
Summer 2012

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Recommended Citation

Pfeifer, Karen, "Gulf Juggernaut: Review of Adam Hanieh, *Capitalism and Class in the Gulf Arab States*" (2012). Economics: Faculty Publications, Smith College, Northampton, MA.
https://scholarworks.smith.edu/eco_facpubs/18

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Accepted Manuscript Final

Middle East Research and Information Project

Gulf Juggernaut

by Karen Pfeifer

published in MER263 – Summer 2012 <http://merip.org/mer/mer263/gulf-juggernaut>

Review of Adam Hanieh, *Capitalism and Class in the Gulf Arab States* (New York: Palgrave Macmillan, 2011).

This important, original work should be read by anyone with an interest in the political economy of the Middle East. Adam Hanieh crafts a compelling case that the process of capitalist class formation in the Arab Gulf has created a pan-Gulf elite, “Khaleeji capital.” “Rapidly and in ‘hothouse’ fashion,” he writes, this class grew “from state-supported and family-based trading groups in the 1960s and 1970s to the domination of a few massive conglomerates in the contemporary period” with a “hierarchical structure around a Saudi-UAE axis.” The process, he argues, is tightly interlinked with the US-dominated transformation of global capitalism from the Golden Age through the neoliberal era, making the Gulf the hub of the region and relegating the economies of the Mediterranean, western Asia and South Asia to its periphery. Hanieh concludes: “The entire Middle East is increasingly moving to a single beat -- inextricably linked to the rhythms of accumulation and class formation in the Gulf.” He predicts that the importance of the six Gulf Cooperation Council (GCC) states for the supply of hydrocarbons, petrochemicals and financial flows to the world market will continue to grow, making the Gulf “a decisive factor for the future trajectory of global capitalism.”

The book is tightly organized around a core theory and methodology, which the author uses systematically throughout its seven chapters. It also seamlessly interweaves economic and political history, logically integrates analysis of Gulf economic transformation with that of global capitalism, and effectively deploys the author’s original research among Gulf-based conglomerates. Its weakness, aside from the smaller matter of lack of clarity in the use of some economic concepts, is the author’s downplaying of core contradictions within the processes of Gulf class formation and global accumulation. The book is thus in danger of overstating the strength of its conclusions.

The opening chapter efficiently reviews colonial history and the emergence of the monarchical structures that dominate Gulf Arab polities to this day. It then offers a collegial critique of rentier state theory, and explains the alternative theory that shapes the rest of the book. Rentier state theory, Hanieh argues, is limited insofar as it rests on the premise that the state is an established, free-standing entity. It also treats natural resource revenues as the result of a simple commodity exchange and ignores the formation of a true private bourgeoisie with its own dynamic. His historical materialist method, in contrast, posits state formation and class formation as co-processes in the evolution of capitalism, complete with internal contradictions such as how to harness surplus revenues to promote accumulation in the long run, how to manage the inevitable conflict between the interests of the working class and those of capital, and how to enable the

state to operate on behalf of the whole of the capitalist class rather than particular individuals. In this approach, hydrocarbon production, sale and revenue are not things or events but rather the material expression of processes embedded in the social relations of accumulation.

Hanieh uses the Marxian tool of the circuit of capital -- with its sub-circuits of production, exchange and finance -- as a consistent method for analyzing the evolution of Gulf Arab capitalism and the accumulation process. This concept of accumulation captures the drive for private profit, economic growth based on an expanding social surplus product of labor, concentration and centralization of economic power, and internationalization of all three circuits. The use of this model provides structure and clarity to the argument, but its application in later chapters would have benefited from precise definitions of key concepts, such as the rate of exploitation, the price of labor power, primitive accumulation, and concentration and centralization, either there or where they first appear.

Hanieh provides the global historical context for Gulf transformation in two non-consecutive chapters (2 and 4). The first describes the evolution of global capitalism from the end of World War II to 1990, and how the emergence of the United States as the dominant world-capitalist power was interdependent with that of the Gulf as “a major node of world capitalism.” The second shows how the advent of neoliberalism in the 1980s and the demise of the Soviet Union and the opening of China to the global market in the 1990s enhanced both the role of the United States as the sole “hyperpower” and that of the Gulf as the linchpin of US-led global economic policy in its roles as provider of hydrocarbons to the world (production), major purchaser of capital and consumer goods (exchange), and key supplier of petrodollars to the US-dominated financial system (finance). While the concluding chapter of the book discusses the financial collapse and recession of 2008-2010 and the continuing threat of cycles of over-accumulation and deflationary crisis, here the author takes the economic, political and military dominance of the United States, and the strength of its alliance with the GCC, as given and unchanging.

Alternating chapters (3 and 5) focus directly on capitalist transformation in the Gulf in the same two eras, 1960-1990 and 1990-2010, based on Hanieh’s rich research among the top GCC conglomerates. After independence, for example, the ruling regimes hastened to confront the early appearance of socialist and Arab nationalist movements and, eventually, to replace an uppity Arab working class with a non-Arab, mostly South Asian, largely powerless and disposable proletariat (the “spatial fix” to managing the capital-labor contradiction). By the 1970s, the Gulf states were redirecting oil revenues to enhance the economic power of ruling families and to facilitate primitive accumulation for a rising capitalist class made up of citizens favored by the rulers, including traditional merchants and tribal leaders, who became the core of a private sector beholden to, yet distinguishable from, the state. Primitive accumulation entailed, on one hand, the creation of capital and private productive property where none existed before, such as in land, small business and subcontracting, and, on the other hand, providing access to a cheap, docile, non-owning working class. This process generated the formation of specifically “Khaleeji capital” in the 1990s and 2000s, a class that subsumed the simple national-capitalist family-based groups from earlier decades. These pan-GCC corporate entities are both interlinked with their national governments’ economic programs and dominant in virtually all industries and circuits of the Gulf private-sector economy.

The elegance of these arguments is qualified by the author's lack of precision in use of some economic tools. For one thing, the depression in oil prices during the latter part of the 1980s and the 1990s led to lower surplus revenues or even negative current account balances and concomitant declines in investment and economic growth, but Hanieh's verbal description leaves the impression that revenues and petrodollars continued to flow unabated in these years, and that the Gulf governments simply intensified their protection and promotion of their private capitalist classes. Another problem is not adjusting for price inflation, showing only nominal GDP growth and touting the "annual double-digit growth in GFCF" -- gross fixed capital formation, a measure of magnitude of investment -- in nominal terms in the 2000s. This assertion ignores the rate of price inflation afflicting the Gulf economies, partly because their currencies were pegged to the US dollar and hydrocarbon transactions were denominated in dollars, and partly because the costs of imported capital and consumer goods were rising quickly during the global boom of the 2000s.

The role of Khaleeji capital in the Middle East "periphery" is presented in the penultimate chapter. Hanieh provides valuable information about Khaleeji capital's growing importance -- its influence on West Bank "development" institutions, its takeover of major banks in Lebanon, Egypt and Jordan in the 2000s, and its rush to invest in post-Saddam Iraq, where US firms feared to tread. This chapter is the weakest, however, because, seemingly uncritically, the author accepts the insulting notion of center-periphery relations between the Gulf Arab states and their neighbors that became fashionable among neoliberal cheerleaders during the 2000-2008 boom. Without mentioning the steep decline in Gulf investment in Mediterranean economies in 2009 and 2010, he expects that "the extraction of profits and the transfer of wealth from these peripheral regions to the GCC" will just grow stronger in the coming years. No mention is made of the elephant in the room -- Iran and Iraq are also Gulf economies, with regimes that may not be molded easily to the GCC capitalist design and that may well contest it in the future. Furthermore, the manuscript was apparently finished before the Arab uprisings of 2011, which may pose a test for Hanieh's prediction.

The concluding chapter describes the dramatic impact of the 2008 financial crisis and 2009 recession on the Gulf economies, yet ends with the same, almost triumphalist, note taken in the previous chapter. Hanieh argues that, despite the fall in hydrocarbon prices and current account balances, the collapse in value of domestic assets in real estate and the stock market, and the suspension or cancellation of debt-based projects from the boom years, Khaleeji capital emerged stronger than ever from the crisis. Not only did hydrocarbon prices and current account surpluses resurge quickly, but national governments bailed out ailing private-sector firms, stimulated domestic economies through active fiscal and monetary policy, applied the "spatial fix" by repatriating surplus immigrant labor, thus passing the worst of the crisis to those workers' countries of origin, and encouraged banks to merge. These governments even reaffirmed commitment to a single Gulf currency, the pure monetary expression of the conquest by Khaleeji capital of old-fashioned nation-states.

Hanieh recognizes core ambivalences in the class transformation and accumulation processes he describes, such as "the sharp contradictions between the region's poor and marginalized classes and GCC and other elites," between the pan-GCC nature of the private conglomerates and their intimate linkage to their own national governments, and between reliance on an imported

proletariat and the increase of unemployment among the citizenry. He concludes, however, that global accumulation's continued dependence on hydrocarbons and petrodollars is most likely to turn Gulf capital's rising power into an inexorable juggernaut. Is this conclusion overstating the case? Considering the Arab uprisings, the weak economic recovery in Europe and North America, and Western military failures in Iraq and Afghanistan, Gulf capital's conquest of the region and promotion to world power may not go so smoothly in the coming years.