to the ruler of Dubai.

[729] United Arab Emirates Dubai, "Ajman Free Zone," Wikileaks Cable: 06DUBAI1068_a, dated February 26, 2006, https://wikileaks.org/plusd/cables/06DUBAI1068_a.html.

[730] Interview 56, staff member at Ajman Free Zone, *Ajman, UAE,* August 11, 2016.

[731] Coleman and Thurley, "SEZ," 13.

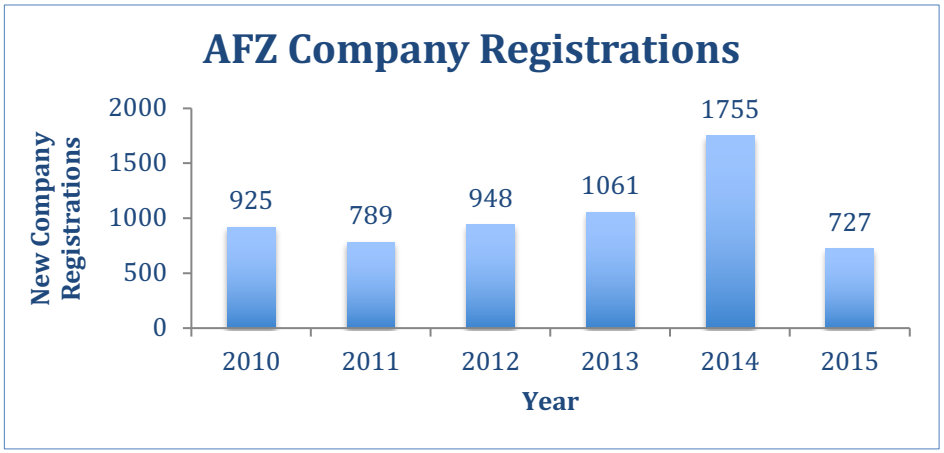


Figure 8: Ajman Free Zone firm registrations (2010-2015)

RAK FTZ maintained UAE offices in the Abu Dhabi mall and Dubai, where UAE residents regularly applied for RAK business licenses. Consequently, many individuals received business licenses without ever visiting the emirate of Ras Al Khaimah.[732] One Abu Dhabi-based British consultant set up a company for his wife through the RAK FTZ branch in the Abu Dhabi mall, and he later considered using his wife's company to sponsor his employment visa extension once he was made redundant.[733] "These free zones [like RAK] cater to more flexible employment options, like allowing someone to get a work visa after they have been terminated from a different job [or] supplying family members with a visa," noted a lawyer who worked on FZ legal frameworks in Dubai.[734]

5.3.3 Contentious international linkages

The global linkages inherent within FZs in the northern emirates tended to reflect historical trends and longstanding commercial ties. For example, Indian companies represented the largest client base in most of the northern emirates' FZs.[735]

[732] This was the case for Interviewee 34, a partner at UK training company based in Abu Dhabi but registered to RAK Free Zone.
[733] Interview 22, British owner of consulting firm registered in Abu Dhabi's Masdar Free Zone, *Abu Dhabi.* April 14, 2016.
[734] Interview 29, partner at Dubai-based law firm, *Dubai, UAE*, May 11, 2016.
[735] Interviewees 21, 24, 25, 56, and 57 confirmed that Indians are the largest portion of FZ clients in Hamriyah Free Zone, Fujairah Free Zone, Creative City, Ajman Free Zone, and SAIF Zone respectively.

Unsurprisingly, India remained one of the largest destinations for the UAE's non-oil exports, securing 33.5 percent in 2009.[736] Fujairah's FZ trade mirrored this trend; approximately 41 percent of its direct free zone trade in 2014 occurred with non-Arab, Asian trading partners.[737] Iran served as the UAE's largest re-export destination for non-oil exports in 2009, having received 17.6 percent of the country's total reexports.[738] FZs enabled various emirates and state actors to exploit commercial ties with Iran for economic and political advantage. Iranians represented the second largest segment of FZ investors in SAIF Zone behind Indians in 2006.[739] Iranian companies, mainly involved in shipping foodstuff and consumer goods to Iran, also constituted a sizeable, although undisclosed, portion of firms in the Ajman Free Zone.[740]

The strong presence of Iranian firms in northern emirates' FZs at times clashed with UAE federal policy. The courting of Iranian investors to RAK FTZ changed significantly in 2009 when UAE federal authorities increased their scrutiny of Iranians operating in the UAE[741] – thus highlighting the tensions between the commercial interests of the northern emirates and the political stance of Abu Dhabi. It is within this context that the deposed crown prince from RAK, Shaykh Khalid bin Saqr Al Qassimi, alleged that Iran employed RAK's FZs and ports to conduct illicit trade relating to its nuclear missile program.[742] Trade sanctions against Iran in 2010 compounded the issue of FZ engagement with Iran, and consequently the RAK Free Trade Zone discontinued

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[736] United Arab Emirates National Bureau of Statistics, *Analytical Report on Economic and Social Dimensions in the United Arab Emirates* (Abu Dhabi: National Bureau of Statistics, published in April 2010), 27.
[737] Government of Fujairah, *Statistical Yearbook: Nineteenth Issue 2015,* 157.
[738] Ibid., 29.
[739] United Arab Emirates, "Sharjah Airport – Irbis Follow-up," Wikileaks Cable: 06DUBAI3675_a, dated June 14, 2006, https://wikileaks.org/plusd/cables/06DUBAI3675_a.html.
[740] United Arab Emirates Dubai, "Ajman Free Zone," Wikileaks Cable: 06DUBAI1068_a, dated February 26, 2006, https://wikileaks.org/plusd/cables/06DUBAI1068_a.html.
[741] Siberell, "Ras Al Khaimah: Open," Wikileaks Cable: 10DUBAI13_a.
[742] Siberell, "UAE's," Wikileaks Cable: 09DUBAI447_a.

new licenses for Iranian firms.[743] Federal tensions over engagement with Iran likely affected Iranian investment in Sharjah's HFZ, which oversaw a mere 70 Iranian firms amongst their nearly 6,000 registered FZ firms by mid-2016.[744]

FZs also served as physical conduits for other forms of Iranian influence in the UAE. The HFZ orchestrated a plan to receive gas via the Salman gas field in Iran in an attempt to bolster limited supplies of associated gas, which the northern emirates use for electricity generation. However, "a dispute of pricing in 2010 as well as internal political opposition within Iran to the export of gas at a time of mounting domestic energy shortages saw the deal collapse in acrimony,"[745] writes Ulrichsen. Had the deal succeeded, Sharjah's welcoming of Iranian gas would have upset the historical notion of federal distributive responsibilities to the northern emirates. In 2013, Iran and Oman launched a similar project to build an underwater pipeline for transporting Iranian gas to the Sohar Port and Freezone in Oman,[746] reflecting an Iranian pivot toward a FZ location in a more politically-neutral GCC state.

5.4 Concluding remarks

Lacking the readily-available, commodity-based rent streams that existed in Abu Dhabi and other resource-abundant GCC neighbors, the northern emirates confronted economic and political marginalization in the UAE's federal enforcement environment. FZs provided new rent streams to help satisfy the distributional responsibilities of these marginalized territories. Thus, those emirates completely lacking hydrocarbon

[743] Tom Arnold, "RAK free zone refuses Iranian companies," *The National*, July 28, 2010, accessed August 3, 2018, https://www.thenational.ae/business/rak-free-zone-refuses-iranian-companies-1.499794.
[744] Figures based on a complete client list provided by Hamriyah Free Zone to the author in August of 2016.
[745] Ulrichsen, *The United*, EBook section 393.8.
[746] "Iran, Oman Sign Preliminary Agreement on Gas Export," *Financial Tribune*, February 8, 2017, accessed February 9, 2017, https://financialtribune.com/articles/energy/59114/iran-oman-sign-preliminary-agreement-on-gas-export.

resources were early adopters of FZs in the late 1980s. Sharjah and Ras Al Khaimah, with limited hydrocarbon reserves, created their first FZs later in the 1990s and early 2000s.

Ruling families maintained firm control over FZ entities by installing family members in important bureaucratic positions, reflecting the economic and politically-legitimizing significance of FZ rents, and simultaneously redirected commercialized rents to individuals from prominent merchant families, commercially-oriented Emirati citizens, and foreign firms. These business elites adopted strategies to benefit from the FZ strategies implemented by ruling families. In particular, business elites secured FZ-related rents from reduced foreign ownership regulations, workforce nationalization exemptions, and land transfers.

Federal politics and international integration further shaped FZ development. Northern emirates leveraged FZs to participate in competitive federal dynamics and engage in rent-seeking behavior for federal subsidies. Moreover, the northern emirates positioned their FZs to serve as low-cost gateways into the lucrative markets of Dubai and Abu Dhabi. Finally, FZ linkages with Iran conflicted with foreign policy views in the UAE capital of Abu Dhabi. As neighboring Oman embarked on its process of FZ development, the country encountered similar difficulties: launching expensive economic initiatives despite resource scarcity, narrowing the gap between economically and politically marginalized areas and wealthier urban centers, and deriving a commercial benefit from warm diplomatic relations with Iran.

6 Oman: Tools for conflict management

> *"I ask myself, 'Why didn't the government think that big multinationals will not look out for us?'"*
> --Omani citizen from Salalah, Dhofar[747]

Oman's government employed FZs from the late 1990s until 2017 to mitigate against civil strife, satisfy elite interests, and prevent future political protest. These objectives challenge traditional notions of free zone development, yet they neatly align with the concept that all economic institutions are political because they require a political end to survive.[748] The key theoretical concepts underpinning this argument, as it pertains to the Omani context, are "political incentive compatibility constraints"[749] – or what a political leader must do to stay in power – and a targeted use of a "late rentierism" theory.[750] The former theoretical concept helps to establish the underlying interests behind FZ formation under the government of Sultan Qaboos bin Sa'id Al Sa'id. The latter theoretical consideration reflects an approach to RST wherein rentierism serves as an analytical tool for determining political and economic outcomes but not necessarily a comprehensive explanation for the entire Omani FZ system. Instead, the adopted theoretical approach also accounts for how historical dynamics, differentiation in rent types, and international conflicts influenced FZ development in Oman.

The government under Sultan Qaboos initially relied on revenues from hydrocarbon exports to achieve stability, develop expansive infrastructure, and minimize socioeconomic conflict. As proven hydrocarbon resources dwindled, the government sought commercialized rents from FZs as a strategy to minimize social conflict and stabilize political institutions. Referring to this strategy, Hvidt asserts that "the Gulf countries seem to be in the process of reforming their economies, and thus

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[747] Interview 40, senior industrial estate and free zone manager, *Salalah, Oman,* June 9, 2016.
[748] North et al., *Violence and Social Orders,* 146.
[749] Acemoglu and Robinson, "Economics," 177.
[750] Gray, "A Theory," 18-19.

preparing their economies to become more diversified and probably more reliant on the private sector."[751] The generation of commercialized rents, however, did not occur in a vacuum, but rather the process involved engagement with longstanding institutions, historical factors, and domestic constraints.

Given Oman's small royal family, the regime under Sultan Qaboos relied on local elites to develop and manage FZs across the country. The professional trajectory of Maqbool bin Ali Sultan exemplifies how FZs served as important nodes between the royal family, Omani merchants, domestic politics, and international capital flows. Maqbool hailed from the prominent Sultan family of the prosperous Lawatiyyah community of merchants.[752] His family's firm, W.J. Towell, prospered by managing hydrocarbon-funded infrastructure projects commissioned by Sultan Qaboos during the 1970s and 1980s.[753] W.J. Trowell also drafted the master plan for the Sohar Port, owned a 10 percent stake in the Sohar Power Company, and successfully lobbied for an aluminum smelter in the eastern city of Sohar.[754] In 1991, Sultan Qaboos appointed Maqbool as Minister of Commerce and Industry, where he chaired the Free Zone Committee – the primary government body responsible for determining FZ policy in the country. Simultaneously, he served as Chairman of the Sohar Industrial Port Company, which, in addition to managing the Sohar Port and Freezone, operated as a JV between the port of Rotterdam and the government of Oman. In these capacities, Maqbool Sultan led FZ policy creation for two decades while also serving in private sector roles that directly benefitted from FZ development.

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[751] Hvidt, "Economic and Institutional Reforms," 102.
[752] The Lawati (plural) are one of a handful of Shi'a groups in northern Oman. See: J.E. Peterson, "Oman's Diverse Society: Northern Oman," *Middle East Journal* 58:1 (2004): 43.
[753] Victor Hurtado, "Oman, Inc.: Business Oligarchs and Government in Oman's Economy," Wikileaks Cable: 09MUSCAT851_a, dated August 16, 2009, https://wikileaks.org/plusd/cables/09MUSCAT851_a.html.
[754] Ibid.

FZ dynamics in Oman reflected wider political strategies employed by a government that delegated substantial economic authority to business elites, on the one hand, but also held private sector actors responsible for accomplishing crucial political objectives on the other hand. In 2011, Sohar erupted in violent protests, and demonstrators specifically demanded the removal of Maqbool following accusations of corruption. These protests fed into broader concerns about crony capitalism and perceptions that foreign firms and multinationals did not adequately contribute to the local economy. Sultan Qaboos removed Maqbool from his position as part of a cabinet reshuffle in March of 2011.[755] This anecdote reveals the deep linkages between political influence and economic reward, as well as contentious politics, associated with Omani FZs.

While the government of Oman empowered local elites to participate in economic development initiatives, FZ development simultaneously coincided with an inherent reliance upon foreign investments from external actors. Commercialized rent generation though foreign firm involvement in FZs required the Omani government to balance domestic goals against the political and economic interests of international actors. For example, Chinese firms invested heavily in Omani FZs as part of the Belt and Road Initiative. Neighboring GCC states engaged with Omani FZs as both cautious competitors and potential investors. Moreover, policymakers continued efforts to stimulate FZ trade with neighboring Iran and Yemen, despite international constraints and conflicts in these countries. The first section of this chapter begins by exploring the economic context through which FZs emerged in Oman and establishes the foundations

[755] Sunil Vaidya, "Seven elected Shura members picked in Oman's new cabinet," *Gulf News*, March 7, 2003, accessed November 17, 2017, http://gulfnews.com/news/gulf/oman/seven-elected-shura-members-picked-in-oman-s-new-cabinet-1.772893.

for the country's consequent engagement with domestic business elites and international actors.

6.1 Hydrocarbon Dynamics

6.1.1 Pre-oil Oman and the rise of Sultan Qaboos

Pre-oil Oman confronted economic instability from global forces and political fragmentation; these historic vulnerabilities remained intertwined with later processes of FZ development. The seafaring skills of the territory's inhabitants and abundant frankincense permitted Oman to build a powerful maritime empire spanning the Arab Gulf and the Indian Ocean. Oman's broad-based agricultural sector and prosperous fishing industry created a historically diversified economy; however, this diversification could not entirely withstand the effects of global economic forces.[756] The emergence of European steamships in the mid-1800s and the opening of the Suez Canal led to the rapid decline of Muscat as a trading center.[757] The transition from the silver standard to the British gold standard across the Indian Ocean also exhausted Oman's currency supplies.[758]

In addition to shifting global economic forces, rulers of pre-oil Oman struggled to retain political cohesion across the territory. From the late 1800s until the early 1900s, Trucial Oman exhibited an economic dualism wherein coastal Oman remained trade-oriented and foreigner-friendly while the interior remained self-sufficient and ethnically homogeneous.[759] Thus, when Sultan Sa'id bin Taimur assumed power of Trucial Oman in 1932, it was crucial that he strengthened relations with local

[756] Looney, "The Omani," 4.
[757] Rosemarie Said Zahlan, *The Making of the Modern Gulf States: Kuwait, Bahain, Qatar, the United Arab Emirates and Oman* (Lebanon: Ithaca Press, 1998), 127.
[758] Mark Speece, "Aspects of Economic Dualism in Oman, 1830-1930," *International Journal of Middle East Studies* 21 (1989): 501.
[759] Speece, "Aspects," 495.

merchants to reinforce his political legitimacy. In return for political allegiance to the sultan, these merchants received protection and monopoly rights in specific sectors.[760] These early ruler-merchant alliances laid an important foundation for future relations between ruling and business elites involved in FZ development. However, the sultan's general aversion to development and treatment of Dhofar as a "personal feudal state"[761] and "private reserve"[762] contributed to the outbreak of the Dhofar War, a pivotal conflict that lasted from 1962 to 1976 and shaped the early rule of Sultan Qaboos. Marxist ideology in neighboring Yemen heavily influenced a liberation movement that aimed to overthrow Sultan Sa'id bin Taimur. The bloodless coup in 1970, wherein Sultan Qaboos bin Sa'id removed his father with British assistance, eased political tensions with Dhofaris but the liberation movement nevertheless continued until 1976.

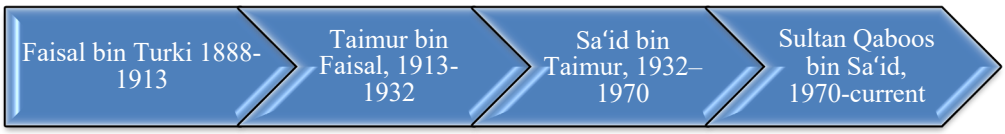


Table 12: Chronological list of modern Sultans from the Bu Sa'id dynasty in Oman (1888-2018)

The rise to power of Sultan Qaboos remains a crucial element of this analysis because the entire process of FZ creation and development occurred within the subsequent political institutions associated with his regime. Early into his rule, the young sultan encountered two major obstacles: the ongoing Dhofar War and a seriously underdeveloped economy. Sultan Qaboos overcame both obstacles by relying upon newfound hydrocarbon wealth and foreign assistance – a strategy that resonated with the government's later approach to FZ development. Oman began exporting oil in 1967, and the country witnessed a tenfold increase in GDP from 1970 to 1979.[763]

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[760] Marc Valeri, *Oman: Politics and Society in the Qaboos State* (London: Hurst & Company 2009), 40-41.
[761] John McKeown, *Britain and Oman: The Dhofar War and Its Significance*, M.Phil Dissertation: University of Cambridge (1981), 19.
[762] Liesl Graz, *The Omanis: Sentinels of the Gulf* (London: Longman, 1982), 39.
[763] McKeown, *Britain and Oman*, 3.

Newfound oil revenues in the 1970s permitted Sultan Qaboos to upgrade his defense forces and spend lavishly on economic and social reforms in Dhofar, while British, Jordanian, and Iranian militaries also assisted the Sultan's forces in overcoming the southern rebellion.[764] Sultan Qaboos earmarked a disproportionately large budget – approximately 27.1 percent of the budget expenditure from 1975 to 1980 – for development projects in the rebellious southern region.[765] Helem Metz argues that this budget represented both economic appeasement and an augmentation of military capabilities in the case of renewed hostilities.[766] The government's tripling of defense expenditures between 1978 and 1985 demonstrated the regime's continued preoccupation with strengthening military capabilities in the south even after the end of formal hostilities in Dhofar.[767]

Employing hydrocarbon wealth toward revitalizing the ailing economy, Qaboos commissioned firms of established merchant families to manage wide-ranging development projects – leading a group of elites to "burst into prominence in the 1970s."[768] The consequent development boom of the 1970s and 1980s increased consumer markets in Oman, and business elites derived rents by serving as agents for foreign businesses seeking to penetrate Oman's economy. Jeremy Jones and Nicholas Ridout argue that these early agency practices were typical of Omani business practices in that they required very little investment in production.[769] Moreover, the state-

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[764] Zahlan, *The Making,* 132.
[765] Al-Markazi, "Development in Dhofar" (IV – 007 (B)), November 1977, page 18, Box 57, Folder 1, General Dhofar Development (1977-1978), James H. Critchfield Papers, The Booth Family Center for Special Collections, Georgetown University Library.
[766] Helem Chapin Metz, ed., *Persian Gulf States: A Country Study*, Washington: GPO for the Library of Congress, 1993, accessed September 17, 2017, http://countrystudies.us/persian-gulf-states/62.htm.
[767] Robert Looney, "Reducing Dependence Through Investment in Human Capital: An Assessment of Oman's Development Strategy," *Socio-Economic Planning Sciences* 24.1 (1990): 68-69.
[768] J.E. Peterson, "The solitary Sultan and the construction of new Oman," in Abbas Kadhim, ed., *Governance in the Middle East and North Africa* (Abingdon: Routledge, 2013), 321.
[769] Jeremy Jones and Nicholas Ridout, *A History of Modern Oman* (New York: Cambridge University Press, 2015), 265.

sanctioned practices enabled merchants to preserve protectionist and monopolistic measures granted under Sultan Sa'id bin Taimur. Many of the local elites, enriched by their close association to Sultan Qaboos and involvement in major development projects, later played a central role in FZ initiatives at the turn of the century.

Early development projects included the introduction of Industrial Estates (IEs) in the 1980s. A precursor to FZs, the first IE emerged in Al Rusayl in 1983 and reflected Sultan Qaboos' commitment to building a local industrial base. Oman's IEs resembled what Albert Hirschmann considers to be necessary, state-led incentives to encourage private investment in the domestic economy.[770] The government established the Public Establishment for Industrial Estates (PEIE) to oversee the development of the country's IEs.[771] When Oman launched its first two FZs – Al Mazunah Free Zone and Knowledge Oasis Muscat – in 1999 and 2003, the government housed the new FZs under the administrative structure and oversight of the PEIE. Despite these linkages, IEs differ substantially from the FZs discussed in this work.[772] IEs closely resemble the industrial zones of ZonesCorp in Abu Dhabi in that these entities do not offer investors exemptions from foreign ownership. Consequently, clients in IEs tended to represent smaller-scale, Omani firms,[773] whereas FZ projects attracted larger-scale foreign investments.

Early perceptions of hydrocarbon wealth, which were formed during a period characterized by a very low development threshold, gave way to sober assessments of the long-term utility of the country's hydrocarbon resources. Robert Looney's optimistic assessment maintains that Oman possessed "just enough oil to do some

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[770] Albert Hirschmann, *The Strategy of Economic Development* (New Haven, Connecticut: Yale University Press, 1958).
[771] PEIE managed seven IEs by 2016. See: "About Industrial Estates," *Public Establishment for Industrial Estates*, accessed May 22, 2016, http://www.peie.om/ESTATES/About-Industrial-Estate.
[772] IEs resemble specialized zones from the World Bank's typology of special economic zones (SEZs).
[773] Interview 37, business editor at Times of Oman, *Muscat, Oman,* June 7, 2016.

good, but not enough to do serious damage."[774] Hydrocarbons provided sufficient fiscal resources to bring a "medieval"[775] state into the 20th century; however, the Sultanate's modest quantities of proven hydrocarbon reserves ensured economic diversification efforts could not be ignored. Oman possessed a mere 5.3 billion barrels of proven oil reserves in 2017 – the neighboring UAE territory of Abu Dhabi presided over 92.2 billion barrels[776] – but still relied on oil and gas for 72.9 percent of government revenues.[777] Moreover, geographic constraints, namely rugged and mountainous terrain, within the country increase the cost of Omani oil extraction; estimates suggest that oil extraction is seven times more expensive in Oman than in Saudi Arabia.[778] In addition to limited proven reserves and expensive extraction costs, the price of crude oil slumped from the mid-1980s until 2000. The average price of Dubai Crude (Fateh) did not rise above $20 per barrel during this period,[779] further accentuating Oman's need to generate alternative rents.

6.1.2 The dawn of Omani FZs

Economic diversification efforts and new institutions created by the internationalization of the economy provided the missing conceptual link necessary for FZ creation. Chief among government efforts to diversify the economy involved the conceptual launch of the government's development roadmap, Vision 2020, in 1995. A main tenant of Vision 2020 included increasing the non-oil contribution to 81 percent

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[774] Looney, "The Omani," 21.
[775] Ibid., 20.
[776] CIA World Factbook, "Crude Oil – Proved Reserves," *Central Intelligence Agency*, accessed February 28, 2017, https://www.cia.gov/library/publications/the-world-factbook/rankorder/2244rank.html.
[777] "Omani employment in private sector rises 7 percent: CBO report," *Times of Oman*, August 9, 2018, accessed August 9, 2018, https://timesofoman.com/article/139590.
[778] Linda Pappas Funsch, *Oman Reborn: Balancing Tradition and Modernization* (New York: Palgrave Macmillan, 2015), 119.
[779] Index Mundi, "Crude oil (petroleum); Dubai Crude (Fateh) Monthly Price," accessed January 2, 2018, https://www.indexmundi.com/commodities/?commodity=crude-oil-dubai&months=360.

of GDP by 2020.[780] Jones and Ridout argue that Vision 2020 was intended to mark a shift in the country's economic policy in favor of liberalization,[781] and Ulrichsen asserts that Oman, along with Bahrain, initiated the region's earliest national visions because of depleting oil reserves.[782]

International actors also shaped the enforcement environment through which FZs emerged in Oman. Following recommendations by the IMF and World Bank, the government established the Oman Centre for Investment Promotion and Export Development and implemented foreign ownership exemptions for international firms.[783] The country's efforts to develop a more outward-oriented economy, namely by expanding exports beyond hydrocarbon commodities, also coincided with Oman receiving membership into the WTO in 2000. As a WTO member, Oman gradually reduced applied tariff rates and allowed private and foreign investors to play a greater role in the economy.[784] Resource-scarce territories in the neighboring UAE already operated several FZs that served as models for commercialized rent generation in Oman. The emirates of Dubai, Fujairah, Umm Al Quwain, Ajman, and Sharjah each possessed functional FZs dating back to the 1980s and early 1990s. These emirates collectively presided over a quantity of proven hydrocarbon reserves comparable to that present in Oman.

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[780] Oman Ministry of Commerce and Industry, *Annual Industry Report 2014* (Muscat: Department of Industrial Information, 2014), 45.
[781] Jones and Ridout, *A History,* 222.
[782] Kristian Coates Ulrichsen, *Insecure Gulf: The End of Certainty and the Transition to a Post-Oil Era* (London: Hurst & Company, 2011), 100.
[783] Looney, "The Omani," 5-8.
[784] Azmat Gani, "Oman's Entry to the World Trade Organisation, Trade Liberalisation and Trade Achievements," *International Atlantic Economic Society* 43 (2015): 127.

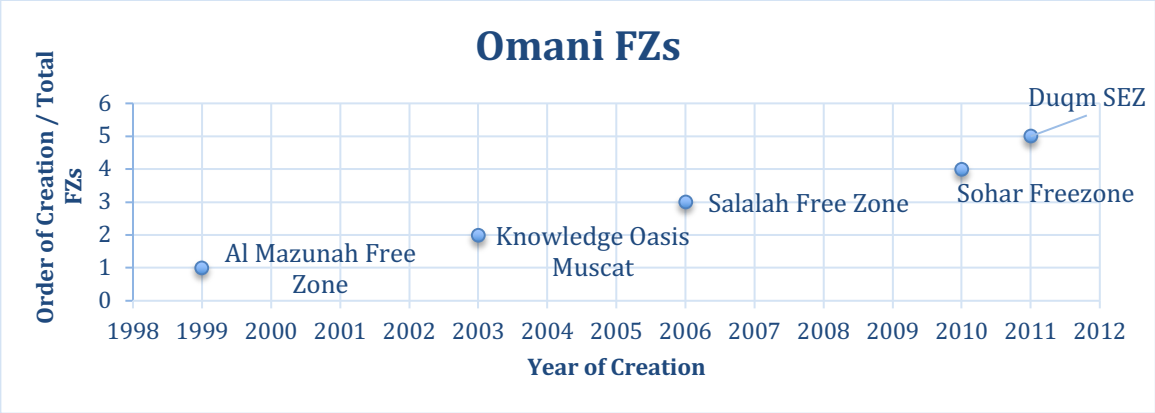


Figure 9: Graph of FZ development in Oman

It is within this context that five Omani FZs emerged in Al Mazunah, Muscat, Sohar, Salalah, and Duqm. The Al Mazunah Free Zone, located near the border with Yemen, opened in 1999. The country's first FZ emerged before the codification of a formal Free Zones Law, which appeared three years later through Royal Decree 56 of 2002, and consequently the Al Mazunah Free Zone and Knowledge Oasis Muscat operated under the PEIE. Similar to most FZs in other GCC states, Oman's FZs permitted foreign investors to maintain 100 percent ownership of their business venture. Article 4 of the Free Zone Law stipulated that foreign capital regulations, such as those limiting foreign ownership to 49 percent, do not affect free zone companies.[785] While foreign investment regulations loosened in certain sectors thereafter, onshore companies nevertheless require an Omani sponsor with a minimum stake of 30 percent.[786] Yet unlike other GCC states, Oman's FZs possessed comparatively strict labor regulations surrounding the extent of Omanization exemptions available to employers.[787] Other incentives offered by Omani FZs include exemptions from customs duties, free repatriation of profits, and an extendable ten-year tax holiday.[788]

[785] Free Zones Law, Royal Decree 56 of 2002, government of Oman, article 4.
[786] Oman Ministry of Commerce and Industry, *Annual Industry Report 2014*, 67.
[787] Bahraini FZs also require companies to abide by Bahrainization requirements.
[788] Oman Ministry of Commerce and Industry, *Annual Industry Report 2014*, 67.

The perception of hydrocarbon scarcity in Oman influenced the scale and timing of FZ proliferation in the sultanate. With five operating FZs, Oman exhibited the second largest share of the GCC region's FZs after the UAE, equaling the combined number of operating FZs in Saudi Arabia, Kuwait, and Bahrain. In terms of the timing of FZ development, Oman began constructing FZs earlier than the "super-rentier" territories of Qatar and Abu Dhabi.[789] There does, however, appear to be a limit to FZ proliferation in Oman. Unlike Dubai, where parallel FZs operate under corporate umbrella companies, Omani FZs remained stand-alone projects with separate authorities. In 2012, the country's Free Trade Zone Authority announced that it would spend $450 million to expand these zones.[790] This announcement suggested that the government was more interested in developing its existing FZs rather than creating new ones.

Official country reports portray the Omani government as the driving force behind FZ development and activities. For example, Oman's 9th five-year plan, which spans from 2016 to 2020, considers progress on FZ development as part of the government's infrastructure achievements, subsuming these achievements into a broader category of state success in the realms of economic stability, living standards, and social projects. The plan, however, is more critical of the private sector's lack of progress in diversifying away from oil and employing local citizens,[791] noting: "The Sultanate has made significant progress in economic diversification where the share of the oil activities retreated from (66%) of GDP in 2000 to (44%) of GDP in 2014. The

[789] A term employed by Courtney Freer to describe states with the highest per capita income, lowest proportion of national citizens, and most generous rentier benefits. See: Courtney Freer, "Rentier Islamism in The Absence of Elections," *International Journal of Middle East Studies* 49 (2017): 480.
[790] "Oman economic zones," *MEED*, August 21, 2013, accessed November 18, 2015. https://www.meed.com/oman-economic-zones/.
[791] Supreme Council of Planning, *A Brief of 9th Five Year Plan* (Muscat: Government of the Sultanate of Oman, 2016), 20-21.

non-oil activities are still dependent to a large extent on oil and gas production."[792] Oman's continued dependence upon hydrocarbon resources for government revenue helps explain why the estimated budget deficit for 2016 reached nearly 21 percent of the country's GDP, a larger ratio than any other GCC state.[793]

The critical tone toward private sector development offers context into the complicated relationship between the government and business elites. The historically-rooted forms of rentierism did not disappear during economic liberalization efforts in the latter half of the twentieth century during which FZs emerged, but rather rentier activities evolved. Commercialized rents reinforced the existing socio-economic paradigm wherein state-led economic liberalization concentrated rewards in the pockets of business elites:

> *Opening up the private sector did not produce a redistribution of economic dividends to new businesses classes. In almost all cases the contracts have been won by the same top business groups (in partnership with foreign investors) that are already ingrained in the heart of the political-economic decision process. From this point of view, rather than encouraging an economic mobility that would put into question the established authoritarian order and contribute to a renewal, or at least a revitalization, of the Omani socio-economic fabric, the Omani privatization process has done nothing but confirm the hierarchy of established social and economic positions.*[794]

Despite representing new commercial entities associated with the economic liberalization and diversification efforts, FZs continued to reflect the established political and economic institutions in the country. Yet, the precise manner in which the ruling and business elite accommodated to both new and existing rentier structures

[792] Ibid., 33.
[793] Oxford Economics, *Country Economic Forecast: Oman* (Oxford: Oxford Economics, January 24, 2017).
[794] Valeri, *Oman*, 224.

through FZ development depended on the distribution of power within Oman's domestic and international enforcement environments.

6.2 Elite Relationships

6.2.1 The royal spatialization of FZs

The Omani government under Sultan Qaboos leveraged FZs to mitigate against civil strife and reinforce relationships with business elites. The theoretical concept of "political incentive compatibility constraints"[795] – or what a political leader must do to stay in power – helps establish the underlying interests behind FZ formation under Sultan Qaboos. With a small ruling family, Sultan Qaboos did not need FZs to provide an expanding royal family with bureaucratic positions. Instead, FZs served a symbolic role for the regime by reflecting continued development and infrastructure progress in politically-contentious areas.

The regime maintained ultimate authority and bureaucratic control over Omani FZs. Sultan Qaboos established the Free Zone Law through Royal Decree 56 of 2002, and subsequent FZs owed their existence to royal decrees.[796] A Free Zone Committee located within the Ministry of Commerce and Industry regulated free zone policies. The Minister of Commerce and Industry, appointed by Sultan Qaboos, chairs this committee. Moreover, a survey of FZ brochures and promotional materials reveals the customary acknowledgements to Sultan Qaboos: the Duqm SEZ brochure offers a picture tribute to Sultan Qaboos,[797] and the Salalah Free Zone brochure describes the FZ as "endorsed by His Majesty, Sultan Qaboos Bin Said, with a commitment to make

[795] Acemoglu and Robinson, "Economics," 177.
[796] For example, the Special Economic Zone (SEZ) at Duqm was established through Royal Decree 56 of 2013.
[797] Duqm Special Economic Zone Authority, *Investment in Duqm* (Duqm, Al Wusta: Duqm Special Economic Zone Authority, 2015).

its 21 sq. km. one of the most progressive and desirable business venues on a global front."[798]

The specific spatialization of Omani FZs – particularly those in Dhofar, Sohar, and Duqm – illustrates how FZs are intimately connected to broader unrest in Oman. Moritz attributes exceptionally high Omani citizen unemployment in Sohar, Salalah, Duqm, and Liwa as an underlying cause behind the 2011 unrest in these cities, which, she notes, "are major sites of state investment in mega-projects."[799] The assertion that locational elements of FZs involve political motivations is not unusual. Kishore Roe argues that "[t]he choice of location of many public zones [in the Middle East] was based on political rather than economic considerations."[800] Indeed, the location of the Jebel Ali Free Zone reflected inter-emirate political disputes between Dubai and Abu Dhabi. The diffuse spatialization of Omani FZs, as opposed to a cluster formation around the country's more populous northern region, therefore warrants a location-focused analysis of domestic FZ proliferation and its political implications.

Rather than materializing near a traditional trading locale, the country's first FZ emerged along the politically-contentious Dhofar border with Yemen in Al Mazunah. The Al Mazunah Free Zone, Salalah Free Zone, and one industrial estate (IE)[801] in the Dhofar governorate represented a continued form of unequal civil development in the south that emerged following the end of the Dhofar war. While containing only nine percent of Oman's total population, Dhofar possessed more operating FZs than any

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[798] Salalah Free Zone Company, *One Free Zone…many amazing advantages* (Salalah: Salalah Free Zone Company, collected in June of 2016), 4.
[799] Moritz, "Slick," 241.
[800] Kishore Roe, "Free Zones in the Middle East: Development Patterns and Future Potential," in Bernard Hoekman and Hanaa Kheir-El-Din, eds., *Trade Policy Developments in the Middle East and North Africa* (Washington: The World Bank, 2000), 252.
[801] Created in 1992, the Raysut Industrial Estate covers just over three million square meters, does not allow 100 percent foreign ownership, and contains approximately one hundred small, Omani firms focused on manufacturing. Interview 37, business editor at Omani daily newspaper, *Muscat, Oman,* June 7, 2016.

other governorate in the country. In particular, these FZs both afforded military advantages and reflected the physical presence of the state in this territory. A 1975 report by the Middle East Development Division in Amman describes economic goals as a decidedly secondary objective of civil development plans in Dhofar:

> *The Government of Oman has already drawn up plans for the civil development of the Jebel in the wake of the recent military victory. The principal objectives of these plans are to establish a civil Government presence in all the main tribal areas of the Jebel, and to secure the security of the area. Although these objectives are of a political and social nature, their successful achievement will also be of a great economic benefit to Oman.*[802]

During the war, the Dhofar Liberation Front, later the People's Front for the Liberation of the Occupied Arabian Gulf, received substantial support from the People's Democratic Republic of Yemen; arms and fighters regularly moved back and forth across the permeable Yemen-Oman border.

The Al Mazunah Free Zone location, lying precisely in the middle of Oman's land border with Yemen, provided a strategic base for monitoring border activity and regulating flows of goods and people across the border. Statements from the Royal Oman Police in 2007 indicate that the Al Mazunah province remained an established smuggling route used to transport weapons and immigrants from Yemen to more lucrative markets.[803] Al Mazunah's remote location, which aided smuggling, also exacerbated socioeconomic tensions – ten years after the creation of the FZ, Omani unemployment in Al Mazunah nevertheless reached as high as 73.2 percent.[804]

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[802] Report by the Middle East Development Division in Amman, "Sultanate of Oman Development Options in Southern Oman," December 1975, page 11, Box 56, Folder 7, *Oman-Dhofar-General Development Options in Southern Oman*, James H. Critchfield Papers, The Booth Family Center for Special Collections, Georgetown University Library.
[803] Gary Grappo, "Somali migrants enter Oman through open boarder with Yemen," Wikileaks Cable: 07MUSCAT83_a, dated January 28, 2007, https://wikileaks.org/plusd/cables/07MUSCAT83_a.html.
[804] Moritz, "Slick," 241.

Meanwhile, the free zone and port in the neighboring Salalah provided a convenient location to station the Royal Navy of Oman.[805] The police and naval presence reflected both military expediency and symbolized the royal presence in the southern governorate.

Political conflicts likewise shaped FZ development in Sohar, the capital city of the Al Batinah North Governorate. The eastern city of Sohar, described as a long-term "bone of contention"[806] within Oman, possesses a historical precedent for political contestation. Valeri argues that the marginalization of Sohar and its surrounding regions later paved the way for an industrial site and free zone as part of a strategy to revitalize the area:

> *Until the early 2000s, Sohar remained a rural provincial town, neglected, like other regional centers, by the post-1970 modernization process…In this context, the government's decision to establish an industrial site and free zone—conceived by the regime to be an international showcase of the country's economic diversification—was seen as a godsend in Sohar.*[807]

The Sohar Industrial Port Company (SIPC) managed the port, and any companies registered in the industrial park required registration as onshore companies. The FZ materialized in 2010 as a JV between SIPC, the Port of Rotterdam, and Skil, an Indian company that owns a minority stake because of its experience with economic zones in India.

The project's perceived local contribution was insufficient for Omani protesters in Sohar who, in February 2011, demonstrated against unemployment, corruption, and inequality during what Valeri labels the first mass public criticism of state policies

[805] Interview 40, senior industrial estate and free zone manager, *Salalah, Oman,* June 9, 2016.
[806] Wendell Phillips, *Oman: A History* (Beirut: Librairie Du Liban, 1971), 98.
[807] Marc Valeri, *Simmering Unrest and Succession Challenges in Oman* (Washington DC: Carnegie Endowment for International Peace, 2015), 9.

since the Dhofar War of the 1970s.[808] Although concurrent protests occurred in Muscat, Salalah, and Sur, Valeri considers the Sohar demonstrations paramount, and he directly links the unrest to the social consequences of the port and FZ project:

> *Inequalities exploded, with pockets of wealth (including luxury gated townships reserved for expatriate executives of industrial groups doing business at the port) contrasting sharply with the rest of the area, where residents had no access to the economic benefits of the development and experienced a stagnation or a diminution of their living standards.*[809]

Indeed, a manager from the Sohar Port and Freezone admitted that he had not seen a positive impact on the local economy and on employment more specifically.[810] Protesters renamed the Sohar Globe Roundabout to "Reform Square," an action reminiscent of Cairo's Meydan Tahrir and Manama's Pearl Roundabout. In response, Sultan Qaboos removed the aforementioned Maqbool bin Ali Sultan – Minister of Commerce and Industry, chairman of the Free Zone Council, and chairman of the Sohar Industrial Port Company – from his ministerial position after being specifically identified in protester grievances. While these protests may not have seriously threatened the regime, as James Worrall argues, they did encourage government action in economic, social, and political spheres.[811]

The creation of the SEZ in Duqm (SEZAD) occurred just months after the protests of early 2011. The chairman of the SEZAD board of directors, Yahya bin Said bin Abdullah Al Jabri, possessed academic credentials from Harvard Business School and Northwestern University and previously led efforts to improve corporate governance in the finance sector as the Executive President of the Capital Markets

[808] Ibid., 8.
[809] Valeri, *Simmering Unrest*, 9.
[810] Interview 36, a manager of Sohar Port and Free Zone, *Sohar, Oman*, June 6, 2016.
[811] James Worrall, "Oman: The "Forgotten" Corner of the Arab Spring," *Middle East Policy Council* 19.3 (2012): 1.

Authority.[812] Thus, he represented a stark departure from the controversial figure of Maqbool Sultan. With a tiny local population, the central governorate of Al Wusta did not pose the political threat akin to that of Dhofar or Sohar, but it did exhibit serious socioeconomic challenges.[813] Al Wusta exhibited the lowest growth rate in 2015, registering just 0.1 percent, of all the governorates in the country.[814] "Al Wusta doesn't have great development or good services. But it has a strategic place. If we develop this place, it will be like a mirror to the rest of the country," explained an Omani employee from the SEZ.[815] As early as 2005, the American ambassador to Oman, Richard L. Baltimore III, noted brewing resentment, which he described as "problematic for the government," from Omanis in the interior and southern parts of the country who perceived northern development projects as taking place at the expense the rest of the country.[816]

Perceptions of inequality ranked among the primary factors contributing to social unrest in Oman during 2011.[817] It is unsurprising, then, that official statements by Yahya Al Jabri specifically addressed concerns over economic inequality: "The development of Al Wusta governorate is part of the Sultanate's endeavors to achieve a balanced growth among various governorates."[818] He also mentioned that SEZAD's main objectives involved creating "many jobs for Omani nationals, both directly and

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[812] "Executive Profile: Yahya Bin Said Bin Abdullah Al-Jabri," *Bloomberg*, accessed October 3, 2017, https://www.bloomberg.com/research/stocks/private/person.asp?personId=50040812&privcapId=281759382.
[813] The governorate of Muscat contained approximately 1.27 million residents in 2015, whereas Al Wusta contained only 41,409 residents.
[814] "Oman records population of 4.155 million," *Times of Oman*, April 22, 2015, accessed November 10, 2017. http://timesofoman.com/article/51085/Oman/Oman-records-population-of-4155-million.
[815] Interview 41, staff member from Duqm Special Economic Zone, *Muscat, Oman,* June 12, 2016.
[816] Michael L. Baltimore III, "Sohar: Boomtown Oman," Wikileaks Cable: 05MUSCAT815_a, dated May 18, 2005, https://wikileaks.org/plusd/cables/05MUSCAT815_a.html.
[817] Moritz, *Slick Operators*, 243.
[818] Duqm Special Economic Zone Authority, *Investment in Duqm,* (Duqm, Al Wusta: Duqm Special Economic Zone Authority, 2015), 5.

indirectly," and estimated that the area's population would grow to 67,000 by 2020.[819] The benefits extracted by business elites served as a major contributor to perceptions of inequality, and it is the embeddedness of these elites within FZ development to which this chapter now turns.

6.2.2 An embedded business elite

While the government regime under Sultan Qaboos steered FZ development from a macro-level, it left much of the meso- and micro-level management of FZ affairs to business elites. Valeri argues that Sultan Qaboos depends on business elites for stability and that these elites depend on the ruler for developing economic assets, owing to the small Al Sa'id royal family and the country's modest reserves of oil and gas.[820] A close examination of the individuals involved in FZs and the service-oriented organizations associated with Omani FZs revealed that prominent merchant families are deeply embedded in economic development initiatives. As Valeri notes, "The sultan has not prevented Oman's merchant families from taking political positions and actively participating in the setting of economic priorities."[821] This embeddedness produced politically-connected firms and increased the likelihood for crony capitalism to influence development outcomes. Also referred to as "money politics,"[822] crony capitalism characterizes a system in which individuals close to political authorities receive favors that possess a substantial economic value,[823] and certain firms unduly

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[819] Oxford Business Group, "OBG talks to Yahya bin Said bin Abdullah Al Jabri, Chairman, Special Economic Zone Authority at Duqm (SEZAD)," *The Report: Oman 2014,* accessed January 12, 2017, https://www.oxfordbusinessgroup.com/interview/obg-talks-yahya-bin-said-bin-abdullah-al-jabri-chairman-special-economic-zone-authority-duqm-sezad.
[820] Marc Valeri, "Oligarchy vs. oligarchy: Business and politics of reform in Bahrain and Oman," in Steffen Hertog, Giacomo Luciani and Marc Valeri, eds., *Business Politics in the Middle East* (London: Hurst Publishers, 2013).
[821] Valeri, *Simmering Unrest*, 7.
[822] David Kang, *Crony Capitalism: Corruption and Development in South Korea and the Philippines* (Cambridge, UK: Cambridge University Press, 2002), 3.
[823] Stephen Haber, *Crony Capitalism and Economic Growth in Latin America: Theory and Evidence* (Stanford: Hoover Institution Press, 2001), xxi.

benefit from their relationship to the government.[824] A FZ official's comments hinted at the role of crony capitalism in Oman: "There are the same four or five companies competing for tenders."[825]

FZ bureaucracies offer a useful window for illuminating elite influence. The Salalah Free Zone (SFZ), which contains the most comprehensive and publicly-available list of board members, displayed a strong concentration of Omani merchant families. A board member named Mushtaq bin Mossa Al Lawati revealed the presence of the Lawatiyya community from which the Sultan clan hails. The SFZ bureaucracy also contained multiple links to the powerful Al Shanfari clan – part of the principal Dhofar tribe, the Bait Kathir, that played a central role in the ruling Bu Sa'id dynasty's conquest of Dhofar at the end of the nineteenth century.[826] This tribe remained loyal to Sultan Qaboos by fighting alongside his forces in the Dhofar War.[827] Azzam bin Ahmed Al Shanfari, another board member, and Awad bin Salem Al Shanfari, the CEO, represented the Shanfari clan within the FZ. The key member this clan, Shaykh Saeed Al Shanfari, was a close acquaintance of Sultan Qaboos before the latter's rise to power, held the position of Minister of Oil and Gas for over two decades beginning in 1974, and reportedly owns a commercial stake in the Dhofar International Development & Investment Holding Company (DIDIHC).[828] The DIDIHC is an Omani investment company created in 1987 by ministerial decree, and it has demonstrated a

[824] Crony capitalism is notoriously hard to measure. The Economist Magazine releases an annual crony capitalism index, which produces measurements based on the operating sectors of billionaires in around countries, but this index does not include Oman.
[825] Interview 39, senior industrial Estate and Free Zone manager, *Salalah, Oman,* June 9, 2016.
[826] B.R. Pridham, ed., *Oman: Economic, Social and Strategic Developments (*London: Croom Helm, 1987), 57.
[827] Calvin H. Allen and W. Lynn Rigsbee II, *Oman Under Qaboos: From Coup to Constitution, 1970-1996* (London: Frank Cass, 2000), 67.
[828] Hurtado, "Oman, Inc.," Wikileaks Cable: 09MUSCAT851_a.

"keen interest to participate in the development of Salalah Free Zone," as proclaimed on the company's website.[829]

Saeed Al Shanfari's cousin, 'Abd al-'Aziz, was a former chairman of the Salalah Port Services Company (SPS) – the commercial entity responsible for managing the Salalah Free Zone.[830] The history of the SPS is worth a brief elaboration because it underlines the government's strong fiscal support for commercial FZ ventures supported by local merchants. The government originally aimed to share the free zone project costs with SPS, a semi-government entity,[831] and Hillwood, a private US-based company. The MoU in 2000 between the three parties stated that the government would assume 60 percent of the costs and the other two parties would split the remaining 40 percent. However, Hillwood backed out of the project in 2002, and the government assumed 100 percent equity in the project.[832] The relief of government funding after the failure to secure private investors is notable considering the inter-organizational linkages between public and private officials in the government and FZs.

In addition to members of influential families serving in FZ bureaucracies, prominent Omani firms were involved in the development of FZs. For example, Al Khonji Real Estate was awarded the usufruct rights for a 661,000-square meter plot of land in the Duqm SEZ to build a tourist and real estate project.[833] The usufruct agreement relates closely to the well-documented pattern of wealth transfers between

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[829] Dhofar International Development & Investment Holding Company, "About Us," *DIDIHC*, accessed September 26, 2017, http://www.didic.net/eng/aboutus.html.
[830] Valeri, *Oman*, 115.
[831] The majority shareholders in SPS are the Ministry of Finance in Oman (20%) and APM Terminals B.V. (30%), a private Dutch company.
[832] Sunil Vaidya, "Oman Government to Float Firm for Salalah Free Zone," *Gulf News*, February 6, 2003, accessed November 12, 2017, http://gulfnews.com/news/uae/general/oman-government-to-float-firm-for-salalah-free-zone-1.346404.
[833] "Oman: Al Khonji inks billion-dollar contract to develop Duqm tourism hub," *albawaba Business*, June 28, 2016, accessed November 15, 2017, https://www.albawaba.com/business/oman-tourism-duqm-sezad-al-khonji-real-estate--856904.

ruling and business elites through Gulf real estate.[834] The website of the Al Khonji Group, one of the early Omani companies to expand into real estate services in the 1970s, elucidates the company's links to Sultan Qaboos and his regime:

> *However, it was the coming to power of His Majesty on July 31st 1970 that would set the foundation of both modern Oman and the AlKhonji family empire. To this day it is a great honour for the family that the father and grandfather from both sides were invited to be among few prominent business houses to receive his majesty at Bait Al Falaj Airport on the day of Oman's renaissance.*[835]

The participation of prominent Omani firms in FZ development projects likewise increased the potential for crony capitalism to influence development decisions. The Al Zawawi family, through its Omar Zawawi Establishment (OMZEST), also balanced a cozy relationship with the government against investments in Omani FZs. The chairman of OMZEST, Dr. Omar Al Zawawi, is a special advisor to Sultan Qaboos – a position that affords him "considerable influence over both domestic and foreign policy."[836] Omar's brother, Qais Zawawi, formerly served as a deputy prime minister.[837] OMZEST, a holding group of over 60 companies, is heavily invested in various manufacturing projects across Sohar.[838]

Government support for manufacturing-oriented diversification through the Sohar Port and Freezone represented a boon for Zawawi businesses – a link not lost on Mortiz, who argues that the "ownership structures in Sohar Port and Freezone reveal the centrality of state and business elite interests."[839] For example, OMZEST holds a 30

[834] Crystal, *Oil,* 76; Al-Fahim, *From Rags*, 181.
[835] AlKhonji Group, "History," *AlKhonji Group*, accessed September 23, 2017, http://alkhonjigroup.com/family/history/.
[836] Moritz, "Slick," 88.
[837] Hurtado, "Oman, Inc.," Wikileaks Cable: 09MUSCAT851_a.
[838] Ibid.
[839] Moritz, "Slick," 237.

percent stake in the Oman Methanol Company, located in the Sohar Port complex.[840] OMZEST also owns the Waljat College of Applied Sciences, which is based in Knowledge Oasis Muscat free zone, and Zawawi Minerals entered into an agreement with the American USG Corporation to develop a plasterboard plant in the Salalah Free Zone.[841]

Examining the domestic sectors protected by FZ policies further portrayed the influence of prominent merchant families. The Al Zawawi family is heavily involved in the banking, finance, and insurance sectors; the family's group owned approximately 11 companies in these sectors as of September 2017.[842] The OMZEST group also founded Oman International Bank and owns Bank Muscat through as a JV. Omar Al Zawawi's daughter, Reem Al Zawawi, served as the chairwomen of the board of the Oman International Bank from 2002 until 2012. This investment portfolio is significant because article three of the Duqm SEZ law excludes tax exemptions for foreign companies operating in baking, finance, insurance, and telecommunications.[843] The absence of tax exemptions for companies operating in these sectors increases barriers to entry for foreign firms and protects local firms invested in these sectors. Other prominent families maintain close ties to the banking sector, such as the Bahwan family's ties to the National Bank of Oman, as well as the telecoms sector, such as Zubair,[844] Al Sa'id, and Al Ma'shani.[845]

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[840] Ibid.
[841] Oman Ministry of Commerce and Industry, *Annual Industry Report 2014*, 55.
[842] Omar Zawawi Establishment, "Companies," *OMZEST*, accessed September 28, 2017, http://www.omzest.com/companies.
[843] Sultan Qaboos bin Said, Royal Decree 79 of 2013, "Issuing the regulation of the Special Economic Zone at Duqm," December 26, 2013, http://www.duqm.gov.om/userfiles/royal-decree-issuing-regulation-of-the-SEZ-at-Duqm.pdf.
[844] The founder of the Zubair Corporation, Mohammed Zubair, is believed to be a close friend of the sultan because of a relationship between their mothers.
[845] The Ma'shani include members from Sultan Qaboos' mother's family and are part of the Qara tribe from Dhofar. Sultan Qaboos' cousin was appointed chairman of Nawras Telecommunications, the second largest cellphone provider in the Sultanate. See: Allen and Rigsbee II, *Oman*, 113.

6.2.3 Negotiated FZ policies

Specific FZ policies offered business elites lower Omanization[846] rates, avenues to circumnavigate commercial regulations, and other opportunities for rent seeking. "The industrial projects and free zones that form a fundamental element of late rentier development are advertised to the international community as a way to avoid onerous Omanisation and local ownership requirements,"[847] writes Moritz. Initial Omanization rates within FZs ranged from ten to 25 percent, whereas the minimum target for onshore, private sector companies is 35 percent.[848] Valeri argues that Omanization policies are a reliable indicator of the broader distribution of political and economic power in the country.[849] However, his argument does not fully account for business elite adaptation to critical government priorities. When applied to FZs, the logical extension of his argument suggests that local merchants in Oman have less power vis-à-vis the government than their merchant counterparts in the UAE, where there are no Emiratization requirements within FZs and business owners derive greater rents from reduced labor costs. Such a view contradicts Valeri's broader assessment of the ruler-merchant paradigm in Oman, wherein merchants maintain substantial control over economic policy.

Free Zone	Omanization Requirement	Conditions
Al Mazunah	10 percent	N/A
Knowledge Oasis Muscat	25 percent	N/A
Salalah Free Zone	20 percent	N/A
Sohar Freezone	15 percent	Increases 5% every 10 years
Duqm SEZ	No defined policy	N/A

Table 13: Omanization requirements in Omani FZs

[846] Omanization is a government-led workforce nationalization policy intended to improve the quantity and quality of employment opportunities for Omani citizens.
[847] Moritz, "Slick" 239.
[848] This target was set in 2010, and comments by the Omani Minister of Commerce and Industry in February of 2017 suggested that private companies would begin to lose government benefits if they failed to meet this target. See: Saleh Al Shaibany, "Oman warns private sector over Omanisation targets," *The National*. February 13, 2017, accessed June 1, 2018, https://www.thenational.ae/world/oman-warns-private-sector-over-omanisation-targets-1.82155.
[849] Valeri, *Oman*, 257-258.

A more nuanced explanation for the existence of Omanization rates within Omani FZs is a deliberate accommodation by the business elite to a critical government interest. Jones and Ridout maintain that underemployment and limited oil reserves represent Oman's most acute economic issues.[850] Unemployment figures compiled by the World Bank indicate that Oman demonstrated the highest unemployment figures amongst GCC countries from 1990 until 2016. The World Bank estimated total unemployment in 2016 to be approximately 17.5 percent and suggested that youth unemployment was as high as 50.8 percent.[851] Earlier assessments placed the actual unemployment rate for Omanis around 15 percent and as high as 19.6 percent for youths.[852] The population demographics of Oman accentuates the urgency of employment initiatives in the Sultanate. Omanis represented approximately 56 percent[853] of their country's 4.5 million residents in 2016.[854]

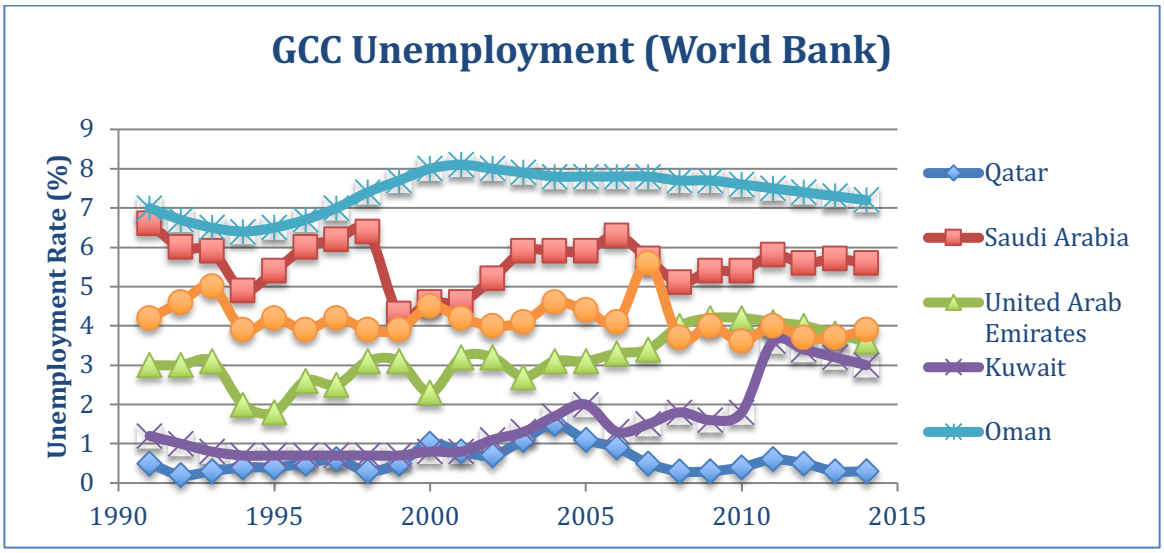


Figure 10: Graph of unemployment rates in GCC countries

[850] Jones and Ridout, *A History,* 222.
[851] These figures are modeled ILO estimates for 2016, and youth unemployment consists of unemployed individuals between the ages of 15-24 as a proportion of the total labor force.
[852] Worrall, "Oman," 4.
[853] Figures as of April 2014 and reported in "Oman's population passes landmark figure," *Times of Oman*, April 22, 2014, accessed November 21, 2017, http://www.timesofoman.com/article/32872/Oman/Omans-population-passes-landmark-figure. For more information on populations, refer to Appendix B.
[854] This population figure is an average of estimates by the United Nations (4.655 million) and Work Bank (4.425 million) for 2016. See: UN Data, "Oman," *United Nations Statistics Division*, accessed September 28, 2017, http://data.un.org/CountryProfile.aspx?crName=OMAN.

A manager from the Sohar Port and Freezone explained that the varying Omanization requirements within Omani FZs are the result of bargaining with the government in the absence of a clear national framework. However, he added that the Omanization rates function as a "negative differentiator" and that he would prefer not to have Omanization rates at all.[855] The Sohar Freezone's relationship to the government differed from that of most FZs in the region. Whereas most FZs are entirely government-owned, the Sohar Freezone is a JV between the government, the port of Rotterdam, and a minority Indian stakeholder. This partial ownership structure has led to tensions: "The government is part of the JV, and it is still difficult to get what we want done sometimes," exclaimed the FZ manager, who believed that Duqm SEZ offered the most attractive FZ benefits in the country.[856]

Undefined Omanization requirements increased the potential for rent-seeking behavior by companies competing for lax labor regulations inside the FZ. For example, the SEZAD requires its companies to adhere to an Omanization rate stipulated by the board.[857] The chairman of the board, Yahya Al Jabri, explained that "[b]ecause this is a specialized economy, we don't want to have a very rigid policy of Omanization."[858] A staff member from the SEZ's corporate office clarified an additional socioeconomic consideration behind the undefined Omanization requirements: "There are approximately 2,000 locals around the Duqm area, which is not enough to start a large economic city. The government is trying to bring in nationals from all over the country. The goal is to attract national manpower."[859] Many government employees working in

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[855] Interview 32, manager at Sohar Freezone office in Dubai, *Dubai, UAE*, May 19, 2016.
[856] Ibid.
[857] Duqm Special Economic Zone Authority, "Incentives," accessed April 6, 2017, http://www.duqm.gov.om/invest/incentives.
[858] "Down in Duqm," *The Business Year*, April edition of 2014, accessed November 16, 2017, https://www.thebusinessyear.com/oman-2014/down-in-duqm/vip-interview.
[859] Interview 41, staff member from Duqm Special Economic Zone, *Muscat, Oman,* June 12, 2016.

the Duqm SEZ were from the Sharqiyah governorate, due to labor shortages in Al Wusta.[860]

FZ companies possessed various means of circumnavigating Omanization regulations by relinquishing their corporate tax exemption or by picking a FZ with more generous tax incentives. Oman levies a flat corporate tax of 12 percent on all companies; the Ministry of Finance introduced legislation to increase the tax rate to 15 percent in 2016, but this remained unratified.[861] Taxation rates, however, apply differently across various FZs. The Sohar Free Zone provides companies with a corporate tax exemption provided that they meet incrementally increasing Omanization targets. KOM emphasizes exemptions from personal income taxes, which already exist country-wide; the website makes no mention of corporate tax regulations.[862] SEZAD offers investors a thirty-year tax exemption with the option for renewal but excludes certain sectors.

The lower Omanization rates in FZs, policy loopholes allowing companies to circumnavigate regulations, and opportunities for rent seeking over lax labor requirements resulted in criticism of the government's allocation of resources to free zone clients. Referring to foreign clients located within in the Salalah Free Zone, an Omani interviewee from Dhofar stated:

> *I think that foreign companies are the winners. They get free gas, good location, and they don't really hire Omanis. I ask myself 'Why didn't the government think that big multinationals will not look out for us? How many people will they actually employ?' This is an important question. The*

[860] Interview 38, public service department officer of the Duqm Special Economic Zone, *Duqm, Oman,* June 8, 2016.
[861] "Taxation time in Oman: Extensive tax reforms coming soon," *Thomson Reuters | Zawya*, February 20, 2017, accessed February 22, 2017, https://www.zawya.com/mena/en/story/Taxing_time_in_Oman_Extensive_tax_reforms_coming_soon-ZAWYA20170220060800/.
[862] Knowledge Oasis Muscat, "Incentives," *Knowledge Oasis Muscat*, accessed February 28, 2017, https://www.kom.om/Incentives-Services/Incentives.

> *issue is that traditional management just looks at overall investment numbers.*[863]

Such complaints have been longstanding; a local delegation organized by Dhofari government representatives in 2008 complained to the U.S. ambassador that American and international firms had failed to contribute to the local communities.[864] Despite these complaints, the strong emphasis on industrial projects and manufacturing firms and fewer flexi-desk offerings for individual consultants generally supported local employment initiatives.[865] For example, the country's IT-focused FZ, KOM, exhibited an Omanization rate of approximately 50 percent of its 3,800 staff in 2016.[866] This contrasted with the numerous trading and service-oriented FZs in the northern emirates and, to some degree, Dubai. Trading requires minimal infrastructure and can be set up quickly because of the low risk involved; whereas manufacturing investments tend to proceed more slowly because of the increased value risk.[867] The final section of the chapter examines the dynamics driving foreign firm involvement in Omani FZs and the various levels of competition over FZ benefits.

6.3 Global Competition

6.3.1 Reliance on foreign investment

Omani FZs are embedded in complex flows of global capital and are shaped by competing interests of states operating in the international arena. The internationalization of Oman's economy began in earnest during the mid-1990s,

[863] Interview 40, senior industrial estate and free zone manager, *Salalah, Oman,* June 9, 2016.
[864] Gary A. Grappo, "Ambassador Conducts Broad Outreach in Salalah," Wikileaks Cable: 08MUSCAT430_a, dated June 11, 2008, https://wikileaks.org/plusd/cables/08MUSCAT430_a.html.
[865] Interview 32, manager at Sohar Freezone office in Dubai, *Dubai, UAE*, May 19, 2016.
[866] Interview 42, director from the Public Establishment for Industrial Estates, *Knowledge Oasis Muscat, Oman,* June 12, 2016.
[867] Interview 35, former consultant at JAFZA and managing director of consultancy focusing on special economic zones, *Dubai, UAE*, May 31, 2016.

following assessments by the IMF and World Bank as well as the conceptual launch of Vision 2020, and accelerated when Oman was accepted into the WTO in 2000.[868] Within this context, FZs became prime mechanisms for lifting controls on foreign investment and encouraging greater private sector participation in the economy after two and a half decades of government-led and oil-fueled development. Government statements urging the Omani private sector to "take advantage" of Iranian trade and "activate" trade with Yemen through the Al Mazunah Free Zone[869] represented examples of government strategies to shift distributive responsibilities through, in part, FZ initiatives.

Patrick Neveling argues that the dynamic of FZ companies functioning as JVs between international manufacturers and post-colonial elites lays the foundation for a global class struggle between the bourgeoisie and workforces.[870] Indeed, the Omani government sought foreign ownership of FZs themselves, which differs substantially from the trend of public ownership of FZs across the GCC. The government succeeded in securing a JV with the Port of Rotterdam for the Sohar Port and Freezone project; however, an attempt to secure partial private ownership of the Salalah Free Zone ultimately failed. Foreign firms and multinationals served not only as ownership partners but also as major anchor clients. OCTAL, the world's largest producer of PET sheet resin and other packing materials, represents one of the SFZ's anchor clients, while the Brazilian mining company Vale invested nearly $1.25 billion to develop an industrial complex at Sohar Freezone in 2012.

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[868] Looney, "The Omani," 5-8.
[869] Gary Grappo, "Omani FM Promotes Stronger Commercial Ties," Wikileaks Cable: 07MUSCAT1139_a, December 28, 2007, http://wikileaks.wikimee.org/cable/2007/12/07MUSCAT1139.html.
[870] The key difference in the pattern of local class struggle as it plays out in the GCC involves a private sector workforce that is predominantly foreign. Therefore, the local workers that are not among the business elite nor are hired by private sector companies operating in FZs must instead operate either outside or on the margin of these international capital flows. See: Neveling, "Free Trade Zones," 1007-16.

High costs associated with FZ development in Duqm have similarly led to a reliance on foreign investment. With estimates for the total cost of the SEZAD project ranging from $87 billion to $100 billion, the government sought substantial investment from China, Iran, and other GCC states.[871] Chinese firms signed a $10.7 billion agreement to manage approximately 1,200 hectors, approximately one third of the available land, through a JV between the Wanfang Oman Company and the Omani government.[872] The Wanfang Oman Company is a local subsidiary of Ningxia China-Arab Wanfang, a conglomerate of six private companies backed by the regional government from China's Ningxia region. To contextualize the magnitude of this investment, it constituted more than half of the country's entire inward FDI stock of $18.5 billion in 2016.[873] Under the agreement, Chinese banks will provide the capital for the industrial city, and individual companies are responsible for developing their respective industrial facilities.[874] These investments place Duqm within China's Belt and Road Initiative,[875] supporting Jones and Ridout's prediction that "Duqm might become a key element in the development of both commercial and security relationships between Oman and China."[876] In 2017, the SEZAD launched a promotional campaign to attract Chinese investment from the Dalian province; it was

[871] "Sleeping Giant," *The Business Year*, accessed January 19, 2017, https://www.thebusinessyear.com/oman-2015/sleeping-giant/review.
[872] Amar Diwakar, "Oman's Coastline Is the Next Stop on China's Belt and Road," *Emerge85*, December 19, 2017, accessed December 20, 2017, https://emerge85.io/articles/omans-coastline-is-the-next-stop-on-chinas-belt-and-road/.
[873] UNCTAD, *World Investment Report 2017: Investment and the Digital* Economy (Geneva: UNCTAD, 2017), 1.
[874] Michael Fahy, "China's investment in $10.7bn city in Oman to provide building boost," *The National*, August 20, 2016, accessed December 20, 2017, http://www.thenational.ae/business/property/chinas-investment-in-107bn-city-in-oman-to-provide-building-boost.
[875] "Oman," *New York Times*.
[876] Jones and Ridout, *A History,* 270.

no coincidence that the Dalian Port Company previously invested $7 billion in the Djibouti Free Trade Zone.[877]

Oman's government sought to leverage its comparatively positive relations with Iran to enhance FZ trade. The CEO of SEZAD bluntly remarked: "Iran is a market that we cannot ignore,"[878] and SEZAD representatives met openly with the Iranian Secretary of Free Trade Industrial and Economic Zones in Tehran in October of 2015 to discuss greater collaboration between FZs in each country.[879] In 2014, Ali Akbar Sibawaih, the Iranian Ambassador to Oman, indicated that Iran would invest $4 billion in the Duqm project in Oman,[880] and Iranian firms maintained a portfolio of smaller-scale investments in automotive industry projects in Duqm.[881] The Iran Khodro Industrial Group and the Oman Investment Fund, one of the country's sovereign wealth funds, have collaborated over a $200 million JV, known as Orchid International Auto, to manufacture automobiles in SEZAD.

Oman and Iran, along with Turkmenistan, Uzbekistan, Kazakhstan, and Pakistan, signed the Ashgabat Agreement in 2011 to establish a trade corridor between Central Asia and the Gulf. The agreement evolved further in 2014 following the signing of an MoU, the Establishment of the International Transport and Transit Corridor. The two countries have collaborated since 2013 on an underwater pipeline that aims to transport Iranian gas to the Sohar Port,[882] which promises to boost business

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[877] "Duqm authority woos Chinese investors to free trade zone," *Times of Oman*, September 17, 2017, accessed December 21, 2017. http://timesofoman.com/article/116762/Business/Personal%20finance/Duqm-authority-woos-Chinese-investors-to-free-trade-zone.
[878] "It's All in the Mix," *The Business Year*, Oman 2017 Edition, accessed December 21, 2017, https://www.thebusinessyear.com/oman-2017/its-all-in-the-mix/interview.
[879] "Duqm SEZ, Iran FTZs to boost collaboration," *Oman Observer*, October 3, 2015, accessed November 26, 2015, http://2015.omanobserver.om/duqm-sez-iran-ftzs-to-boost-cooperation/.
[880] Bader Al Kiyumi, "Iran to invest $4 bn in Duqm," *The Oman Observer*, February 10, 2014, accessed November 26, 2017, http://2015.omanobserver.om/iran-to-invest-4-bn-in-duqm/.
[881] Interview 42, director from the Public Establishment for Industrial Estates, *Knowledge Oasis Muscat, Oman,* June 12, 2016.
[882] "Iran," *Financial Tribune*.

in the surrounding FZ and industrial estate. Warm relations, however, have not resulted in major Iranian investments in Omani FZs. "Oman and Iran have good relations; yet these good relations with other countries all over the world have not translated into foreign investment," noted a senior industrial estate and FZ manager in Salalah.[883] The interviewee mentioned that most of the Iranian investors he meets in Dhofar are interested in smaller-scale investment projects.

6.3.2 Embeddedness in the wider GCC

The role of Gulf capital in Omani FZs highlights a concept that Hanieh refers to as the internationalization of Gulf capital.[884] Citing Christian Palloix, Hanieh describes the internationalization of capital as taking place in three steps: the internationalization of the commodities circuit with the expansion of world trade, the internationalization of money in the form of international portfolio investments, and the internationalization of production as capitalists relocate productive activities outside of their countries of origin.[885] While Oman has accumulated surplus capital from the sale of hydrocarbon commodities to global markets and consequently developed modest portfolio investments, the country has met less success in internationalizing productive activity outside of Oman. Instead, FZs positioned Oman to be at the receiving end of, rather than a driving force behind, the internationalization of Gulf capital.

Oman's fellow GCC member states viewed FZ development in Oman through the dual lenses of competition and opportunity. Salalah's strategic location between the Gulf of Aden and the Arabian Sea, its deep-water port, and plans to develop the area as transshipment hub placed the Salalah Free Zone in partial competition with Dubai's

[883] Interview 40, senior industrial estate and free zone manager, *Salalah, Oman,* June 9, 2016.
[884] Adam Hanieh, "The internationalization of Gulf capital and Palestinian class formation," *Capital & Class* 35.1 (2010): 81-106.
[885] Ibid., 84.

Jebel Ali Free Zone.[886] A MoU between SFZ and JAFZA[887] in 2006 led to premature media reports that JAFZA would manage the Omani FZ;[888] however, the proposal collapsed over JAZFA's desire to secure a 50 percent stake in the Omani FZ and the request for additional funding from the Omani Ministry of Finance.[889] Several Omani government officials feared that JAFZA would eventually take over the SFZ or use it as a dumping ground for undesirable clients.[890]

The location of SEZAD similarly represents Omani efforts to mitigate commercial competition from GCC neighbors. Oman previously considered creating a FZ within the Khasab port in the country's non-contiguous territory on the Musandam Peninsula overlooking the Strait of Hormuz.[891] This location, though, is surrounded by stiff UAE FZ competition on either end of the strait – particularly in Dubai and the northern emirates to the west and in Fujairah to the east. Therefore, Oman pivoted away from the Strait of Hormuz and built the SEZAD project midway along the coast of Oman's central governorate of Al Wusta to capture business from markets utilizing trade routes on the Arabian Sea and greater Indian Ocean. An ambitious project within Duqm to build the world's largest oil storage facility indicates a broader distancing from the Strait of Hormuz and will compete with oil storage facilities in the Fujairah Free Zone.[892]

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[886] Interview 35, former consultant at JAFZA and managing director of consultancy focusing on special economic zones, *Dubai, UAE*, May 31, 2016; Interview 37, business editor at Times of Oman, *Muscat, Oman,* June 7, 2016.
[887] Jebel Ali Free Zone Authority (JAFZA) manages the Jebel Ali Free Zone and many other FZs across the globe, including FZs in Malaysia and Djibouti.
[888] "JAFZA to manage Salalah Free Zone," *Gulf News*, July 26, 2006, accessed November 26, 2017, https://gulfnews.com/business/sectors/general/jafza-to-manage-salalah-free-zone-1.245753.
[889] Oman, "Obstacles," Wikileaks Cable: 07MUSCAT939_a.
[890] Ibid.
[891] "Oman plans free trade zone on Strait of Hormuz," *Emirates 24/7*, March 31, 2008, accessed November 27, 2017, http://www.emirates247.com/eb247/news/oman-plans-free-trade-zone-on-strait-of-hormuz-2008-03-31-1.219243.
[892] Plans aim to ensure a total storage capacity of 200 million barrels of oil; the next largest oil storage facility in the US only holds 62 million barrels. See: "Sleeping Giant," *The Business Year*, accessed January 19, 2017, https://www.thebusinessyear.com/oman-2015/sleeping-giant/review.

Despite regional competition, the Omani government permitted Gulf capital to play a role in the country's FZs. The SEZAD refinery was initially managed through a JV between the International Petroleum Investment Company of Abu Dhabi (IPIC) and the Oman Oil Company, with each company owning a 50 percent share in the $15 billion project; however, Kuwait Petroleum International replaced IPIC as a new project partner in 2016, following a realignment in the IPIC's investment strategy.[893] Qatar oversees a modest portfolio of investments in Duqm projects relating to the automotive industry,[894] and Saudi Arabia is exploring plans to transport oil to Duqm.[895] Saudi Arabia also earmarked $210 million in funding from the Saudi Fund for Development for infrastructure projects in the Duqm SEZ.[896] A Kuwaiti developer, the Golden Hala Trading Company, signed an agreement with the Omani government in 2010 to develop three million hectors of the Al Mazunah Free Zone site in Dhofar. These attempts to reinvigorate the FZ, originally established in 1999, were not immediately successful because the Kuwaiti company and the Oman Electric Company repeatedly clashed over project details and complications related to the remote nature of the site.[897]

Other GCC-related developments, such as the Saudi-led military campaign in Yemen, have been a boon for business at the Al Mazunah Free Zone on the border with Yemen. Very little activity occurred at Al Mazunah between its opening in 1999 and 2010.[898] Security issues in Yemen prevented a smooth flow of workers over the border,

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[893] "Oman Oil Company to partner with KPC for Duqm refinery," *Reuters*, November 8, 2016, accessed June 2, 2018, https://af.reuters.com/article/commoditiesNews/idAFL8N1D2564.
[894] Interview 37, business editor at an Omani daily newspaper. *Muscat, Oman,* June 7, 2016; Interview 41, staff member from Duqm Special Economic Zone, *Muscat, Oman,* June 12, 2016.
[895] Jeta Pillai, "Ras Al Markaz to make Duqm oil export hub," *Oman Tribune*, September 7, 2016, accessed December 10, 2017, http://omantribune.com/details/10933/.
[896] Abbas Al Lawati, "Saudi Arabia to Provide Oman with Rare Grant to Develop Port Hub," *Bloomberg*, January 4, 2018, accessed January 8, 2018, https://www.bloomberg.com/news/articles/2018-01-04/saudi-arabia-to-provide-oman-with-rare-grant-to-develop-port-hub.
[897] Interview 40, senior industrial estate and free zone manager, *Salalah, Oman,* June 9, 2016.
[898] Ibid.

and the Omani government found it difficult to differentiate between serious Yemeni investors and those with other motives. "Many rich Yemenis want to go to the free zone to escape the war and invest in a safer environment,"[899] said a source closely related to the FZ. Nevertheless, the ongoing conflict, which began in 2015, caused an outflow of investment through the country's only non-Saudi land border. In May of 2016, FZ authorities reported that 75 multinational companies had signed free zone agreements, and a further 25 applications remained under review.[900] A director from the PEIE confirmed the war's effect on the FZ: "Mazunah has witnessed a flurry of activity because all other borders are blocked. There are no commercial access points to Yemen other than their ports, but these have real security concerns. All of this [free zone activity] is because of the war."[901] He estimated that 95 percent of the available commercial space in Al Mazunah Free Zone had been allocated within a one-year period ending in June of 2016.

The 2017 diplomatic crisis between Qatar and Saudi Arabia, the UAE, Bahrain, and Egypt further demonstrated how international politics shape capital flows through the region's FZs. Qatari businesspeople complained about seizures of their shipping containers at UAE FZs,[902] and multinational companies heading to and from Qatar encountered difficulties accessing Jebel Ali Free Zone, a major transshipment hub for Qatari-bound goods.[903] In response, Qatar rerouted major shipping and cargo transport

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[899] Ibid.
[900] "Oman's Al Mazunah Free Zone signs 21 investment agreements," *Times of Oman*, May 21, 2016, accessed May 22, 2017, http://timesofoman.com/article/84244/Business/Oman's-Al-Mazunah-Free-Zone-signs-21-investment-agreements.
[901] Interview 42, director from the Public Establishment for Industrial Estates, *Knowledge Oasis Muscat, Oman,* June 12, 2016.
[902] "Qatar economy is strong and resilient: Minister," *The Peninsula*, June 19, 2017, accessed September 10, 2017, https://www.thepeninsulaqatar.com/article/19/06/2017/Qatar-economy-is-strong-and-resilient-Minister.
[903] Roslan Khasawneh and Oleg Vukmanovic, "Port bans choke Qatar's commodity trade as gas supply worries grow," *Reuters*, June 6, 2017, accessed November 8, 2017, http://www.reuters.com/article/us-gulf-qatar-commodities/port-bans-choke-qatars-commodity-trade-as-gas-supply-worries-grow-idUSKBN18X1Y2.

lanes from the Dubai's Jebel Ali Free Zone to Omani hubs in Sohar and Salalah – representing another boon for Omani FZ business.[904] Following the crisis, the trade volume between Qatar and Oman in August of 2017 spiked by 1,200 percent.[905] Moreover, the pro-Qatari government Arabic newspaper, *Al Sharq*, published an article declaring that Oman was prepared to become a regional center for trade[906] – a veiled slight to the UAE, the region's de facto entrepôt.

Other GCC-wide institutions, specifically those relating to customs duties and taxes, influenced how FZ development unfolded in Oman. The incentives offered by SEZAD include the treatment of "finished or assembled products in the area…as locally produced products."[907] Rules of origin allow FZ companies to export their products into other GCC states duty-free, provided the products meet standards set by the GCC customs union; and the UAE serves as Oman's top export destination for non-oil goods.[908] Rules of origin were likewise important as Omani policymakers debated the conditions of the FTA with the United States. Trade officials suggested that Oman needed more liberal rules surrounding the origin of manufactured products than those in Bahrain's FTA because the Omani economy was more industrial than Bahrain's service-oriented economy.[909]

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[904] Robert Mogielnicki (the author), "Qatar Must Adapt SEZs to New Regional Geopolitical Realities," *The Arab Gulf States Institute in Washington*, July 28, 2017.
[905] Paul McLoughlin, "Oman sees trade boost following Qatar blockage," *The New Arab*, September 10, 2017, accessed September 11, 2017, https://www.alaraby.co.uk/english/news/2017/9/10/oman-sees-trade-boost-following-qatar-blockade.
[906] "Sultanate of Oman finishes its preparation to become a regional center for imports and exports," *Al Sharq*, July 26, 2017, http://www.al-sharq.com/news/details/504424. [Arabic]
[907] Duqm Special Economic Zone Authority, "Invest: Incentives," *SEZAD*, accessed September 28, 2017, http://www.duqm.gov.om/invest/incentives.
[908] Oman Ministry of Commerce and Industry. *Annual Industry Report 2014*, 42; China and South Korea ranked higher in terms of export value in 2015, but the overwhelming majority of their exports consisted of hydrocarbons. See: The Observatory of Economic Complexity, "Oman: Export Destinations," *MIT*, accessed September 28, 2017, http://atlas.media.mit.edu/en/profile/country/omn/#Product_Space.
[909] Oman Muscat, "Commerce U/S On FTA, Trade Issues (C-NE4-01160)," Wikileaks Cable: 05MUSCAT210_a, dated February 8, 2005, http://wikileaks.org/plusd/cables/05MUSCAT210_a.html.

Unlike the GCC customs union, wherein FZs are considered outside of the GCC's single market, FZ companies located within the Salalah Free Zone can access the free trade corridor created by the Oman-U.S. FTA.[910] The inclusion of free zone companies into a bilateral FTA ensures that select companies receive double benefits: those originating from their free zone status as well as those applying to onshore companies.[911] This alignment of offshore and onshore incentives serves as an example of Oman's tendency to diverge from GCC conventions on specific economic and security issues. Similarly, officials in Oman delayed the agreed regional implementation of VAT planned for the beginning of 2018. A manager from Sohar Port and Freezone mentioned that VAT could become problematic for Oman if neighboring markets such as Iran and India did not impose similar taxes and consequently become cheaper hubs for existing businesses and future clients.[912]

6.4 Concluding Remarks

FZs served a significant political utility within Oman. In a broad sense, commercialized rents from FZs supplemented rents in a country where limited hydrocarbon resources nevertheless constituted approximately 72.9 percent of government revenues. The sultan and his government leveraged these FZs to showcase economic development in conflict-prone areas of the country. More specifically, FZs provided the regime with a commercial entity for directing rent streams to elite coalitions under the pretext of economic diversification. While foreign linkages through FZ investments mitigated government concerns that an empowered economic

[910] Interview 39, staff member at Salalah Free Zone, *Salalah, Oman*, June 9, 2016.
[911] Bahraini FZs also tweaked regulations in a similar fashion to ensure that companies maintained duty-free access to Saudi Arabia.
[912] Interview 36, manager of Sohar Port and Free Zone, *Sohar, Oman*, June 6, 2016.

elite would demand greater political power, these linkages also constrained the government's ability to institute politically-oriented economic reforms.

The spatialization of Omani FZs exhibited a political logic. Unlike Dubai's attempt to leverage FZs to establish greater autonomy, the precise spatialization of Omani FZs focused on marginalized territories in the country. Dhofar, the interior regions close to Duqm, and Sohar each demonstrated a historical tendency toward conflict and public expressions of grievances stemming from liberation movements, chronic underdevelopment, and economic protests respectively. FZ policies, like the implementation of Omanization requirements in Omani FZs, reflected these domestic constraints.

In contrast to the trend of state-owned FZs across the GCC, the Omani government remained open to private ownership of FZs; however, the government often fronted the capital for local partners involved in these initiatives. Positioned on the receiving end of Gulf capital flows, the government tried to mitigate FZ competition from better-funded GCC neighbors by relying on the country's strategic location away from conflict-prone waterways. The Chinese invested heavily in the SEZAD, but Omani FZs did not translate warm foreign relations with Iran into substantial Iranian investments. The next chapter focuses on FZs in Bahrain, a small island where external forces – albeit of a different composition – also loom large.

7 Bahrain: No free zone is an island, entire of itself

"The whole of Bahrain is a 'free zone'."
--Bahrain Economic Development Board brochure[913]

Bahrain experimented with a free trade zone within its Mina Salman port as early as 1962 – more than two decades before Dubai opened the Jebel Ali Free Zone. This early FZ experimentation resembled the behavior of other hydrocarbon-scarce Gulf territories; however, the country did not continue to build FZs with the same fervor as Oman and the UAE. Instead, a limited FZ sector straddled offshore and onshore boundaries and operated according to the country's fiscal considerations, domestic concerns, and regional relations. FZ officials actively discouraged the labeling of their commercial entities as "free zones," while economic policymakers described the entire country as a free zone.

Employing hydrocarbon resources as an independent variable yields narrow insights into FZ development outcomes in Bahrain. Early oil explorations in Bahrain revealed limited proven hydrocarbon reserves that, in turn, initiated economic diversification plans before many of the country's neighboring Gulf territories. Yet despite various economic diversification initiatives – some of which featured as regulatory prototypes for FZs – Bahrain's government continued to rely on hydrocarbon rents for the majority of government revenues. This hydrocarbon dependence reduced the government's immediate need to build new physical entities required for the generation of commercialized rent streams. Real estate scarcity and the expensive process of land reclamation further reduced the feasibility of rapid FZ proliferation in the country.

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[913] Bahrain Economic Development Board, *Logistics* (Manama: Bahrain Economic Development Board, 2015).

Commercialized rents from the country's limited FZ system nevertheless provided benefits for ruling and business elites, and hence the entities remained a feature of the country's socioeconomic landscape. FZs provided bureaucratic posts for members of the ruling family, business elites aligned their interests with FZ initiatives, and participating firms received Bahrainization exemptions and commercial subsidies from the government. Domestic constraints, however, shaped FZ policy and limited the rent-seeking potential associated with labor regulations.

International political economy considerations also served as an important determination for how FZ development unfolded. Bahrain's strong linkages to Saudi Arabia as well as the overarching institutional framework of the GCC shaped how Bahraini FZs maintained competitive access to Saudi markets. The country confronted competition from well-funded, sector-specific FZs in neighboring GCC territories. Growing financial FZs, in particular, threatened the historically-significant banking sector in Bahrain.

7.1 Hydrocarbon Dynamics

7.1.1 Early oil discoveries

Bahrain began producing oil earlier than its Gulf neighbors, but the limited nature of Bahrain's proven oil reserves prevented the accumulation of wealth later witnessed in Kuwait, Abu Dhabi, and Qatar. Drilling for the territory's first oil well near Jebel al-Dukhan began in October 1931.[914] This oil well morphed into the Awali oil field – later renamed as the Bahrain oil field – and yielded the majority of the country's domestic crude oil in the following decades. "Production from Bahrain's 'Awali oil field peaked in 1970 at 76,640 barrels per day, and at the time of its

[914] Gardner, *City, 40.*

nationalization in 1980 was already in sharp decline,"[915] notes Justin Gengler. Bahrain also abandoned territorial claims over the Abu Safa oil field as part of the Bahrain-Saudi Arabia Boundary Agreement in 1958, but the country later secured the rights to one-half of the field's revenue.[916] The perception of hydrocarbon scarcity encouraged experimentation with economic initiatives intended to generate non-oil revenues.

Anthony Cordesman argues that Bahrain was the first Gulf state required to attempt a transition to a post-oil economy.[917] From 1947/48-1970, oil revenues accounted for 75.8 percent of total government revenues in Bahrain, whereas customs duties represented the next highest revenue earning stream with 16.5 percent.[918] It was thus a natural step for economic diversification efforts to exploit returns from foreign trade, expertise, goods, and services. Since small-scale commercial trading activities still played a key role in the economy in the 1960s, the government launched a free zone area to support this local industry. Fred Lawson explains:

> *Local traders received a boost from the government in 1962 with the opening of a free trade area at the port of Mina Sulman [sic]. Two years later, state officials issued a port ordinance abolishing all tariffs on goods reexported from Mina Sulman and replacing these duties with a uniform handling charge considerably lower than those in place at other Gulf ports.*[919]

The Mina Salman Free Trade Zone focused exclusively on creating a tariff-free environment to encourage export-led sectors.[920] This traditional notion of a FZ in the

[915] Justin Gengler, *Group Conflict and Political Mobilization in Bahrain and the Arab Gulf*: *Rethinking the Rentier State* (Bloomington: Indiana University Press, 2015), 1.
[916] This agreement permitted government budgets to remain dependent upon hydrocarbons despite the limited proven reserves in the country. See: Gengler, *Group,* 2.
[917] Anthony H. Cordesman, *Bahrain, Oman, Qatar and the UAE: Challenges of Security* (Colorado: Westview Press, 1997), 59.
[918] Abla Abdel Latif, "Public Finance in Bahrain from 1935 to 1981," in Jeffrey Bugent and Theodore Thomas, *Bahrain and the Gulf: Past Perspectives and Alternate Futures* (Kent: Croom Helm, 1985), 97.
[919] Fred H. Lawson, *Bahrain: The Modernization of Autocracy* (Boulder: Westview Press, 1989), 97.
[920] Mīna is an Arabic transliteration for port.

1960s fit with the region's geopolitical context prior to the emergence of the GCC customs union. By reducing tariffs and other trade barriers, Bahrain could create a comparative advantage against other commercial hubs in the Gulf. Rather than transform the Mina Salman Free Trade Zone into a full-scale FZ initiative, as occurred with Jebel Ali in Dubai, Bahrain instead focused on courting foreign investors for economic diversification programs and reforming regulatory frameworks.

The economic diversification programs tended to court foreign investment in large industrial projects, such as the Arab Shipbuilding and Repair Yard, Aluminum Bahrain, and the Gulf Petrochemicals Industries Company. Abdullah Al-Yousef writes:

> *The foreseeable depletion of its oil reserves, the absence of 'capital' surpluses, the extremely small size of its market and its lack of experience in industrial technology and marketing are all factors that have led Bahrain to encourage joint ventures with other countries and companies in intermediate products industries in which the responsibility for marketing final products can be left to other firms.*[921]

The Arab Shipbuilding and Repair Yard opened in 1977 with Hyundai of South Korea as the developer and Lisnave of Portugal operating the venture. Saudi Arabia, Kuwait, Qatar, the UAE, and Bahrain each owned 18.84 percent of the venture, demonstrating both an attempt to "avoid the duplication of facilities which had become so rampant in the mid-1970s"[922] throughout Gulf countries and an early example of the internationalization of Gulf capital. The increasing significance of foreign partners in Bahrain influenced future FZ development dynamics by refocusing attention toward strategies for large-scale foreign investment rather than re-export incentives for domestic firms.

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[921] Abdullah Al-Yousef, "An Evaluation of Bahrain's major Industries and Their Future Prospects," in Jeffrey Bugent and Theodore Thomas, *Bahrain and the Gulf: Past Perspectives and Alternate Futures* (Kent: Croom Helm, 1985), 130.
[922] Abdullah Al-Yousef, "An Evaluation," 128.

7.1.2 Free zone foundations

Beyond these industrialization programs, new free zone-like entities and regulatory reforms in the 1970s, specifically the promotion of Offshore Banking Units (OBUs) and the Exempt Companies Law, accelerated the evolution of FZs in Bahrain. OBUs emerged in October 1975 and resembled early prototypes of financial FZs. OBUs provided the infrastructure for foreign banks to operate in the region in return for an annual fee payable to the government. While these foreign banks were prohibited from interacting with residents of Bahrain, the government reserved the right to engage with OBU entities. "Offshore banking was seen as a way of allowing foreign banks the opportunity of having Bahrain as a regional base without further jeopardizing the financial viability of the existing commercial banks in Bahrain,"[923] explains Elias Ghantus. Codified linkages with OBUs also offered the Bahraini government crucial access to foreign capital.

Political and economic developments in the region increased demand for Bahrain's OBUs. Lebanon, long considered the Middle East's premier banking hub, experienced the outbreak of a bloody civil war in 1975. The consequent instability sparked a capital flight toward more stable financial centers like Bahrain. Surplus revenues from regional hydrocarbon exports in the 1970s also contributed to the proliferation of OBUs. "The emergence of sizable capital surpluses in the nearby oil producing and exporting countries, and the need for a focal point for recycling some of these surpluses, provided a major proximate cause for creating this facility [OBUs],"[924] writes Ghantus.

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[923] Elias Ghantus, "The Financial Center and its Future," in Jeffrey Bugent and Theodore Thomas, *Bahrain and the Gulf: Past Perspectives and Alternate Futures* (Kent: Croom Helm, 1985), 134.
[924] Ibid., 133.

Similar to commercial ownership regulations in other GCC countries, Bahrain required foreign firms operating outside of the financial sector to cede a majority share of their venture to a Bahraini partner. However, Bahrain partially reformed these foreign ownership regulations in the late 1970s by instituting new regulations for offshore firms. Akinci and Crittle argue that many MENA countries utilize SEZs to experiment with the liberalization of foreign investment ownership policies."[925] Yet rather than create another quasi-FZ entity akin to the Mina Salman Free Trade Zone or OBUs for firms operating outside of the banking sector, Bahrain's Ministry of Commerce and Agriculture established a new legal status for *exempt companies* through Law 25 of 1977:

> *According to this Law, an Exempt Company is not subject to the usual requirement of having a majority local partner and must have capital of no less than BD 20,000…To protect national companies from unfair competition, Exempt Companies are allowed to conduct business only offshore. This rule, however, did not preclude some of the Exempt Companies from basing their production on locally supplied raw materials as was the case with the aluminum company.*[926]

This status reflected the alternate site framework for foreign-trade zones (FTZs) in the United States,[927] where single companies can receive FTZ status outside of traditional FTZs or sub-zones.[928] Exempt companies in Bahrain can only operate for a period of 25 years, and Bahraini nationals must seek permission from a government minister in order to own more than a 20 percent of an exempt company's shares.[929] The legal

[925] Akinci and Crittle, *Special,* 43.
[926] Ghantus, "The Financial," 133.
[927] A key difference, though, is that the U.S. program aimed to promote foreign trade; regulations on foreign ownership remained less of a concern. The alternate site framework in the U.S. also emerged in 2009, much later than Bahrain's "exempt companies" status.
[928] Interview 43, a president of the National Association of Foreign-Trade Zones, *Washington, DC,* June 17, 2016.
[929] International Business Publications, *Bahrain: Business and Investment Opportunities Yearbook 2016*, Volume 1 Strategic, Practical Information and Opportunities (Washington DC: International Business Publications, 2016), 104.

stipulation attaching Bahraini ownership of an exempt company to ministerial permission granted business actors opportunities connected to the unequally-distributed rents and differential treatment by the government – two forms of rent seeking described by Buchanan.[930]

Therefore, policies intended to bolster economic diversification in Bahrain led to the creation of two early conceptions of FZs – OBUs and exempt company status – during a decade wherein Gulf countries received massive financial windfalls from hydrocarbon exports. The former established an offshore operating environment for foreign banks while simultaneously insulating local businesses from competition. The latter provided exemptions from local ownership regulations for foreign investors. Neither policy created entirely autonomous markets: the government reserved the right to engage with OBU firms, and various elements of the exempt company status required ministerial permission. Nevertheless, the initiatives ensured that qualifying firms enjoyed what amounted to the critical benefits of GCC FZs and also produced tangible benefits across the country. OBUs contributed 8.5 percent to the country's total GDP in 1981 and employed 3,596 Bahrainis by 1982, representing the third highest industry in terms of employment.[931] This greatly reduced the incentive to spend lavishly on launching new FZs projects in the 1980s.

Declining oil revenues resulting from the oil glut of the 1980s reduced available funds for OBUs. Many banks closed their branch offices in Bahrain and stopped paying annual operating fees to the government. Those foreign banks that remained competed in an increasingly mature market sector. By the late 1990s, the government sought new methods to lure foreign investment into the country. Ulrichsen argues that the resource-

[930] Buchanan, "Rent Seeking," 4.
[931] Ghantus, "The Financial," 137.

scarce countries of Bahrain and Oman led the region with a series of national visions, reforms, and economic targets aimed to diversify their economies from oil and gas revenues.[932] Within the Bahraini context, these initiatives included the creation of the Economic Development Board (EDB) in 2000 and the government's marketing of the country under a *Business Friendly Bahrain* banner.

The growing domestic market in neighboring Saudi Arabia represented a major carrot to dangle in front of foreign investors. From 1995 to 2005, Saudi Arabia's GDP grew by 131 percent, and the country witnessed a 106 percent boost in imported goods and services over the same decade.[933] By 2005, Saudi Arabia contained a domestic consumer base of nearly 17 million local citizens – compared with 9.5 million locals in 1985.[934] To facilitate entry into this growing Saudi market, Bahraini government authorities combined the legal structures of OBUs and exempt companies with a physical business entity, akin to free zone models in the nearby UAE. Two resulting entities, the Bahrain International Investment Park (BIIP) and Bahrain Logistics Zone (BLZ), opened in 2005 and 2008 respectively. The precise nature of BIIP and BLZ remained purposefully vague, allowing officials to provide both free zone-like incentives along with GCC customs benefits to prospective clients. Despite the country's small FZ sector, examples of internationalized Gulf capital are evident: the Baytik Industrial Oasis, an industrial park located within BIIP, is wholly-owned by the Kuwait Financial House.

The emergence of the Saudi Arabia-oriented FZ entities coincided with the 2008 launch of Bahrain's Vision 2030, which intended to "shift from an economy built on oil wealth to a productive, globally competitive economy, shaped by the government

[932] Ulrichsen, *Insecure Gulf*, 100.
[933] Data from the World Bank; refer to Table 14 for more information.
[934] Population estimates from the Gulf Labour Markets and Migration (GLMM) Programme.

and driven by a pioneering private sector."[935] The vision proposed building a more diversified economy by focusing on the financial services sector and encouraging new investments in other non-oil sectors, including tourism, business services, manufacturing, and logistics.[936] FZ development fell into the latter category of this two-pronged Vision 2030 strategy to drive robust economic growth.

These commercial reforms and the establishment FZs in Bahrain, however, did not overwhelmingly diversify the state budget. While financial services accounted for 58 percent of Bahrain's GDP and manufacturing adding an additional 15.2 percent by 2012, oil and gas accounted for 75 percent of government revenues.[937] Other estimates suggest that oil and gas revenues constituted as much as 90 percent of the state budget in specific years, with nearly three quarters of this revenue coming from Bahrain's share of revenues from the Abu Safa oil field.[938] Despite Bahrain's meagre 124.6 million barrels of proven crude oil reserves by the start of 2017,[939] the ratio of hydrocarbon revenues as a percentage of total government revenues had not changed significantly from its average of 75.8 percent between 1947 and 1970. Hydrocarbon resource dynamics provide a useful gauge for understanding the timing and scale of early FZs in Bahrain; however, these variables are less useful for explaining the scope of FZs in the kingdom.

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[935] The Government of Bahrain, *From Regional Pioneer to Global Contender: The Economic Vision 2030 for Bahrain* (Manama: Government of Bahrain, 2008), 3.
[936] Ibid., 15.
[937] World Trade Organization, *Trade Policy Review: Bahrain 2014* (Geneva: World Trade Organization, 2014), 12-13.
[938] Robin Mills, "Pioneering Bahrain finds itself reliant on Saudi largesse," *The National*, May 2, 2012, accessed June 5, 2018, http://www.thenational.ae/business/industry-insights/energy/pioneering-bahrain-finds-itself-reliant-on-saudi-largesse.
[939] Central Intelligence Agency, "The World Factbook: Bahrain," *Central Intelligence Agency*, updated May 17, 2018, accessed June 4, 2018, https://www.cia.gov/library/publications/resources/the-world-factbook/geos/ba.html.

7.2 Elite Relationships

7.2.1 Bahraini elites

Given the limited scale of FZ proliferation and its negligible contribution to diversification of government revenues away from hydrocarbons, it is useful to consider Bahraini FZs within alternate contexts. The ruler-merchant power hierarchy clarifies the institutional context through which FZs emerged in Bahrain as well as the scope of these initiatives. The Al Khalifa ruling family expelled the Persians from Bahrain in the late 18th century with the help of other tribes from the Bani 'Utba tribal confederation and consequently "created the nucleus of the present Bahrain State."[940] According to Zahlan and Herb, Al Khalifa assumed power by means of conquest and subsequently ruled over the local Shi'a.[941] Gengler goes further by describing the country as a failed rentier state because its leaders maximized the material benefits of rule and granted "citizens only the minimum allocation necessary to ensure a winning coalition of supporters."[942] Therefore, he argues that, in the Bahraini context, "material benefits are not employed primarily in purchasing new political supporters, but in rewarding existing ones."[943]

Early political support structures in Bahrain rested upon the ruler's relationship with merchants.[944] Herb subsumes Bahrain into a category of Arab territories that relied predominantly on trade, rather than pearling, and consequently possessed an influential

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[940] Hassan Ali Radhi, ed., *Judiciary and Arbitration in Bahrain: A Historical and Analytical Study* (The Hague: Kluwer Law International, 2003), 11.
[941] Zahlan, *The Making of the Modern Gulf States*, 61; Michael Herb, "The Origins of Kuwait's National Assembly," *LSE Kuwait Programme*, Paper Series 39 (2016): 9.
[942] Gengler, *Group Conflict,* 10.
[943] Ibid., 152.
[944] The ruling elite's relationship with the British also possessed important political consequences; however, Britain's involvement in Bahrain's commercial and economic affairs had diminished substantially by the time that FZs emerged in the country.

merchant class in the pre-oil period.[945] Therefore, as part of political consolidation efforts, the Bahraini ruling family struck commercial agreements with merchant allies to reinforce its legitimacy:

> *The political pact between the ruling family and the merchants of tribal origins gave the latter priority access to the country's resources, such as pearl beds, fertile land, and significant tax reductions. As long as these arrangements remained intact, especially the large degree of independence from the central government, the tribal groups supported the al-Khalifa ruler.*[946]

This strong merchant class, which Herb argues also existed in Dubai and Kuwait, was predominantly Arab but included Indian families.[947]

Thus, the decision to situate Bahraini FZs atop reclaimed land in the Al Hidd area of Muharraq Island reveals the links between spatial schemata and the longer histories of elite involvement in economic activities. Al Hidd formerly housed the tribal allies of the ruling Al Khalifa family, and the urban layout of Muharraq "developed around the residences of the Al Khalifah family."[948] In return for tax exemptions, the area's merchant residents presented the ruler with gifts to reflect their beneficial relationship.[949] General scholarship on the early oil period in Bahrain suggests that Sunni merchants connected to the political elite maintained their former economic and social advantages of the pearling days as Bahrain's economy evolved to accommodate newfound rents from oil.[950] Moreover, a former U.S. Ambassador to Bahrain described

[945] Herb's minimization of the role of pearling in Bahrain is somewhat contentious given the significance of pearling for Bahrain's economy and especially its labor market in the early 1900s. See: Herb, "The Origins," 10-11.
[946] Yanai, *The Political Transformation,* 42.
[947] Herb, "The Origins," 10-11.
[948] Nelida Fuccaro, *Histories of City and State in the Persian Gulf: Manama since 1800* (Cambridge: Cambridge University Press, 2009), 73.
[949] Fuad Khuri, *Tribe and State in Bahrain*: *The Transformation of Social and Political Authority in an Arab State* (Chicago: University of Chicago Press, 1981), 48.
[950] Yanai, *The Political,* 42; Lawson, *Bahrain,* 97; Gardner, *City, 37.*

how land reclamation featured as part of distributive politics: "There was a perception that an awful lot of the newly created land basically went to members of the royal family who got a piece out of the development."[951] According to the ambassador, land grants remained one of the few methods of revenue generation and resource distribution available to the Bahraini government.

The power dynamics between ruling and business elites, though, were not always in alignment. Powerful Bahraini merchants at times acted contrary to the interests of Bahrain's rulers. For example, Shaul Yanai describes Yusuf Kanoo's shady interactions with customs officials at the expense of Skaykh Isa bin Ali Al Khalifa,[952] a ruler of Bahrain from 1869-1932:

> *During Sheikh Isa's rule, Indian officials collected the [customs duties] fees. For a long period they had been doctoring the financial reports and embezzled huge sums. The customs overseers reached under-the-table arrangements with the wealthy Sunni merchants…in a deal between Yusuf Qanu and Yusef Fakhro, two of Bahrain's wealthiest merchants, and the customs collectors, each year only one of the merchants paid a reduced fee on imported merchandise with a generous payoff going directly to the Indians customs collectors.*[953]

Customs served as the main source of government revenues in Bahrain before oil exports began in 1932, and Shaykh Isa outsourced customs bookkeeping to a Hindu firm that kept the accounts in Sindhi.[954] The opaque process, according to a British-appointed customs director from Calcutta, led to massive embezzlements by the director and prominent Bahraini merchants.[955] The Shaykh refused an earlier

[951] Interview 75, former U.S. Ambassador to Bahrain, *Washington, D.C.,* January 17, 2018.
[952] The British forced Shaykh Isa to abdicate in 1923; however, his abdication was not recognized by Bahrainis. See: House of Khalifa, "Al Khalifa Royal Family Tree," accessed January 11, 2018, http://houseofkhalifa.com/family-tree/.
[953] Yanai, *The Political,* 69-70.
[954] Mahdi Abdalla Al-Tajir, *Bahrain 1920-1945: Britain, the Shaikh and the Administration* (London: Croom Helm, 1987), 53.
[955] Ibid., 53.

suggestion from the British Viceroy to appoint a British customs director, viewing it as "threatening his independence."[956] This historical anecdote reveals the financial rewards that elites could derive by consolidating customs processes in Bahrain under the control of a small handful of actors.

Control over customs and FZs oscillated between royal family members and individuals from prominent families loyal to Al Khalifa. A later ruler of Bahrain, Shaykh Isa bin Salman Al Khalifa, merged the customs and ports departments in 1966 and appointed Shaykh Khalid bin Abdullah Al Khalifa as general director of the agency – further institutionalizing the ruling family's control over this sector.[957] The influence of the royal family over customs, ports and free zone affairs solidified over the subsequent decades. During FZ creation in the early 2000s, a member of the ruling family, Shaykh Daij bin Salman Al Khalifa, presided as president of the government entity responsible for customs, ports and free zones. Major General Basim Yacub Al Hamer took over control from Daij bin Salman in 2008.[958] The Al Hamer family is a public supporter of the Al Khalifa ruling family; these links are affirmed in official press releases issued by the *Bahrain News Agency*.[959] In 2011, King Hamad bin Isa Al Khalifa appointed Mohammed bin Khalifa bin Ali Al Khalifa as president of customs affairs, a position that included oversight of free zone affairs, through Decree 38 of 2011.[960]

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[956] Ibid., 180.
[957] Official Order, "Merging the Ports and Customs Departments," November 5, 1966, Archives: Historical Documents, Kingdom of Bahrain Ministry of Interior Customs Affairs, accessed January 11, 2018, http://www.bahraincustoms.gov.bh/uploads/images/doc5.jpg.
[958] Kingdom of Bahrain Ministry of Interior - Customs Affairs, "History of Customs," *Ministry of Interior*, accessed January 11, 2018. http://www.bahraincustoms.gov.bh/history_customs.php?SID=WWxRd2VVcHVUblJRVkZFOQ%253D%253D%253D.
[959] "More condemnations of Iran's flagrant meddling," *Bahrain News Agency*, July 26, 2015, accessed October 6, 2017, https://bna.bh/portal/en/news/678903.
[960] Kingdom of Bahrain Ministry of Interior - Customs Affairs, "Media and Publications," *Ministry of Interior*, April 27, 2011, accessed January 11, 2018, http://www.bahraincustoms.gov.bh/notice.php?SID=WVZkUk9VNTVXblJRVkdjOQ%253D%253D.

Customs dynamics are crucial for understanding Bahraini FZs because these entities remained part of the domestic economy and under the control of existing government agencies. BLZ operates within the ports and maritime portfolio of the Ministry of Transportation and Telecommunications. The Ministry of Industry, Commerce, and Tourism approves all of BLZ's trade licenses and oversees BIIP. Territorial constraints diminished the feasibility of autonomous free zone authorities in Bahrain. "We have one square kilometer. Bahrain is a tiny dot compared to other GCC countries, and it would be inefficient to have a government body within a government body for one square kilometer of land,"[961] explained a BLZ staff member. Free zone authorities ostensibly protect commercial decisions from governmental interreference and politically-connected firms. Yet, as previous chapters demonstrated, even FZ sub-systems with purportedly independent authorities are not entirely autonomous commercial entities.[962]

7.2.2 Elite collaboration

Local business elites played a central role in the development and management of Bahrain's FZs, demonstrating a propensity for elite accommodation to government strategies. The scope of the BLZ revealed the embeddedness of elites in FZ initiatives. BLZ's primary purpose involved providing commercial support for the nearby Khalifa Bin Salman Port (KBSP). "It's premium land near the port…The main criteria for companies is that they use the port,"[963] stated a senior corporate manager at BLZ. Land reclamation for the BLZ site began just as the BIIP opened in 2005, and the site was operational by 2008. The timing coincided with the commencement of operations at the

[961] Interview 67, senior corporate manager at Bahrain Logistics Zone (BLZ), *Al Hidd, Bahrain,* August 23, 2016.
[962] For a useful illustration of this point, refer to Figure 3, which maps the organizational hierarchy of Dubai's FZs.
[963] Ibid.

new KBSP, which replaced the older port of Mina Salman, in 2009. "The old port was very congested. The new port is purpose-built and modern,"[964] explained a business editor at *Gulf Daily News*. The editor added that only about 30 percent of the new port is currently being used for commercial operations, leaving the government eager to attract new clients. A senior corporate manager at BLZ echoed vacancy concerns: "We invested lots of money in the port and we want to see it at full capacity."[965]

The primary objective behind BLZ directly aligned with the commercial interests of one of Bahrain's most prominent merchant families. APM Terminals Bahrain, a JV between APM Terminals[966] and Yusuf Bin Ahmed Kanoo Holdings Group, manages KBSP. The Bahraini firm, originally established in 1890 by Yusuf Bin Ahmed Kanoo, is one of the largest family-owned conglomerates in the GCC. The Kanoos were "Persianized Arabs" who moved to Bahrain from the southern Persian coast in the middle of the 19th century, assuming a Sunni, Arabic-speaking identity shortly thereafter.[967] The company's early ventures reflected a strong focus on the industries of trading and shipbuilding; the group owned a majority share of the Bahrain Ship Repairing and Engineering Company.[968] This shipping industry experience placed the group in a strong position to secure the government contract to manage KBSP. Nevertheless, it is noteworthy that a prominent Bahraini merchant family holds a commercial stake in KBSP, and BLZ functions as a commercial funnel for firms requiring port access.

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[964] Interview 68, business editor at Gulf Daily News, *Manama, Bahrain,* August 24, 2016.
[965] Interview 67, senior corporate manager at Bahrain Logistics Zone (BLZ), *Al Hidd, Bahrain,* August 23, 2016.
[966] APM Terminals is part of Maersk Group.
[967] James Onley, "Transnational merchants in the nineteenth-century Gulf: the case of the Safar family," in Madawi Al-Rasheed (ed.), *Transnational Connections and the Arab Gulf* (London: Routledge, 2005), 49.
[968] Lawson, *Bahrain,* 97.

An examination of BLZ clients also reveals important actors from amongst Bahrain business elites. The first client in BLZ was Almoayed Wilhelmsen Ltd., a JV started in 1976 between the A.K. Almoayed Group and the Norwegian maritime group Wilh. Wilhelmsen.[969] Abdulrahman Khalil Almoayed started his family-owned trading firm by supplying timber to the construction industry in the early 1900s before diversifying into the shipping industry and other goods and services.[970] A business editor from the *Gulf Daily News* noted the rife connections between government and big business in Bahrain: "Most companies are family businesses and are very incestuous with the government. The government tends to award big contracts to these family businesses, which makes it hard for new businesses."[971]

Bahraini firms often partnered with prominent foreign firms, and these partnerships shaped FZ development. Indeed, International Development Ireland (IDI), an Irish company that specializes in the practical implementation of institutional and corporate development projects, manages the contract to operate BIIP through an agreement with the government.[972] The reliance on foreign companies stems, in part, from an inclination to share the risk of marketing industrial products with more established foreign firms.[973] IDI leverages Ireland's reputation for economic development and the success of the country's Shannon Free Trade Zone to win contracts for various development and economic zone projects across the globe. The entire project team in Bahrain is Irish; however, the long-term strategic plan involves the transfer of BIIP operations to a Bahraini team.[974]

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[969] "Almoayed Wilhelmsen Ltd.," *British Bahrain Business Group*, accessed April 18, 2017, http://bbbforum.org/company/almoayed-wilhelmsen-ltd/.
[970] "Background, History and Core Values," *A K Almoayed Group*, accessed April 18, 2017, http://www.akalmoayed.com/howitallstarted.html.
[971] Interview 69, business editor at Gulf Daily News, *Manama, Bahrain,* August 24, 2016.
[972] Following the transfer of BIIP to Bahraini management, IDI hopes to continue working on development projects in southern Al Hidd area to improve the roads, lighting, and drainage systems.
[973] Al-Yousef, "An Evaluation," 130.
[974] Interview 27, consultant for Bahrain International Investment Park, *Al Hidd, Bahrain*, April 27, 2016.

Bahrain's foreign ownership regulations remained relatively liberal compared with other GCC markets, and this diminished a major incentive traditionally offered by FZs in the GCC. Although Bahraini FZs permitted full foreign ownership,[975] these exemptions did not serve as a distinguishing characteristic of FZs in the country. The exempt company status provided a legal avenue for foreign firms to operate in the domestic market as early as the 1970s. By July 2016, the government had approved amendments to a commercial companies law that legalized full foreign ownership in residential, food, administrative services, arts, entertainment and leisure, health and social work, information and communications, manufacturing, mining and quarrying, water supply, and real estate activities.[976] It is unsurprising then, that Bahrain's economic activity remained heavily dependent on foreign investment. The country's foreign investments as percentage of GDP reached 90 percent in 2016; Saudi Arabia secured the next highest ratio in the GCC with 36 percent.[977]

7.2.3 FZ policies: labor and land

Other FZ policies in Bahrain enabled ruling and business elites to perpetuate rent-seeking structures in the country through a variety of incentives for domestic and foreign investors. These incentives encouraged local business elites and foreign firms to maximize favors, employment opportunities, contracts, subsidies, and preferential policy treatment from the government – thus conforming to one manner of rent seeking discussed by Buchanan.[978] For example, BIIP offers government-subsidized electricity,

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[975] Bahrain International Investment Park, *The location of choice for Middle East Investment* (Al Hidd: BIIP, no date provided), 2.
[976] "Bahrain approves new law on 100% foreign ownership," *Arabian Business*, July 19, 2016, accessed June 1, 2018, http://www.arabianbusiness.com/bahrain-approves-new-law-allow-100-foreign-ownership-639113.html.
[977] Mustafa Saleh, "Kuwait last amongst GCC countries in attracting foreign investment," *Alanba*, June 4, 4018, accessed June 5, 2018, http://www.alanba.com.kw/ar/economy-news/837306/04-06-2018--الكويت-الأخيرة-خليجيا-جذب-الاستثمار-الأجنبي. [Arabic]
[978] Refer to Theoretical Considerations section of Chapter 2. See: Buchanan, "Rent Seeking," 9.

water, and sewage services.[979] These commercial subsidies, which resemble below-market rates for services, parallel similar incentives in FZs in Abu Dhabi and the northern emirates.

FZ policies involving labor regulation exemptions and real estate allocation further revealed the political dynamics underlying FZ development in Bahrain. Unlike FZs in the UAE, Qatar, and Kuwait, which offered comprehensive exemptions from workforce nationalization requirements for an indefinite period, Bahrain's government granted five-year exemptions from Bahrainization requirements as part of lease agreements for companies operating in FZs.[980] The differential in labor costs components between Bahraini and non-Bahraini employees illustrates the value of rents extracted from reduced labor requirements: total monthly labor costs for Bahraini nationals averaged BD 628 (~$1,697) in 2006, whereas the same costs for non-Bahrainis averaged BD 246 (~$665).[981] Assuming constant prices, an employer could save approximately $61,920 for each non-Bahraini worker employed during the five-year exemption period.

Although BIIP's corporate brochure lists "no recruitment restrictions" as one of its incentives, this is slightly misleading because it does not include the exemption's time limit.[982] The comparably strict labor regulations within Bahraini FZs resemble those of Omani FZs, wherein firms receive partial exemptions from the Omanization target rates set for the domestic economy. The imposition of stricter FZ labor

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[979] WTO, *Trade Policy Review: Bahrain,* 34.
[980] Interview 28, economic officer at the Economic Development Board, *Manama, Bahrain*, April 27, 2016.
[981] The total labor costs vary across sectors, but the overall figures used here also correspond closely to figures reported in the manufacturing sector. Currency values are based on 2006 price estimates. See: Bahrain Labour Market Regulatory Authority, "Labour cost components (in BD per month) among Bahraini and non-Bahraini workers 2006 – Q1," *Information and eGovernment Authority*, http://blmi.lmra.bh/2017/12/data/lmr/Table_26.pdf.
[982] Bahrain International Investment Park, *The location*, 3.

regulations occurred most readily in GCC case studies demonstrating both resource-scarcity and higher ratios of national citizens to the total population.

Limited Bahrainization exemptions for FZ firms are also symptomatic of the relationship between demographics and labor issues in Bahrain. Although nearly 50 percent of the population is composed of locals, foreigners represent approximately 75 percent of the workforce.[983] Employment discrepancies between citizens and expatriates are particularly acute in the private sector. In 2015, total employment in Bahrain reached 710,296 individuals, but Bahrainis holding private sector jobs accounted for only 90,657 of the country's employment opportunities.[984] Bahrain's leaders grappled with efforts to increase Bahrain's competitiveness as a commercial hub, on the one hand, and direct interventions in the labor market to secure greater private sector employment for local citizens on the other hand. An economic officer at the EDB summarized the dilemma: "[The] government must balance free market principles with supplying locals with adequate employment."[985] This dilemma has been long-standing: as early as 1938, local Bahraini citizens demanded greater access to employment during labor protests at the Bahrain Petroleum Company.[986]

The total employment contribution of FZs in Bahrain remained unclear. A senior corporate manager at BLZ described employment generation for Bahrainis as a key objective of the FZ;[987] however, national employment figures for the FZ are not available. Moreover, an employee at BIIP estimated that only 25 percent of BLZ plots

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[983] Interview 26, a director at Bahrain Center for Strategic, International and Energy Studies (Derasat), *Awali, Bahrain*, April 26, 2016.
[984] Bahrain Economic Development Board, *Bahrain Economic Quarterly: December 2015* (Manama: EDB, 2015), 29-30.
[985] Interview 28, economic officer at the Economic Development Board. *Manama, Bahrain*, April 27, 2016.
[986] Sean Foley, *The Gulf Arab States: Beyond Oil and Islam* (London: Lynne Rienner Publishers, 2010), 20.
[987] Interview 67, senior corporate manager at Bahrain Logistics Zone, *Hidd, Bahrain,* August 23, 2016.

were in operation by the summer of 2016.[988] BIIP operated at 85 percent capacity and employed approximately 4,000 residents during the same period – although publicly-available figures made no distinction between Bahraini and foreign employees working in BIIP's 72 operational companies. Nearly 80 percent of BIIP's firms were involved in manufacturing while 20 percent operated in internationally-traded services.[989]

Real estate played a central role in the business model of Bahraini FZs. Through government support, BIIP provided land, industrial units, and office accommodation at below-market rates.[990] The allocation of premier commercial plots across Bahrain, however, led to social tensions. According to statements by a U.S. ambassador to Bahrain, the "lack of a transparent land acquisition regime has been a perennial complain among Bahrain's business community."[991] The reallocation of wealth through land transfers is a common feature in the GCC, having occurred in various forms across Kuwait, the UAE, and Oman. In the case of Bahrain, real estate associated with operating FZ resulted from land reclamation projects in Al Hidd. In fact, the reclamation processes represented the main cost associated with the development of FZs like BIIP.[992] The value and scarcity of these commercial plots encouraged investors to *land bank*, a practice of signing leases without intending to commence operation on the properties. This practice led the Minister of Industry and Commerce to decree that if a FZ company does not begin operations within two years, then the government could reclaim the land.[993] The stipulation aligned with similar real estate

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[988] Interview 27, consultant for Bahrain International Investment Park, *Al Hidd, Bahrain*, April 27, 2016.
[989] International Development Ireland, "Establishment and the Development of the Bahrain International Investment Park," accessed April 10, 2017, http://www.idi.ie/project/establishment-and-development-bahrain-international-investment-park-biip.
[990] Interview 53, staff member from Bahrain International Investment Park, *remote conversation in Dubai, UAE,* July 26, 2016.
[991] William Monroe, "A/S Bohigian Finds GOB, Business Eager to Benefit from FTA," Wikileaks Document: 06MANAMA1956_a, November 22, 2006, https://wikileaks.org/plusd/cables/06MANAMA1956_a.html.
[992] Interview 27, consultant for Bahrain International Investment Park, *Al Hidd, Bahrain*, April 27, 2016.
[993] Ibid.

regulations laid out in Law 28 of 2014, wherein projects must commence within six months or else face removal from the country's official real estate register.[994]

The case of the Bahrain Investment Wharf (BIW) further illustrates the strong association between real estate development and FZs in Bahrain. Widely confused for being FZ, BIW instead represented a $2 billion development project of the Al Khaleej Development Company (Tameer), a subsidiary of Inovest BSC. "It is a wrong notion that this is a SEZ. Nothing, absolutely nothing, is given by BIW. Many people think of it as a SEZ because it was advertised as a SEZ on the website. This is wrong,"[995] explained a BIW director and the final remaining employee left in the office. An economic officer at the EDB described the BIW as dealing mainly in the technology sector,[996] while an employee of BIIP stated that it "turned into a logistics and warehousing hub and reports to the ministry on a quarterly basis."[997] However, a BIW director stated that the entity functioned purely as a real estate venture: "There are no clients. We reclaimed the land…we sold the land…finish. There is nothing left to do.[998] The chairman of Tameer, Dr. Abdulla Al Humaidi, is businessman from one of Kuwait's



Image 5: Bahrain Investment Wharf, August 23, 2016

[994] Trowers & Hamlins, "International Real Estate: New Real Estate Development law in Bahrain," *Trowers & Hamlins Legal Update*, October 2014, accessed June 5, 2018, https://www.trowers.com/uploads/Files/Publications/2014/TH_Real_Estate__New_Real_Estate_Development_Law_in_Bahrain_-_Oct_2014.pdf.
[995] Interview 66, director at Bahrain Investment Wharf, *Al Hidd, Bahrain.* August 23, 2016.
[996] Interview 28, economic officer at the Economic Development Board, *Manama, Bahrain*, April 27, 2016.
[997] Interview 27, consultant for Bahrain International Investment Park, *Al Hidd, Bahrain*, April 27, 2016.
[998] Interview 66, director at Bahrain Investment Wharf, *Al Hidd, Bahrain.* August 23, 2016.

oldest merchant houses.[999] Kuwaiti capital also played a fundamental role in the creation of BIIP's Baytik Industrial Oasis, reflecting a continued presence of internationalized Gulf capital in Bahrain. However, it was Saudi Arabia, rather than Kuwait, that assumed a central role in the international political economy of Bahraini FZs.

7.3 Global Competition

Bahrain remains exceedingly reliant upon external relationships in the realms of economics, politics, and security. This reliance possesses deep historical roots and influences the shape and nature of FZ proliferation in the country. "Because Bahrain is poor in natural resources, it has developed an entrepôt, services-oriented economy; in fact the country imports virtually all of its needs. This means that international trade has had a sizeable influence on Bahrain's foreign policy," writes Emile Nakhleh.[1000] While Britain played an important colonial role in Bahrain during the 19th and early 20th centuries, Saudi Arabia functioned as the most influential external actor shaping domestic policies in modern Bahrain.

7.3.1 The Saudi effect

Bahrain's interdependence upon Saudi Arabia is both economic and political in nature. The King Fahd Causeway serves as the most visible physical linkage between Bahrain and Saudi Arabia. The 25-kilometer, four-lane causeway was constructed in the 1980s, and it facilitates overland trade between the two kingdoms as well as Saudi access to Bahrain's tourism industry. Saudi citizens alone account for between six and

[999] Tameer, "Leadership," Tameer, copyright 2018, accessed January 24, 2018, http://www.tameer.com/leadership.
[1000] Emile Nakhleh, *Bahrain: Political Development in a Modernizing Society* (Plymouth: Lexington Books, 1976), 96.

seven million of Bahrain's ten million tourists each year.[1001] The causeway also serves political ends. During violent protests in March of 2011, Saudi Arabia sent nearly 150 armored troop carriers into Bahrain via the causeway.[1002]

Saudi Arabia likewise played a leading role in establishing the GCC Development Fund, an initiative led by Saudi Arabia, Kuwait, and the UAE to inject $10 billion into Bahrain's economy following protests associated with the "Arab Spring." Some observers claim the funding included caveats, such as the stipulation that Saudi contractors must receive contracts for development projects.[1003] A director at the Center for Strategic, International and Energy Studies noted, "Saudi's foreign aid policy used to be very naïve…Now there is more of an emphasis on mutual benefit."[1004] Saudi remained an influential external actor in Bahrain's business climate by leveraging substantial control over the Bahraini government's finances, development funds, and its capabilities to impose political stability.

Bahrain's strong economic linkages to the GCC bloc, and specifically Saudi Arabia, reduced the commercial utility of FZs and limited the small state's incentives to expand FZ development. While early free zone concepts, like OBUs and exempt companies, emerged to manage capital inflows, later FZ entities facilitated outflows of manufactured goods and other services to Saudi Arabia. A senior corporate manager at BLZ noted, "The main market is Saudi Arabia. No matter how many companies come here, you can't feed them [Saudis] enough."[1005] An economic officer at the EDB

[1001] Interview 28, economic officer at the Economic Development Board, *Manama, Bahrain*, April 27, 2016.
[1002] "Gulf states send forces to Bahrain following protests," *BCC*, March 14, 2011, accessed March 9, 2018, http://www.bbc.co.uk/news/world-middle-east-12729786.
[1003] Interview 27, consultant for Bahrain International Investment Park, *Al Hidd, Bahrain*, April 27, 2016.
[1004] Interview 26, director at Bahrain Center for Strategic, International and Energy Studies (Derasat), *Awali, Bahrain*, April 26, 2016.
[1005] Interview 67, senior corporate manager at Bahrain Logistics Zone, *Al Hidd, Bahrain,* August 23, 2016.

explained that foreign investors "definitely are not coming to Bahrain for the domestic market. Most companies are operating here because of the proximity to Saudi Arabia."[1006] A manager from BIIP confirmed this view, emphasizing that BIIP is "only one traffic stop away from Saudi Arabia. Everybody wants to serve there but they don't want to be there."[1007]

The GCC customs union grants duty exemptions for Bahraini goods exported to Saudi Arabia; however, goods originating from FZs are subjected to a standard five percent duty upon entering local GCC markets. Firms operating in traditional FZs in Bahrain would lose duty-free access to the country's primary export market. Saudi Arabia represented the largest specified export market for Bahrain between 2011 and 2015, consuming nearly a third of Bahrain's of total merchandise trade.[1008] Thus, officials stressed that BIIP and BLZ were not technically FZs because the classification would require their clients to absorb the costs of customs duties when trading with local GCC partners.[1009] The manager at BIIP reiterated this point: "it is very important to consider BIIP a special economic zone rather than a free zone.[1010] The primary explanation for this response lies in Bahrain's trade orientation toward the Saudi market.

[1006] Interview 28, economic officer at the Economic Development Board, *Manama, Bahrain*, April 27, 2016.
[1007] Interview 53, manager of Bahrain International Investment Park, *Remote conversation from Dubai, UAE,* July 26, 2016.
[1008] The UAE and Kuwait were also among Bahrain's top five trade partners. See: World Bank, "Bahrain Trade Summary 2015 Data," *World Integrated Trade Solutions*, accessed September 4, 2017, http://wits.worldbank.org/CountryProfile/en/Country/BHR/Year/LTST/Summary.
[1009] See: Interview 54, manager of Bahrain International Investment Park, *remote conversation from Dubai, UAE.* July 26, 2016; Interview 67, senior corporate Manager at Bahrain Logistics Zone, *Al Hidd, Bahrain,* August 23, 2016; and "Bold transport plans in Bahrain include new causeway," *Oxford Business Group*, accessed April 26, 2017, https://www.oxfordbusinessgroup.com/overview/over-land-and-sea-new-causeway-just-part-bold-expansion-plans.
[1010] Interview 53, manager of Bahrain International Investment Park, *remote conversation from Dubai, UAE,* July 26, 2016.

In addition to the *direction* of trade flows, the *nature* of tradable commodities mattered. "We have issues in the GCC because of the origin of the product. If you go over 40 percent of value added, then the product becomes a Bahraini product,"[1011] noted a senior FZ manager. Nearly 80 percent of BIIP's clients operated in manufacturing, and consequently most of these firms exported domestically-produced products to Saudi Arabia. UAE FZs also demonstrated a strong trade orientation toward the Saudi market – 64 percent of the UAE's intra-GCC FZ trade occurred with Saudi Arabia in 2015.[1012] However, a crucial difference involved the composition of these trade flows in UAE FZs: reexports, imports, and non-oil exports accounted for 85.9 percent, 10.9 percent, and 3.2 percent respectively.[1013] In contrast to Bahrain, the predominance of reexports in the UAE's FZ trade with Saudi Arabia reduced the adverse effects of customs regulations. Since reexports "are foreign goods exported in the same state as previously imported,"[1014] the custom duties associated with their importation into GCC markets did not represent additional transaction fees for UAE-based FZ companies.

Customs duties and rules of origin regulations did, however, increase transaction costs for Bahraini FZ clients. When *fDi Intelligence* magazine ranked BIIP as part of its global free zones of the future ranking in 2013, customs officials in Saudi Arabia and Kuwait responded by attempting to collect duties on goods exported by BIIP clients. BIIP maintained that their companies possessed onshore licenses and therefore were entitled to duty exemptions in accordance with the Common Customs

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[1011] Interview 67, senior corporate manager at Bahrain Logistics Zone, *Al Hidd, Bahrain,* August 23, 2016.
[1012] Federal Customs Authority, *Emirates Customs: Free Zones*, 5.
[1013] Ibid.
[1014] United Nations, "International Merchandise Trade Statistics – Concepts and Definitions," *Statistics Division*, series F, no. 52, para. 78, published in 1998, accessed September 1, 2018, https://stats.oecd.org/glossary/detail.asp?ID=2268.

Law of the GCC. Following the incident, BIIP withdrew from participating in the magazine and its yearly rankings to safeguard duty exemptions for its companies.[1015] BIIP then marketed its domestic status as providing a five percent margin against competing free zone companies in other countries.[1016]

BLZ also confronted issues when reconciling its economic activities with the common perception of FZs in the region. Officials changed the entity's original name from the "Bahrain Free Zone" to avoid a direct association with FZs. BLZ is a bonded area outside of customs control, but it operates in a grey area between onshore and offshore spheres. Stricter adherents to the customs procedures in other GCC member states protested a doubling of benefits that flouted customs conventions in the region. The BLZ interviewee, however, suggested that the non-FZ status was intended to reduce confusion for clients: "We consider the whole of Bahrain a free zone because there is no tax. We didn't want to mislead potential tenants that they would be getting something different within the zone…So we shied away from the [term] free zone."[1017]

7.3.2 Intra-GCC trade and taxation

Despite Bahrain's locational advantage for serving the Saudi market, its FZs nevertheless faced competition from counterparts in other GCC states. "We don't like to say that we are competing with Jebel Ali, but investors compare us with Jebel Ali. Nearly every investor is comparing us with Jebel Ali,"[1018] explained a senior manager at the BLZ. A similar pattern of regional competition emerged within Bahrain's

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[1015] Interview 53, manager of Bahrain International Investment Park, r*emote conversation from Dubai, UAE,* July 26, 2016

[1016] Bahrain International Investment Park, "Incentives," Al Hidd: Ministry of Industry, Commerce and Tourism, http://www.biip.com.bh/default.asp?action=article&id=26, accessed January 16, 2018; "Bold transport plans in Bahrain include new causeway," *Oxford Business Group*, accessed April 26, 2017, https://www.oxfordbusinessgroup.com/overview/over-land-and-sea-new-causeway-just-part-bold-expansion-plans.

[1017] Ibid.

[1018] Interview 67, senior corporate manager at Bahrain Logistics Zone, *Al Hidd, Bahrain,* August 23, 2016.

financial services industry. According to a former U.S. ambassador to Bahrain, Dubai's efforts to build a rival finance sector caused substantial consternation in Manama.[1019] The proliferation of financial FZs yielded additional competition in the form of new, sub-national commercial hubs: DIFC, ADGM, and the Qatar Financial Centre (QFC).[1020] In response to this competition, Bahraini officials highlighted their country's location as a major commercial advantage for its FZs. An economic officer at the EDB claimed that "there is no reliable domestic consumption base [in Dubai]. In Riyadh, there are ten million people…who can't leave."[1021]

The GCC casted a strong shadow over Bahraini attempts to enhance trade links with non-GCC states. For example, the two trade corridors created by the U.S.-Bahrain Free Trade Agreement and the GCC customs union applied opposing regulations upon the integration of FZ activities. The U.S.-Bahrain FTA treats all goods and services, whether produced in a FZ or not, as eligible for duty exemptions provided that they abide by rules of origin regulations.[1022] GCC customs regulations, on the other hand, consider goods and services from FZs as technically outside of the domestic economy and thus liable for duties upon importation. Bahrain established its FTA with the U.S. in January 2006 but first ensured that other GCC members, namely Saudi Arabia, had no serious objections.[1023] Therefore, BIIP's clients can utilize the country's FTA with the U.S., GAFTA, and duty-free access to the GCC market. "Bahrain has been

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[1019] Interview 75, former U.S. Ambassador to Bahrain, *Washington, D.C.,* January 17, 2018.
[1020] While not a FZ, the King Abdullah Financial District in Riyadh represents another nascent financial hub. Despite initial expenditures reaching $10 billion, a 2016 Bloomberg report suggests the financial center has yet to understand the needs of the local market. See: Zainab Fattah, "Saudi $10 Billion Financial District Is Missing One Thing: Banks," *Bloomberg*, April 19, 2016, accessed January 16, 2018, https://www.bloomberg.com/news/articles/2016-04-19/saudi-10-billion-financial-district-missing-one-thing-banks. Despite its name, the QFC does not deal exclusively in financial services but rather consists of a diverse group of clients operating in various sectors.
[1021] Interview 28, economic officer at the Economic Development Board, *Manama, Bahrain*, April 27, 2016.
[1022] Interview 76, senior U.S. trade official responsible for the Middle East and North Africa, *Washington, D.C.,* January 29, 2018.
[1023] Interview 75, former U.S. Ambassador to Bahrain, *Washington, D.C.,* January 17, 2018.

proactive getting free trade agreements, and these are important for our clients. [There are] lots of companies operating in Bahrain to serve North Africa,"[1024] explained a BIIP manager.

GCC-wide agreements on the implementation of taxes, such as VAT, served as another factor shaping the development of Bahraini FZs. With minor exceptions, there are no direct taxes on corporate earnings, personal income, or inheritance in Bahrain.[1025] The primary exception involves oil and gas companies, which pay an annual 46 percent tax on net profits.[1026] "People would be up-in-arms over a sales tax, but a VAT is palatable,"[1027] explained the economic officer from the EDB. If FZs constitute part of the domestic economy, as Bahraini officials insisted, then the entities would be liable for collecting VAT as part of the onshore tax regime. However, Bahrain did not follow the implementation of VAT by UAE and Saudi Arabia at the outset of 2018.

The delayed VAT implementation emphasized the ambiguity surrounding the status of commercial entities operating both within Bahrain and as part of a broader regional bloc wherein member states adhere to varying definitions of FZs. A business editor at *Gulf Daily News* believed that Bahrain needed VAT exemptions to support its limited industry.[1028] Yet, the ambiguous nature of FZ companies in Bahrain – specifically their intentional categorization as onshore entities – complicated the government's ability to exempt companies from paying VAT. The UAE provided such an exemption for a portion of the country's FZs, known as designated zones, because

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[1024] Interview 53, manager of Bahrain International Investment Park, r*emote conversation from Dubai, UAE,* July 26, 2016.
[1025] Interview 26, director at Bahrain Center for Strategic, International and Energy Studies (Derasat), *Awali, Bahrain*, April 26, 2016.
[1026] "Bahrain: Corporate – Taxes on Corporate Income," *PwC*, accessed April 24, 2017, http://taxsummaries.pwc.com/ID/Bahrain-Corporate-Taxes-on-corporate-income.
[1027] Interview 28, economic Officer at the Economic Development Board, *Manama, Bahrain*, April 27, 2016.
[1028] Interview 68, business editor at Gulf Daily News, *Manama, Bahrain,* August 24, 2016.

UAE FZs more accurately met the criteria of offshore entities. “Dubai could probably get away with it [avoiding VAT in some areas] because they actually have free zones,”[1029] noted the business editor. The GCC lacked a consensus on the precise definition of a FZ; this definitional absence complicated interstate trade by forcing member states to integrate varied commercial regulatory systems into regional institutions.

7.4 Concluding Remarks

Rent generation is a complex, multi-layered process, and commercialized rents do not always align with a given country’s political and economic institutions. Despite early experimenting with the Mina Salman Free Zone, the small country of Bahrain did not follow the later path of Dubai and continue rapidly constructing FZs as a key pillar of their development strategy. Instead, Bahrain followed a slower, cautious approach to FZ development because traditional FZ models provided limited benefits for Bahrain’s geopolitical and economic context. Bahrain built a financial services sector as an early method of economic diversification away from oil revenues. The banking sector heavily depended upon the recycling of surplus capital from its resource-abundant neighbors. As Bahrain transitioned from a regional hub for Islamic banking into the primary foreign access point to Saudi Arabia, the commercial feasibility and utility of traditional FZs decreased significantly. Instead, government officials specifically tailored BIIP and BLZ to exploit GCC customs union benefits and cater to the lucrative Saudi Arabian markets.

Those few FZs that did exist in Bahrain provided benefits for the ruling and business elites, in much the same fashion as FZs in other GCC countries. The ruling

[1029] Ibid.

regime consolidated government control over customs and FZs by situating FZ entities within government ministries and alternating oversight positions between members of the ruling family and individuals from prominent merchant families. FZs also offered opportunities for large Bahraini merchant firms to engage in lucrative JVs to manage FZ-related development projects or serve as anchor clients within the FZs. Expensive land reclamation in Al Hidd and commercial subsidies associated with FZ development also encouraged rent-seeking behavior.

Domestic constraints in Bahrain, however, limited the degree to which elites could maximize commercialized rents through FZ policies. A comparably large ratio of national citizens to total residents in Bahrain resulted in the policy creation of a five-year exemption from Bahrainization requirements for FZ firms. This limited, short-term exemption represented a stricter interpretation of FZ labor policy when compared against workforce nationalization regulations in the UAE, Qatar, and Kuwait. Stricter labor policy in Bahraini FZs suggests that the regime carefully balanced national business interests with domestic politics.

Lord Ralf Dahrendorf, a sociologist and former Warden of St Antony's College, remarked, "Markets only work to the extent that people have access to them as equal participants."[1030] Indeed, simmering discontent amongst the country's Shi'a shook the country's claim as a stable investment center following the protests in early 2011.[1031] The tiny scale of FZ development in the country limited the government's ability to leverage employment in associated public-sector bureaucracies as a significant

[1030] Ralf Dahrendorf, *The Modern Social Conflict: Politics of Liberty* (New York: Transaction Publishers, 2008), 35.
[1031] As of the beginning of 2017, nearly 2,600 political prisoners remained in prison in Bahrain. See "An unhappy isle: Bahrain is still hounding its Shia," *The Economist*, January 19, 2017, accessed January 20, 2017, http://www.economist.com/news/middle-east-and-africa/21715023-protesters-are-cowed-repression-carries-bahrain-still-hounding-its.

distributive tool, one potential avenue for offsetting local grievances over expensive new development initiatives that increase foreign competition.

Bahrain's FZ development also confronted the geopolitical constraints of a small state within a competitive GCC bloc. Bahraini officials altered how they labeled FZ entities after Saudi Arabia and Kuwait attempted to block the duty-free exports from firms operating in Bahraini FZs, and GCC-wide taxation reforms threatened the regional competitiveness of Bahraini FZs. While Bahrain sought to adapt its FZs to the geopolitical climate, neighboring Qatar's FZs became enmeshed in tense domestic and regional hostilities.

8 Qatar: Balancing strengths and vulnerabilities

In January 2018, the obscure London-based *al-Mu'āriḍa al-Qatariyya* (Ar. The Qatari Opposition), known on Twitter as @QatarCouncil, attempted to thrust Qatar's special economic zones (SEZs) into the international limelight by suggesting that the country's leaders directly benefitted from the projects at the expense of local Qataris. After asking why Qatari citizens were prevented from utilizing SEZs, the group's Twitter account posted: "The answer: because the revenues from free zones and foreign-owned plots are divided between three [people]: the emir, his father, and Hamad bin Jassim."[1032] The accusations intended to foment public dissent amongst Qatari citizens and demonstrated the potential political vulnerability associated with Qatari FZs.

As a super-rentier state[1033] that pairs high rents with a tiny local population, Qatar does not fit the archetypal model of a Gulf Arab territory in need of FZs. Nevertheless, Qatar's nascent FZ sector resembled that of Oman in terms of scale and timing of development, despite the latter country's radically different population demographic and fiscal capabilities. Qatar established the country's FZs in the early 2000s: the Qatar Financial Centre (QFC) remained an exaggerated concern to foreign governments weary of Iran's financial influence in Gulf Arab states, while the Qatar Science and Technology Park (QSTP) served to showcase an elite concentration of American and European firms. The country also announced its intention to build three SEZs during the politically-contentious year of 2011.

This chapter sets out to determine why Qatar developed FZs when it did, and, once established, what purpose these entities served. The chapter finds that FZs functioned as politically-expedient methods for distancing the regime from economic

[1032] Qatar Opposition (@QatarCouncil), Twitter post, January 26, 2018, 10:14AM. Refer to Appendix C for a Twitter archive of deleted tweets.
[1033] Freer, "Rentier Islamism," 480.

reforms, reinforcing patronage networks, and strengthening government relations with foreign firms. Qatari FZs, however, also featured as a talking point for opposition groups, became embroiled in the GCC crisis of 2017, and partially exposed Qatar to international scrutiny regarding Iranian interference in its financial sector.

8.1 Hydrocarbon Dynamics

8.1.1 The power of LNG

Before analyzing the specific details of FZ development in Qatar, it is necessary to examine the economic backdrop against which FZs emerged. The late stage development of FZs, the country's small size, and the absence of a complicated federal structure, however, reduce the need for an economic history dating as far back as that performed in the chapters on UAE territories. Qatar's substantial hydrocarbon reserves provided the small country with ample rents throughout the latter portion of the 20th century. In 1984, oil accounted for 75 percent of the country's economic yield and 95 percent of government revenues.[1034] Qatar gained control of the underwater North Field, the world's largest non-associated natural gas field, in the late 1970s and began exporting LNG by 1995. Oil and gas contributed 70 percent of government revenues and 90 percent of export earnings in 2003,[1035] and these revenues enabled the Qatari economy to grow an impressive 17 percent in 2008.[1036]

A critical economic shift in Qatar's rentier economy entailed a transition from oil rents to gas rents. The value of LNG exports surpassed those of oil exports by 2009,[1037] and Qatar produced as much as 30 percent of the global supply of LNG in

[1034] Al Noor Publishing, *Economical and Social Infrastructures in the State of Qatar* (Doha: Ali Bin Ali Printing Press: 1984), 17.
[1035] World Trade Organization, *Trade Policy Review: Qatar* (Geneva: World Trade Organization, 2005), xvii.
[1036] Kristian Coates Ulrichsen, *Qatar and the Arab Spring* (London: Hurst & Company, 2014), 46.
[1037] Gray, *Qatar,* 81.

2010.[1038] "Gas is typically managed on longer-term and more stable supply contracts, and the Qatari economy is more diversified today than in the 1990s or especially the 1980s,"[1039] explains Gray. Stable rents from LNG reduced the urgency of economic diversification – a major factor behind early FZ proliferation in the UAE, Bahrain, and Oman. Moreover, Qatar opted to construct its first two FZs in 2005, a year when both the global demand for LNG was booming and prices reached an historic high of nearly $15 per one million British thermal units.[1040]

The distribution of Qatar's hydrocarbon resources, and their consequences for rent generation, relatedly influenced government views on FDI. Khaled Alderbesti, a Ministry of Economy and Commerce official, summarized the government's attitude: "We don't need FDI for the money, although capital is always welcome."[1041] Attracting FDI is generally regarded as a key purpose of FZs; however, the Qatari government's approach towards inward investments contextualizes the differing scope of FZ development in the country.[1042] Rather than leveraging FZs primarily for revenue generation, the country sought to achieve other objectives – both economic, such as facilitating institutional knowledge and skills transfer,[1043] and political in orientation.

Qatari FZ development occurred within what El Mallakh refers to as a modest approach to development.[1044] This pace of development coincided with a Qatari version of state capitalism – an economic system that is prevalent across GCC economies. Gray

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[1038] Ulrichsen, *Qatar*, 32.
[1039] Gray, *Qatar,* 93.
[1040] Trading Economics, "Natural Gas 1990-2018," *Trading Economics*, accessed July 9, 2018, https://tradingeconomics.com/commodity/natural-gas.
[1041] *The Free Library*, "Qatar stands firm in the face of global financial storm," July 1, 2009, accessed March 6, 2018, https://www.thefreelibrary.com/Qatar+stands+firm+in+the+face+of+global+financial+storm%3b+the...-a0203482103.
[1042] The economic considerations underpinning the Qatari government's approach to FZ development aligned most closely with that of Abu Dhabi; however, federal politics did not factor as an issue in the Qatari government's decision-making.
[1043] Gray, *Qatar,* 124.
[1044] Ragaei El Mallakh, *Qatar Development of an Oil Economy* (London: Croom Helm, 1979), 14.

describes Qatar as a late rentier economy that practices entrepreneurial state capitalism,[1045] adding that, "entrepreneurial state capitalism, is a feature of late rentierism, where the state gives itself a quite *dirigiste*, yet also very market-based and in many ways business-friendly, role." [1046] A cautious, state capitalist approach to economic development explains the late emergence, limited scale, and narrow scope of Qatari FZs. Indeed, government-owned FZs symbolized the paradoxical implications of a state-led and market-based economic system insomuch as FZs depended on a combination of substantial state investments and global capital flows.

That Qatari FZ development took place against the backdrop of a rent-abundant economy requires a reassessment of traditional notions of rentier state development strategies and the associated role of FZs. "The state [Qatar] has a very clear and long-term development strategy, economic policy, and foreign policy, none of which rentier theorists traditionally saw as a characteristic of the rentier state."[1047] While not mentioned specifically in the general Qatar Vision 2030, FZs can be viewed as building both "a stimulating business climate capable of attracting foreign funds and technologies and of encouraging national investments," as well as "open and flexible economic structures capable of competing in a changing world."[1048] A staff member at one of the country's SEZs described the project as a "product" of Qatar Vision 2030.[1049]

The government carefully embedded FZ development into the broader themes of policy reform and economic diversification recited in subsequent country strategies.

[1045] Gray, *Qatar,* 48.
[1046] Ibid., 55.
[1047] Gray, *Qatar,* 10.
[1048] Government of Qatar, "Qatar National Vision 2030," *General Secretariat for Development Planning*, July 2018, 31.
[1049] Interview 64, manager at Um Alhoul Special Economic Zone, *Um Alhoul Site*, *Doha, Qatar,* August 22, 2016.

The Qatar National Development Strategy 2011-2016 (NDS), for example, lists the country's two FZs as part of policy improvements intended to increase foreign firm participation outside of the hydrocarbon and energy sectors.[1050] The NDS also categorizes Qatar's nascent SEZs as part of diversification efforts wherein "high-level infrastructure services and freedom from regulatory and other burdens is expected to stimulate new investment."[1051]

8.1.2 Emergence of Qatari FZs

Qatar's FZ system contained two operating FZs created in 2005 and three SEZs that, while launched in 2011, remained under construction. The QFC and the QSTP emerged through laws 7 and 36 of 2005. Neither of these FZs are directly connected to key commercial transport hubs in the country. Since its inception, QFC operated as "a government agency in its own right" and reported to the Ministry of Economy.[1052] The QFC initially targeted companies operating in the financial sector in order to link the country's financial sector with international financial firms,[1053] but the FZ expanded its focus to include non-financial companies in 2011. Similar to the DIFC in Dubai, the QFC contains a parallel legal structure presided over by British judges.

The QSTP, on the other hand, operates under the Qatar Foundation. The FZ's mission is "to establish knowledge-based economy for [a] post-oil era,"[1054] and thus it focuses predominantly on research and development. According to a QSTP official, the FZ's emphasis on research and development mitigated competition from FZs in neighboring countries, like the UAE, wherein FZs focused more on sales and

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[1050] Qatar National Development Strategy 2011-2016, "Towards Qatar National Vision 2030," *Qatar Secretariat for Development Planning*, March 2011, 47.
[1051] Ibid., 97.
[1052] Interview 63, director at Qatar Financial Centre, *Doha, Qatar,* August 21, 2016.
[1053] Gray, *Qatar*, 130.
[1054] Interview 62, manager at Qatar Science and Technology Park, *Doha, Qatar,* August 21, 2016.

commercial activities.[1055] Both the QSTP and QFC offered investing companies tax exemptions and the option to register entirely foreign-owned companies. The latter policy reflected an exemption from the foreign ownership regulations that apply to onshore companies pursuant to Law 13 of 2000.[1056]

The government launched the SEZ project in 2011, when the Minister of Business and Trade issued Decision 272 to establish the Economic Zones Company. Two years later, the Economic Zones Company rebranded as Manateq. The company held groundbreaking ceremonies for two SEZs – Ras Bufantas and Um Alhoul – in 2014 and 2015 respectively and wielded an authorized capital of QAR 5 billion (~$1.37 billion). Both SEZs remained in the early stages of construction by the end of 2017; Um Alhoul has an estimated completion date set for a distant 2025. The country's third SEZ, Al Karaana, is located between Doha and Abu Sumra, which lies near the border with Saudi Arabia.

The objectives behind the SEZ initiative are diverse. SEZs demonstrate Qatari efforts to better utilize the country's air, sea, and land transit points for commercial purposes, while a commercial services officer from the U.S. Embassy in Doha argued that the new SEZ "regulations were set up so that money stays inside the country."[1057] SEZ officials stressed economic and social objectives ranging from small and medium-size enterprise growth, residential development, and heritage tourism. For example, Um Alhoul's planners expect a population density capacity of 67,000 residents and a fully-functional heritage site for touristic purposes. A project manager from Um Alhoul noted that the SEZ will target local SMEs that aspire to become major industrial

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[1055] Ibid.
[1056] While this law generally limits foreign ownership to 49 percent, it does make exceptions for companies operating in the sectors of agriculture, industry, health, education, tourism, energy, and renewables. See: Foreign Investment Law, Number 13/2000, Government of Qatar, Article 2. [Arabic]
[1057] Interview 73, commercial service officer, U.S. Embassy in Doha, Qatar, *remote conversation from Jerusalem*, September 21, 2016.

players; however, he was careful to add: "We don't want to compete with the existing players."[1058] His comments revealed the inherent tensions between opening new space for economic actors and protecting incumbent firms in the Qatari economy.

The timing of the SEZ initiative, having launched in 2011, contextualizes the project's scope. In particular, the entrepreneurial and social objectives addressed underlying factors behind the political unrest associated with the "Arab Spring" protests in the Middle East and North Africa. It is worthwhile to note that neighboring Oman also launched its Duqm SEZ project in the country's least developed governorate during the same year. In Qatar, though, entrepreneurial provision represented a specific method of shoring up state support. Crystal Ennis argues that in Qatar "entrepreneurship promotion, although cast in the language of private sector development, has thus far become another vehicle for state patronage."[1059] The promise of funding Qatari entrepreneurs served as just one manner in which the regime leveraged FZs for political ends.

8.2 Elite Relationships

8.2.1 The Al Thani

The ruling Al Thani family's ability to determine political and economic outcomes in the country is a subject of substantial academic investigation. According to Muhammad Sadik and William Snavely, "In Qatar, the ruler and the State have been the shadow of the other."[1060] This power dynamic created an environment wherein "the whole state of Qatar has become almost a kind of corporation."[1061] Crystal's

[1058] Interview 64, manager at Um Alhoul Special Economic Zone, *Um Alhoul Site*, *Doha, Qatar,* August 22, 2016.
[1059] Crystal Ennis "Between Trend and Necessity: Top-Down Entrepreneurism Promotion in Oman and Qatar," *The Muslim World* 105 (2015): 116.
[1060] Muhammad Sadik and William P. Snavely. *Bahrain, Qatar, and the United Arab Emirates: Colonial Past, Present Problems, and Future Prospects* (Massachusetts: Lexington Books, 1972), 133.
[1061] Fromherz, *Qatar,* 125.

monumental work on Qatar and Kuwait likewise demonstrates that Qatar's ruling family entered the oil era in a strong position vis-à-vis other notable merchant families in the country.[1062] The power dynamic has not changed substantially since Crystal's study, leading Gray to describe the state-business relationship in Qatar as one of allocative opportunities from the regime to the business community.[1063] Under a power framework wherein the regime allocates resources to maximize political power, it can be expected that FZ development will not only be state-led and but also accomplish specific vested interests of the regime.

Unsurprisingly, the foundational links between Qatari FZs and the government remained strong. Tamim bin Hamad Al Thani, then deputy emir of Qatar, established the legal framework for FZs by ratifying Law 34 of 2005. Tamim bin Hamad's involvement in FZ development reflected, in part, his expanding portfolio of responsibilities after becoming heir apparent in 2003. The government also functioned as the primary investor in FZ projects – conforming with Mehran Kamrava's view that "[m]ost major urban development projects are wholly or largely funded by the state."[1064] For example, government funding provided Manateq, the SOE overseeing the development of the country's SEZs, with an authorized capital of approximately $1.37 billion.

Royal family members likewise hold key positions in government departments and organizations that oversee FZ development in the country. Ahmed bin Jassim Al Thani serves as chairman of Manateq, deputy chairman of the QFC, and deputy chairman of the Qatar Investment Authority.[1065] Shaykh Tamim bin Hamad appointed

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[1062] Crystal, *Oil*.
[1063] Gray, *Qatar*, 124.
[1064] Mehran Kamrava, *Qatar: Small State, Big Politics* (Ithaca: Cornell University Press, 2013), 145.
[1065] State of Qatar Government Communications Office, "Council of Ministers: HE Sheikh Ahmed bin Jassim bin Mohammed Al Thani," *Government Communications Office*, https://www.gco.gov.qa/en/ministries/ministry-of-economy-and-commerce/.

Ahmed bin Jassim as Minister of Economy and Commerce upon assuming power from his father, Shaykh Hamad bin Khalifa Al Thani, in 2013.[1066] The other operating FZ, the QSTP, functions under the authority of the Qatar Foundation – an organization described as the "most comprehensive and ambitious" government-controlled entity in Qatar.[1067] Shaykha Muza bint Nasser, the mother of Shaykh Tamim bin Hamad and wife of Shaykh Hamad bin Khalifa, chairs the Qatar Foundation.

Regime linkages to FZs allowed the government to strengthen relationships with foreign firms operating in Qatar. A commercial service officer at the U.S. embassy in Qatar likened FZs to informal commercial partnerships with the government: "A PPP [public private partnership] is another version of a free zone. If you are partners with the government, then you don't need to worry about a license."[1068] Indeed, the government fostered preferential commercial relationships prior to the emergence of FZs. Tax exemptions were granted on a case-by-case basis and required an amiri decree, an analysis by a tax exemption committee, and a recommendation from the finance ministry.[1069] FZs represented a physical manifestation of these preferential policies and practices.

A perceived preference for foreign rather than local investment aligns with Crystal's hierarchical assessment of preferred investors in Qatar.[1070] Ennis similarly explains how Qatari government policy, at times, favored international capital over local investments: "Despite policy moves to increase activity in the industrial areas, these areas remained more accessible to international capital. The procedures for Qatari

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[1066] Hamad bin Jassim, a cousin of the former Amir Hamad bin Khalifa, operated as a prominent business broker in the government until Tamim bin Hamad took over from his father in 2013. This subtle shift in political institutions brought new social actors to the forefront of FZ development in Qatar.
[1067] Mehran Kamrava, "Royal Factionalism and Political Liberalization in Qatar," *Middle East Journal* 63.3 (2009): 407.
[1068] Interview 73, commercial service officer, U.S. Embassy in Doha, Qatar, r*emote conversation from Jerusalem*, September 21, 2016.
[1069] WTO, *Trade Policy Review: Qatar*, 19.
[1070] Crystal, *Oil*, 7.

entrepreneurs to acquire a plot and operate in the industrial areas remain cumbersome."[1071] Preferential treatment of foreign investors represented a sensitive topic for the regime. The London-based Qatari Opposition coalition emphasized specific government policies that appeared to preference foreigners over Qatari citizens in tweets targeting the amir. The tweet links differing commercial policy implications for foreigners and locals directly to the administrative office of the Qatari amir, and FZs are the most visible government entities perpetuating parallel regulatory environments in the country.

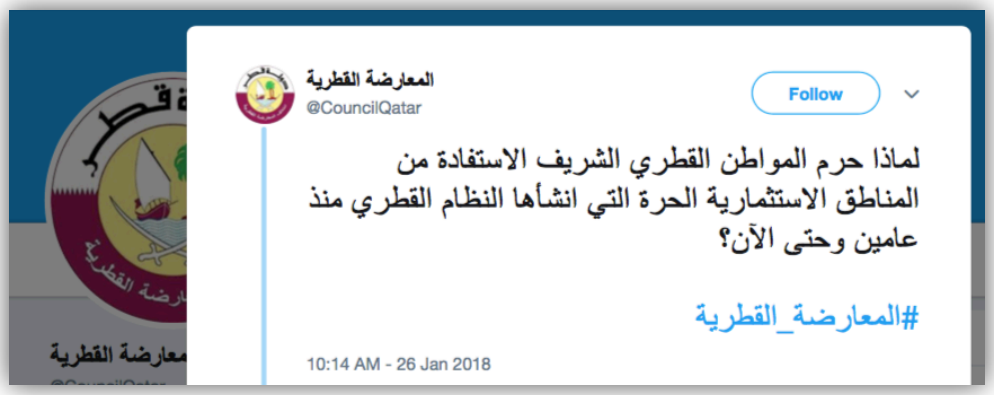


Image 6: Twitter post 1 from @QatarCouncil, January 26, 2018

(Translation: Why was the noble Qatari citizen prohibited from benefiting from the Free Economic Zones set up the Qatari regime two years ago? #Qatari_Opposition)[1072]



Image 7: Twitter post 2 from @QatarCouncil, January 26, 2018

[1071] Ennis, "Between," 132.
[1072] Qatar Opposition (@QatarCouncil), "Why was the noble Qatari citizen…," Twitter post 1, January 26, 2018, 10:14AM, refer to Appendix C for Twitter archive of deleted posts.

(Translation: Why did laws issued by the Amiri Diwan deny Qatari citizens the right to form small projects which would permit them the ability to build commercial complexes in areas where foreigners are allowed to own property? #Qatari_Opposition)[1073]

The perceived autonomy of FZs, however, simultaneously helped insulate the regime from sensitive reform efforts affecting the local business community. The QFC operates within an ostensibly independent financial regulatory authority, the Qatar Financial Centre Regulatory Authority (QFCRA). The CEO of the QFCRA suggested that external regulation may be a politically expedient method of managing the regime's relations with the business community. "He [the CEO of the QFCRA] said in particular Prime Minister and Foreign Minister Hamad Bin Jassim Al Thani (HBJ) -- a key economic power-broker -- has taken on board that he cannot interfere with the regulator… it might suit HBJ to have a separate internationally-accountable regulator as a place to lay blame when Qatari business interests complain about losing their privileges,"[1074] revealed a U.S. diplomatic cable.

The diplomatic discussions suggest that regime support for a parallel government entity entailed a calculated balance: ceding a degree of economic authority to deflect responsibility for the negative impact of reforms on local business interests. This reform pattern aligns with the regime's political imperative "to maintain both the overarching rentier bargain between state and society – which would almost certainly be upset by a genuine neoliberal transformation – and the new state capitalist character of the state."[1075] In reality, the Qatari regime never surrendered total economic control over the QFC. The Minister of Finance must also serve as the chairman of the QFC, ensuring that a regime-appointed official retains the FZ's top position.

[1073] Qatar Opposition (@QatarCouncil), "Why did laws…," Twitter post 2, January 26, 2018, 10:14AM, refer to Appendix C for Twitter archive of deleted posts.
[1074] Michael Ratney, "U/S Levey urges Qatar to Prevent Iranian banks from Gaining toehold in Qatar's financial sector," Wikileaks Cable: 08DOHA186_a, dated March 5, 2008, https://wikileaks.org/plusd/cables/08DOHA186_a.html.
[1075] Gray, *Qatar*, 123.

8.2.2 A dependent merchant class

Gray argues that since "the [Qatari] merchant class has always been overwhelmingly domestic and not very engaged in international trade, they have been reliant for commercial opportunities on the royal family, and then on the state as it emerged."[1076] The presence of established merchant families in the corporate structures of FZs nevertheless illustrates how the regime reinforced patronage networks through commercial entities outside of the oil and gas sector. The familial links in particular reveal how state-business relations translated into enduring rent-seeking structures, which included lucrative public-sector employment positions, unequal distribution of rent, and differential treatment by the government.[1077]

The Al Emadi family has played an important role in the country's economic affairs, and consequently the family possessed strong bureaucratic links to Qatari FZs. Amiri Decree 21 of 2006 established a guiding committee for the construction of FZs as well as appointed then Minister of Finance, Yousef Hussain Kamal Al Emadi, as head of the steering committee.[1078] The finance minister automatically serves as the chairman of the QFC. This ministerial obligation ensures that a government appointee retains ultimate control over the country's financial FZ. Yousef Al Emadi's successor was Ali Sharif Al Emadi, thus representing continuity in the family's links to both Qatar's financial institutions and the financial FZ.[1079] The Al Emadi family ranked second behind the ruling Al Thani family both in terms of total board seats held on Qatar Exchange listed companies and the value of this board representation, which

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[1076] Ibid., 22.
[1077] Buchanan, "Rent Seeking," 13-14.
[1078] qarār amīrī raqm 21 li-sanat 2006, "bi-inshā' lajnat tusyīr mashrū' inshā' al-manāṭiq al-ḥurra al-istithmāriyya," (Amiri Decree 21 of 2006, "Creation of a steering committee for the establishment of free investment zones,") Doha, Qatar, June 28, 2006. [Arabic]
[1079] Yousef Al Emadi served a finance minister from 1998 until 2013, when Ali Al Emadi assumed the post.

accounted for QAR 37 billion (~$10.16 billion).[1080] The family also owns Al Emadi Enterprises, one of the country's largest real estate firms.

The management structure of Manateq also exhibited strong representation from prominent merchant families in Qatar, including Al Kaabi, Al Marri, Al Naimi, and Al Emadi.[1081] The CEO, Fahad Rashid Al Kaabi, reflected the influence of the business-oriented Al Kaabi family. The chief projects officer, chief operations officer, and chief administration and finance officer of Manateq hailed from the Al Marri, Al Naimi, and Al Emadi tribes respectively. Al Marri is one of the largest tribes in Qatar, and the Al Naimi share a lineage with the ruling family of Ajman in the UAE.[1082] The concentration of these prominent families and tribes at central nodes of capital accumulation in the country illustrate the unequal distribution of rents in the country.

The embeddedness of elites in Qatari FZs increased the likelihood for politically-connected firms to win contracts related to FZ development. Manateq CEO Fahad Rashid Al Kaabi noted, "public and private sectors can have a beneficial contribution on the economic success of our country," while announcing a QAR 550 million (~$151 million) agreement with the Ismail Bin Ali Group to construct a housing complex within the airport SEZ.[1083] Ismail bin Ali Al Emadi created the group in 1939 to engage in trading activities and real estate investments.[1084] More importantly, the group shares an Al Emadi familial link with Manateq's chief

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[1080] Jure Snoj, "A guide to the most powerful families in Qatar," *Priya Dsouza Communication*, February 24, 2017, accessed March 5, 2018, http://priyadsouza.com/powerful-families-qatar-al-thani/.
[1081] Manateq, "About Manateq," *Manateq*, accessed March 5, 2018, https://www.manateq.qa/en-gb/Pages/CompanyOverview.aspx#managementTeam.
[1082] Snoj, *A guide*.
[1083] Shabina Khatri, "QR550 million labor complex to be built at Qatar's airport economic zone," *Doha News*, July 11, 2017, accessed March 4, 2018, https://dohanews.co/tag/manateq/.
[1084] Ismail Bin Ali, "Homepage," *Ismail Bin Ali Group*, accessed March 5, 2018, http://www.iba.com.qa/content.aspx?Pagename=Welcome&MenuPos=1&DownMenuPos=39&position=7.

administration and finance officer as well as with the country's two finance ministers between 1998 and 2018.

8.2.3 Kuwait Free Trade Zone: A comparative case

Differing merchant-ruler power dynamics in neighboring Kuwait produced an alternate path for FZ development. Crystal contrasts the dynamics between Qatari merchants and the ruling family with state-business dynamics in Kuwait as follows: "In Qatar, however, a cohesive and organized grouping of merchants did not emerge. What set Qatar apart from Kuwait was the absence of an entrepot economy…A national market did not appear in Qatar until the twentieth century."[1085] In Kuwait, on the other hand, an empowered merchant class led FZ development in a manner that occasionally conflicted with government aims.

The Kuwaiti government established a legal framework for FZs in 1995 through Law 26 of 1995, but local private sector actors led early FZ development in the country. The National Real Estate Company (NREC), of which the Sultan Al Essa conglomerate owns 30 percent, signed an agreement with the Kuwaiti government to manage and operate the Kuwait Free Trade Zone (KFTZ) within the Shuwaikh Port in 1998. The Al Essa family owns the Sultan Center supermarket chain and the GCC's largest logistics company, Agility.[1086] This commercial portfolio enabled the family to secure multi-billion dollar supply contracts for U.S. troops in Iraq and Afghanistan. A prominent entrepreneur from the family, Jamil Sultan Al Essa, managed the KFTZ at the outset of the initiative. As part of its agreement with the government, the NREC received 20 percent of the FZ's operating profits and was entitled to 90 percent of

[1085] Crustal, *Oil*, 5.
[1086] Hanieh, *Capitalism*, 128; Cam Simpson and Glenn Simpson, "How Iraq Conflict Rewards a Kuwaiti Merchant Family," *CorpWatch*, December 17, 2007, accessed March 7, 2018, http://www.corpwatch.org/article.php?id=14868.

profits from additional projects in the commercial area.[1087] Relations between NREC and the government, however, deteriorated over the course of eight years.

Kuwait's cabinet council accused the NREC of mismanagement, terminated the firm's contract, and suspended the company's activities within the FZ through resolution 507 of 2006.[1088] In 2010, the government revoked many of the commercial licenses in the FZ. "They [the government] pretty much killed it. It was a deliberate choice,"[1089] said the head of a major Kuwaiti newspaper while explaining that the government was not genuinely committed to economic liberalization. A FZ expert who worked on economic zone projects in Kuwait, Saudi Arabia, and Qatar echoed this view: "They [the Kuwaiti government] want to look like they are considering economic diversification, but they don't really want to do the necessary work to do it correctly."[1090] The initial objective of KFTZ concerned attracting foreign investment, but Kuwaiti firms composed approximately 95 percent of the FZ's clients.[1091] The overwhelming concentration of Kuwaiti firms partly explains the government's reservations about the project's progress. Unlike Qatari FZs, the KFTZ had not demonstrated that it strengthened state linkages with foreign firms.

The NREC contested the government's decision in a legal battle lasting approximately ten years and only accepted a final court ruling regarding the cancellation of the contract in March 2016. Three years earlier, the government had

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[1087] "Kuwait Free Trade Zone," *Abdul Razzaq Abdullah & Partners*, accessed August 29, 2016, http://www.arazzaqlaw.com/kuwait-free-trade-zone/.
[1088] U.S. Department of State, "2015 Investment Climate Statement," *Bureau of Economic and Business Affairs,* May 2015, accessed March 7, 2018, http://www.state.gov/e/eb/rls/othr/ics/2015/241622.htm.
[1089] Interview 71, head of major Kuwaiti newspaper, *Kuwait City, Kuwait,* August 25, 2016.
[1090] Interview 30, managing director of an economic zones consultancy and secretary general of a global EPZ association, r*emote call from Dubai*, May 11, 2016.
[1091] Interview 70, senior free trade zone official, Ministry of Commerce and Industry, *Kuwait City, Kuwait,* August 25, 2016 [Arabic]; a 2015 investment climate report by the U.S. Department of State also notes that "the majority of the firms operating in the zone are Kuwaiti." See: U.S. Department of State, *2015 Investment Climate Statement | May 2015* (Kuwait: Economic Section, American Embassy, 2015), pg. 19, accessed July 17, 2018, https://www.state.gov/documents/organization/241832.pdf.

transferred control of the KFTZ to the Ministry of Commerce and Industry (MOCI), which was then tasked with creating a new free zone strategy.[1092] In 2017, the MOCI proposed transferring the KFTZ's operations to the Kuwait Direct Investment Promotion Authority, a public organization tasked with enhancing Kuwait's economic diversification efforts.[1093]

The protracted legal conflict over the KFTZ revealed the cleavages between the government and powerful merchants in Kuwait. Rather than working in concert with the regime, a private sector firm clashed with the government over the right to manage the country's sole FZ. State-business relations remained less tense in Qatar, where public cleavages between the ruling family and business elites did not spill over into the realm of FZ development. The politics of internationalization, however, did become a contentious issue for the Qatari state as it proceeded with FZ development initiatives.

8.3 Global Competition

8.3.1 Qatar and global capital

Gregory Gause III stresses the importance of international relations and exogenous revenues, with a focus on the "matrix of regional security and international political economy,"[1094] when explaining the persistence of monarchies in the Gulf. This explanatory lens applies to FZ development in Qatar, a state that is "aggressively internationalizing."[1095] The nature of internationalization in respective GCC states; however, varies considerably. According to Crystal, "The elites on whom the ruler [in

[1092] National Real Estate Company, "News Archive," *NREC*, March 23, 2016, accessed March 9, 2018, http://www.nrec.com.kw/en/Media-Center/News-Archive?NewsId=a3aa1d9f-b9dd-4642-8b95-07bf20169254.
[1093] U.S. Department of State, "2015," accessed July 17, 2018.
[1094] Gregory Gause III, "The Persistence of Monarchy in the Arabian Peninsula: A Comparative Analysis," in Kristian Coates Ulrichsen, *The Political Economy of Gulf Arab States* (Northampton: Edward Elgar, 2012), 21-22.
[1095] Ulrichsen, *The Gulf States*, 6.

Qatar] depends are not local, but rather multinational oil companies."[1096] Given the absence of powerful private sector possessing the capability of constraining the Qatari regime, Crystal's view cannot be discounted. Qatar's strong financial position and limited domestic constraints, owing to a small, homogenous national population, afforded the regime substantial bargaining power in managing global capital flows into the country. FZs permitted foreign firms to operate in Qatar through clear guidelines established by the state. Gray describes this state-business dynamic as follows: "Qatar has sent a message to foreign firms that investment is welcome, but on the state's terms."[1097]

The nature of firm registrations in Qatari FZs suggests that foreign expertise, skills transfer, and international recognition outweighed revenue generation and job creation as key objectives behind Qatari FZ development. The QFC "was opened to develop the financial sector and link it more closely with international financial firms,"[1098] writes Gray. While the QFC launched with a focus on financial services, registration rates of financial firms peaked in 2013, and firm registrations for business and professional service companies overtook financial firms in 2014.[1099] European firms accounted for the largest segment of registrations in QFC, followed by Qatari and American firms. Unlike FZs in the UAE and Oman, the QFC did not reveal a significant penetration of Asian firms, which accounted for only six percent of the FZ's total registrations. The QSTP demonstrated a similar pattern of capital accumulation. Approximately half of the 30 tenants listed on the QSTP's website were major

[1096] Crystal, *Oil*, 7.
[1097] Gray, *Qatar*, 130.
[1098] Ibid., 129.
[1099] Qatar Financial Centre, *QFC Brochure* (Doha: Qatar Financial Centre, 2016), 5.

American and European brands: Shell, Total, Siemens, Rolls-Royce, Microsoft, and General Electric.[1100]

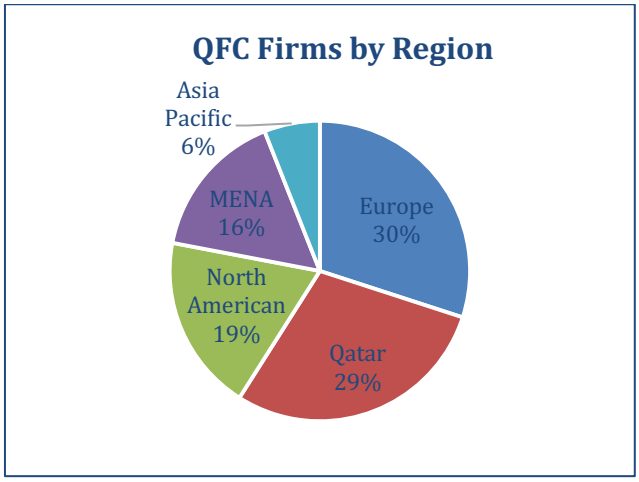


Figure 11: Graph of Qatar Financial Centre firms by geographical origin

Growth in FZ firm registrations remained vulnerable to exogenous shocks. "Lots of companies deregistered in 2008 and 2011…not because of anything to do with Qatar but in order to consolidate their offices in the Middle East,"[1101] explained a QFC director. Competition between federal entities in the UAE reduced fees for FZ registrations and services, and consequently the country became an attractive destination for firms seeking to consolidate Middle Eastern business operations. Diplomatic cables detailing discussions between QFC officials and American diplomats highlight the acute perception of competition, especially in terms of financial centers, from Dubai and Bahrain.[1102] Qatari policymakers "hate it when they are compared to Dubai," explained a commercial service officer at the U.S. embassy in Doha, but he added, "Obviously Jebel Ali is going to be a benchmark [for FZs]."[1103] In

[1100] Qatar Science and Technology Park, "Resident Companies," *Qatar Science and Technology Park*, updated 2018, accessed March 15,2018, https://qstp.org.qa/resident-companies/.
[1101] Interview 63, director at Qatar Financial Centre, *Doha, Qatar,* August 21, 2016
[1102] Michael Ratney, "Qatar Financial Centre: Solid Regulations, Moderate Growth," Wikileaks Cable: 07DOHA135_a, dated February 7, 2007, https://wikileaks.org/plusd/cables/07DOHA135_a.html.
[1103] Interview 73, commercial service officer, U.S. Embassy in Doha, Qatar, r*emote conversation from Jerusalem*, September 21, 2016.

addition to financial and political shocks in 2008 and 2011, regional tensions between GCC member states affected changes in the Qatari FZ system.

8.3.2 A GCC in crisis

Longstanding border disputes between GCC states and the interrelated interests of foreign powers and multinational firms offer a historical context for how regional security concerns and territorial disputes influence the politics of FZ development. In the early 1930s, Ibn Saud of Saudi Arabia informed the Shaykh of Qatar that the entirety of the Qatari peninsula belonged to the Saudis, while only Doha remained under the sovereignty of the Qatari shaykh.[1104] The British political agent in Kuwait viewed this Qatari-Saudi border dispute as a threat to British commercial interests in Qatar.[1105] Later in the 1940s, Petroleum Concessions Limited, a company associated with the Iraq Petroleum Company, sought a territorial clarification from the British Under Secretary of State in order to extend their concessional area with the shaykh of Qatar.[1106] This historical example aptly portrays how a Qatari border dispute functioned as a nexus between regional politics, international relations, and global commercial interests.

The more recent Saudi, Bahraini, Emirati, and Egyptian efforts to isolate Qatar logistically and diplomatically – generally referred to as the Qatar-Gulf crisis that began in the summer of 2017 – reflected a similar nexus of interests. The embargo affected the feasibility of the SEZ project located on Qatar's border with Saudi Arabia, altered how supply chains incorporated regional FZs, and encouraged the Qatari

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[1104] Letter, Political Agent in Kuwait to the Political Resident in the Persian Gulf, "Dickson and Williamson highlight underdevelopment of shaikhly authority within Qatar," January 1934, page 2, in Richard Schofield, ed., *Arabian Boundary Disputes*, volume 16, archive editions, 1992.
[1105] Ibid., 3-4.
[1106] Letter, Petroleum Concessions Limited to the British Undersecretary of State, "Oil and the disputed Saudi-Qatar boundary, 1947," April 29, 1947 in Richard Schofield, ed. *Arabian Boundary Disputes*, volume 16, archive editions, 1992.

government to amend laws relating to FZs and foreign investment. Saudi Arabia's decision to close its border with Qatar directly affected the commercial feasibility of Al Karaana, a Qatari SEZ located between Doha and Abu Sumra. The state developer of SEZs, Manateq, marketed Al Karaana as an overland gateway to GCC markets; however, the commercial success of the SEZ depended on unfettered access through Saudi Arabia.

GCC member states participating in the blockage utilized regional FZs as tools to strengthen the embargo on Qatar. Maersk, a global supplier of food and consumer goods to Qatar, announced in June 2017 that it could no longer access the country via Dubai's Jebel Ali port and FZ.[1107] Moreover, a Qatari plant part owned by Norway's Norsk Hydro lost access to the Jebel Ali port, and reports suggested that Qatari shipping containers were seized in various GCC FZs.[1108] Since Jebel Ali Free Zone served as a regional base for many of Qatargas' key suppliers, the Qatari state-owned gas company requested these suppliers set up local offices in Qatar.[1109] In addition to these specific steps, the Qatari government initiated a broader overhaul of commercial regulations in the country.

The amir, Shaykh Tamim Al Thani, addressed concerns about the country's business climate by issuing Law 21 of 2017, which amended the original FZ legal framework that he enacted in 2005. Statements from government officials portrayed the new FZ law as an effort to accelerate trade and expand private sector participation in the economy.[1110] To accomplish these aims, the amended law offered FZ firms

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[1107] Khasawneh and Vukmanovic, "Port."
[1108] "Qatar economy," *The Peninsula*.
[1109] "Qatargas asks suppliers to set up local offices amid GCC rift," *Gulf Business*, July 13, 2017, accessed November 8, 2017, http://gulfbusiness.com/qatargas-asks-suppliers-set-local-offices-amid-gcc-rift/.
[1110] "New law offers big incentives to investors," *Gulf Times*, November 7, 2017, accessed November 8, 2017, http://www.gulf-times.com/story/570219/New-law-offers-big-incentives-to-investors.

comprehensive tax exemptions from all profits on traded goods in transit, exemptions from the commercial agency system, and reassurances of complete control over workforce hiring.[1111] The codification of these incentives related directly to concerns in the business community over Qatar's implementation of VAT and the potential application of Qatarization requirements for FZ firms. Other provisions intended to align Qatari FZs with international standards: the law established both a new free zone authority and a center for dispute resolution.

Qatar's response to the embargo also involved leveraging FZs to reinforce existing trade relationships and build new ones. Policymakers rerouted shipping lanes from the UAE to Omani ports in Sohar and Salalah, boosting FZ trade in these locations. In August of 2017, the trade volume between Qatar and politically-neutral Oman increased by 1,200 percent.[1112] Discussions between Qatar and Turkey over a $2.5 billion organized industrial zone in Doha, which aims to employ 10,000 Turkish employees, took place in September 2017. Official government statements from Turkey attributed the initiative to Turkish support for Qatar during the embargo.[1113] According to these statements, the Qatari government will absorb 70 percent of the project's costs, reserve development and investment contracts for Turkish firms, and subsidize

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[1111] marsūm bi-qānūn raqm 21 li-sanat 2017, "bi-ta'dīl ba'ḍ aḥkām al-qānūn raqm 34 li-sanat 2005 bi-sha'n al-manāṭiq al-ḥurra al-istithmāriyya," (Decree regarding Law 21 of 2017, "Amending some provisions of Law 34 of 2005 regarding free investment zones,") Doha, Qatar: Qatar Legal Portal, November 6, 2017. [Arabic]

[1112] McLoughlin, "Oman," September 10, 2017.

[1113] Office of the Prime Minister, "Turkish Organized Industrial Zone to be established in Qatar," *Directorate General of Press and Information*, September 26, 2017, accessed September 28, 2017, http://www.byegm.gov.tr/english/agenda/turkish-organized-industrial-zone-to-be-established-in-qatar/118930; Ibrahim Acar, "Qatar calls on local investors to establish industrial zone worth $2.5B," *Daily Sabah*, September 26, 2017, accessed September 28, 2017, https://www.dailysabah.com/business/2017/09/27/qatar-calls-on-local-investors-to-establish-industrial-zone-worth-25b.

commercial real estate. Trade between Qatar and Iran also increased by 117 percent in the six months leading up to December 2017.[1114]

8.3.3 Gateways for Iranian influence?

Previous chapters demonstrated that FZs in the UAE and Oman served as subnational spheres of Iranian participation in GCC economies. The socioeconomic links between Qatar and Iran suggest that an examination of Iranian involvement in Qatari FZs is similarly worthwhile. Persians represented a significant portion of Qatar's residents in the early post-independence period and constituted an estimated 23 percent of the total population by the late 1970s.[1115] The two countries also share the world's largest underwater natural gas field – Qatar controls the North Field and Iran controls South Pars in the Gulf waters between the countries. Manateq's official brochure describes Qatari SEZs an "unparalleled gateway to regional, national, and global markets,"[1116] and specifically mentions Iran as a promising market.

The economic openness afforded by Qatari FZs, specifically the QFC, alarmed U.S. and other government officials monitoring Iranian influence in the region. In February 2008, the U.S. Treasury Under Secretary for Terrorism and Financial Intelligence urged his Qatari counterparts to "prevent Iran from gaining a toehold in Qatar's growing financial sector."[1117] U.S. government concerns over Iranian influence in Qatar's financial sector and the QFC's response to these apprehensions illustrated how Qatari FZ policy creation took place against the backdrop of global rivalries and international security concerns. Qatar, however, refused to take unilateral, direct action against Iranian financial activities without a United Nations Security Council

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[1114] Hafsa Adil, "Turkey, Iran, Pakistan see big trade boost with Qatar," *Al Jazeera*, December 3, 2017, accessed June 1, 2018, https://www.aljazeera.com/news/2017/12/turkey-iran-pakistan-big-trade-boost-qatar-171203175422055.html.
[1115] Zahlan, *The Creation*, 125.
[1116] Manateq Brochure, *Qatar is our Future* (Doha: Manateq, collected in August 2016), 6.
[1117] Ratney, "U/S," Wikileaks Cable: 08DOHA186_a.

resolution,[1118] as this may have adversely affected the country's reputation as a developing financial hub.

Instead, the QFC operated precariously between remaining open to global financial investments, which included those from Iran, and adequately addressing security-focused concerns of the international community. In 2008, the QFC released a general Financial Action Task Force Statement to its firms to ensure proper oversight of financial transactions with Iran and several other countries. Moreover, the chair of Qatar's National Anti-Money Laundering and Terrorism Financing Committee, Shaykh Fahad bin Faisal Al Thani, relayed concerns to U.S. officials that Iranians had offered commissions to Qatari Shi'a families in return for covert investments in local building projects.[1119] Yet, regulators at the Qatar Financial Centre Regulatory Authority were hesitant to stray from the government's comparatively warm public engagements with Iran.[1120] FZs like the QFC offered an accountable and transparent avenue for Iranian investments in Qatar and consequently accomplished Qatari foreign policy objectives.

Despite fears that Qatari FZs facilitated Iranian influence in GCC economic structures, a Dubai-based sanctions investigator downplayed Iran's economic influence in Qatar and instead noted Qatar's historic reliance on re-export hubs in the UAE and Saudi Arabia.[1121] Ironically, the imposition of the Saudi-led embargo on Qatar in June 2017 motivated the Qatari government to view Iran as a short-term trading partner.[1122] Qatar also restored full diplomatic ties with Iran in August 2017 following a further deterioration in relations between Qatar and the GCC member states supporting the

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[1118] Michael Ratney, "Qatar continues balancing act with Iran's Bank Saderat," Wikileaks Cable: 08DOHA505_a, dated July 15, 2008, https://wikileaks.org/plusd/cables/08DOHA505_a.html.
[1119] Ibid.
[1120] Michael Ratney, "Qatar unlikely to issue warning on Iran to banking sector," Wikileaks Cable: 08DOHA169_a, dated February 27, 2008, https://wikileaks.org/plusd/cables/08DOHA169_a.html.
[1121] Interview 77, Dubai-based sanctions investigator for financial crime compliance department of a European bank, r*emote conversation from Washington, D.C.*, February 15, 2018.
[1122] Ibid.

embargo.[1123] How this plays out for the future of Qatari FZs – and the degree of Iranian engagement with these commercial entities – remains an open question.

8.4 Concluding remarks

This chapter unpacked FZ development in Qatar by focusing on the interplay of institutional formation and personal politics in rentier states.[1124] Unlike Dubai, Qatar lacked a strong institutional propensity for generating commercialized rents through FZs and service provision. Indeed, the main source of pre-oil revenue for the Qatari amir consisted of levies on pearling ships.[1125] Nor did the fiscal condition of Qatar's economy compel the state to seriously consider FZs as a major source of government revenue, as was the case in Dubai, the northern emirates, and Oman. FZs nevertheless emerged in Qatar and featured prominently within key country strategies.

While these FZs possessed traditional economic objectives, like linking Qatar's financial sector to global financial networks and attracting multinational firms, personalized politics within the Qatari state played a critical role in their emergence and development. FZs offered state-sponsored avenues to reinforce relationships with foreign firms and consequently limited the genuine transfer of economic power to the private sector. The appearance of parallel and autonomous regulatory environments, perhaps best illustrated by the QFC, offered top government bureaucrats an opportunity to divert responsibility from reforms that could negatively impact Qatari businesses. At the same time, FZs provided state patronage in the form of bureaucratic roles to

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[1123] Jon Gambrell, "Qatar restores diplomatic ties to Iran amid regional crisis," *Washington Post*, August 24, 2017, accessed May 15, 2018, https://www.washingtonpost.com/world/middle_east/qatar-restores-d...top-stories_qatar225am%3Ahomepage%2Fstory&utm_term=.cc88c4f07cb2.
[1124] Steffen Hertog uses this approach to analyze rentier state formation in Saudi Arabia. See: Steffen Hertog, "Shaping the Saudi State: Human Agency's Shifting Role in Rentier-State Formation," in Kristian Coates Ulrichsen, *The Political Economy of Gulf Arab States* (Northampton, MA: Edward Elgar, 2012), 121.
[1125] Fromherz, *Qatar,* 115.

members of the royal family in addition to employment opportunities and development contracts for prominent tribal and familial alliances. FZs simultaneously allowed the regime to enhance state patronage mechanisms through broader entrepreneurial support associated with the high-profile SEZ initiatives launched in 2011.

Qatari FZs became entangled in various conflicts related to domestic politics, regional security, and international political economy. On the domestic front, an exiled Qatari opposition coalition attempted to portray Qatari FZs as part of government corruption at the highest echelons of the regime. The closure of the Saudi Arabia-Qatar border in 2017 essentially quashed Qatari plans for its Al Karaana SEZ. FZs in the UAE also disrupted Qatari supply chains by adhering to the Saudi-led economic embargo. The ensuing crisis encouraged Qatar's amir to issue a new FZ and investment law to bolster international confidence in the economy. Moreover, the financial openness signaled by the QFC and related entities heightened international concerns regarding Iranian influence in the Qatari economy. Nevertheless, the financial FZ and central bank were loath to unilaterally prohibit Iranian investments – limited as they might be – out of fear that such a decision would diminish their reputation as a growing financial hub.

9 Saudi Arabia: Reinventing the free zone

> *"The world's most ambitious project: an entire new land, purpose-built for a new way of living."* --Neom website[1126]

In October 2017, Saudi Arabia's crown prince, Mohammed bin Salman, unveiled plans to build a $500 billion megacity-cum-FZ in the northwestern region of the country.[1127] The ambitious initiative – known as Neom – promises to create "the world's first independent special zone stretching over three countries,"[1128] and consequently incorporates Egyptian and Jordanian territory as part of its 26,500 square kilometers of land. The crown prince retains complete control over the FZ initiative: he chairs both the special authority overseeing Neom's development and the sovereign wealth fund[1129] that owns the entire project. Neom's announcement coincided with an unprecedented purge of Saudi business elites through an anti-corruption campaign orchestrated by Mohammed bin Salman in November 2017. The purge upset the notion of the state as the argent "protector of the business community,"[1130] and suggested a historic shift in relations between ruling and local business elites.

The process of FZ development in Saudi Arabia, which evolved over three distinct periods in the country's economic history, can inform relations between state, business, and society. In the late 1990s, the government viewed FZs as small-scale economic initiatives best left to private sector actors. In the early 2000s, the state incorporated FZ characteristics as part of megaprojects known as economic cities

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[1126] Neom, "Welcome to Neom," *Neom*, accessed March 28, 2018, http://discoverneom.com.
[1127] The name combines the term "neo" with the transliterated Arabic term for future, *mustaqbal*, to indicate "new future."
[1128] Neom, *Frequently Asked Questions* (Riyadh: Neom, 2018), 1.
[1129] The Public Investment Fund (PIF) is one of Saudi Arabia's sovereign wealth funds and managed approximately $230 billion as of June 2018.
[1130] Giacomo Luciani, "From private sector to national Bourgeoisie: Saudi Arabian business," in Paul Aarts and Gerd Nonneman, eds., *Saudi Arabia in the Balance: Political Economy, Society, Foreign Affairs* (New York: NYU Press, 2006), 157.

(ECs).[1131] EC megaprojects possessed long timelines for completion and encountered developmental obstacles, thereby reducing the visibility and immediate viability of FZ initiatives in the country. Following a shift in the country's political institutions in early 2015, the Saudi government signaled a greater willingness to establish FZs as stand-alone projects intended to address an array of domestic and international challenges. Only in this third period of development did FZs assume a definitive role in the country's national strategy.

Important as oil is to Saudi Arabia's economy, overemphasizing hydrocarbon dynamics to explain FZ development risks ignoring the structural characteristics of the economy and wider commercial environment that historically reduced the utility of generating commercialized rents. The large proportion of national citizens to total residents, substantial domestic market, restrictive social dynamics, and ability for foreign firms to efficiently access the Saudi economy from neighboring GCC countries limited international demand for Saudi FZs and investment hubs outside of the oil and gas sector. The country's WTO negotiations, which began in the mid-1990s and concluded in 2005, also coincided with a period of accelerated FZ proliferation in the rest of the GCC. Rather than create varied regulatory environments through FZs, Saudi Arabia's government instead focused on comprehensive economic reforms, streamlining commercial procedures, and centralizing commercial processes to assist its application for WTO membership.

[1131] ECs represent a methodological challenge within this work because the entities occupy a position between a traditional FZ and an onshore industrial city. Prior chapters briefly mentioned similar commercial entities in Oman and Abu Dhabi, for example, but did not discuss them in-depth because of their distinctly onshore nature. This chapter affords more analytical attention to Saudi ECs because these entities incorporated FZ policies – specifically permitting full foreign ownership and offering exemptions from workforce nationalization requirements – and because policymakers viewed ECs as urban foundations for future FZs.

FZ development in Saudi Arabia also changed according to domestic, regional, and international institutions. "It is institutions that determine how interests are translated into decisions, in a way that 'objective' sector- or factor-based explanations fail to explain,"[1132] writes Hertog. The political ramifications associated with the precipitous drop in oil prices beginning in late 2014 and the rapid ascension of Mohammed bin Salman to power altered how the new regime approached FZ development. New FZ proposals reflected large-scale investments and a propensity for accomplishing foreign policy aims through economic development measures. The chapter begins by examining the relationship between hydrocarbon dynamics and FZ development outcomes in the country – an appropriate point of departure for a country often referred to as the oil kingdom.

9.1 Hydrocarbon Dynamics

Analyses of economic development in Saudi Arabia often focus on the country's substantial proven hydrocarbon reserves. Saudi Arabia possessed 226.2 billion barrels of proven crude oil reserves as of 2017, more than the combined total proven reserves in the remaining GCC countries.[1133] The crucial economic contribution of hydrocarbons to the state is clear: the petroleum sector alone provides 70 percent of government budget revenues, 90 percent of exports, and 45 percent of GDP in the country.[1134] Other estimates suggest that the ratio of oil revenues to total state revenues in Saudi Arabia reached as high as 91 percent from 2011-2013.[1135] Given the

[1132] Hertog, *Princes,* 245.
[1133] OPEC, "Saudi Arabia facts and figures," *OPEC*, updated 2018, accessed May 28, 2018, http://www.opec.org/opec_web/en/about_us/169.htm.
[1134] Lindsay Hughes, *Mohammed bin Salman's Saudi Arabia: Pitfalls in the Road Ahead* (Future Directions International: Australia, 2018), 2.
[1135] Bassam A. Albassam, "Economic diversification in Saudi Arabia: Myth or reality?" *Resources Policy* 44 (2015): 116.

government's reliance on hydrocarbon rents, discussions on FZs frequently couch the initiatives in terms of efforts to diversify the economy away from oil.

Traditional rentier theory posits that rentier states relying on natural resources are more likely to forego formal economic strategies and ignore economic diversification efforts.[1136] Prior chapters found that hydrocarbon-abundant territories across the GCC – namely Qatar, Kuwait, and Abu Dhabi – tended to build fewer FZs as well as begin construction later than their resource-scarce counterparts. It is plausible that proven hydrocarbon resources in Saudi Arabia limited the total scale and scope of FZ development, especially during the early 2000s, as plentiful hydrocarbon rents reduced the economic and social imperative of generating commercialized rents from FZs. Indeed, much of the country's liberalization efforts in the late 1990s and early 2000s focused on the familiar energy industry. According to Philip Robins, the Saudi gas initiative became "an important benchmark of the fortunes of economic reform in Saudi Arabia."[1137]

The fluctuating value of hydrocarbon resources according to global oil prices, and thus their perceived usefulness as a rent source, remains another potential variable affecting FZ development in Saudi Arabia. By analyzing the country's various five year plans, Bassam Albassam finds that "the Saudi government is less committed to economic diversification when the price of oil is high, and the opposite occurs when the price drops."[1138] The application of Albassam's logic to FZ development should reveal a general disregard for FZ initiatives during periods of rising oil prices. Falling oil prices, on the other hand, would minimize the social and political utility of hydrocarbon rents and should encourage the government to explore alternative methods

[1136] Luciani, "Allocation," 76.
[1137] Philip Robins, "Slow, slow, quick, quick, slow: Saudi Arabia's 'Gas Initiative'," *Energy Policy* 32 (2004): 322.
[1138] Albassam, "Economic," 115.

of rent generation, such as those offered by FZs. In order to test this logic, the first section of the chapter begins by mapping the trajectory of FZ development in Saudi Arabia and assessing the impact of both hydrocarbon resources and alternate explanatory variables.

9.1.1 Saudi FZs and oil

Saudi Arabia launched its first FZs in the late 1990s, following the end of a prolonged period of low but stable oil prices. The country's early FZ sector consisted of two bonded and re-export zones in Jeddah and Dammam. The Tusdeer Bonded and Re-Export Zone in Jeddah emerged in 1999, and the Saudi Industrial Services Company (SISCO) and Xenel jointly manage the project. Tusdeer unfolded as a build, operate, and transfer concession with the Saudi Ports Authority. The country also launched the Dammam Bonded and Re-Export Zone (DBRZ) in 2000 with the aim of offering "its users a strategically placed world class free trade environment in which to conduct business."[1139] The DBRZ operates under a 30-year privatization lease granted by the Saudi Ports Authority, and the Saudi Development and Re-Export Services Company (SDRS) manages the FZ.

The small scope of and expenditure on these early FZ initiatives illustrates the marginal role that FZs played in the Saudi economy in the late 1990s and early 2000s. In 2002, Saudi FZs employed a mere 1.1 percent of the country's workforce.[1140] DBRZ's initial capital investment of $38 million paled in comparison to the $735 million invested in CommerCity, Dubai's e-commerce-focused FZ established in late 2017.[1141] Other Saudi FZ proposals in the early 2000s failed to materialize. The

[1139] Saudi Development and Export Services, "Our Vision," *SDES*, published 2017, accessed May 27, 2018, http://sdrs.com.sa.
[1140] William Milberg, "Export Processing Zones, Industrial Upgrading and Economic Development: A Survey," *ILO Governing Board Background Paper* (2007): 10.
[1141] The expenditure of $38 million in 2002 represents approximately $56 million in 2017 prices.

Chamber of Commerce in Yanbu, a port area along the Red Sea in the governorate of Madinah, considered creating a FZ on Al Abbassi Island. Yet discussions in 2005 between the Saudi Arabia General Investment Authority (SAGIA), the Chamber of Commerce, and the General Corporation for Ports, led nowhere.[1142]

The launch of the EC initiative likely overshadowed the Yanbu FZ proposal. Between 2005 and 2006, Saudi Arabia formally announced plans for the development of four ECs: King Abdullah Economic City (KAEC), Jazan Economic City (JEC), Prince Abdulaziz Bin Mousaed Economic City (PABMEC), and Knowledge Economic City (KEC).[1143] SAGIA appointed private sector developers for each EC and oversaw the larger EC initiative. The establishment of ECs coincided with a high-growth period owing to rising oil prices. Between 2000 and 2008, the foreign exchange reserves in Saudi Arabia's central bank rose from $50 billion to $450 billion.[1144] This capital accumulation enabled the government to allocate $60 billion for the construction of ECs.[1145]

EC policies, which contained a mixture of onshore and offshore incentives, aimed to attract private sector investments from local and foreign sources. Thus, Saudi ECs partially resembled larger-scale versions of IEs in Oman, industrial zones in Abu Dhabi, or FZs in Bahrain insomuch as they represented domestically-oriented initiatives. Firms operating within ECs received duty-free exports to GAFTA countries[1146] – an incentive structure shared by all onshore companies as a result of Saudi Arabia's integration into the regional FTA. Low energy costs provided additional

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[1142] "Saudi's Al Abbassi Island to become a free trade zone," *Khaleej Times*, June 18, 2005, accessed May 28, 2018, https://www.khaleejtimes.com/article/20050618/ARTICLE/306189987/1036.
[1143] The initial project plans consisted of six ECs, but the government scaled back the project's scope.
[1144] Brad Setser and Cole Frank, *Using External Breakeven Prices to Track Vulnerabilities in Oil-Exporting Countries* (New York: Council on Foreign Relations, 2017), 18.
[1145] Giulio Gallarotti, "Smart Development: Saudi Arabia's Quest for a Knowledge Economy," *Wesleyan University Division II Faculty Publications*, Paper 128 (2013): 12.
[1146] Ernst & Young, *Economic Cities: Opening vistas of growth in the Kingdom of Saudi Arabia*, 2015, 7 & 18.

savings for investors: subsidized commercial services help explain why nearly half of the country's manufacturing industry opted to locate within ECs.[1147] The Saudi government strategically spread EC locations across the country to promote diversification and development in areas outside of the country's traditional urban centers.[1148]

Other EC policies, however, aligned more closely with those of FZs in neighboring GCC territories. Participating firms received "no restrictions on sponsoring foreign employees,"[1149] and the option for full foreign ownership, which resembled the lax labor and ownership regulations common in Emirati, Qatari, and Kuwaiti FZs. Moreover, the government entity of SAGIA assumed visa sponsorship responsibilities for foreign workers in ECs.[1150] By absorbing responsibility for foreign labor sponsorships, the government partially sidestepped the rentier roles traditionally held by Saudi citizens. Firms operating in ECs also derived rents from workforce nationalization exemptions. ECs instituted Saudization quotas of approximately 5 percent, whereas onshore firms needed to meet quotas ranging from 10 and 20 percent.[1151]

Policymakers hoped that these regulatory frameworks and commercial incentives would position ECs as "fertile sites for foreign universities,"[1152] and other foreign companies operating in non-oil industries. Yet neither the re-export zones nor the ECs appeared to make a major impact on economic diversification indicators: the non-oil sector as a percentage of GDP actually decreased from 64.16 percent in 1996-

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[1147] Ahmed Al-Darwish et. al, *Saudi Arabia: Tackling Emerging Economic Challenges to Sustain Growth* (Washington: IMF, 2015), 79.
[1148] Gallarotti, "Smart," 11.
[1149] Ernst & Young, *Economic*, 18.
[1150] Martin Quinn, "King Abdullah Economic City Still Seeking Critical Mass," Wikileaks Cable: 08JEDDAH414_a, dated September 28, 2008, https://wikileaks.org/plusd/cables/08JEDDAH414_a.html.
[1151] Quinn, "King," Wikileaks Cable: 08JEDDAH414_a.
[1152] Gallarotti, "Smart," 20.

2001 to 50.09 percent in 2006-2010.[1153] According to observers closely associated with the projects, ECs lacked overarching policy frameworks.[1154] Moreover, the construction stages of these cities coincided with the 2008 financial crisis, which created both created new funding constraints and dampened investor demand.

Despite challenges associated with ECs, the state did not entirely abandon FZ projects. In fact, Saudi Arabia demonstrated a renewed interest in FZ development following the collapse of oil prices in late 2014 and 2015. The timing of new FZ announcements coincided with changing perceptions of the value of the country's proven hydrocarbon resources. A useful measurement of hydrocarbon's perceived value to the state is the breakeven oil price, or the price per barrel of oil required for an oil-exporting country to balance its budgets. In 2015 and 2016, Saudi Arabia's breakeven oil price was $92.90 and $79.70 respectively, whereas the average price of one barrel of oil rested at $51.60 and $50.40 during each year.[1155] Between August 2014 and April 2017, the Saudi Arabian Monetary Authority sold in excess of $245 billion in reserves and raised $17.5 billion by issuing sovereign bonds.[1156] During this period, the Saudi government launched Saudi Vision 2030, which formerly incorporated FZs into the national strategy, and also signaled intentions to construct FZs on the borders of Egypt, Jordan, Yemen, and Iraq.

While FZs emerged conceptually as part of the Saudi Vision 2030 announcement in April 2016 – a period when oil prices reached record lows – concrete FZ plans relating to Neom, Yemen, and Iraq did not surface until prices rebounded

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[1153] Albassam, "Economic," 114.
[1154] Interview 30, managing director of an economic zones consultancy and secretary general of a global EPZ association, r*emote call from Dubai*, May 11, 2016; Interview 74, head of business and trade council on Saudi Arabia, r*emote conversation from Oxford,* November 21, 2016.
[1155] International Monetary Fund, "Breakeven Fiscal Oil Price for Saudi Arabia [SAUPZPIOILBEGUSD]," retrieved from Federal Reserve Bank of St. Louis, accessed March 27, 2018, https://fred.stlouisfed.org/series/SAUPZPIOILBEGUSD.
[1156] Setser and Frank, *Using,* 19.

slightly in 2017. The pattern of FZ development coinciding with rising energy prices resembles that of Abu Dhabi and Qatar, two other resource-abundant GCC territories, insomuch as low oil prices may have encouraged policymakers to consider FZs options, but the state's commitment to FZ projects tended to materialize during periods of rising oil prices. The creation of two bonded and re-export zones in 1999 and 2000 as well as the launch of the EC initiative in 2005 fit the pattern of FZ creation during periods of rising oil prices.

Tracing FZ development in Kuwait – another hydrocarbon-abundant state – against fluctuations in oil prices yields similarly mixed results. Kuwait's government announced an ambitious plans to transform five uninhabited islands into an integrated free zone in December 2015, nearly one year after oil prices plunged by nearly 50 percent.[1157] However, the Kuwaiti government had hired DLA Piper law firm in 2013, when oil prices reached near historic highs, to help develop three new FZs that never came to fruition.[1158] Thus, it is difficult to link FZ development in resource-abundant GCC territories solely to economic diversification efforts resulting from low oil prices.

9.1.2 Structural factors

Beyond proven hydrocarbon reserves and oil prices, structural factors contributed to the fragmented process of FZ development in the country. The large domestic market in Saudi Arabia increased demand for locally-consumed imports, while growth in export-oriented industries outside of the hydrocarbon sector remained limited. Non-oil exports in 1998 measured a paltry 22.93 billion Saudi riyals (~$6.11

[1157] "Kuwait to launch free economic zone," *Arab News*, December 18, 2015, accessed May 15, 2018, http://www.arabnews.com/economy/news/851986; "Kuwait set to launch free economic zone," *Khaleej Times*, December 18, 2015, accessed May 15, 2018, https://www.khaleejtimes.com/business/economy/kuwait-set-to-launch-free-economic-zone.
[1158] Robert Anderson, "Freezone's Boost GCC's Push to Establish Business Hubs," *Gulf Business*, July 19, 2014, accessed May 20, 2018, http://gulfbusiness.com/freezones-boost-gccs-push-become-business-hubs/.

billion),[1159] whereas imports of goods and services reached $38.8 billion.[1160] "Saudi is trying to attract manufacturing investment for their onshore sector…so free zones would not be very useful in the Saudi context," noted the head of a European - Saudi business council.[1161] FZs increase transaction costs for Saudi-based firms targeting the domestic market in Saudi Arabia and those of the wider GCC because goods entering domestic markets from FZs are subjected to a five percent custom duty.

	1985	1995	2005	2015
Imported goods and services (2017 US$)	38.071bn	39.712bn	81.797bn	250.506bn
% change (10yrs)	N/A	4%	106%	206%

Table 14: The value of Saudi Arabia's imported goods and services[1162]

Saudi Arabia's demographics simultaneously altered the political calculus behind FZ policies. A member of Bahrain's Economic Development Board described Saudi as "having the most aggressive labor policy," in the region,[1163] while a regional FZ expert argued that Saudi Arabia's local employment demands led to a more traditional approach to FZ development.[1164] Indeed, a large ratio of national citizens, accounting for more than two-thirds of the total population, increased pressure on the government to provide employment opportunities for local citizens.[1165] Comprehensive workforce nationalization exemptions, in turn, proved difficult to implement. The government instead instituted minor, but symbolic, Saudization quotas of

[1159] Mohammed A. Aljebrin, "Impact of Non-oil Export on Non-oil Economic Growth in Saudi Arabia," *International Journal of Economics and Financial Issues* 7.3 (2017): 391.
[1160] World Bank Group, "Imports of goods and services (current US$)," *World Bank*, updated 2017, accessed April 20, 2018, https://data.worldbank.org/indicator/NE.IMP.GNFS.CD?locations=SA&name_desc=false.
[1161] Interview 74, head of business and trade council on Saudi Arabia, *remote conversation from Oxford,* November 21, 2016.
[1162] Data from The World Bank, accessed May 3, 2017.
[1163] Interview 28, economic officer at the Economic Development Board, *Manama, Bahrain,* April 27, 2016.
[1164] Interview 30, managing director of an economic zones consultancy and secretary general of a global EPZ association, r*emote call from Dubai*, May 11, 2016.
[1165] This estimate relies on 2014 population figures from the Gulf Labour Markets and Migration Programme and the World Bank. Refer to Appendix B for a breakdown of population figures in GCC states.

approximately five percent in ECs.[1166] Neighboring GCC countries with comparatively large ratios of national citizens to expatriates, like Bahrain and Oman, also implemented strict workforce nationalization policies within FZs in order to increase employment opportunities for local workforces.[1167]

In addition to domestic concerns, WTO membership required the implementation of widespread economic reforms, including relaxed foreign ownership regulations and tax procedures, that reduced many of the incentives behind FZ creation in other GCC countries. Tim Niblock argues that these economic reforms intended to satisfy WTO conditions for accession and supplant oil revenues with resources from foreign investment.[1168] In particular, the establishment of SAGIA in 2000 streamlined foreign investments and commercial registration procedures under one government agency. According to the head of a European – Saudi business council:

> *There are no barriers to 100 percent foreign investment in non-security related sectors. You just have to get an investment license from SAGIA [the Saudi Arabia General Investment Authority]. In this sense, the Saudi investment climate is actually a bit more liberal than Dubai and Oman.*[1169]

SAGIA centralized the commercial activities traditionally managed by FZs, whereas other GCC states distributed these bureaucratic processes to various FZ authorities.

The centralization of firm registration and commercial investment processes under SAGIA reduced incentives for the government to allocate additional funding for FZ development and limited the bureaucratic operating space for vertically-oriented,

[1166] Quinn, "King," Wikileaks Cable: 08JEDDAH414_a.
[1167] This local employment object can be considered "traditional" in terms of global FZ models because a major stated objective of FZ development in Central America, Asia, and the United States involves creating more employment for local citizens.
[1168] Tim Niblock, "Saudi Arabia's Economic Development: Ambitious Visions, Difficult Dilemmas," *Journal of Middle Eastern and Islamic Studies (In Asia)* 2.2 (2008): 18-19.
[1169] Interview 74, head of a business and trade council on Saudi Arabia, *Remote conversation from Oxford,* November 21, 2016.

isolated government entities to rapidly expand FZ proliferation in the country. Rather, the overarching WTO negotiations provided a platform for the state to reform commercial agency regulations and foreign ownership requirements in the banking, insurance, and retail trade sectors. Although early attempts to reform the commercial agency system failed, the state did successfully enact reforms in 2005 that increased foreign ownership in the banking, insurance, and distribution sectors to between 60 and 70 percent.[1170] However, elite politics in Saudi Arabia continued to shape the considerations behind FZ development in the country.

9.2 Elite Relationships

9.2.1 Fragmented elites

Shifting relations between ruling elites and business coalitions played a critical role in processes of FZ development in Saudi Arabia. Hertog offers a useful illustration of elite dynamics in the country with his term segmented clientelism, a mechanism he describes as "a heterogeneous system of formal and informal, rent-based clientelism in which vertical links dominate."[1171] In this context, FZ development proceeded as a top-down, vertical initiative. The government awarded FZ contracts to private sector actors through state agencies: the Saudi Ports Authority issued contracts for the two bonded and re-export zones in Jeddah and Dammam, while SAGIA and the Saudi Economic Cities Authority oversaw the development of ECs. These initiatives permitted ruling elites to distribute resources and co-opt systems in their favor[1172] – processes which initially occurred under King Abdullah bin Abdulaziz Al Saud's regime and then continued under King Salman bin Abdulaziz and his son, Mohammed bin Salman.

[1170] Steffen Hertog, "Two-level negotiations in a fragmented system: Saudi Arabia's WTO accession," *Review of International Political Economy* 15.4 (2008): 667.
[1171] Hertog, *Princes*, 5.
[1172] Acemoglu and Robinson, "Paths," 4.

A lack of horizontal linkages between government organizations in Saudi Arabia resulted in historically isolated FZ entities that the state entrusted to narrow coalitions of business elites and private sector firms. Each FZ initiative represented a different, unequal, and potentially unstable relationship with the state apparatus.[1173] This represented a calculated strategy by the regime because, as Hertog explains, "[l]evels of trust and reciprocity between state and business were low."[1174] In other words, there were limitations to the degree of economic authority that the state willingly ceded to the local business community. "The Al-Saud family members find themselves in a dilemma between diversifying the economy in order to continue growth and stability, yet they do not want to lose the ability to determine regulations and ownership,"[1175] writes Doreen Horschig. FZs offered an attractive solution to this dilemma: the government retained ultimate sovereignty over commercial policies while generating new avenues for private sector involvement in the economy.

In this context, the government charged private sector actors with the management of smaller-scale bonded and re-export zones in Jeddah and Dammam. The corporate structure of the FZ in Jeddah revealed connections to a prominent Saudi merchant family with close ties to the ruling family. The Tusdeer BRZ in Jeddah is run jointly by Xenel and its subsidiary firm, SISCO. Xenel's company name refers to the late Zainal Alireza, the founding member of Bait Alireza, one of the oldest trading houses in Saudi Arabia. Originally of Iranian origin, the Alireza family emigrated to Jeddah in the late 19th century.[1176] Having launched trading operations in 1845, Bait

[1173] This is a reference to Steffen Hertog's concept of segmented clientelism.
[1174] Hertog, "Two-level," 669.
[1175] Doreen Horschig, "Economic Diversification in Saudi Arabia: The Challenges of a Rentier State," *Journal of Political Inquiry* (2016): 7.
[1176] Peterson, "Rulers, Merchants and Shaikhs in Gulf Politics," 31.

Alireza was honored with the first commercial registration number in the country.[1177] Luciani considers Alireza as "one of the leading bourgeois families," because of its financial backing for Abdulaziz bin Abdul Rahman Al Saud, the country's founder, before the emergence of oil rents.[1178]

The Alireza family's connections to the Saudi royal family remained strong after the discovery of oil: Abdullah Alireza held multiple ministerial positions, including that of Minister of Commerce and Industry from 2008 to 2011,[1179] and he served as a senior advisor to the late King Abdullah bin Abdulaziz.[1180] The Alireza family also received a royal condolence from King Abdullah upon the death of Zainal's son, Ahmed Alireza, in 2012.[1181] Ahmed's surviving sons manage the group's commercial interests: Khaled Zainal Alireza is the founding partner and vice chairman of Xenel, Mohammed Alireza serves as chairman of the board of SISCO, while Aamer Abdulla Alireza is also on the SISCO board and serves as CEO of Tusdeer. Xenel's involvement in FZ development extended to ECs; the company functioned as a "major partner" in the King Abdullah Economic City located near Jeddah.[1182]

The ownership structure of the country's FZ in Dammam comprised a collection of local and global commercial interests. The Saudi Development and Re-Export Services Company (SDRS), the FZ's management company, represents a consortium of Eastern Province businessmen, Hutchinson Port Holdings, and the

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[1177] Haji Abdullah Alireza & Co., "Alireza," *Alireza*, updated March 2018, accessed May 20, 2018, http://www.alireza.com.
[1178] Luciani, "From," 146.
[1179] Abdullah Alireza is described as representing both "the liberal Hijaz and economic reform oriented business community," and a leading proponent of Saudi Arabia's joining the WTO. See: David Rundell, "Commerce Minister Alireza enthusiastic about upcoming trip to Washington," Wikileaks Cable: 09RIYADH575_a, dated April 15, 2009, https://wikileaks.org/plusd/cables/09RIYADH575_a.html.
[1180] Tatiana Gfoeller, "CG's Discussion with Alireza Businessmen," Wikileaks Cable: 06JEDDAH227_a, dated March 21, 2006, https://wikileaks.org/plusd/cables/06JEDDAH227_a.html.
[1181] "King mourns Ahmed Alireza," *Arab News*, November 3, 2012, accessed May 21, 2018, http://www.arabnews.com/king-mourns-ahmed-alireza.
[1182] Gfoeller, "CG's," Wikileaks Cable: 06JEDDAH227_a.

Maritime Company for Navigation (MACNA). The chairman of SDRS, Khaled Albawardi, serves as the chairman and CEO of the Albawardi Group, a Saudi conglomerate that focuses on trading, industry, services, investment, and real estate. Albawardi Group, unsurprisingly, is a partner in the Dammam FZ project. Hutchinson Port Holdings is a multinational firm headquartered in Hong Kong, while MACNA was established in Riyadh in 1995 as a local subsidiary of Hutchinson Port Holdings.

As in other GCC countries, Saudi ECs linked rent creation to specific royal personalities and patronage networks. The King Abdullah Economic City and Prince Abdulaziz Bin Mousaed Economic City possess eponymous links to the ruling family. Meanwhile, the Knowledge Economic City Company retained Prince Mansour bin Abdullah bin Abdulaziz Al Saud on its board, demonstrating a physical, commercial connection to the royal family. Dr. Ghazi Binzagr, a Saudi executive and SAGIA advisor, described ECs as a pivotal component of the late king's efforts to establish his legacy.[1183] The legacy-building efforts of ruling elites, however, did not always align with the aspirations of local merchants. For example, King Abdullah appointed Amr Dabbagh as the head of SAGIA, and Dabbagh was responsible for launching the economic city initiative in 2005. While hailing from a prominent Jeddah-based merchant family and remaining a close confidant of the late king, Dabbagh's role in EC development alienated him from certain segments of the Jeddah business community. Leaked diplomatic cables suggest that some Saudi merchants believed that KAEC would increase commercial competition at the expense of local businesses in Jeddah.[1184]

[1183] Tatiana Gfoeller, "King Abdullah Economic City: Brave Ideas, Shaky Sand," Wikileaks Cable: 07JEDDAH508_a, dated December 10, 2007, https://wikileaks.org/plusd/cables/07JEDDAH508_a.html.
[1184] Tatiana Gfoeller, "New 'King Abdullah Economic City' On the Red Sea: The Dubai of the Future or White Elephant," Wikileaks Cable: 06JEDDAH557_a, dated August 23, 2006, https://wikileaks.org/plusd/cables/06JEDDAH557_a.html.

EC contract elements	King Abdullah Economic City	Prince Abdulaziz Bin Mousaed Economic City	Knowledge Economic City	Jazan Economic City
Developer	Emaar the Economic City (UAE)	Al Mal Investment Company (Kuwait)	Knowledge Economic City Company (KSA)	Saudi Aramco (KSA)
Contractor	Saudi Building & Construction Management	N/A	Al Dar, Al Arabia Architecture & Construction Company Limited/ Al Rajhi Holding Group	Saudi Binladin Group
Expected Investments	$93 billion	$8 billion	$7 billion	$27 billion

Table 15: Saudi economic cities (developers, contractors, and investments)[1185]

Development contracts associated with the country's ECs generated new rent streams for private Saudi firms, SOEs, and GCC firms. Saudi merchants tend to invest in comparatively large-scale investments,[1186] and ECs neatly fit this category of investments. The contractors involved in ECs were primarily private sector Saudi firms, while the developers represented a mix of internationalized Gulf capital and Saudi SOEs. Emaar the Economic City is a JV between Dubai's major real estate developer Emaar and Saudi firms, of which the Saudi Binladin Group served as the largest local shareholder.[1187] Meanwhile, the Al Mal Investment Company, of Kuwaiti origin, headed PABMEC. In both cases, developers from neighboring GCC states received land ownership rights over their respective projects[1188] – this real estate ownership structure did not apply for the KEC and JEC development contracts. The Emirati developer of KAEC paved the way for additional UAE investments: Emirates Aluminum Company and Dubai Ports World signed MoUs to build an aluminum smelter and the EC's port.[1189]

9.2.2 Resurgence of the state

Changing perceptions of the economic, political, and social utility of the country's hydrocarbon resources made it increasingly difficult for the government to

[1185] Ernst & Young, *Economic,* 11.
[1186] Hertog, "Two-level," 656.
[1187] Gfoeller, "New," Wikileaks Cable: 06JEDDAH557_a.
[1188] Ibid., 21.
[1189] Quinn, "King," Wikileaks Cable: 08JEDDAH414_a.

ignore slow progress on ECs. Between June of 2014 and 2015, the price of oil dropped by nearly 50 percent, and Saudi Arabia recorded a deficit of nearly $100 billion in 2015.[1190] In response, the IMF recommend that "[m]ore needs to be done to realign incentives for firms to export and workers to seek private sector jobs."[1191] The Saudi government had intended for ECs to become business and finance hubs, but when this objective was not met, the government chose to develop and rent the real estate instead. A blunt government assessment of this prior EC strategy signaled concerns about the projects becoming white elephants: "[w]ork has halted in several cities, and others face challenges that threaten their viability."[1192]

These economic obstacles coincided with political upheaval and institutional change in the country: Salman bin Abdulaziz Al Saud became king in January 2015 following the death of his half-brother, King Abdullah bin Abdulaziz. The unclear status of ECs represented a vulnerability to the new regime because "[i]n the case of Saudi Arabia, building new cities has also long been seen by the ruling elite to be a key to its survival."[1193] At the same time, business elites associated with prior FZ and EC development found themselves at odds with the new regime. Amr Dabbagh, the former SAGIA head and figurehead of the economic city strategy, was detained in the anti-corruption campaign orchestrated by Mohammed bin Salman in November 2017. Widely known for his close relationship with Abdulaziz bin Abdullah, a son of the late King Abdullah, Dabbagh remained in prison as of March 2018.[1194] The arrests of

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[1190] Luay Al-Khatteeb, "Saudi Arabia's economic time bomb," *Brookings*, December 30, 2015, accessed May 22, 2018, https://www.brookings.edu/opinions/saudi-arabias-economic-time-bomb/.
[1191] International Monetary Fund, *Saudi Arabia: 2015 Article IV Consultation*: *Report No. 15/251* (Washington D.C.: IMF, 2015), 1.
[1192] Saudi Vision 2030, "Thriving Economy Open for Business," *Government of Saudi Arabia,* January 2018, accessed June 14, 2018, http://vision2030.gov.sa/en/node/7.
[1193] Sarah Moser, Marian Swain, and Mohammed Alkhabbaz, "King Abdullah Economic City: Engineering Saudi Arabia's post-oil future," *Cities* 45 (2015): 71.
[1194] Dania Akkad, "'Disappeared': Saudi business chiefs languish in jail as MBS chases UK deals," *Middle East Eye*, March 7, 2018, accessed May 9, 2018, http://www.middleeasteye.net/news/saudi-business-custody-purge-corruption-mbs-london-1109453969.

Dabbagh and Bakr bin Laden, the owner of Saudi Binladin Group, revealed that the old guard associated with FZ development in the country was changing according to the new alignment of political institutions. Other high-profile arrests within the business community, like those of Prince al-Waleed bin Talal, contradicted Luciani's assessment that "he [al-Waleed] guarantees that the ruling family will never turn against business, and there will always be a continuity of interests between the bourgeoisie and political power."[1195]

FZs became an important element of the new regime's strategy to revitalize stalled projects, enhance legitimacy with new projects, and reinforce patronage networks. Vision 2030, considered the brainchild of Mohammed bin Salman, provides insight into how FZs factor into the new crown prince's vision for the country. Announced in April 2016, the economic section of the vision outlines the future role of FZs:

> *We will create special zones in exceptional and competitive locations. We shall take into account the comparative advantages of the Kingdom's different regions, assess their feasibility for promising sectors, and then establish special zones, such as logistic, tourist, industrial and financial ones. Special commercial regulations to boost investment possibilities and diversify government revenues will be applied to these zones.*[1196]

The newly expanded role for FZs in the country contradicted the historical role and centralized structure of SAGIA. With Saudi Arabia already a full-fledged member of the WTO, the perceived cohesiveness of commercial regulatory environments in the country was no longer an imperative policy objective. The policy decision also granted the crown prince with new opportunities for distributing rent streams to various elite coalitions in order to shore up political support. "He [Mohammed bin Salman] is

[1195] Luciani, "From," 177.
[1196] Saudi Vision 2030, "Thriving," http://vision2030.gov.sa/en/node/7.

perceived as having accumulated power in order to make decisive decisions more easily,"[1197] argues Lindsay Hughes.

The FZ concept served as a useful tool for government efforts to revamp foundering megaprojects and partially shift distributive responsibilities to the private sector. Vision 2030 indicates that the rehabilitation of ECs may include elements of FZs.[1198] The Saudi Economic Cities Authority subsequently signed a MoU with the Dubai Airport Freezone (DAFZA) in October 2017.[1199] This agreement suggests that Saudi policymakers still valued Dubai's FZ experience despite past criticism that EC setbacks involved, first and foremost, an unrealistic emulation of Dubai's development model and a lack of demand-side considerations.[1200] Vision 2030 applies a similar strategy to the King Abdullah Financial District.[1201] "We will seek to transform the district into a special zone that has competitive regulations and procedures, with visa exemptions, and directly connected to the King Khaled International Airport," promises the vision.[1202]

9.3 Global Competition

9.3.1 International political economy

New FZ projects in Saudi Arabia reflected regime survival strategies following a reorganization of the country's political institutions. This view conforms with Gause's applied lens of viewing monarchical behavior through exogenous revenues and

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[1197] Hughes, *Mohammed*, 5.
[1198] Saudi Vision 2030, "Thriving," http://vision2030.gov.sa/en/node/7.
[1199] "DAFZA signs MoU with the Saudi Economic Cities Authority," *Al Khaleej*, October 15, 2017, accessed May 18, 2018, http://www.alkhaleej.ae/economics/page/75e83f36-667c-47cc-abe0-ad7416418f6f. [Arabic]
[1200] These views were expressed by a global FZ expert, a local Saudi businessman, and U.S. diplomats. See: Interview 30, managing director of an economic zones consultancy and secretary general of a global EPZ association, *remote call from Dubai*, May 11, 2016; Gfoeller, "King," Wikileaks Cable: 07JEDDAH508_a; Gfoeller, "New," Wikileaks Cable: 06JEDDAH557_a.
[1201] Interview 74, head of business and trade council on Saudi Arabia, r*emote conversation from Oxford.*, November 21, 2016.
[1202] Saudi Vision 2030, "Thriving," http://vision2030.gov.sa/en/node/7.

international relations[1203] as well as Young's argument that economic development logic in the Gulf proceeds from the believe that economic and social growth is best managed as a top-down affair and in new environments.[1204] Given the supply of existing megaprojects in need of rehabilitation and successive years of budget deficits post-2014, the consolidation of state power offers a convincing explanation for Saudi Arabia's reorientation towards expensive new FZ initiatives.

It is particularly difficult to separate the $500 billion Neom project in the northwest area of Tabuk from efforts to consolidate state power and state institutions under the authority of the new crown prince. Mohammed bin Salman chairs both the special authority and state sovereign wealth fund responsible for Neom's development, and the project's first commercial contracts entailed the construction of several royal palaces.[1205] Resource-abundant economies often focus on real estate ventures rather than clusters of productive industries because the former initiatives offer a convenient method of distributing rents to elites.[1206] Neom also accomplishes elements of Mohammed bin Salman's broader social reform agenda.[1207] The FZ promises inhabitants "an idyllic living environment and rich quality of life," and "world-standard social norms in culture, arts and education."[1208] Prior studies on megaprojects in Abu Dhabi and Qatar suggest that discussions over sustainability or "green" development

[1203] Gause III, "The Persistence," 21-22.
[1204] Karen Young, "Saudi Arabia's NEOM: State-led Growth meets Global Capitalism," *Market Watch*, October 26, 2017, accessed April 20, 2018, http://www.agsiw.org/saudi-arabias-neom-state-led-growth-meets-new-global-capitalism/, para. 2.
[1205] Marwa Rashad, "Saudi awards contracts to build palaces in huge new business zone," *middle east online*, February 8, 2018, accessed March 7, 2018, http://middle-east-online.com/english/?id=87167.
[1206] M.E. Porter, "Competitiveness and Economic Development of Gulf and Middle Eastern Countries," Presentation to Middle East Petrotech, Bahrain (2003) in Michael Ewers and Edward Malecki, "Leapfrogging into the Knowledge Economy: Assessing the Economic Development Strategies of the Arab Gulf States," *Royal Dutch Geographic Society* 101.5 (2010): 499.
[1207] One of the main themes of Saudi Vision 2030 involves promoting a vibrant society with strong roots, fulfilling lives, and strong foundations.
[1208] Neom, *Fact*, 2.

can mask the underlying goals of capital accumulation[1209] and consolidation of the ruling family's political power.[1210]

Any FZ can appear successful through profligate spending and providing fiscal incentives, but the reallocation of resources alone does not create wealth.[1211] Therefore, Neom's stated objectives involve attracting foreign investments and redirecting local capital into the domestic economy.[1212] These objectives demonstrate the regime's intention to satisfy distributive responsibilities through FZ development – processes of commercialized rent generation in Oman and the northern emirates accomplished similar objectives. Japan's SoftBank, which secured $45 billion in planned investments from the crown prince in 2016, indicated that it would reinvest $15 billion in Neom and an additional $10 billion in other Saudi projects, reflecting a recycling of Saudi investments into the domestic economy.[1213] Neom's informational materials euphemistically describe outward investments as "economic leakage" resulting from foreign imports, international investments, and overseas spending.[1214] Indeed, the process of leveraging FZs to capture a portion of the estimated $50 billion in private net outflows that left the country annually from 2010-2015[1215] possesses far fewer political risks than the practice of conducting anti-corruption campaigns to produce one-off financial windfalls.

[1209] Federico Cugurullo, "How to Build a Sandcastle: An Analysis of the Genesis and Development of Masdar City," *Journal of Urban Technology* 20.1 (2013): 34.
[1210] Agatino Rizzo, "Sustainable urban development and green megaprojects in the Arab states of the Gulf," *International Planning Studies* 22.2 (2017): 96.
[1211] Moberg, *Political,* EBook section 46.1.
[1212] Neom, *Fact Sheet* (Riyadh: Neom, 2018), 3-5.
[1213] Dinesh Nair, Ruth David and Matthew Martin, "SoftBank Plans Up to $25 Billion in Saudi Investments," *Bloomberg*, November 15, 2017, accessed April 21, 2018, https://www.bloomberg.com/news/articles/2017-11-15/softbank-is-said-to-plan-up-to-25-billion-in-saudi-investments-ja146fd5.
[1214] Neom, *Fact,* 5.
[1215] Setser and Frank, *Using,* 19.

9.3.2 Beyond the GCC

FZ proposals reinforced strategic bilateral relationships beyond the confines of the GCC. Saudi Arabia announced plans to build a Saudi-Egypt causeway and construct a FZ in the Sinai Peninsula in April 2017;[1216] however, the conceptual launch of Neom in October 2017 represented an evolution of the earlier Sinai FZ proposal. Neom introduced a new FZ model within the GCC region because it incorporates territory from both Egypt and Jordan. Egypt pledged 1,000 square kilometers of land in the Sinai in return for a stake in the project's $10 billion development fund.[1217] The proposed territory for Neom includes the controversial islands of Tiran and Sanafir, which the Egyptian president ceded to King Salman in a June 2017 agreement that was ratified by Egypt's parliament and upheld by the Egyptian Supreme Court. The collaboration between Saudi Arabia and Egypt over Neom followed the latter country's support for the Saudi-led diplomatic and economic embargo on Qatar that began in June 2017.

Other Saudi FZ proposals served as instruments for economic statecraft and enhancing regional security. In February 2017, the Saudi government discussed the prospect of establishing FZs along its Yemeni border regions of Jazan and Najran, citing a need for the "reconstruction of Yemen" and "restoration of legitimacy."[1218] An earlier attempt to establish a Saudi-Yemeni FZ in the Al Wadeeah area of Najran – a collaboration between the Saudi government, private sector actors, and the Islamic

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[1216] "Saudi newspapers: The free zone in the Sinai…a global economic front moves the Gulf to the Mediterranean," *El Fagr*, accessed April 20, 2017, http://www.elfagr.org/2097217. [Arabic]
[1217] "Saudi Arabia and Egypt pledge $10bn to kickstart construction of high-tech mega-city," *Independent*, March 6, 2018, accessed March 7, 2018, http://www.independent.co.uk/news/world/middle-east/neom-saudi-arabia-egypt-jordan-crown-prince-mohammed-bin-salman-president-abdel-fattah-alsisi-a8241491.html.
[1218] Saudi Press Agency, "Saudi-Yemeni Free Trade Zones and Reconstruction after Defeating Coup," *Saudi Press Agency*, February 21, 2017, accessed July 10, 2018, https://www.spa.gov.sa/1594386; "Free zones for reconstruction," *Alyaum*, February 23, 2017, accessed May 30, 2018, http://www.alyaum.com/article/4180484. [Arabic]

Development Bank – stalled following the regional protests of 2011. In a similar vein, Saudi Arabia signaled intentions to create FZs on its border with Iraq following a broader warming of relations between the two countries in 2017.[1219] The government reopened diplomatic offices in Iraq after 25 years, and several high-profile Saudi government officials subsequently visited neighboring Iraq.[1220] In August 2017, Saudi Arabia created a Saudi-Iraqi coordination council and planned to reopen the Arar border crossing with Iraq for the first time since 1990 – a necessary condition for future FZ development.

As the region's economic hegemon, Saudi Arabia's economic overtures outside of the GCC has repercussions for FZ development initiatives in neighboring GCC member states. Neom threatens Bahrain's comparative advantage for serving the Saudi market, as the new FZ would facilitate alternate avenues into the Saudi market, exploit Red Sea shipping lanes, and secure a strategic foothold in growing African markets. A FZ on the Yemeni border promises to divert capital outflows away from Oman's Al Mazunah FZ, considered one of the few commercial access points into war-torn Yemen. Saudi Arabia's closure of its land border with Qatar in the summer of 2017 also halted progress on Qatar's third planned SEZ, Al Karaana, which depended on overland access to GCC markets through Saudi Arabia. Finally, a proposed Saudi-Iraqi FZ would complicate Kuwaiti efforts to develop an integrated FZ as part of its strategy to function as the premier gateway into the northern Gulf.[1221]

[1219] "Iraq Oil Minister: Establishment of Iraqi-Saudi Coordination Council a Significant Step," *Asharq Al-Awsat*, August 17, 2017, accessed June 1, 2018, https://aawsat.com/english/home/article/1000266/iraq-oil-minister-establishment-iraqi-saudi-coordination-council-significant.

[1220] Christopher Blanchard, *Saudi Arabia: Background and U.S. Relations* (Washington, D.C.: Congressional Research Service, 2017), 33.

[1221] Fiona MacDonald, Mohammed Sergie and Yousef Gamal El-Din, "Kuwait Joins Post-Oil Push but Warns It May be Slower Than Saudi Arabia," *Bloomberg Politics*, March 20, 2018, accessed March 21, 2018, https://www.bloomberg.com/news/articles/2018-03-20/kuwait-joins-post-oil-push-but-warns-it-may-be-slower-than-saudi.

Conflicting Saudi and Kuwaiti interests in the northern Gulf, in particular, pose a challenge for nascent FZ projects in Kuwait. As part of its Vision 2035, Kuwait aims to transform five uninhabited northern islands into an integrated economic zone and to jumpstart the Silk City megaproject, which originally launched in 2006. Efforts to increase Kuwait's business competitiveness and reduce its dependence on hydrocarbon revenues is much needed. The flow of foreign investments into Kuwait declined from $3.3 billion to $275 million between 2011 and 2016.[1222] The key selling points for the integrated economic zone and megacity in Kuwait revolve around premier access to northern Gulf markets: reconstruction in Iraq reflects a commercial opportunity, and Iran remains an underutilized market. Iran accounted for just 0.11 percent of Kuwait's exports and 0.76 percent of imports in 2015,[1223] revealing the potential for trade growth, and Kuwait has repeatedly sought to import Iranian natural gas since the early 2000s.[1224] However, Saudi Arabia's rapprochement with Iraq reduces Kuwait's claim as the premier gateway into the northern Gulf, while Saudi Arabia's aggressive foreign policy stance against Iran complicates Kuwaiti efforts to foster greater economic cooperation with Iran. Thus, international political economy dynamics play a critical role in the calculi behind FZ development across the region.

9.4 Concluding remarks

Viewing FZ development in Saudi Arabia as a consequence of hydrocarbon resources and economic diversification efforts provides only a partial picture of the

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[1222] Oxford Business Group, "The Report: Kuwait 2017," *Oxford Business Group*, accessed July 12, 2018, online PDF pg. 57, https://oxfordbusinessgroup.com/overview/broadening-horizons-attracting-foreign-investment-becomes-key-diversification-plans.

[1223] World Integrated Trade Solutions, "Kuwaiti exports, imports and trade balance By Country 2015," *WITS*, accessed July 12, 2018, https://wits.worldbank.org/CountryProfile/en/Country/KWT/Year/2015/TradeFlow/EXPIMP/Partner/by-country.

[1224] Giorgio Cafiero and Cinzia Miotto, "Kuwaiti-Iranian Relations: The Energy Angle," *Atlantic Council*, September 29, 2016, accessed July 11, 2018, http://www.atlanticcouncil.org/blogs/menasource/kuwaiti-iranian-relations-the-energy-angle.

factors underlying this process. Though Saudi Arabia's first bonded and re-export zones emerged following a period of sustained low oil prices, the government entrusted these smaller-scale initiatives to the private sector and did not consider these FZs as major sources of state revenue. Increasing oil prices in the early 2000s provided excess capital for the country to pump into new ECs exhibiting FZ characteristics. These projects emerged during a period of sharply increasing oil prices, challenging the portrayal of ECs served as genuine economic diversification attempts. The substantial drop in oil prices in late 2014 and consequent budget deficits partially refocused attention on FZs as a strategy for addressing failing megaprojects and launching new economic development initiatives.

The intersection of domestic politics and the generation of commercialized rents helps illustrate a clearer picture of FZ development in the country. The small scale of early FZ initiatives, which took the form of bonded and re-export zones, limited the ability for local private sector actors to translate economic authority into autonomy from the regime. The Saudi state enabled longstanding economic allies of the regime, like the House of Alireza, to manage these early FZs. Larger EC projects, which bore eponymous links to the ruling family, served as broader mechanisms for state distribution of rents to a diverse set of economic actors. The state agencies of SAGIA and the Saudi Economic Cities Authority managed the development of FZ initiatives by awarding development and contracting rights to a mixture of local firms, SOEs, and GCC companies. As part of his rapidly rising political influence, Saudi Arabia's crown prince expanded FZ development plans to revitalize stalled megaprojects as well as create new investment hubs, and he codified these plans in the country's Vision 2030.

International politics also shaped processes of FZ development in the Saudi Arabia. In the 1990s and early 2000s, Saudi efforts to join the WTO favored a

centralized and coherent commercial regulatory environment rather than a multi-tiered and varied regulatory environment afforded by multiple FZs. These regulatory concerns, which previously limited FZ development during the 1990s and early 2000s, did not apply equally to the new geopolitical context under King Salman and the crown prince. The new regime confronted a crisis-fraught GCC, a costly war in Yemen, and rising Saudi-Iranian tensions unfolding in neighboring countries. New FZ announcements under the government reflected, in part, a method of addressing these global challenges. Though economic cooperation between Saudi Arabia and certain GCC member states, like the UAE, remained strong, these FZ proposals revealed a Saudi pivot outside of the GCC bloc.

Conclusion

This dissertation advanced the hypothesis that political factors played an instrumental role in the causal mechanisms behind FZs development across the GCC region. The employment of FZs as influential political strategy instruments rather than simply economic measures, in turn, accounted for much of the variation in the timing of creation, scale, and scope of FZs during the time period from 1985 to 2017. The subsequent findings did not entirely discount the economic considerations behind FZs but rather reinforced the intrinsic link between politics and economics in the GCC. Each chapter case study analyzed the FZ system within respective GCC territories according to three analytical dimensions: hydrocarbon dynamics, elite relationships, and competition amongst territories.

The hypothesis and consequent research focus also provided a foundation for addressing the work's secondary research questions concerning private sector development in non-oil industries, state-society relations, and international relations in the region. GCC governments marketed FZ initiatives as efforts to diversify their economies away from hydrocarbon resources and toward more sustainable industries; however, many FZ activities depended directly or indirectly upon hydrocarbon wealth. Indeed, the rentier structures created by commercialized rents resembled those from hydrocarbon rents. Large, multi-tiered bureaucracies created employment opportunities, and commercial subsidies provided services and industrial inputs at below-market rates. In this context, FZs and their adjoining economic institutions served as means for building and maintaining political power in GCC territories. FZs specifically reinforced prevailing power hierarchies in the GCC by both enabling ruling elites to dole out patronage and privileges to tribal and merchant allies and permitting privileged insiders to engage in rent-seeking behavior.

The nature of commercialized rents, however, afforded regional and international actors leverage to negotiate with governments and influence FZ policies. Therefore, the international political economy of the GCC exerted additional influence upon FZ development. FZs centralized control of foreign firms within state-owned entities, but state autonomy over foreign firms was not absolute. Federal competition within the UAE, regional relations amongst GCC member states, and international interest in GCC territories presented both opportunities and obstacles for policymakers involved in FZ development. Moreover, global investor perceptions related to security and the ease of doing business in a given territory affected the feasibility of generating commercialized rents, and multinational firms reserved the threat of relocation to new business hubs.

By elucidating the relationship between perceptions of hydrocarbon wealth and FZ development, the dissertation began where much of RST literature ended. The work then expanded, and in the process also updated, theoretical notions of the rentier state by illustrating how local elites and international actors leveraged FZs to extract commercialized rents and accomplish overt political objectives. Building upon this theoretical contribution, future researchers can apply the research findings to examine ongoing FZ development in GCC states and in other regional blocs across the globe.

Research findings

The relationship between FZs and hydrocarbons

This research measured the impact of two main hydrocarbon-related variables – proven reserves and the price of hydrocarbons – on FZ development in each territorial case study. According to the findings, resource-scarce territories in the GCC tended to construct FZs earlier and more frequently, owing to a need to generate new rents, raise government revenue, and satisfy distributional responsibilities. Bahrain's government

experimented with a free trade area in its Salman Port as early as 1962, and Dubai opened Jebel Ali Free Zone, considered the region's first full-fledged FZ, in 1985. The three northern emirates with the smallest proven hydrocarbon reserves in the UAE launched their first FZs between 1987 and 1988. Hydrocarbon-abundant territories tended to establish FZs later than their resource-scarce counterparts because available hydrocarbon rents decreased the immediate need to raise government revenues and satisfy distributive responsibilities. Abu Dhabi launched its first FZ in 2006, and Qatar started FZ development in 2005. As small, hydrocarbon-abundant territories, both Abu Dhabi and Qatar demonstrated similar patterns in the timing of FZ development.

In terms of scale, hydrocarbon-scarce territories demonstrated a greater propensity for FZ development. GCC territories with a combined total of 11 billion barrels of proven oil reserves by 2016 contained 41 operating FZs, whereas territories with nearly 500 billion barrels of proven oil reserves possessed only ten FZs. In 2016, Dubai contained 24 of the region's 51 operating FZs, and the northern emirates contributed an additional ten FZs. Oman's five FZs represented the next largest system outside of the UAE. FZ proliferation remained more limited in hydrocarbon-abundant territories. Kuwait's sole operating FZ struggled to remain commercially viable during a protracted legal dispute between a private developer and the government. Saudi Arabia possessed two smaller-scale bonded and re-export zones in Jeddah and Dammam, and delayed megaprojects complicated the country's efforts to incorporate FZ elements into larger ECs. Inverse correlation between FZ proliferation and proven hydrocarbon reserves suggests that commercialized rents became more desirable in the absence of hydrocarbon rents.

Analyzing FZ development as a consequence of proven hydrocarbon reserves, however, yielded unexpected results. Hydrocarbon scarcity did not always lead to an

expansive FZ sector. Despite Bahrain's relative resource scarcity and institutional propensity for later FZ development, owing to the creation of OBUs and exempt company status in the 1970s, the country did not vigorously pursue FZ development. Alternatively, substantial hydrocarbon resources did not guarantee a limited FZ sector. Abu Dhabi operated five FZs by the end of 2016, and these entities proved to be stiff competition for FZs in Dubai and the northern emirates.

Moreover, the relatively early timing of FZ proliferation in Kuwait contrasted with later FZ development in other resource-abundant territories. Kuwait's government formalized a free zone law in 1995, ensuring that the pace of FZ development began nearly a decade before that of Qatar and Abu Dhabi. Regional institutions, federal politics, and the relative autonomy of private sector actors helped to explain these outlying cases. The inability of hydrocarbon-related factors to account for this variation demonstrates the limitations of viewing FZ development purely through the lens of hydrocarbon politics.

This thesis also examined FZ development alongside fluctuating oil prices to account for the perceptions of the value of hydrocarbon rents in a given period. Theoretical links between rentierism and economic diversification should reveal greater government interest in FZ development during years of low oil and gas prices; however, FZ proliferation overwhelmingly occurred during years of rising oil prices and increasing global demand for energy. The period of rapidly rising oil prices between 1999 and 2008 – wherein crude oil prices rose from a low of $19.54 in January of 1999 to $160.25 in June of 2008[1225] – witnessed the creation of 33 of the region's 51 FZs emerging between 1985 and 2016.[1226] The preceding decade of

[1225] Macrotrends, "Crude."
[1226] Figures cover operating FZs established between 1980 and 2016.

sustained, low oil prices throughout the 1990s resulted in the creation of a mere four FZs. This finding applied to both resource-scarce and resource-abundant territories. Of Dubai's 24 FZs, 18 emerged between 1999 and 2007. Qatar's GDP surpassed 19 percent amidst booming demand for LNG in 2004,[1227] and the country developed its first two FZs in 2005. Qatar also announced project plans for three new SEZs in 2011, following GDP growth of nearly 20 percent in the previous year.[1228]

While low oil prices, owing to an approximately 50 percent drop in prices from mid-2014 to mid-2015, piqued Saudi and Kuwaiti interest in FZs, concrete FZ project plans in these territories did not formally emerge until oil prices rebounded in 2017. Kuwaiti policymakers reaffirmed earlier commitments to an island FZ initiative during the Kuwait Investment Forum event in March 2018, revealing an absence of progress since the initial announcement and partially confirming an observer's statement that FZ development in the country "is lip service more than anything else."[1229] Similarly, Saudi Arabia formally incorporated FZ concepts into its national strategy as part of the Saudi Vision 2030 launch in April 2016, but policymakers only announced FZ projects in coordination with Egypt, Jordan, Iraq, and Yemen later in 2017.

GCC governments that heavily relied upon oil and gas revenues for state budgets – particularly Abu Dhabi, Saudi Arabia, and Bahrain – often incorporated FZs into narratives of economic diversification. Yet, the minor economic contribution of FZs in these territories further challenged FZ links with economic diversification efforts. Abu Dhabi's FZs registered a meagre 0.002 percent of the UAE's total FZ trade in 2015.[1230] Saudi Arabian FZs only employed an estimated 1.1 percent of the

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[1227] The World Bank, "GDP."
[1228] Ibid.
[1229] Interview 30, managing director of an economic zones consultancy and secretary general of a global EPZ Association, *Remote call from Dubai*, May 11, 2016.
[1230] Federal Customs Authority, *Emirates Customs*, 3.

country's workforce in 2002, and the country's non-oil revenue as a percentage of GDP actually decreased in the five years following the launch of the EC initiative. Bahraini FZs did little to initiate a transformation in the composition of state income, of which hydrocarbons constituted approximately 75 percent of government revenues for decades. Therefore, hydrocarbon dynamics remain relevant as an analytical lens but do not serve as comprehensive explanatory variables for the region's FZ system.

Elite tradeoffs: ruling families, merchants, and citizens

North's argument that all big economic institutions are ultimately political institutions because they must have a political end in order to survive and protect their interests[1231] applies to the GCC, where ruling families, business elites, and local citizens collectively shaped FZ development. These social groups composed a dynamic trade liberalization framework, wherein processes of rent generation and rent seeking occurred concurrently. The general structure of the trade liberalization framework involved a supply side composed of ruling family members and government officials and a demand side consisting of local business elites, foreign firms, and local citizens. However, social actors often occupied both sides of this framework – ensuring that the vested interests of social groups and the institutions that govern their interactions heavily influenced the nature of FZ development within each territory.

FZs provided a mechanism for rulers to generate new rent streams and reinforce political legitimacy. These objectives existed most notably in territories facing significant distributive responsibilities. In Dubai, members of the ruling Al Maktoum family headed the emirate's most important FZs: JAFZA, DIFC, and Dubai South. State-run investment vehicles and government-owned conglomerates – namely Dubai

[1231] North et al., *Violence,* 146.

Holding, Dubai World, Emirates Group, and the government of Dubai[1232] – owned the vast majority of the emirate's FZs. Similar links between FZs and the political leadership of the northern emirates reflected efforts to extend state power over economic activities. Direct descendants of rulers and deputy rulers managed FZ affairs in most of the northern emirates. Government control over FZs proved lucrative. In 2017, the Jebel Ali Free Zone in Dubai generated approximately $531 million in revenues.[1233] Total free zone trade in Fujairah consumed over half of the emirate's total foreign trade from 2013 to 2015. FZ activities in RAK constituted more than 16 percent to the emirate's GDP, and RAK Maritime City generated ~$65 million per annum in "revenue that is going to the government."[1234]

In territories where non-oil rents remained less essential for political legitimization or where the ruler presided over a smaller ruling family, FZs served as additional institutions for linking private-sector, non-oil development to the state. Omani FZ policies are regulated by a Free Zone Committee chaired by the Minister of Commerce and Industry, an appointee of Sultan Qaboos. The crown prince of Abu Dhabi, Mohammed bin Zayed, exercised commercial power through his chairmanship of the Abu Dhabi Executive Council, which confirmed FZ registrations in the emirate. The Qatari Minister of Economy and Commerce, Ahmed Bin Jassim Al Thani, doubled as deputy chairman of the QFC. Qatar's second FZ, the QSTP, operates under the authority of the Qatar Foundation, described as the "most comprehensive and ambitious" government-controlled NGO in Qatar.[1235] In Saudi Arabia, the first

[1232] Al Faris and Raimundo, *Economy,* 116.
[1233] Net profits in 2017 amounted to 86 percent of this revenue figure.
[1234] Interview 59, source closely associated with RAK Maritime City, *remote conversation in Dubai, UAE,* August 16, 2016.
[1235] Kamrava, "Royal," 407.

commercial contracts awarded for Neom involved the construction of several royal palaces.

Ruling elites also leveraged the spatial dimensions of FZ development to reinforce state autonomy in politically contentious areas. Sultan Qaboos utilized FZs in Dhofar, Sohar, and Duqm to mitigate political tensions arising from liberation movements, labor protests, and chronic underdevelopment. The development of Jebel Ali Free Zone in Dubai similarly "followed a territorial logic."[1236] Dubai's territorial absorption of the Jebel Ali area challenged the sovereignty of neighboring Abu Dhabi, and the subsequent FZ introduced avenues to circumnavigate strict federal regulations on commercial activity. Saudi Arabia's Neom project absorbed the strategic islands of Tiran and Sanafir that King Salman acquired in a controversial agreement with Egyptian President El-Sisi. Moreover, Kuwait's intention to transform five uninhabited northern islands into an integrated economic zone represents a strategy of "amplifying foreign stakes in continued Kuwaiti sovereignty over its northern territories."[1237]

Ruling elites did not, however, operate within a vacuum. Instead, the distribution of power between ruling families and business elites further shaped FZ development in the region. FZs provided ruling regimes with an opportunity, as is often the case with economic reforms, to reorganize rent-seeking structures in a way that disproportionately benefitted certain elite coalitions.[1238] This allowed "expertly accommodated"[1239] business elites to align their interests with FZ initiatives and embed themselves and their firms in FZ development processes. However, the degree of elite

[1236] Keshavarzian, "Geopolitics," 247.
[1237] Kristin Smith Diwan, "Kuwait's MbS: The Reform Agenda of Nasser Sabah al-Ahmed al-Sabah," *The Arab Gulf States Institute in Washington,* April 16, 2018, accessed May 3, 2018, http://www.agsiw.org/kuwaits-mbs-reform-agenda-nasser-sabah-al-ahmed-al-sabah/.
[1238] Heydemann, *Networks,* 2.
[1239] Young, *Political,* 133.

cooperation, and consequently the scale and scope of FZ proliferation, depended on the particular ruler-elite paradigm in each case study.

Dynamic engagement between the regime and a strong local business elite could rapidly expand FZ proliferation, as in Dubai, or hamper development, as in Kuwait. A small coterie of Emirati businessmen-cum-royal advisors in Dubai incorporated FZ development within their commercial portfolios over a period of decades. Leading merchant families, such as Al Tayer and Al Gurg, institutionalized FZ linkages by holding prominent posts in the Dubai Free Zone Council. Elements of Dubai's business community, which exercised a degree of autonomy from the regime, did resist FZ development when it contradicted their commercial interests. For example, the Dubai Ports and Customs Authority attempted to transform Dubai Textile City into a FZ, but the Textile Merchants Group rejected the proposal, fearing that it would require divulging too many "trade secrets."[1240] In Kuwait, a lengthy legal battle between a private FZ developer and the government demonstrated that "the incentives for the private sector are different."[1241] The National Real Estate Company, a private firm partially owned by the powerful Sultan Al-Essa family, managed and operated the Kuwait Free Trade Zone from 1998 until 2006. However, the government accused the private company of mismanagement, cancelled many of the commercial registrations within the FZ, and ultimately assumed control of the FZ.

FZs functioned as commitment devices for tribal allies and merchant families closely aligned with ruling families. The ruler and crown prince of Abu Dhabi utilized royal decrees to install tribal allies as board members in FZs or their parent companies.[1242] The corporate structures of Abu Dhabi's FZs disproportionately

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[1240] Shakir, "Textile," May 16, 2008.
[1241] Interview 44, analyst at International Trade Department, World Bank, *Washington, DC,* June 20, 2016.
[1242] Abu Dhabi Ports Company, "Mohammed."

consisted of elite elements of the ruling family's Bani Yas tribe, with particularly strong representation from the Al Muhairi, Al Qubaisi, Al Khoury, Al Marar, and Al Mazrouei families. Qatar's Al Emadi family, a key player in the finance and real estate industries, held top positions in the QFC. The management team of Manateq, Qatar's state-run FZ developer, likewise reflected the influence of important merchant families: the Al Kaabi, Al Marri, Al Naimi, and Al Emadi.[1243] Sultan Qaboos entrusted FZ affairs to the Al Shanfari family in Dhofar, the Sultan family of the prosperous Lawatiyyah community of merchants, and the Al Zawawi family. One of Saudi Arabia's oldest merchant families, the House of Alireza, received the concession to develop and manage the country's first FZ. Moreover, members of the well-established Al Midfa and Al Mazrouei families held prominent leadership roles in Sharjah's FZs. These tribal and family linkages reduced uncertainty in political and economic environments – a primary feature of interorganizational elite co-optation.[1244]

Interorganizational elite co-optation also explains why politically-connected firms received lucrative commercial contracts associated with FZ development. Abu Dhabi's twofour54 FZ awarded a $272 million construction contract to Aldar Properties. The developer's CEO, Mohamed Khalifa Al Mubarak, was a member of the FZ's board. Manateq awarded a contract worth approximately $151 million for a housing complex within Qatar's airport SEZ to the Ismail Bin Ali Group.[1245] The group's owner, Manateq's chief administration and finance officer, and the country's finance ministers all hailed from the Al Emadi family. Neighboring Bahrain's BLZ requires clients to access the country's new port, which Yusuf Bin Ahmed Kanoo Holdings Group, one of the region's largest family-owned conglomerates, manages

[1243] Manateq, "About."
[1244] Allen, "Structure," 393.
[1245] Khatri, "QR550"

through a JV with APM Terminals. Oman's Al Khonji Real Estate received usufruct rights for a 661,000-square meter plot of land in the Duqm SEZ, and the Saudi Binladin Group won the concession to operate as the contractor for the Jazan Economic City in Saudi Arabia. However, local business elites involved in FZ development could lose favor with ruling families or be replaced following a realignment of political institutions. Mohammed bin Salman imprisoned the owner of the Saudi Binladin Group and Amr Dabbagh, who was appointed by the late King Abdulaziz to manage Saudi ECs, during an anti-corruption campaign in November 2017.

While FZ policies enabled business elites to extract rents, domestic politics often constrained the absolute rent-seeking potential of FZs. Workforce nationalization policies within FZs offer a useful illustration of this dynamic. GCC territories with low ratios of national citizens to total residents, such as the UAE, Qatar, and Kuwait, possessed no restrictions on importing foreign labor into FZs. Territories with larger ratios of national citizens and higher unemployment rates, namely Oman, Bahrain, and Saudi Arabia, implemented workforce nationalization quotas within FZs. Initial Omanization rates within FZs ranged between ten and 25 percent, whereas onshore, private companies had to abide by rates closer to 35 percent. Saudi Arabia imposed a minor five percent Saudization requirement in ECs, and Bahrain offered five-year exemptions from Bahrainization requirements for FZ firms. Thus, FZs in this latter group of GCC states could not fully dissociate from labor market constraints in the domestic economy given the high political costs of unemployment.

FZs permitted foreign firms, an important segment of the business elite, to partner directly with GCC governments and partially bypass the historical role of local

merchants as private sector intermediaries, agents, and sponsors.[1246] Saudi Arabia's SAGIA assumed responsibility for foreign labor visas in ECs – new commercial hubs that many Saudi merchants believed would disrupt the country's traditional business centers. Omanis and "traditionalist RAK citizens"[1247] complained that foreign firms operating in FZs failed to adequately contribute to their host territories. A self-described Qatari Opposition coalition attempted to foment hostility toward the Qatari amir by exploiting similar local grievances surrounding foreign ownership issues relating to SEZs. The careful balancing of international and local investments through state-owned FZs indicated broad strategies to maximize commercialized rents rather than nurture greater private sector autonomy in GCC economies.

FZs as competitive spheres of global capital

Federal and regional competition for commercialized rents and the competing interests of global capital in GCC FZ development helped fill what Moritz identifies as a "significant gap within RST regarding the role and importance of international variables."[1248] The decentralized nature of FZ development in the UAE, wherein semi-autonomous economies operated through a federal structure, led to overlapping FZ initiatives. Dubai, Abu Dhabi, Fujairah, and Sharjah each operated separate media FZs within the country, and the RAK Media Free Zone closed following the stiff competition from neighboring emirates. The widespread perception that FZs in the northern emirates functioned as back doors to the UAE's economy led Dubai and Abu Dhabi to adopt measures that complicated the ability of foreign firms registered in other emirates to operate in the country's two largest economies.

[1246] This process resembles the manner in which hydrocarbon resources reduced the commercial power of merchants vis-à-vis Gulf ruling families.
[1247] Siberell, "Ras Al Khaimah: Open," Wikileaks Cable: 10DUBAI13_a.
[1248] Moritz, *Slick*, 295.

Competition between FZs likewise occurred within GCC territories. In Oman, foreign firm involvement in the management of FZs heightened domestic competition over the ability to set attractive commercial policies. The Sohar Freezone, a JV between the government, the Port of Rotterdam, and a minority Indian stakeholder, engaged in negotiations with the government to set FZ policies. As a result, FZ officials in Sohar believed that government-owned FZs in Oman could offer more attractive incentives for investors than those in FZs with private partners.[1249] Of all the GCC territories, only Dubai possessed a functional free zone council tasked with coordinating commercial activities between FZs, and the council's remit did not extend beyond Dubai's borders.

Similar competitive dynamics involving FZs unfolded in the realm of regional politics – thus confirming the notion that "each Gulf state needs to be located within a regional system, which interacts with the global economy as a whole and then is articulated internally through the network of intra-GCC trade."[1250] Saudi Arabia and Kuwait levied customs duties on goods produced in Bahrain's BIIP after its appearance in a global free zone ranking. BIIP officials later stressed that the zone represented an onshore special economic zone and consequently was entitled to customs duties exemptions within the GCC. Dubai's Jebel Ali Free Zone attempted to secure a 50 percent stake in Oman's Salalah Free Zone,[1251] but the deal collapsed amid Omani concerns that Dubai sought to discard undesirable FZ clients in the sultanate. FZs also featured as geostrategic tools in the 2017 diplomatic crisis between Qatar and its GCC neighbors. The closure of Saudi Arabia's land border with Qatar disrupted plans for Qatar's Al Karaana SEZ, and the UAE interrupted Qatari supply chains by blocking access to UAE FZs. In response to these exogenous shocks, Qatar's amir amended the

[1249] Interview 32, manager at Sohar Freezone office in Dubai, *Dubai, UAE*, May 19, 2016.
[1250] Hanieh, *Capitalism*, 128.
[1251] Oman Muscat, "Obstacles," Wikileaks Cable: 07MUSCAT939_a.

country's FZ legal framework to provide comprehensive tax exemptions from all profits on traded goods in transit, exemptions from the commercial agency system, and greater firm control over workforce hiring.[1252]

Regional agreements and global institutions served as additional factors affecting FZ development. The gradual implementation of the GCC customs union protocols eroded the free-trade status of Dubai and prevented Abu Dhabi's government from issuing individual customs duty exemptions, thus encouraging FZ creation in both locations. Since FZs operated outside of the customs union, countries with substantial domestic markets, like Saudi Arabia, or that exported domestically-produced goods to other GCC economies, such as Bahrain, did not focus on FZ development as key pillars of economic strategies. Instead, these countries marketed regional agreements that offered comparable duty exemptions for onshore firms. The introduction of VAT, an initiative agreed upon by all GCC member states but only implemented by Saudi Arabia and the UAE as of 2018, threatened the low-tax environment in FZs. The UAE responded by codifying a list of designated zones to exempt specific FZs from VAT liability.

The influence of international institutions also affected FZ development in the region. With the exception of Saudi Arabia, all of the GCC member states joined the WTO between 1995 and 2000. The Saudi-WTO negotiations, which began in the mid-1990s and concluded in 2005, overlapped with a period of accelerated FZ proliferation in the GCC. Rather than creating varied regulatory environments through new FZ authorities, Saudi Arabia instead focused on streamlining reforms and centralizing commercial processes under SAGIA. This economic strategy occurred during the reign

[1252] marsūm bi-qānūn raqm 21 li-sanat 2017, "bi-ta'dīl ba'ḍ aḥkām al-qānūn raqm 34 li-sanat 2005…," (decree regarding Law 21 of 2017, "Amending some provisions of Law 34 of 2005,") Doha, Qatar: Qatar Legal Portal, November 6, 2017. [Arabic]

of the late King Abdullah, under which, according to the World Bank, Saudi Arabia's "broad reforms of national rules and bureaucracies" represented one broad GCC strategy for liberalizing FDI, whereas "the other is to create discrete enclaves – or zones – with independent, liberalized regulations and well-established infrastructure."[1253]

The composition of investments within FZs often conflicted with domestic, regional, and international foreign policy agendas. This conflict applied especially to Iranian investments in FZs across the GCC. FZs in the northern emirates of Sharjah, RAK, and Ajman targeted Iranian investments despite the UAE's hostile foreign policy stance towards the Islamic Republic. Confronting trade sanctions against Iran in 2010, the RAK Free Trade Zone discontinued new licenses for Iranian firms; however, Dubai's Jebel Ali Free Zone continued to accept applications from Iranian companies.[1254] Iranian firms also invested in the Duqm SEZ project, and the Omani government sought to increase commercial engagement between Omani and Iranian FZs. In Qatar, government officials viewed the QFC as a transparent mechanism for monitoring limited Iranian investments, but American government personnel perceived Qatari FZs as a potential conduit for Iranian influence in the region. Kuwait's plans to transform five uninhabited islands in the northeast section of the country into an integrated economic zone likewise targeted the Iranian market as a key commercial incentive. These subtle forms of economic engagement with Iran contrasted with a broader GCC foreign policy increasingly defined by Saudi Arabia's antagonistic stance towards Iran.

[1253] The World Bank, *Economic Integration in the GCC* (Washington DC: World Bank Group, 2010), 17.
[1254] Arnold, "RAK."

FZs helped GCC territories forge new relations beyond Iran and accomplished security-related objectives. Saudi Arabia and Dubai, more than other GCC territories, leveraged the spatial and locational characteristics of FZs to advance political agendas in international spheres. Saudi FZ proposals announced throughout 2017 reflected the country's objectives in a changing geopolitical environment: reinforcing relations with non-GCC states amidst a regional crisis with Qatar, signaling post-war reconstruction efforts in Yemen, and countering Iranian influence in Iraq. Dubai wields substantial geopolitical might beyond the immediate confines of the GCC through its oversight of international FZ development projects, especially those in eastern Africa. EZW, the subsidiary of the state-owned DP World that manages Jebel Ali Free Zone, oversaw FZ contracts in Somaliland, Djibouti, Egypt, and Libya. The port and FZ concession agreements often included adjoining UAE military bases, which strengthened the country's access to strategic waterways.

Theoretical implications

As the first political economy analysis of the FZ system in the GCC, this dissertation offers a substantive contribution to our understanding of state-business relations in the rentier economies of the GCC. Keshavarzian's comparison of JAFZA in Dubai and Kish FTZ in Iran laid an important foundation for incorporating FZs into rentier literature,[1255] while Davidson introduced the notion of a "new rentier" elite involved in FZ development across the UAE.[1256] Other revisionist accounts of RST focused on political opposition[1257] or successful SOEs[1258] in GCC states; however, the available literature often lacked holistic mappings of rent generation and rent

[1255] Keshavarzian, "Geopolitics," 263-89.
[1256] Davidson, *The United Arab Emirates: A Study*, 232.
[1257] Freer, "Rentier," 479-500; Moritz, *Slick*.
[1258] Hertog, "Defying," 261-301.

distribution in both hydrocarbon-scarce and hydrocarbon-abundant GCC territories. In contrast, this dissertation systematically examined FZ development across the entire GCC region and revealed how the region's elite actors embedded themselves in these processes. The research findings produced broad theoretical contributions relating to the persistence of rentierism, the role of the private sector, and the durability of FZs in the GCC.

The persistence of rentierism in the GCC and economic diversification away from hydrocarbons are not mutually exclusive processes. While commercial regulations and legal frameworks can change rapidly in the GCC, owing to highly-centralized decision-making processes, underlying institutional arrangements change at a slower pace. For example, the income from Dubai's Jebel Ali Free Zone demonstrates that FZ revenue, at its essence, remains "a reward for ownership of all natural resources."[1259] Lease rental income comprised approximately 85 percent of the FZ's revenue and the remaining 15 percent was comprised of licensing and registration fees.[1260] While GCC FZs may rely on non-traditional sources of rent, they nevertheless perpetuate traditional rent-seeking structures. FZs provide cushy bureaucratic roles, commercial exemptions, generous subsidies, and lucrative contracts for distribution to a wide array of social actors. The degree of political support afforded to these objectives depends on the centrality of commercialized rents and the distribution of political power in each enforcement environment.

Increased private sector activity associated with FZs does not necessarily translate into greater autonomy from the state. The vast majority of FZs in the GCC are state-owned, public-sector initiatives, making FZs unlikely vehicles for increasing

[1259] Beblawi and Luciani, *Rentier State*, 49.
[1260] DP World Limited, *Proposed*, 9.

private sector autonomy in the GCC. The limited attempts to increase private ownership of FZ initiatives – such as Kuwait's FTZ, Oman's Salalah FZ, and Saudi Arabia's ECs – resulted in legal conflicts or situations requiring the state to supply greater funding than originally agreed. Ruling family members or individuals appointed by rulers held top bureaucratic posts in FZs, GCC governments retained substantial autonomy over setting FZ policies, and government councils often possessed final authority to approve firm registrations in FZs. Moreover, the viability of many FZ enterprises depended upon the consumption of public resources – such as real estate, electricity, and industrial inputs – at below-market rates.

FZs have proven durable structural elements within the GCC region, capable of coexisting with broader economic reform agendas. Despite the UAE's early adoption of FZs and their widespread proliferation, the country remained one of the last GCC members to institute foreign ownership reforms, contradicting the view of FZs as "catalysts for transition from a planned to a market economy."[1261] Expansive FZ proliferation in Dubai and the northern emirates created a constituency of social actors that dually benefitted from strict sponsorship and commercial agency regulations, on the one hand, and employment opportunities in the public sector on the other hand. FZs also continued to emerge in countries that had previously implemented country-wide economic reforms rather than invest substantially in FZs, offering further evidence that economic measures are not the only factors behind FZ development. Both Saudi Arabia and Kuwait, through their respective SAGIA and Kuwait Direct Investment Promotion Authority, substantially relaxed foreign ownership restrictions. Yet these reforms did not prevent each country from launching ambitious FZ initiatives in 2017.

[1261] John M. Litwack and Yingyi Qian, "Balanced or Unbalanced Development: Special Economic Zones as Catalysts for Transition," *Journal of Comparative Economics*, 26 (1998): 118.

Practical applicability

This dissertation offers a scholarly foundation for assessing both the ongoing development and creation of new FZs in the GCC. Several projects in Duqm, Oman and across Qatar – namely Ras Bufontas, Um Alhoul, and Al Karaana – remain in the early stages of development. The future of the Al Karaana SEZ, located near the Qatari-Saudi border, depends on the progress of Qatar's relations with Saudi Arabia. Both Saudi Arabia and Kuwait announced new FZ plans as part of long-term megaprojects. Saudi Arabia's high-profile announcement of Neom garnered international media attention, but the country also signaled intentions to build FZs on its borders with Yemen and Iraq. Meanwhile, the Kuwait Direct Investment Promotion Authority will manage the contentious KFTZ and oversee the development of nascent FZs in Al Abdali and Al Nuwaiseeb. The Kuwaiti government is simultaneously pushing ahead with long-delayed plans to transform five islands in northern Kuwait into an integrated economic zone.

The UAE, a regional hegemon of FZ development, continues to contribute to the region's growing FZ system. In July 2018, the *Emirates News Agency* announced that 44 FZs, either in operation or under implementation, existed across the country.[1262] Sharjah alone introduced three new FZs into the regional system throughout 2017. The emirate inaugurated Sharjah Media City and Sharjah Publishing City and appointed board members for the Sharjah Research Technology and Innovation Park, a science-focused FZ planned to start operations in 2019. Dubai opened an e-commerce FZ known as CommerCity, and Ajman launched the Ajman Media City Free Zone. Having entered a competitive media environment, Ajman's newest FZ removed security

[1262] Emirates News Agency, "44 specialized free zones in operation or under implementation across the emirates," *WAM*, July 22, 2018, accessed July 23, 2018, http://wam.ae/ar/details/1395302700158. [Arabic]

deposit requirements connected with work visas to attract clients.[1263] Researchers seeking to understand the politics behind other economic development strategies in the GCC will find in this dissertation many comparative case studies.[1264]

Free Zone	Location	Holding Company / Entity	Announced	Status[1265]
Ras Bufontas	Doha, Qatar	Manateq (SOE)	2014	Under Construction
Um Alhoul	South of Al Wakrah, Qatar	Manateq (SOE)	2015	Under Construction
Al Karaana	Between Doha and Abu Samra, Qatar	Manateq (SOE)	2015	Design Stage
Integrated Economic Zone	Northern islands of Kuwait	Silk City Project Company (SOE) & Government of Kuwait (GOVT)	2015	Design Stage
Ajman Media City Free Zone	Ajman, UAE	Government of Ajman (GOVT)	2015	Under Construction
Sharjah Media City Free Zone	Sharjah, UAE	Sharjah Media Council (GOVT)	2017	Operating
Sharjah Publishing City	Sharjah, UAE	Sharjah Book Authority (GOVT)	2017	Operating
Sharjah Research Technology and Innovation Park	Sharjah, UAE	AUS Enterprises (SOE)	2017	Under Construction
FTZs at Abdali and Nuwaiseeb	Al Abdali and Al Nuwaiseeb, Kuwait	Kuwait Direct Investment Promotion Authority (GOVT)	2017	Under Construction
RAKEZ	Ras Al Khaimah, UAE	Government of RAK (GOVT)	2017	Operating
CommerCity	Dubai, UAE	Dubai Airport Freezone & wasl Asset Management Group (SOEs)	2017	Design Stage
Neom	Tabuk, Saudi Arabia	Public Investment Fund of Saudi Arabia (SWF)	2017	Design Stage

Table 16: GCC FZs under construction or developed after the completion of fieldwork

The dissertation also illustrates the links between FZs and economic reforms taking place in the GCC. Foreign ownership and taxation reforms reduce available rents associated with FZs, and the argument by North et al. that "[t]he appropriate counterfactual about eliminating rents is not a competitive market economy…but a society in disorder and violence,"[1266] foreshadows the potential for social conflict following such changes. Changes to foreign ownership laws, like those enacted in the UAE in May 2018, wherein the state paved the way for full foreign ownership in

[1263] Sam Bridge, "Ajman's new media free zone signs deals with Indian, Egyptian partners," *Arabian Business*, July 16, 2018, accessed July 18, 2018, https://www.arabianbusiness.com/media/400884-ajmans-new-media-free-zone-signs-deals-with-indian-egyptian-partners.
[1264] Refer to Appendix A.2. for list of newly established FZs and those under construction.
[1265] The status of each FZ project refers to July 2018 and is based on remote updates and online research. These FZs were either not operational during the author's fieldwork or emerged after the author left the field.
[1266] Douglass C. North et al., *In the Shadow of Violence: Politics, Economics, and the Problems of Development* (Cambridge UK, Cambridge University Press, 2013), 7.

specific sectors, threaten the competitive advantage of FZs[1267] and disproportionately affect territories that rely heavily on commercialized rents from FZs. In response to these reforms, the Dubai Free Zone Council announced plans to lower fees, further ease business processes, and introduce new e-commerce regulations.[1268] The UAE's federal government must decide on the sectors affected by the new foreign ownership law, and FZ dynamics will play a critical role in these negotiations. As for tax reforms, Qatar, Kuwait, Oman, and Bahrain delayed a GCC-wide initiative to implement VAT in 2018. Thus, it remains to be seen whether FZs will function as tax havens for local and international business elites amidst broader taxation reforms in the domestic economy.

While this study applies most directly to analyses of ongoing and future FZ development in the GCC, the findings can inform works on FZs in other states across the greater Middle East and North Africa. Iran's seven FTZs and sixteen SEZs serve as important barometers for foreign investor confidence in the Islamic Republic.[1269] Indeed, a substantial portion of FZ trade bound for Iran passes through Dubai as reexports. Unlike Iran, where FZs operate under various ministries, Egyptian FZs function under the authority of the General Authority for Investment and Free Zones – creating "a total government monopoly for zone development, financing, operation and regulation."[1270] Egypt possesses nine operating FZs,[1271] and the country contains additional qualifying industrial zones (QIZs) that enable tariff-free access to U.S.

[1267] "Free zones in the UAE 'will confront survival challenges' with the new company ownership law," *Arabian Business*, May 28, 2018, accessed May 29, 2018, http://arabic.arabianbusiness.com/content/340920. [Arabic]
[1268] Bernd Debusmann Jr., "Dubai free zones review initiatives to boost foreign investment," *Arabian Business*, May 28, 2018, accessed May 29, 2018, http://www.arabianbusiness.com/politics-economics/397650-dubai-free-zones-review-initiatives-to-boost-foreign-investment.
[1269] Iranian FTZs promote exports and foreign investment, while the SEZs enhance domestic infrastructure and internal trade.
[1270] Akinci and Crittle, *Special,* 49.
[1271] General Authority for Investment and Free Zones, "Investment Regimes: Free Zones," *GAFI*, accessed May 8, 2018, http://www.gafi.gov.eg/English/StartaBusiness/InvestmentZones/Pages/FreeZones.aspx.

markets by incorporating Israeli inputs. Turkey's approximately 20 FZs display a strong propensity for private ownership and management, providing a useful contrast to the GCC trend of public ownership. Each of these regional heavyweights actively sought to strengthen FZ linkages with GCC countries: Iranian and Omani FZ officials meet regularly, Egypt and Saudi Arabia are collaborating over Neom, and Turkey proposed a Qatari-funded FZ in Doha. In this context, GCC FZs dually serve as useful comparative cases and informative international linkages to FZs in the MENA region and beyond.

Every academic study must recognize the limitations that accompany original research of complex systems. The parameters of independent variables can change abruptly: hydrocarbon explorations in Bahrain adjusted the small country's estimated proven oil reserves from 125 million barrels to over 80 billion barrels in early 2018. Systems also evolve endogenously and experience exogenous shocks over time.[1272] And while the GCC's exceptional demographic structures and prevailing FZ models often represent a stark contrast with other global case studies, this study nevertheless offers an adaptable framework for examining FZ development on a broad level. The consequent analytical framework i) contextualizes the overarching economic structures of host economies, ii) identifies key social actors in the domestic economy, and iii) incorporates exogenous influences as part of the analysis. By employing a similar analytical framework, future researchers can unpack the political economy of FZs in other regional blocs, like the Arab Maghreb Union or the Central American Integration System. These regional groupings need not necessarily comprise rentier economies, although the transferability of the concept of commercialized rents would be most useful in rentier case studies.

[1272] Eggertsson, "Quick," 3.

The applicability of this research also extends beyond the confines of academia. A comparative study of FZ development benefits local policymakers, regional diplomats, and global analysts. The study also serves as a useful guide for business practitioners and global executives seeking to understand how the international FZ system – of which the GCC occupies an important sub-system – supports supply and value chain operations. Rather than enumerating commercial incentives, this dissertation explicates the institutional histories, domestic politics, and international relations that inform FZ development in the region. The end product reflects an initial step towards clarifying the precise roles of FZs in the complex and dynamic interactions between rentiers, reformers, and global capitalists across the GCC.

Sources and Bibliography

Interviews

The author personally conducted all interviews and kept them strictly confidential; however, professional affiliations and interview locations provide background and context for the interview subjects. General references to "staff members" resulted from the evolution of a system that balances accessibility against confidentiality. The first 16 interviews took place during my MPhil research in the UAE during the summer of 2014, whereas the remaining interviews occurred over the course of DPhil fieldwork during 2016 and early 2017.

Interview 1. Director of a defense consultancy. *Dubai.* July 14, 2014.

Interview 2. Former head of HR for a major UAE bank. *Dubai.* July 30, 2014.

Interview 3. HR consultant in oil and gas sector. *Dubai.* July 30, 2014.

Interview 4. Former advisor in Dubai's Executive Office. *Dubai.* August 6, 2014.

Interview 5. Head of HR for a UAE financial authority. *Dubai.* August 7, 2014.

Interview 6. Vice chairman of major real estate company. *Abu Dhabi*. August 7, 2014.

Interview 7. Regional director of a graduate business school. *Dubai.* August 14, 2014.

Interview 8. Project manager from an economic think tank. *Dubai.* August 14, 2014.

Interview 9. Consultant specializing in Saudization for major HR consultancy. *Dubai.* August 19, 2014.

Interview 10. Manager of major Dubai bank. *Dubai.* August 19, 2014.

Interview 11. Director of HR for a major UAE hotel group. *Oxford*. October 9, 2014.

Interview 12. Owner of a consultancy specializing in Emiratization. *Oxford*. October 30, 2014.

Interview 13. A member of one of the Emirati royal families. *Oxford*. November 4, 2014.

Interview 14. Singaporean diplomat specializing in GCC youth issues. *Oxford.* November 25, 2014.

Interview 15. Vice president of HR for an oil and gas company in Abu Dhabi. December 5, 2014.

Interview 16. Former UK Ambassador to the UAE. *Oxford.* December 12, 2014.

Interview 17. Owner of British consulting firm registered in Abu Dhabi's Masdar Free Zone. *Dubai.* March 24, 2016.

Interview 18. Senior member of marketing team from a major Dubai free zone. *Dubai.* March 24, 2016.

Interview 19. Emirati manager at Jebel Ali Free Zone. *Dubai.* March 31, 2016.

Interview 20. Director of Dubai Silicon Oasis. *Dubai.* April 3, 2016.

Interview 21. Program head at Hamriyah Free Zone. *Sharjah, UAE.* April 12, 2016.

Interview 22. British owner of consulting firm registered in Abu Dhabi's Masdar Free Zone. *Abu Dhabi.* April 14, 2016.

Interview 23. Manager at Masdar Free Zone. *Abu Dhabi.* April 14, 2016.

Interview 24. Senior corporate manager of Fujairah Free Zone. *Fujairah, UAE.* April 18, 2016.

Interview 25. Sales representative of Creative City. *Fujairah, UAE*. April 18, 2016.

Interview 26. Director at Bahrain Center for Strategic, International and Energy Studies (Derasat). *Awali, Bahrain*. April 26, 2016.

Interview 27. Consultant for Bahrain International Investment Park. *Hidd, Bahrain*. April 27, 2016.

Interview 28. Economic officer at the Economic Development Board. *Manama, Bahrain*. April 27, 2016.

Interview 29. Partner at Dubai-based law firm. *Dubai, UAE*. May 11, 2016.

Interview 30. Managing director of an economic zones consultancy and secretary general of a global EPZ association. *Remote call from Dubai*. May 11, 2016.

Interview 31. Manager at Gold and Diamond Park. *Dubai, UAE*. May 15, 2016.

Interview 32. Manager at Sohar Freezone office in Dubai. *Dubai, UAE*. May 19, 2016.

Interview 33. Managing director of an economic zones services company sponsored by TECOM. *Dubai, UAE*. May 23, 2016.

Interview 34. Partner at UK training company based in Abu Dhabi but registered to RAK Free Zone. *Remote conversation from Dubai, UAE*. May 28, 2016.

Interview 35. Former consultant at JAFZA and managing director of consultancy focusing on special economic zones. *Dubai, UAE*. May 31, 2016.

Interview 36. Manager of Sohar Port and Free Zone. *Sohar, Oman*. June 6, 2016.

Interview 37. Business editor at Omani daily newspaper. *Muscat, Oman.* June 7, 2016.

Interview 38. Public service department officer of Duqm Special Economic Zone. *Duqm, Oman.* June 8, 2016. [Arabic]

Interview 39. Staff member at Salalah Free Zone. *Salalah, Oman*. June 9, 2016.

Interview 40. Senior industrial estate and free zone manager. *Salalah, Oman.* June 9, 2016.

Interview 41. Staff member from Duqm Special Economic Zone. *Muscat, Oman.* June 12, 2016.

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Interview 50. Manager at Dubai Design District. *Dubai, UAE.* July 25, 2016.

Interview 51. Manager at Dubai International Academic City. *Dubai, UAE.* July 25, 2016.

Interview 52. Senior corporate manager of Dubai Healthcare City combined with remote interview question responses. *Dubai, UAE.* July 26, 2016.

Interview 53. Manager of Bahrain International Investment Park. *Remote conversation in Dubai, UAE.* July 26, 2016.

Interview 54. Senior Corporate Manager of World Free Zones Organization. *Dubai, UAE.* August 1, 2016.

Interview 55. A director from Hamriyah Free Zone. *Sharjah, UAE.* August 11, 2016. [Arabic]

Interview 56. Staff member at Ajman Free Zone. *Ajman, UAE.* August 11, 2016.

Interview 57. Staff member at Sharjah International Airport Free Zone. *Sharjah, UAE.* August 11, 2016.

Interview 58. Manager at Ras Al Khaimah Investment Authority (RAKIA). *Ras Al Khaimah, UAE.* August 14, 2016.

Interview 59. Source closely associated with RAK Maritime City. *Remote conversation in Dubai, UAE.* August 16, 2016.

Interview 60. Senior manager at Dubai Auto Zone. *Ras Al Khor, Dubai, UAE.* August 18, 2016.

Interview 61. Staff member at Manateq. *Doha, Qatar.* August 21, 2016

Interview 62. Manager at Qatar Science and Technology Park. *Doha, Qatar.* August 21, 2016

Interview 63. Director at Qatar Financial Centre. *Doha, Qatar.* August 21, 2016

Interview 64. Manager at Um Alhoul Special Economic Zone. *Um Alhoul Site*, *Doha, Qatar.* August 22, 2016.

Interview 65. Business editor at The Peninsula newspaper. *Doha, Qatar.* August 22, 2016.

Interview 66. Director at Bahrain Investment Wharf. *Hidd, Bahrain.* August 23, 2016.

Interview 67. Senior corporate manager at Bahrain Logistics Zone. *Hidd, Bahrain.* August 23, 2016.

Interview 68. Business editor at Gulf Daily News. *Manama, Bahrain.* August 24, 2016.

Interview 69. Staff at Bahrain Business Incubator Centre. *Hidd, Bahrain.* August 23, 2016.

Interview 70. Senior free trade zone official, Ministry of Commerce and Industry. *Kuwait City, Kuwait.* August 25, 2016. [Arabic]

Interview 71. Head of major Kuwaiti newspaper. *Kuwait City, Kuwait.* August 25, 2016.

Interview 72. Economic specialist, U.S. Embassy Kuwait. *Remote conversation from Jerusalem*. September 6, 2016.

Interview 73. Commercial service officer, U.S. Embassy in Doha, Qatar. *Remote conversation from Jerusalem*. September 21, 2016.

Interview 74. Head of business and trade Council on Saudi Arabia. *Remote conversation from Oxford.* November 21, 2016.

Interview 75. Former U.S. Ambassador to Bahrain. *Washington, D.C.* January 17, 2018.

Interview 76. Senior U.S. trade official responsible for the Middle East and North Africa. *Washington, D.C.* January 29, 2018.

Interview 77. Dubai-based sanctions investigator for financial crime compliance department of a European bank. *Remote conversation from Washington, D.C.* February 15, 2018.

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Appendices

Appendix A – Free Zone Distribution

A.1. Comprehensive list of operating FZs (through 2016)

Operating Free Zones in the GCC	Country	City	Established	Holding Company/Ownership
Jebel Ali Free Zone	UAE	Dubai	1985	Economic Zones World / Dubai World
Fujairah Free Zone	UAE	Fujairah	1987	Fujairah Department of Economy
Umm Al Quwain Free Trade Zone	UAE	Umm Al Quwain	1987	Government of Umm Al Quwain
Ajman Free Zone	UAE	Ajman	1988	Government of Ajman
Hamriyah Free Zone	UAE	Sharjah	1995	Government of Sharjah
Sharjah Airport International Free Zone	UAE	Sharjah	1995	Government of Sharjah
Kuwait Free Trade Zone	Kuwait	Kuwait City	1995	Kuwait Ports Authority
Dubai Airport Free Zone	UAE	Dubai	1996	Emirates Group
Al Mazunah Free Zone	Oman	Al Mazunah	1999	Public Establishment for Industrial Estates
Dubai Internet City	UAE	Dubai	1999	TECOM / Dubai Holding
Tusdeer Bonded and Re-Export Zone	Saudi Arabia	Jeddah	1999	Saudi Industrial Services Company / Xenel
Dammam Bonded and Reexport Zone	Saudi Arabia	Dammam	2000	Saudi Development And Re-Export Services Company
Dubai Auto Zone	UAE	Dubai	2000	Economic Zones World / Dubai World
Dubai Media City	UAE	Dubai	2000	TECOM / Dubai Holding
Ras Al Khaimah Free Trade Zone	UAE	RAK	2000	Government of RAK
Dubai Gold and Diamond Park	UAE	Dubai	2001	Emaar Malls / Investment Corporation of Dubai
Dubai Healthcare City	UAE	Dubai	2002	Dubai Holding
Dubai Multi Commodities Centre	UAE	Dubai	2002	Dubai World
Knowledge Oasis Muscat	Oman	Muscat	2003	Public Establishment for Industrial Estates
Dubai Production City	UAE	Dubai	2003	TECOM / Dubai Holding
Dubai Knowledge Park	UAE	Dubai	2003	TECOM / Dubai Holding
International Humanitarian City	UAE	Dubai	2003	Government of Dubai
Dubai Flower Zone	UAE	Dubai	2004	Dubai Holding
Dubai International Financial Centre	UAE	Dubai	2004	Government of Dubai
Dubai Silicon Oasis	UAE	Dubai	2004	Emirates Group
Qatar Financial Centre	Qatar	Doha	2005	Government of Qatar
Bahrain International Investment Park	Bahrain	Hidd	2005	Bahrain Ministry of Industry and Commerce
Qatar Science and Technology Park	Qatar	Doha	2005	Qatar Foundation

Operating Free Zones in the GCC (cont.)	Country	City	Established	Holding Company/Ownership
Dubai Science Park	UAE	Dubai	2005	TECOM / Dubai Holding
Dubai Studio City	UAE	Dubai	2005	TECOM / Dubai Holding
RAK Investment Authority Free Zone	UAE	RAK	2005	Government of RAK
Salalah Free Zone	Oman	Salalah	2006	Oman Ministry of Finance
Khalifa Industrial Zone Abu Dhabi	UAE	Abu Dhabi	2006	Abu Dhabi Ports Company
Masdar Free Zone	UAE	Abu Dhabi	2006	Mubadala
Dubai South	UAE	Dubai	2006	Emirates Group
Twofour54	UAE	Abu Dhabi	2007	Media Zone Authority - Abu Dhabi
Dubai International Academic City	UAE	Dubai	2007	TECOM / Dubai Holdings
Dubai Outsource Zone	UAE	Dubai	2007	TECOM / Dubai Holding
Meydan	UAE	Dubai	2007	Government of Dubai
Creative City (Fujairah Media City Free Zone)	UAE	Fujairah	2007	Government of Fujairah / Fujairah Culture and Media Authority
Bahrain Logistics Zone	Bahrain	Hidd	2008	Bahrain Ministry of Transportation
Logistics District	UAE	Dubai	2009	Emirates Group
RAK Maritime City	UAE	RAK	2009	Government of RAK
The Sohar Free Trade Zone	Oman	Batinah	2010	Sohar Industrial Port Company / Port of Rotterdam
Abu Dhabi Airport Free Zone	UAE	Abu Dhabi	2010	Abu Dhabi Airports Company
Duqm Special Economic Zone	Oman	Duqm	2011	Government of Oman
Sharjah Healthcare City	UAE	Sharjah	2012	Government of Sharjah
Abu Dhabi Global Market	UAE	Abu Dhabi	2013	Abu Dhabi Financial Service Regulatory Authority
Dubai Design District	UAE	Dubai	2013	TECOM / Dubai Holding
Dubai World Trade Centre Free Zone	UAE	Dubai	2015	Investment Corporation of Dubai
Dubai Wholesale City	UAE	Dubai	2016	TECOM / Dubai Holding

This table represents a comprehensive list of FZs operating in the GCC by the end of the author's fieldwork. Since the author could visit these FZs and speak to officials about their operations, these FZs remain the primary observations of the dissertation.

A.2. FZs developed after 2016 and those under construction

Free Zone	Location	Holding Company	Announced	Status[1273]
Ras Bufontas	Doha, Qatar	Manateq (SOE)	2014	Under Construction
Um Alhoul	South of Al Wakrah, Qatar	Manateq (SOE)	2015	Under Construction
Al Karaana	Between Doha and Abu Samra, Qatar	Manateq (SOE)	2015	Design Stage
Integrated Economic Zone	Northern islands of Kuwait	Silk City Project Company (SOE) & Government of Kuwait	2015	Design Stage
Ajman Media City Free Zone	Ajman, UAE	Government of Ajman	2015	Under Construction
Sharjah Media City Free Zone	Sharjah, UAE	Sharjah Media Council (Government)	2017	Operating
Sharjah Publishing City	Sharjah, UAE	Sharjah Book Authority (Government)	2017	Operating
Sharjah Research Technology and Innovation Park	Sharjah, UAE	AUS Enterprises (SOE)	2017	Under Construction
FTZs at Abdali and Nuwaiseeb	Abdali and Nuwaiseeb, Kuwait	Kuwait Direct Investment Promotion Authority	2017	Under Construction
RAKEZ	Ras Al Khaimah, UAE	Government of RAK	2017	Operating
CommerCity	Dubai, UAE	Dubai Airport Freezone & wasl Asset Management Group (SOEs)	2017	Design Stage
Neom	Tabuk, Saudi Arabia	Public Investment Fund of Saudi Arabia (SWF)	2017	Design Stage

A.3. Onshore investment parks and commercial conduits

Entity	Location	Established	Holding Company	Role/Purpose
Dubai Investment Park	Dubai, UAE	1997	Dubai Investments PJSC	Mixed-use industrial, commercial and residential complex requiring sponsors
Dubai Creative Clusters Authority	Dubai, UAE	2000	TECOM / Dubai Holdings	A conduit for firms looking to register in one of TECOM's business communities
Dubai Industrial Park	Dubai, UAE	2004	TECOM / Dubai Holdings	A manufacturing district; Dubai's Department of Economic Development issues licenses and registration
Bahrain Investment Wharf	Al Hidd, Bahrain	2006	Tameer (Al Khaleej Development Company) / Inovest	A private real estate venture
Dubai Maritime City	Dubai, UAE	2007	Dubai World	A specialized maritime cluster covering industry, regulation, and infrastructure
U.S.A. Regional Trade Center	Sharjah, UAE	2011	Government of Sharjah / SS General Trading	A conduit for American firms looking to access Sharjah/UAE markets
National Industries Complex	Dubai, UAE	2016	Economic Zones World / Dubai World	An industrial investment hub for Emirati and GCC nationals

These commercial entities were often included in online FZ lists; however, the author could not locate evidence that these entities offered FZ services, such as exemptions related to foreign ownership requirements, workforce nationalization regulations, and customs duties.

[1273] The status of each FZ project is based on remote updates and online research as of July 2018. These FZs were either not operational during the author's fieldwork or emerged after the author left the field.

A.4. FZ closures and unclear operating status

Free Zones	Location	Established	Status	Intended Purpose	Commercial Context
Mina Salman Free Zone	Manama, Bahrain	1962	Unclear	Facilitate duty-free import of raw materials and machinery by Bahraini-registered firms	The new Khalifa bin Salman Port replaced Mina Salman as the Bahrain's main commercial port
North Sitra Industrial Area Free Zone	Sitra, Bahrain	N/A	Unclear	Facilitate duty-free import of raw materials and machinery by Bahraini-registered firms	Much of the non-petroleum industrial activity has shifted toward Al Hidd
RAK Media FTZ	RAK, UAE	2006	Closed	Boost RAK's media industry by offering cheap licenses for media professionals	Entered crowded media FZ market prior to the 2008 financial crisis

A site visit to the RAK Media FTZ confirmed that it had closed; however, the author could neither find concrete evidence that the Bahraini FZs had ceased operations nor that they continued to function. It is likely that companies near the old port and in Sitra retained exemptions from customs duties, while the original FZs have ceased to function as consolidated commercial entities.

A.5. FZ mergers and rebranding

New Entity	Original Entity	Location	Yr. of Change	Context
Umm Al Quwain Free Trade Zone	Ahmed Bin Rashid Free Zone	Umm Al Quwain, UAE	2014	The rebranding appears to reflect mainly a name change by the government
Dubai Science Park	EnPark & DuBiotech	Dubai, UAE	2015	TECOM, the owner of both original entities, decided to merge the FZs under a joint umbrella
National Industries Complex (Non-FZ)	TechnoPark (Quasi-FZ)	Dubai, UAE	2016	Law 3 of 2016 transformed TechnoPark, created in 2003 by royal decree, into National Industries Complex
RAKEZ	RAK FTZ & RAKIA	RAK, UAE	2017	RAKEZ consolidated two of the emirate's FZs and manages both free zone and non-free zone clients

Appendix B – Population Estimates

B.1. Populations in GCC countries

Country	Date/ period	Total population	Nationals	Non-nationals	% in total population	
					Nationals	Non-nationals
Bahrain	mid-2014	1,314,562	630,744	683,818	48.0	52.0
Kuwait	31 March 2015	4,161,404	1,283,726	2,877,678	30.8	69.2
Oman	25 March 2015	4,149,917	2,324,327	1,825,590	56.0	44.0
Qatar	April 2010	1,699,435	243,019	1,456,416	14.3	85.7
Saudi Arabia	mid-2014	30,770,375	20,702,536	10,067,839	67.3	32.7
UAE	mid-2010	8,264,070	947,997	7,316,073	11.5	88.5
Total*		50,359,763	26,132,349	24,227,414	51.9	48.1

Source: Gulf Labour Markets and Migration, "GCC: Total population and percentage of nationals and non-nationals in GCC countries (national statistics, 2010-2015)," *GLMM*, accessed July 20, 2018, http://gulfmigration.eu/gcc-total-population-and-percentage-of-nationals-and-non-nationals-in-gcc-countries-national-statistics-2010-2015-with-numbers/?print=pdf.

B.2. Populations in UAE territories

Emirate	Total Population (2015) [1274]	Emirati Population (2015)
Abu Dhabi	2,784,490	536,741(19.3%)
Dubai	2,446,675	222,875 (9.1%)[1275]
Northern Emirates	3,570,538	N/A
Total	8,801,703	N/A

Sources: Abu Dhabi e-government, Dubai Statistics Center, and annual statistics report from the UAE Ministry of Labour.

[1274] Since most official population figures later than 2005 are estimates, the author derived the total UAE population estimate for 2015 by calculating an average growth rate of 1.169 percent for the years 2012, 2013, and 2014 and then applying this growth rate to the 2014 estimate. The author opted to use local estimates from the Abu Dhabi and Dubai statistics centers rather than the World Bank estimates, which are only presented at a national level and are consistently higher than local estimates. This allowed the author to then calculate estimates for the population in the northern emirates. Clearly, using multiple estimated figures is not an ideal method for precise calculation; however, as precise population calculations are not a critical part of this analysis, these figures should serve the purpose of illustrating demographic variation.

[1275] Dubai Statistics Center, "Number."

B.3. Populations in the northern emirates

Emirate	Total Population (2015)[1276]
Sharjah	1,804,000
Ajman	441,000
Ras Al Khaimah	235,000
Fujairah[1277]	213,712
Umm Al Quwain	67,000

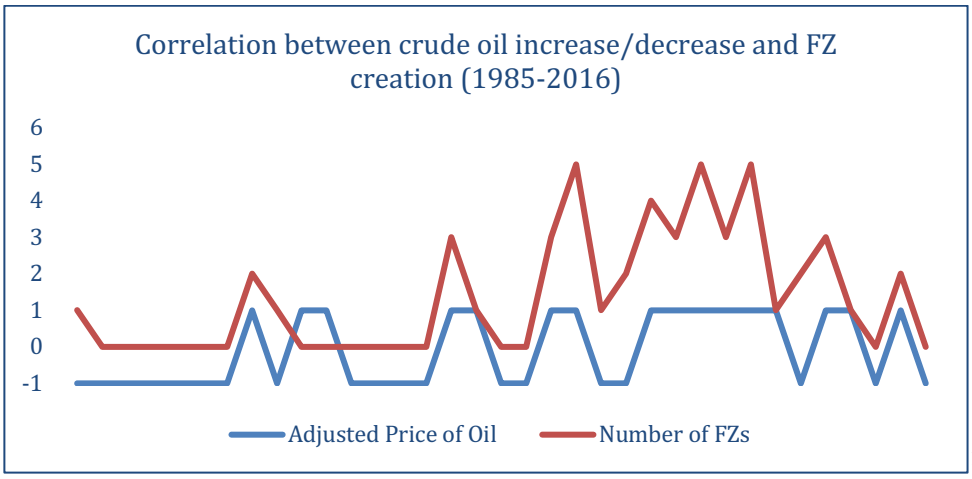
These population estimates for the northern emirates include expatriate residents

[1276] Excluding Fujairah, these population estimates are reported in "UAE population and statistical trends," *Gulf News*, November 17, 2016.
[1277] Government of Fujairah, *Statistical Yearbook: Nineteenth Issue 2015.*

Appendix C – Deleted Twitter posts



Appendix D – Correlation between FZ creation and oil prices



[1278]

[1278] The blue lines below the x axis of 0 indicates a year of falling oil prices, while a blue line above zero indicates a year of rising oil prices. Correlation between the two variables measured r(46)= 0.6735; however, an inability to reflect larger negative values for the FZ creation measurement as well as a fixed range for oil price variation has placed an artificial ceiling on the correlation measurement.