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ECONOMIC INCLUSION AND SUSTAINABLE GROWTH: NEW PERSPECTIVES FROM THE GULF

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INTRODUCTION

The Baker Institute partnered with Chatham House to host a workshop in London on April 9, 2018, that featured three papers from young scholars from Gulf Cooperation Council (GCC) states that offered fresh perspectives on aspects of economic inclusion and sustainable growth in Oman, Bahrain, and Saudi Arabia. Held as part of a two-year project funded by the Carnegie Corporation of New York titled "Building Pluralistic and Inclusive States Post-Arab Spring," workshop participants were drawn from the public and private sectors in London and students from Gulf countries studying in the United Kingdom. At the workshop, each of the three speakers presented initial drafts of their research, which form the basis for the completed papers in this collection. A separate workshop report is being co-published by the Baker Institute and Chatham House.

Aisha al-Sarihi presents research from her doctoral work at Imperial College London and her experience at the Ministry of Environment in the Sultanate of Oman. Al-Sarihi notes that the oil price drop that began in 2014 generated a window of opportunity for domestic economic reforms in GCC states as well as an opportunity to rethink how to address climate change mitigation uncertainties within economic diversification efforts. Drawing on interviews conducted in Oman and the United Arab Emirates (UAE) with stakeholders from government and the private sector, nongovernmental organizations, and academia, al-Sarihi examines the level of awareness of climate policy integration into economic diversification measures in each country. Whereas in Oman, climate and economic discussions continue to be treated largely as separate issues, in the UAE (and especially in Dubai) al-Sarihi finds there has been sustained top-down political support for the mainstreaming of climate change issues into economic policy considerations.

The Bahraini economy faces significant fiscal pressure, has relied on regional financial support from Saudi Arabia, Kuwait, and the UAE, and been buffeted by internal and external stresses since the Arab Spring in 2011. Entrepreneurship has been identified as a key pillar of economic diversification by Crown Prince Salman bin Hamad Al Khalifa and the Economic Development Board he established in 2006, in part a recognition that Bahrain's labor market has struggled to absorb the many young people entering working age. Drawing on her native Bahrain as a case study, Sumaya Almajdoub juxtaposes the creation in Bahrain of a set of institutional frameworks designed to support a robust entrepreneurial ecosystem over the past decade against persistent structural constraints that have held back the full development of that ecosystem. Almajdoub analyzes the landscape that has formed to support small- and medium-enterprises in all stages of growth by facilitating access to incubator programs, capital and funding schemes, and co-working spaces that offer space, training, and advisory services.

Faris al-Sulayman addresses the changing dynamics of state-business relations in Saudi Arabia as the new leadership of Crown Prince Mohammed bin Salman Al Saud undertakes a series of transformational economic reforms through Vision 2030 and the more granular National Transformation Program. Al-Sulayman identifies two drivers of economic pressure in Saudi Arabia—the first global (the decline in oil prices) and the second local (demographic trends and the large number of young labor market entrants)—and argues that their confluence has triggered two seemingly inconsistent economic agendas in response: a neoliberal economic agenda designed to attract international investment on the one hand but a more statist and nationalist response to address the unemployment pressures on the other. These two sets of policy agendas stem from different pressures and competing ideological camps within the Saudi state-business spectrum but have caused a degree of confusion and lack of clarity in the institutional landscape facing international investors and small businesses alike.

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Integrating Climate Change Policies with Economic Diversification Strategies: Challenges and Opportunities in Oman and the UAE

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INTRODUCTION

Since the 1930s, the Arab Gulf states have been defined by their hydrocarbon wealth, which flows from the nearly one-third of proven world crude oil reserves and about one-fifth of world natural gas reserves in their region. Oil and gas export revenues have played a crucial role in shaping the Arab Gulf states' political economies, which have strongly revolved around centralized government control. The central government generates the hydrocarbon wealth and the remainder of society is engaged in the distribution and utilization of the wealth created. Consensual legitimacy is the basis for government survival, with low taxation and high energy subsidies as part of political compromise. As such, any change or pressure to the energy regime can create economic and political instability. This factor is critical when it comes to addressing the impacts of climate change in the Arab Gulf states—especially when the changes involve constraints on fossil fuels.

Historically, oil price shocks have been a source of pressure on the Arab Gulf states' energy regime. However, apart from the states' focus to bring back a supply-demand balance to the international oil markets, oil prices historically have not put enough pressure on the political regime to cause a re-examination of its central source of income. Only since mid-2014 have oil prices seemed to pressure political regimes to consider domestic economic reforms along with efforts to restore balance in the international energy market. The post-2014 drop in oil prices—from as high as US$100 per barrel to as low as US$40 per barrel—has increased the urgency of economic diversification, which has been discussed for decades across the Gulf states. Among other measures, energy subsidy reforms, privatization, and even a value-added tax have been discussed and introduced. Such economic reforms offer the opportunity for the Gulf states to address the potential impacts of climate change. This is because climate change creates another source of uncertainty for the states' main source of income—and hence, the states' economic and political stability. But to what extent have they paid attention to the potential impacts of climate change and to what extent have the Gulf states considered tapping the opportunities offered by economic diversification to address such impacts?

This brief sets out the key challenges and opportunities of integrating climate policies with Gulf Cooperation Council (GCC) economic diversification strategies, particularly in Oman and the United Arab Emirates (UAE). It draws on 19 semi-structured interviews conducted by the author between January and February 2017 in Oman and the UAE. The interviews targeted stakeholders representing governments, the private sector, academia,

According to OECD statistics, aggregate energy demand in GCC countries is expected to continue to expand well above the world average, at around 3% per year between 2010 and 2030.

and NGOs who have relevant experience in climate change and/or economic development. The interview questions assessed the level of awareness of climate policy integration and explored where stakeholders perceive its specific challenges and opportunities.

WHY SHOULD THE ARAB GULF STATES INTEGRATE CLIMATE POLICIES WITH ECONOMIC DIVERSIFICATION MEASURES?

There is ample evidence that fossil fuels account for over 85% of global energy consumption, and burning them is thought to cause 65% of man-made greenhouse gas (GHG) emissions.[1] Therefore, future access to fossil fuel-based energy must be constrained to limit climate changes to (relatively) safe levels and keep the increase in global mean surface temperatures well below 2˚C. These are the objectives of the Paris climate accord, which entered into force in 2016.

A recent study released by Oil Change International suggests that holding 68% of fossil fuel reserves underground is likely to limit global warming to below 2˚C, and holding 85% of it underground is likely to limit global warming to below 1.5˚C.[2] In this context, it is suggested that the Middle East would need to leave about 40% of its oil and 60% of its gas underground.[3]

Efforts to reduce carbon emissions and improve energy efficiency are no longer the preserve of the West, as significant changes in regulation are underway in China, Brazil, South Africa, and India, among others, in response to the worldwide drive to curb GHG emissions. The global implementation of climate mitigation measures, such as carbon emissions reduction targets, could change the trading landscape of hydrocarbon markets by reducing the demand for fossil fuel exports, leading to lower prices and diminished GDP growth. This would have major implications for the Arab Gulf states, whose top trade partners in 2015 were the European Union, with 14.7% of the trade balance; China, with 13%; Japan, with 11.5%; and India, with 10.4%,[4] according to data from the European Commission.

In Oman, climate change and the economy continue to be treated as separate issues.

Furthermore, constraints on the use of fossil fuel energy (e.g., fossil fuel taxes and carbon pricing) could increase production costs and hence prices of exportable goods and services. This would also have a major effect, since the Gulf countries remain highly dependent on imported goods, especially food. Since the 1960s, imports of goods and services as a percentage of GDP have continued to increase in all Gulf countries except Bahrain. In 2015, imported goods and services accounted for more than 35% of GDP in Bahrain, 83% in the UAE, 45% in Kuwait, 52% in Oman, 36% in Qatar, and 37% in Saudi Arabia.[5]

Efforts by the Arab Gulf states to overcome their dependence on imports face the challenge of a fragile desert environment. Non-oil economic sectors, such as agriculture, fisheries, infrastructure, and tourism, are vulnerable to climate change impacts—namely, an increase in average temperatures, higher sea levels, a decrease in annual precipitation, and recurrent droughts leading to water scarcity.[6]

The Gulf states commodity found in abundance—oil—is in high demand domestically, thereby pressuring the GCC's energy system. Easy access to energy supplies via fossil fuel subsidies or low taxation has encouraged resource-intensive activities in areas like industrialization, urbanization, and transportation, which have led to signs of unsustainable energy use in the Gulf states. Between 1971 and 2014, for example, the total primary energy supply in the Gulf states grew by an average of 7% per year, faster than any region in the world.[7] Total domestic oil consumption surged by 114% between 1980 and 2013, and domestic natural gas consumption increased by 160% in the same period.[8] According to OECD statistics, aggregate energy demand in GCC countries is expected to continue to rise well above the world average, at around 3% per year between 2010 and 2030, with electricity and water demand growing at rates of 6% per year over the same period.[9] Further, the per capita domestic consumption of primary energy in the GCC is among the highest in the world, and six of the top 12 energy-consuming countries in the world are in the GCC.[10]

The increasing domestic consumption of fossil fuel resources in the Gulf States has been associated with dramatic increases in the Gulf states' per capita carbon emissions. The World Resources Institute reported that the Arab Gulf states' per capita emissions of CO_2 were the highest in the world in 2014.[11] This is partly due to the states' small populations and undeniable energy intensity.[12] In Qatar, for example, per capita emissions were almost 11 times the global average and 2.5 times the U.S. average in 2007.[13] In 2010, Kuwait ranked 1st, Qatar ranked 6th, the UAE ranked 9th, Oman ranked 11th, Bahrain ranked 14th, and Saudi Arabia ranked 22nd in per capita CO_2 emissions.[14]

With the factors discussed in this section in mind, it is argued that addressing the impacts of climate change in line with economic diversification strategies will not only help minimize the impacts of climate change in the Gulf states but also maximize broad potential economic and social benefits such as energy security, food security, employment, and public health.[15]

ECONOMIC DIVERSIFICATION AND CLIMATE CHANGE: CHALLENGES AND OPPORTUNITIES

Stakeholders representing governments, the private sector, academia, and NGOs raised a number of issues during interviews for this brief. This section sets out some of the most important among them.

Oman

In Oman, climate change and the economy continue to be treated as separate issues. Although the intent to shift away from an oil-based economy dates to 1976, the real push for economic diversification in Oman has been driven by the drop in oil prices since 2014. In 2016, a National Program for Supporting Economic Diversity (known as TANFEEDH) was established to facilitate the implementation of the 9th Five-Year Plan (2016–2020),[16] which targets three main sectors: manufacturing, tourism, and logistics.

Oman ratified the Paris Climate Change Agreement in 2016—the same year that the TANFEEDH program was approved—and submitted its Intended Nationally Determined Contribution (INDC) in 2015. However, Oman is the only Gulf country that has not expressed an intention to align its INDC with its economic diversification strategies. The 9th Five-Year Plan has an environmental dimension, but it is not perceived as a priority in the shortterm and is treated as an issue separate from other prioritized sectors, such as energy, manufacturing, tourism, and logistics.

Nonetheless, Oman is the only Gulf country that has indicated (in its INDC) the intent to cut its GHG emissions by 2% between 2020 to 2030, as compared to business-as-usual levels.[17] Yet strategies to achieve this target or ways to ensure that future developments do not hinder Oman from reaching it have not been discussed.

In Oman, aligning climate change considerations with economic diversification strategies does not seem possible, especially with the persistence of top-down decision-making, bureaucracy, and the negligible ability of the Ministry of Environment to influence decision-making. Furthermore, the lack of available data with regard to, for example, GHG emissions and climate risk assessments—let alone information on the potential benefits of aligning climate issues with economic development or an awareness of this by the country's leaders—are not positive signs for such efforts in the short-to-medium term. Further, the integration of climate policies requires Oman's leaders to champion solutions to climate-related issues. While this vital support is visible in, for instance, the government's commitment to managing the risks of cyclones, it is absent when it comes to climate mitigation issues such as per capita carbon emissions. Also lacking is a mature culture of collaboration between relevant entities that enables vertical and horizontal policy integrity.

However, Oman does invest in some low-carbon technologies and renewable energy projects. Examples are the national oil company-led 7 MW solar project, established in 2012 to replace the natural

The UAE is the only Gulf state that prepared its Intended National Determined Contribution in line with its Vision 2021.

The UAE has the advantage of political leaders who are not only aware of climate change but also knowledgeable about its effects.

gas used for enhanced oil recovery;[18] government-led initiatives such as the 303 kW solar project established in 2013 to replace the use of diesel to electrify Oman's rural areas;[19] and the 2017 launch of a policy to install rooftop solar PV systems.[20]

A closer look at these developments indicates that some were developed years before the recent drop in oil prices. This is because an increase in domestic energy demand—and Oman's efforts to free more natural gas for exports—are in large part behind the country's search for alternative energy sources such as renewables. In 2014, for example, about 70% of Oman's total natural gas production was consumed domestically. Due to domestic pressure on natural gas supplies and because of Oman's long-term natural gas export commitments, the country has also imported about 10% of its natural gas from Qatar since 2008.[21] In addition, Oman signed a memorandum of understanding to import gas from Iran in a 25-year deal starting in 2015.[22] While the gas imports from Iran are allocated partially to LNG processing, the majority is used to meet domestic demand.

The United Arab Emirates

Unlike Oman, climate policy integration is likely to take place in the UAE.

In the UAE, policies that address climate change have top-down political support. Such policies are considered opportunities for the UAE to align climate-related matters with economic development strategies in a post-oil future. Leadership in this matter has been illustrated by statements on Twitter. In 2016, Dubai's Ruler and the UAE's vice president and prime minister, Sheikh Mohammed bin Rashid Al Maktoum, posted that "Celebrating the last barrel of oil, as my brother Mohammed bin Zayed has said, we will build a sustainable economy for future generations." The same year, he posted that "Managing climate change makes the Ministry of Environment and Water into the Ministry of Climate Change and Environment."

To date, the UAE is the only Gulf state that prepared its INDC in line with its Vision 2021, which states that the UAE aims to make clean energy 24% of its total energy mix by 2021.[23] The UAE is also the only Gulf country to establish a Green Economy for Sustainable Development initiative in 2012[24]—which was approved by the cabinet in 2015—and was the first Gulf country to release, in 2017, a climate action plan.[25]

The UAE's federal governing structure seems to allow federal and local actions related to the environment and climate. At the federal level, the Ministry of Climate Change and the Environment is taking the lead in climate change matters. It has issued the UAE's climate action plan (2017-2050), which was prepared in consultation with actors representing other emirates and various sectors, including the private sector. Although efforts remain fragmented, each emirate has, for example, its own clean energy targets such as Dubai's Clean Energy Strategy 2050[26] and Abu Dhabi's goal to source 7% of power generation capacity from renewables by 2020.[27] The emirates' confederation system has allowed a degree of organizational diversity, which enables more room for creativity and competitiveness between emirates as they develop low-carbon solutions. The UAE alone has about 10 environmental authorities.[28]

Sixty-six percent of those interviewed for this brief expressed satisfaction with collaborations between entities involved with economic and environmental governance at the federal and the local levels. For instance in Abu Dhabi, the Environment Agency collaborates directly with the Department of Economic Development.

The UAE has the advantage of political leaders who are not only aware of climate change but also knowledgeable about its effects. The UAE also benefits from regular meetings between committees involved in delivering the goals and objectives of the UAE's Vision 2021. Yet the availability, credibility, and access to data related to climate change are still issues to be fully addressed in the UAE. This is one of the reasons the Ministry of Climate Change and Environment is aiming to establish, in collaboration with Columbia University, a new institute dedicated to researching climate change-related matters (i.e., the Emirates Climate Change and Environment Institute).

Furthermore, the UAE appears to be

conscious about investing in low-carbon development projects. A planned investment of US$163 billion has been announced to achieve a 44% clean energy target by 2050. An additional US$350 million from the Abu Dhabi Fund for Development will be invested in renewable energy projects. The country has also expressed interest in studying the possibility of enhancing "green" finance, or the financing of investments that produce environmental benefits.[29]

As a net importer of natural gas since 2007, the UAE realizes the importance of developing alternative energy supplies like renewable and nuclear energy in order to enhance energy security and self-sufficiency, and to free more hydrocarbons for export. About half of the demand of power plants for domestic electricity and water generation is met by natural gas imports; the demand for natural gas increases by almost 6% annually.[30] Due to increasing demands, and indeed with the uncertain state of relations with Qatar, the UAE is also looking for alternative LNG supply sources, such as the U.S. The international attention focused on high per capita carbon emissions in the UAE was another driver for the country to diversify its economy and to pursue low-carbon developments such as the establishment of environmentally friendly megaprojects like Masdar City, headquarters of the International Renewable Energy Agency (IRENA), and the Mohammed bin Rashid Solar Park in Dubai to convey a global message about the country's interest in renewable energy.

POLICY TAKEAWAYS

The Arab Gulf states should:

1. Strengthen efforts to address the economic uncertainties associated with climate change impacts on non-oil and oil-based economic sectors.
2. Take advantage of ongoing economic reforms associated with addressing the impacts of the oil price shock to align the effects of climate change with different economic sectors.
3. Support the generation of climate change research and data and their impact on different economic sectors.
4. Strengthen the legal position of the Ministries of Environment and Climate to champion and coordinate efforts toward maximizing the advantages of aligning climate change policies with different economic sectors.
5. Take advantage of existing arrangements between economic diversification and climate change actions. However, and most importantly, the two efforts should be aligned to avoid contradictions between climate policies and other policies.
6. Ensure that information is shared and awareness is raised at different levels of society, including the political level, private sector, and among citizens and other residents.

CONCLUSION

Climate change, especially as it relates to global constraints on fossil fuel use, is a source of uncertainty for the economic and political stability of the Arab Gulf states. Economic diversification strategies driven by the desire to enhance energy security, eliminate vulnerability to oil price shocks, and prepare the Arab Gulf states for a post-oil economy offer opportunities to address the potential impacts of climate change.

In consultation with stakeholders from environmental and economic fields in government, the private sector, academia, and NGOs in Oman and the UAE, a mix of institutional and data- and resource-related challenges and opportunities to align climate change policies with economic diversification strategies have been identified. It appears that the integration of climate policies and economic diversification is likely to occur in the UAE, which has the advantages of its leaders' political will as well as the institutional and resource capacity to implement the needed changes. In contrast, deficits in both existing data and institutional and resource capacities make climate change integration unlikely in the short-to-medium term in Oman.

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The Structural Constraints of Entrepreneurship in Bahrain

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INTRODUCTION

In 1932, Bahrain became the first country to discover oil in the Arab Gulf region. It was also the first to start running out of it. The country's modest oil reserves pushed it to diversify its economy early on compared to its neighbors, giving Bahrain a head start as it experimented with expanding various non-oil sectors. Since the 2008 launch of Bahrain Vision 2030, the country has sought to implement a comprehensive economic development strategy built on three guiding principles: "sustainability, competitiveness, and fairness."[1] A series of Government Action Plans, policies, and programs have attempted to echo these principles.

Bahrain's Crown Prince Salman bin Hamad Al Khalifa stressed in 2017 that the Government Action Plan for 2015-2018 had three priorities: to transform the role of the public sector from a primary employer to a regulator of the market, to support entrepreneurship and innovation, and to invest in human capital, particularly the capacity, productivity, and competitiveness of Bahraini citizens.[2]

In the decade since the launch of Vision 2030, Bahrain has invested in a set of institutional frameworks that aim to support a robust entrepreneurship ecosystem. Small and medium enterprises (SMEs) today contribute 30% of the Bahraini gross domestic product (GDP),[3] and the number of start-ups has increased by 46% in the last three years.[4] But a deeper look at the Bahraini economy reveals a number of structural factors that limit the growth of the private sector and create certain roadblocks for the country's planned transition to a post-oil economy.

These factors include achieving fiscal sustainability in the context of low oil prices since 2014 and increased government debt-fueled spending. Despite Bahrain's efforts to diversify its economy, oil revenues still constitute 70-80% of total government revenues.[5] Second, the country's dependence on regional funds—mainly from Saudi Arabia and the United Arab Emirates (UAE)—to support various infrastructure and development projects exposes the economy to vulnerabilities, especially as the entire region faces stagnating economic growth. Third, supporting an entrepreneurship and innovation ecosystem will require greater investments in education to prepare citizens for the knowledge economy.

This paper aims to provide an assessment of the current entrepreneurship ecosystem in Bahrain, and it argues that a number of procedural reforms can be pursued to further improve it. However, these procedural reforms will only provide limited returns in the current economic framework and in the context of regional economic pressures.

BACKGROUND: BAHRAIN'S ECONOMY

Bahrain has a total population of 1.5 million people, 52% of whom are Bahrainis while

A deeper look at Bahrain's economy reveals a number of structural factors that limit the growth of the private sector and create certain roadblocks for the country's planned transition to a post-oil economy.

the remaining 48% are expatriates.[6] The gross domestic product per capita in 2017 was $51,800 (Table 1), placing the country fifth among the six Gulf Cooperation Council (GCC) countries. While Bahrain's GDP per capita has been steady in the last few years, it is difficult to assess changes in wealth distribution since data on income inequality remain scarce. It is worth noting that none of the six GCC countries are included in the GINI Index, which aims to measure inequality.[7]

TABLE 1 — GDP PER CAPITA ON A PURCHASING POWER PARITY BASIS (2017)

Country	Estimated GDP per capita PPP in 2017
Qatar	$124,900
Kuwait	$69,700
United Arab Emirates	$68,200
Saudi Arabia	$55,300
Bahrain	$51,800
Oman	$45,500

SOURCE *CIA Factbook*[8]

Like most countries in the region, Bahrain has a youthful population: 35% of all residents are under the age of 25.[9] As each new year brings more job seekers to the labor market, the bloated public sector struggles to generate new jobs to absorb them. As a result, there is increased pressure on the private sector to serve as the primary engine for job creation.

Bahrain's economy today is in a weak fiscal position and remains vulnerable to internal and external shocks.

In addition to demographic pressures, Bahrain has fewer natural reserves to buffer current austerity measures designed to reduce government spending; such measures include lower fuel and food subsides and the introduction of a value added tax (VAT). Despite the March 2018 announcement of a newly discovered reserve estimated to contain 80 billion barrels of shale oil, it is not known how much oil can be recovered or if it will be commercially viable once extraction costs are determined. Further, commercial production could take four to five years and require significant investments.[10] While the reserves may offer a much-needed boost to the economy, Bahrain should continue its strategy of investing in non-oil sectors as part of the effort to diversify and expand the country's economic base.

Bahrain's economy today is in a weak fiscal position and remains vulnerable to internal and external shocks. The country's financial sector suffered a huge blow during the 2008 global financial crisis, while the country's 2011 political crisis[11] negatively affected economic growth and efforts to attract foreign investments.[12] One can even make an economic case for the need to pursue reconciliation efforts between the government and various political groups to create an environment more conducive to sustainable social, political, and economic development.

Low oil prices since 2014 have reduced government revenue and hindered regional growth. Bahrain's economy is also affected by direct ties to its neighbors. First, Bahrain has been relying on direct regional support, including a GCC infrastructure fund set up in 2011 for Bahrain and Oman.[13] In addition, Saudi Arabia plans on building a new road and rail causeway to expand the flow of goods and people between the two countries,[14] while the UAE is funding an airport expansion project and various investments in Bahrain's housing, health care, water, and transportation sectors.[15]

Second, Bahrain is a weak link in the GCC states' currency peg to the dollar due to its depleted foreign exchange reserves and limited sovereign wealth fund compared to its neighbors. In addition to seeking assistance from its neighbors to sustain the currency peg,[16] the Bahraini parliament has approved raising the public debt ceiling to $34.5 billion, which equals the country's GDP of about $32 billion.[17] Public debt was about 33.6% of GDP in 2012 but rose to 74.2% of GDP in 2016.[18]

Finally, the tourism sector, which constitutes about 5% of GDP, relies heavily on citizens and residents of other GCC countries, especially Saudi Arabia.[19] Any changes in the flow of people in the region affect Bahrain; recent measures in Saudi Arabia allowing the construction of movie theaters and the development of a local entertainment and cultural infrastructure will have an impact on Bahrain's tourism sector.

ENTREPRENEURSHIP AS A KEY PILLAR TO DIVERSIFYING THE ECONOMY

Launched by Crown Prince Salman bin Hamad, who heads the Economic Development Board (EDB), Vision 2030 outlines a strategic direction toward a post-oil economy. The vision stresses investments to grow non-oil sectors such as banking and financial services; real estate; tourism; logistics; and information and communication technologies (ICT). See Table 2 for a closer look at each sector's contribution to the economy.

Institutional Frameworks to Support Entrepreneurship and SME growth

Bahrain has been able to establish a number of institutional frameworks to create an ecosystem conducive for start-ups and for the growth of small- and medium-sized enterprises (SMEs). Currently SMEs contribute 30% to Bahrain's GDP, and the government is hoping to increase that share in the coming years. The breakdown of micro, small, medium, and large enterprises in Table 3 shows that micro and small enterprises comprise almost 90% of the total.

A number of governmental, semi-governmental, private, and international institutions aim to support start-ups and SMEs in Bahrain; see Appendix 1 (http://bit.ly/2LgAEKP) for an overview of the country's entrepreneurship ecosystem. These entities and initiatives often work collaboratively to connect government agencies, investors, entrepreneurs, students, and all relevant stakeholders to facilitate SMEs in all stages of growth. Even if one is an aspiring entrepreneur with an idea but no business plan or capital to operationalize it, there are ways to attain business training and capital through the Bahrain Development Bank and its Rowad incubator program. Opportunities to scale-up businesses are also available through a variety of government and private sector funding schemes.

TABLE 2 — CONTRIBUTION OF VARIOUS ECONOMIC SECTORS TO BAHRAIN'S GDP (2015)

Sector	Contribution Percentage
Oil and natural gas	13.35%
Processing industries	17.34%
Transport and telecommunications	7.52%
Commerce	4.61%
Real estate and business services	5.70%
Financial projects	17.18%
Government services	14%
Agriculture and fishing	0.32%
Water and electricity	1.41%
Building and construction	7.39%
Hotels and restaurants	2.44%
Social and personal services	6.04%

SOURCE *The Information and eGovernment Authority of Bahrain*[20]

TABLE 3 — ESTIMATED NUMBER OF MICRO, SMALL, MEDIUM, AND LARGE ENTERPRISES IN BAHRAIN (JANUARY 2018)

	Micro	Small	Medium	Large	Total
Number of Enterprises	85,000	5,485	950	176	**91,611**

SOURCE *AlSharq AlAwsat* at https://aawsat.com/english/home/article/1152416/bahrain-plan-develop-more-6300-smes

Since its launch in 2006, Tamkeen—a semi-governmental agency tasked with facilitating the growth of the private sector as a driver for economic development—has provided training to over 140,000 individuals and businesses; in a country with a population of 1.5 million, this is a significant number.[21]

The entrepreneurship ecosystem today includes specialized incubators such as the Bahrain Fashion Incubator and the Bahrain Women Incubator Center (Riyadat). Angel investors such an Tenmou and Angivest Ventures offer various funding schemes,

Bahrain has been able to establish a number of institutional frameworks to create an ecosystem conducive for start-ups and for the growth of small- and medium-sized enterprises.

and there are a few co-working spaces such as Space 340 and Corporate Hub 9 (Ch9), which offer space, training, and various advisory services.

Some of the Bahraini start-up success stories include OneGCC, a digital platform that aims to connect GCC nationals to jobs in the region in line with employment nationalization strategies;[22] Skiplino, a mobile app that provides an innovative and efficient way for businesses to manage queues to reduce waiting times and improve customer service;[23] and the mobile application Fish.me, which helps to directly connect local fisherman with their customers, eliminating the role of a middleman or market.[24]

Over the years there has been an increase in new start-up ideas in technology and light manufacturing. For example, Rowad, an incubator program run by the Bahrain Development Bank, provides coaching, incubation, funding, and mentoring for start-ups and SMEs. In 2016, 11% of business ideas and projects that participated in the program were related to technology, while 33% were related to manufacturing.[25]

"Business-friendly Bahrain"

Under the slogan of "Business-friendly Bahrain," the government has simplified the process of opening a local or foreign-owned business, obtaining a commercial registration, and procuring work visas. Bahrain's push to liberalize its economy resulted in the opening of many sectors for 100% foreign ownership. Companies doing business in Bahrain now encounter simplified processes; in this regard, Bahrain is ranked fifth in the Middle East and North Africa (MENA) region and 34th among 134 countries according to the 2017 Global Entrepreneurship Development Institute (GEDI) Index.

While the processes for opening a business, obtaining permits for electricity, and setting up facilities have all improved, there is still room for improvement in areas such as accessing credit and financing options. In regard to the former areas, Bahrain ranked 66th out of 190 countries, and 2nd in the MENA region,[26] according to the World Bank's Ease of Doing Business index. However, when it came to obtaining credit, Bahrain ranked 105th.[27] The GEDI also reported that a "10% enhancement of conditions for entrepreneurship [has] the potential to add $6bn to the economy."[28]

A separate study by AlRabeei and Kasi (2014) also identified "lack of finance" and poor access to credit to scale-up businesses as key barriers to SME growth in addition to "scarcity of human resources" and "fierce competition."[29] This study, which collected data from a survey of 200 owners and managers of Bahraini SMEs, shows that although Bahrain's entrepreneurship ecosystem has flourished over the past decade, few scholarly studies have systematically assessed its effectiveness. A further study by AlRabeei and Scott (2014) cites another challenge: the lack of effective marketing strategies for some organizations that support SMEs.[30]

Despite flourishing institutional frameworks and programs that support start-ups and SMEs, entrepreneurs and the general public are not necessarily aware of them.

Information and Technology and FinTech

Over the past decade, Bahrain has sought to become a hub for niche sectors such as Islamic banking and finance, which remain vital sectors to the economy.[31] Today there is an increased interest to tap into the global digital economy, expand the country's information and technology (ICT) infrastructure, and invest in cloud technologies and cybersecurity. The launch of the Bahrain FinTech Bay in March 2018[32] represents the country's aim to invest in financial technologies (or "Fintech"), and steps have been taken to improve regulatory frameworks to accommodate such an effort. For example, the Central Bank of Bahrain launched a fintech unit to facilitate the development of regulations for digital financial services and to oversee a "regulatory sandbox,"[33] which is "a framework set up by a regulator that allows fintech startups and other innovators to conduct live experiments in a controlled environment under a regulator's supervision."[34]

In addition, Bahrain's achievement in convincing Amazon Web Services (AWS) to open a regional office in the country demonstrates the political will to attract foreign investments and become a hub for cloud technology and services. The AWS office opened in January 2017[35] and will be followed by the launch of an AWS Region planned for 2019 that provides further cloud and data services.[36] AWS has also launched various educational and training programs in Bahrain, the UAE, and Saudi Arabia in collaboration with universities and various business incubators and accelerators.[37] In Bahrain, AWS has launched cloud-related training with the University of Bahrain as well as with Bahrain Polytechnic; more than 3,000 Bahrainis have signed up for the program.[38]

While such programs facilitate knowledge-sharing and skills training, they are not necessarily sufficient to provide enough high-skilled workers. AWS estimates that there will be a need for "10,000 data solution architects in the next five years"[39] in the Middle east. To produce such tech-savvy workers, Bahrain will need to consider more significant investments in science, engineering, and technology training and education.

CONCLUSION: WHAT DOES SUCCESS IN THE ENTREPRENEURIAL DOMAIN LOOK LIKE IN BAHRAIN?

Bahrain's private sector is creating new jobs, but not necessarily for citizens. According to one estimate, SMEs employ a total of 421,257 workers in Bahrain but only 52,918 are Bahraini nationals; the rest are citizens of other countries.[40] As the country is moving to attract foreign direct investment and talent for various sectors, it is important to keep in mind that the goal of nationalizing the labor force—or "Bahrainization"—can create tension with the goal of becoming a global financial and technological hub. One step that Bahrain can consider is to invest in a college or university that specializes in technology and innovation and targets the local youth population. As Bahrain further liberalizes its economy, it can consider ways to train Bahrainis to become more competitive by meeting global standards of productivity and creativity.

One can argue that in many ways, Bahrain has adopted a series of promising policies to diversify its economy, and it has succeeded in building an ecosystem of institutional frameworks to support start-ups and SMEs. Additional procedural reforms can further enhance this ecosystem, such as improving regulatory frameworks for venture capital, crowdfunding, bankruptcy and insolvency laws, and general processes to enforce contracts and resolve commercial disputes. Another key area for improvement is better access to credit for seed funding and for SMEs seeking to expand their businesses.

Bahrain is not the only country in the region pursing entrepreneurship and innovation as a key pillar to economic diversification. Neighboring countries like Saudi Arabia and the UAE are also investing in fintech hubs and start-up funds, and attracting international venture capital investment. The key challenge for Bahrain will be to build on its comparative advantage and capitalize on niche sectors, whether in tourism or financial services, to distinguish itself from other GCC countries that have the advantage of a more stable fiscal position and more natural resources.

Finally, while there is still potential to expand the entrepreneurship ecosystem in Bahrain, its current economic structure faces tremendous fiscal pressure, remains dependent on regional support, and is navigating the legacies of various internal and external shocks. It is important to note that economic diversification and reform are not purely technical processes; rather, they depend on fundamental political and socioeconomic transformations. Moving forward, Bahrain will need to pursue both procedural and structural reforms to advance its strategy to move toward a post-oil economy.

Bahrain's private sector is creating new jobs, but not necessarily for citizens.

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APPENDIX

Please see http://bit.ly/2LgAEKP for Appendix 1.

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State Business Relations and the New Economic Agenda in Saudi Arabia

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INTRODUCTION

Large fiscal deficits brought about by the precipitous decline in oil prices in late 2014 and long-standing challenges with youth unemployment have been two of the dominant underlying themes driving economic policy in Saudi Arabia in recent years. These challenges, though not unique in the region, loom particularly large when compared to some of the kingdom's "Super Rentier" neighbors[1] and have engendered a sense of urgency at the policymaking level.

These trends have also formed the backdrop against which significant domestic political change has taken place, with new leadership that is attempting to undertake a series of transformational economic reform programs, most notably the Vision 2030 plan and the more granular National Transformation Program.

These changes taken together, however, have precipitated fundamental transformations in the social contract between the state and the various constituencies in the kingdom, with the changing relationship between the state and the religious establishment garnering plenty of attention in international media. Perhaps more interestingly for scholars of resource-rich countries in particular, however, have been attempts to transform the relationship between the state and public sector employees, and between the state and business.

This paper will focus on the changing dynamics of state-business relations in particular, and try to understand what challenges this might pose to the broader reform agenda. By exploring the dual pressures being exerted on the state by high levels of unemployment on the one hand, and large fiscal deficits on the other, the seemingly conflicting policy outcomes can be identified, examined, and contextualized.

PRESSURES FROM WITHIN AND WITHOUT

The wide range of policy proposals that have emerged as part of the Vision initiative, and other initiatives that predate it, can be divided along a host of different lines. I've found it most useful to start with the underlying pressures confronting the state, and draw a line to the policy initiatives that have come about as a result. Two pressures quickly emerge as the dominant forces shaping economic policy since 2014.

The first, global in scope and more recent, is the 2014 decline in oil prices, which has brought about fiscal deficits of a larger and more troubling scale than those seen in the past. There are, of course, varying levels of urgency across the Gulf Cooperation Council (GCC) states. Saudi Arabia sits somewhere in the middle in terms of urgency, with the "super rentier" states (Kuwait, the UAE, and Qatar) on the less urgent side, and Bahrain and Oman on the other. However, it could well be

There is little doubt that the long-term fiscal prospects of the business-as-usual case are bleak.

These two pressures have brought about the rise of two seemingly inconsistent economic agendas.

argued that as the dominant state in the region, the stakes are actually much higher in the case of Saudi Arabia. In the years immediately following the sharp decline in oil prices, the more short-term alarmist viewpoints—warning of impending fiscal insolvency—have largely been dismissed, but there is little doubt that the long-term fiscal prospects of the business-as-usual case are bleak.

The second pressure, which separates the kingdom from its GCC peers, emerges as a result of the rapidly changing demographic trends that are bringing large numbers of young people into the labor market. This pressure is not qualitatively, but quantitatively unique. The sheer number of young people seeking to enter the labor market every year, combined with the state's dwindling resources, is what sets it apart from its neighbors. The statistic of 70% of the population being under the age of 30 is often cited, and a very large proportion of them are unemployed, potentially as high as 34%.

It is the confluence of these two pressures that is alarming. Individually, these pressures are not uncommon, and the size of the current public sector wage bill is a testament to how issues of bulging demography and unemployment were addressed in years past, namely by distributing patronage through public sector employment.

In the current climate, these two pressures have brought about the rise of two seemingly inconsistent economic agendas, with the fiscal situation prompting a neoliberal economic response from the state, and the unemployment pressures and recessionary climate prompting a more statist and nationalist response. This will certainly not be a strange trade-off to policymakers and scholars of other regions, who have confronted similar challenges in the last few years.

These trends have formed the backdrop against which significant political change in the kingdom has also taken place, with new leadership that is attempting to meet these challenges, and balance some of these interests. This change, both structural (the centralization of power in the royal court) and personal in nature, represents an additional variable, though it is beyond the scope of this paper.

KEY ELEMENTS OF THE LIBERAL ECONOMIC AGENDA

As a response to large fiscal deficits and unsustainable spending, the state has undertaken a host of new economic liberalization policies with the aim of promoting private sector growth and foreign direct investment (FDI), and in doing so, alleviating the pressure on the Saudi state as the economy's main source of employment. This kind of reform is not new in principle. For several years, the World Bank's Ease of Doing Business Index was an important key performance indicator (KPI) for Saudi policymakers aiming to attract foreign investors in the kingdom. Led by the Saudi Arabian General Investment Authority (SAGIA), the entity tasked with attracting FDI into the kingdom, the state made strides in improving its performance in many of these indicators, leading to a rise to 12th place in the global index by 2011, before the World Bank changed its metrics. After the World Bank changes, the country has ranked in the 90s in recent years. In many ways, this reflects broader concerns investors continue to have about the Saudi economy, often relating to deeper structural challenges in the judicial system or political risk. And while many of these structural issues remain, the new set of liberalization policies being implemented cuts deeper than attempts in years past.

This part of the reform package has been met with a positive response from the global investment community, eager to gain greater access to what is seen as a largely untapped emerging market economy. The privatization element of the agenda in particular, perhaps the most recognizable of the Vision 2030 economic initiatives, has attracted wide interest from investors, but has also raised fundamental questions about the role and responsibilities of the state toward public sector employees, for example.

More broadly, the following set of policies that have been, or are in the process of being implemented emerge from this economic agenda:

- The liberalization of equity markets to promote investment and allow greater foreign ownership in a wider range of industries. The new bankruptcy law is an example of a reform in this area.
- The privatization agenda, which outlines plans to offload a range of valuable state assets (to include elements of health care, education, airports, and most notably 5% of the state owned oil company Aramco).
- Energy subsidy reform, which has seen fuel and electricity prices rise in recent months as part of a medium-term plan to reach global market prices for utilities.
- Large global investment opportunities like NEOM and the Red Sea Project.
- The rollout of a variety of excise or sin taxes, and VAT.
- Consolidation of state assets under the Public Investment Fund (PIF), and the pursuit of a more aggressive investment strategy and dynamic asset allocation, typified by the Vision Fund/SoftBank investment.
- Cuts in capital expenditure by the state, particularly in education and infrastructure, and attempts at reductions in current expenditure, such as the public sector benefits and pay freezes.
- The issuance of local and international bonds, totaling $40 billion in the last 18 months.

Although these reforms have been well received by international investors, the response from the local private sector has not been as positive. They too are undoubtedly interested in the privatization opportunities, but energy subsidy reform, along with a host of new taxes and levies, has significantly increased the price of doing business in the kingdom, particularly for energy-intensive industries (albeit from a low base). This has come at a time when the state has curtailed capital expenditures, which in years past have been the single most important factor underlying private sector growth, while also opening the door to greater foreign competition. More generally, these reforms have translated into a concerted effort to rewrite the structural elements of the social contract between the local private sector and the state, upending the status quo and causing significant disruption to the way the local private sector has conducted business in the kingdom in decades past.

KEY ELEMENTS OF THE STATIST/ SAUDIZATION AGENDA

As a result of the strong demographic pressures in the labor market, the state has also simultaneously continued to maintain a series of policies that have been grouped in this brief under the umbrella of "Saudization," a term often more narrowly used for policies aiming to increase the share of Saudis employed in the private sector. These policies have a common statist and often nationalist theme and, in contrast to the liberalization agenda, such policies have always been viewed with skepticism from the private sector.

The centerpiece of this agenda is the ongoing effort of the Ministry of Labor and Social Development to increase the number of Saudis working in the private sector, predominantly through the Nitaqat and Taqat programs,[2] but more broadly through a host of policies including:

- Levies on foreign labor and their dependents, leading to a large exodus of migrant workers, both documented and undocumented, likely exceeding 1 million departees by 2018.
- An increase in the scope and pace of Saudization efforts, through the Taqat program from the Human Resource Development Fund (HRDF), and the continual expansion of the Nitaqat program.
- Decreasing the ease of access to visas for skilled and semi-skilled foreign labor.
- A growth in the scope and scale of state-owned enterprises, or state-led initiatives, most prominently through the PIF and its "Saudi Sector Development" pool in, among other sectors, agriculture (the

The state has undertaken a host of new economic liberalization policies with the aim of promoting private sector growth and foreign direct investment.

Saudi Fisheries project), energy (Softbank Solar), and entertainment (AMC).

It is clear that these sets of policies, unlike those grouped under the liberal umbrella, do not share as clear a link to an ideological paradigm—much in the same way the historical growth of the welfare state in the kingdom was not necessarily ideological, but rather, constituted a type of rentier statecraft aimed at distributing patronage and wealth in the cultural and social context of midcentury Arabia.

AREAS WHERE THE AGENDAS COLLIDE

These two sets of policy agendas, clearly stemming from different pressures and seemingly emerging from competing ideological camps, continue to clash in certain areas, often resulting in a somewhat confusing institutional landscape for multinational investors as well as local businesses small and large.

As an example, a typical way in which this clash may manifest was illustrated in January 2018 when, five days after sharp increases in utility prices and the introduction of the VAT, the government announced a series of cash bonuses to government employees and members of the armed services. The selective mitigation of the new economic conditions for public sector employees reinforced the split with private sector employees. But in a deeper sense, the move revealed that even in an era of rapid change and economic liberalization, the knee-jerk reaction of the state is to revert to entrenched modes of patronage, which is arguably endemic to its structure.

The response from the local private sector has not been as positive.

The following section will highlight three typical ways in which, in a broad sense, these agendas clash, though a more exhaustive analysis could be the focus of further research.

An often cited example of this kind of clash comes from the skills mismatch of young Saudis entering the labor market from the public education system. Though the education budget in the kingdom continues to be one of the largest as a percentage of GDP comparing to the OECD, recent years have seen the budget shrink, even while other types of spending recovered in 2017-2018 from the mild austerity of the previous two years. Additionally, educational outcomes in STEM related subjects in particular are still lackluster, and there continues to be a pronounced skill mismatch among university graduates entering the labor market. These challenges have formed the backdrop against which additional pressure has been placed on the private sector to replace foreign skilled workers with Saudi workers. The complexity of new regulatory regimes—from the financial sector, to energy, and consulting—have also increased licensing requirements on companies operating in these spaces, often specifically calling for a certain number of employees with certain qualifications.

Another kind of clash, which has manifested in a variety of industries and on a number of scales, emerges from the growth of state-owned enterprises or initiatives, and the perception that they are crowding out investment from the local private sector and small- and medium-size enterprises (SMEs) in particular. An eagerness by the state to spur rapid growth in certain strategic industries that have been neglected in the past has led to state-owned enterprises (SOEs) directly tackling these opportunities, often with foreign joint venture partners. In many instances, this type of SOE growth seems to stem from challenges in implementing structural changes to create healthy and more organic investment ecosystems in the past, but also from an eagerness within the state to create "national champions" capable of using the Saudi market as a jumping board to compete globally. The examples of the PIF-AMC partnership or the PIF-Softbank partnership to develop utility-scale solar energy in the kingdom fit neatly into this category.

The final and perhaps most serious clash emerges from the state's attempt to encourage the growth of private sector employment while maintaining high levels of public sector pay, benefits, and bonuses, which continue to have a profound distorting effect on the labor market. This feature of public sector employment, often described in the literature as endemic to the structure of the state, along with the private sector's long-held reliance on cheap foreign labor, form arguably the most significant challenges to the economic reform agenda.

The state's continued efforts to curtail the private sector's reliance on cheap foreign labor—while maintaining most elements of public sector compensation—is telling, and reflects the rigidity of the state's social contract with public sector employees, and simultaneously the malleability and weakness of the social contract with the local private sector and business elite.

CONCLUSION

The pressures that produce these two different economic agendas are not unique to Saudi Arabia. However, in the absence of strong institutions capable of balancing competing interests in a clear and predictable way, and communicating the reasoning behind policy and agenda choices, the local private sector may find the policy mix that emerges from this melting pot difficult to digest. Other recent developments outside of the realm of economic policy have also likely contributed to a tentative approach by much of the local private sector. Further research is needed on the nature of these clashes, the patterns that exist between them, and the impact on actual private sector participation in various elements of the reform agenda.

ENDNOTES

1. This term refers to the three wealthiest Gulf Cooperation Council states in GDP per capita terms: Qatar, the UAE, and Kuwait.

2. Nitaqat and Taqat are programs that require and incentivize the private sector to localize its labor forces according to a complex set of rules and regulations.

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Appendix 1

EXAMPLES OF INSTITUTIONAL FRAMEWORKS AND PROGRAMS TO SUPPORT ENTREPRENEURSHIP AND SMEs IN BAHRAIN

Government/semi-government Institutions

Bahrain Development Bank (BDB)	Semi-governmental bank that provides start-up funding and services to develop SMEs and support entrepreneurship[1]
Tamkeen	Semi-governmental agency tasked with facilitating the growth of the private sector as a driver for economic development[2]
Economic Development Board (EDB)	Public agency tasked with attracting foreign investment to Bahrain and support overall economic growth[3]
Bahrain Investment Market (BIM)	Launched in March 2017, BIM is an equity market platform focused on SMEs. Businesses that want to be listed in the platform face fewer regulations and restrictions for admission compared to the Bahrain Bourse exchange.[4]
Central Bank of Bahrain (CBB)	The Central Bank of Bahrain oversees monetary policy and various regulatory functions. The CBB recently launched a regulatory sandbox for fintech startups.[5]
Ministry of Industry, Commerce, and Tourism	The ministry is responsible for issuing commercial registrations (CR) to all registered companies and business entities in Bahrain.[6]
Bahrain Chamber of Commerce and Industry	The main representative body of the private sector in Bahrain.[7]

Start-up incubators and accelerators

Family Bank	Semi-governmental bank. The first Islamic micro-finance bank in the region with the aim of poverty alleviation and socio-economic empowerment.[8]
Rowad	A BDB program that provides coaching, incubation, funding, and mentoring for start-ups and SMEs[9]
Bahrain Fashion Incubator	Business accelerator for fashion and creative start-ups, it provides technical training, consulting, and co-working spaces.[10]
The Bahrain Business Incubator Centre (BBIC)	Established in 2003, BBIC is the first business incubator in the GCC. It offers various advisory services for businesses.[11]
Bahrain Women Incubator Center (Riyadat)	A collaboration between the BDB, Supreme Council for Women, and BBIC, the Bahrain Women Incubator Center (Riyadat) supports women entrepreneurs.[12]
Rukn.me	Business accelerator for ICT businesses.[13]
C5 Accelerate	C5 Accelerate is a London-, Washington D.C.-, and Bahrain-based technology investment firm.[14]

FinTech Hub

Bahrain FinTech Bay	Launched in February 2018, FinTech Bay aims to make Bahrain a regional hub for financial technology.[15]

Angel investors

Tenmou[16]	Bahrain's first business angels syndicate provides angel investment for start-ups in addition to mentorship.[17]
Angivest Ventures	An angel investors group that focuses on providing funding and advisory services to FinTech, health care tech, edutech, and foodtech.[18]

Work spaces and advisory services

Space 340	Co-working space targeting social entrepreneurs.[19]
SERVCOPR	A company that provides work spaces and virtual offices.[20]
Corporate Hub 9 (CH9)	Corporate Hub 9 provides office space, mentorship, business consultations, and cloud services to start-ups.[21]

Other initiatives

Start-up Bahrain	A community initiative and network that brings together investors, entrepreneurs, and government agencies to support an entrepreneurship culture in Bahrain.[22]
UNIDO-AICEI UN Industrial Development Organisation (UNIDO) Arab International Center for Entrepreneurship and Investment (AICEI)	AICEI was established under the banner of South-South Cooperation through the joint efforts of UNIDO, the Bahraini Government, the Inter Regional Center of the Bahraini Government, and the Inter Regional Center for Entrepreneurship & Investment Training (IRC)-Government of India. The center functions with an objective of strengthening the indigenous capacities of selected countries in the Arab and Asian region by promoting domestic investments and facilitating foreign direct investments, resulting in job creation, poverty alleviation, and economic growth.[23]

ENDNOTES

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