“A WELL-OILED MACHINE”
THE LIMITS OF RENTIERISM: THE CASE OF SAUDI ARABIA

Political Science M.A. Thesis

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II. Abbreviations

ARAMCO……………………Arab American Oil Company/Saudi Arabian Oil Company
CIA………………………………………………………………Central Intelligence Agency
G20…………………………………………………………Group of 20 States
GDP…………………………………………………Gross Domestic Product
GNI……………………………………………………Gross National Income
HDI………………………………………………………Human Development Index
HDR…………………………………………………Human Development Report
OPEC………………………………………………Organization of Petroleum Exporting Countries
RST……………………………………………………Rentier State Theory
SABIC………………………………………………Saudi Arabian Basic Industries Corporation
SR………………………………………………………Saudi Riyals
UAE……………………………………………………United Arab Emirates
VAT……………………………………………………Value Added Tax
WWI………………………………………………….First World War
III. Abstract

The following research explores the soundness of the classical rentier state theory in analyzing oil reliant states considering oil price fluctuations and their outcomes on rentier cases. Ever since its discovery, oil has played a major role in shaping rentier economies and their policies. However, oil reliance is regarded to be a double edged sword as the huge inflows of rent could lead to a series of longterm societal and economic risks otherwise dubbed as the “rentier curse”. The effects of such curse have been showing over the years in examples such as Venezuela, Saudi Arabia and several other oil reliant states. Nevertheless, not all rentier cases suffer from the same socio-economic issues or react similarly to international oil price fluctuations. The aforementioned calls for a deeper understanding of such variations as the classic rentier state theory provides static tenets for rentierism as a “one size fits all” labeling mechanism. Although this is useful in understanding the nature of the rent seeking behavior, it is quite simplistic as some rentier states seem to suffer more than others. This has been further exacerbated by the recent and ongoing oil price drop which started in 2014 and already affected the budgets of such states. Although all oil reliant cases incurred massive deficits, some seem to be more capable of weathering the storm while other cases are preparing for drastic economic transformation. A perfect example is the Kingdom of Saudi Arabia which adopted relatively “extreme” fiscal reforms and is in the process of accomplishing the Vision 2030 plan which primarily aims at marginalizing, if not eliminating, the Saudi reliance on rent revenue. Such policies and plans, combined with the inherent fiscal, demographic and socio-economic differences between rentier states when reacting to oil price shocks not only calls for questioning the current analytical value of the classical rentier state theory, but also calls for a post-rentier labeling for cases similar to Saudi Arabia.
“My grandfather rode a camel, my father rode a camel, I drive a Rolls Royce, my son flies a jet plane, his son will drive a Mercedes-Benz… but his son will ride a camel”

Sheikh Rashid bin Saeed al Maktoum
Former Emir of Dubai
1. Introduction

Stressing on the strategic importance of oil as a resource, former OPEC secretary M.O. Feyide previously stated that; “all over the world, the lives of people are affected and the destiny of nations is determined by the result of oil exploration”¹. Evidently, a number of nations emerged being majorly reliant on income received from owning and selling oil. This class of states, commonly referred to as rentier states, caught the attention of scholars interested in understanding the politics, society, and economics of this model in which rent revenue is the dominant feature.

Despite the massive revenue streams that are enjoyed by oil reliant states, this model has been seen to incur long-term economic and societal issues, not to mention the economic instability associated with over-relying on a single sector. Sheikh Rashid bin Saeed al-Maktoum who ruled the small emirate of Dubai for 32 years from 1958 onwards, is arguably the first leader in the Middle East that foresaw the unsustainability of oil reliance. As such, al-Maktoum has shown substantial dedication to the process of developing the economy of Dubai². In an effort to dodge his prophecy, he directed investments towards massive infrastructural projects with the goal of developing Dubai as an international trading center in order to diversify its sources of income³. Nevertheless, al Maktoum’s thoughts regarding oil seem to be in the process of fulfillment for a number of other oil-reliant states that are fiscally suffering due to the unstable, and recently plummeting oil prices.

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³ Ibid.
The most recent and ongoing oil price drop which started in mid-2014 is a perfect example of the unstable and unsustainable nature of rentierism due to its longevity and severity. With oil prices plummeting from $112 per barrel by more than 50% and remaining below the $60 threshold, many rentier states experienced excruciating budgetary deficits and increasing national debts. As a result of the inability to continue on running the state with the same spending policies, many rentier cases implemented unprecedented spending reforms and other fiscal policies. For instance, Saudi Arabia, Venezuela, and Russia have resorted to implementing budget cuts when it came to spending on transportation, infrastructural development, and defense respectively. Additionally, Bahrain, Oman, and other Gulf states are in the process of applying a value added tax (VAT) law by 2018. Last but not least, Saudi Arabia, a state deriving 90% of its revenues from oil, has already implemented tax reforms on non-nationals, reduced its subsidy on domestic fuel prices, and is in the process of creating a $2 trillion wealth sovereign fund in an attempt to move away from oil reliance. Although the economic/financial rationale behind such reforms is quite understandable as such states are attempting to endure the low oil prices, they are drastic nonetheless as they challenge the main underpinnings of this class of states, and more importantly the main tenets of rentierism.

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9 Said, “Saudi Arabia, Russia, Qatar, Venezuela Agree to Freeze Oil Output”.
The classical rentier state theory (“RST”), which was first developed by author Hussein Mahdavy, bases rentierism on three main tenets; predominance of rent income, the application of distributive policies by the state, and unmatched state autonomy. Using such tenets, a rentier state is statically defined to be one which enjoys substantial autonomy through its over-reliance on rent revenue which is subject to, and is determined by global resource prices. This rent ultimately substitutes other revenue streams such as taxation, diminishing the need for the state to pursue policies reflective of the demands of the masses as taxation and representation are both interconnected. Instead, the theory stipulates that the rentier state becomes preoccupied with distributing rent as it is seen to be more incentivizing politically for the ruler. Taking into consideration the three pillars of rentierism when reviewing the reforms and policies applied, it seems that some rentier cases have defied most of them.

1.1. Research Question

In addition to the “relatively radical” nature of the reforms applied by several rentier stats which gave rise to the notion of the “death of rentierism”, it is easily noticeable that each case had varying socio-economic experiences and responses to oil shocks. Such differences combined with the conceptual contradictions vis-à-vis the reforms applied challenges the simplistic and over-generalizing nature of the classical RST. Considering the above, this research poses the question of “Is the rentier state theory still effective in analyzing oil reliant states?”. As such, this thesis will attempt to analyze and compare a

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11 Ibid, 15

12 Ibid, 18.

number of rentier cases and their respective socio-economic statuses in order to test RST’s analytical value. Turning over to the case of Saudi Arabia, its applied budget cuts and reforms, and the Saudi Vision 2030, this research will question the applicability of RST’s tenets in its case. Accordingly, the thesis poses the following question; “*Given the current and long-term policies adopted by KSA, is it still appropriate to dub it as a rentier state?*”. In order to explore this question, the thesis will analyze KSA’s recent policy reforms vis-à-vis RST’s tenets as well as its theoretical progression through time in order to appropriately describe KSA’s current/future status with regard to oil reliance.

1.2. Hypothesis

Pertaining to the first research question, this thesis hypothesizes that “*RST is useful in describing the fundamentals of rentierism, but holds little analytical value in examining rentier states*”. Due to the diversity between rentier cases in terms of reactions to price fluctuations and socio-economic issues, it would be outdated to regard all rentier cases equally. As such, the research will analyze socio-economic differences between a number of rentier states whilst attempting to create a threshold to classify such cases. Such threshold will be based on per-capita oil income which is directly linked to a state’s population count and ability to distribute income lavishly without resorting to taxation, thereby maintaining its autonomy according to the RST. The rationale behind choosing the aforementioned thresholds is take into perspective the first tenet of RST which is the predominance of rent income. Testing the previous hypothesis should help in re-articulating how rentier states should be differentiated, moving towards a “post-RST” articulation.

Looking at the second research question, the thesis postulates that “*Due to the recent and future reforms and plans adopted by KSA, RST’s core tenets no longer apply calling for a*

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14 Unemployment and standard of living/poverty will be the socio-economic variables employed.
*post-rentier labeling*. It is important to mention that this research does not intend to criticize the policies and reforms undertaken by oil reliant states such as KSA. Instead, the goal is to explore the aftereffects of such reforms on the status of KSA as a “rentier” according to the classical RST. This leads to more focus on the progression of the theory reaching a status of “post-rentierism” and even the more radical notion of the “death of rentierism”. Such notion can be credited to the realization by some rentier states that “business as usual” is not viable given the prolonged period of low oil prices which results in state planning aiming at creating different revenue streams. In this case, unsustainability and reform are the key drivers which demand new labeling of such states.

1.3. **Methodology**

In order to test the previous two hypotheses, its imperative that this research would contain both a qualitative and a quantitative aspect. The used sources, whether in print or found online, consists of the following; academic publications, books, journal articles, conference papers, newspapers, and governmental as well as NGO reports. The selected time period will start from 1998 as it marked the all-time low rate of oil prices before the most recent price shock which occurred in mid-2014. The first half of this thesis will be statistically comparative in nature as it will assess how a number of rentier states treaded across different price shocks vis-à-vis their status regarding oil income, unemployment and standard of living which represents the socio-economic factors used in this research. The statistical threshold resulting from this segmentations should show that the classical RST is simplistically taking rentierism at its face value, leading it to label rentier states equally without accounting for differences in terms of reactions to price changes, population count, and socio-economic problems.
Post segmenting the tested rentier cases, the second part of the thesis will focus on the Kingdom of Saudi Arabia which represents one of the cases that are currently undergoing extensive reforming and planning due to the impossibility of maintaining the “status quo” given the ongoing low oil prices. One of the main tenets of the classical RST is the absolute autonomy of the state due to the lack of taxation policies which leads to less calls for representation. By looking at the new policies being implemented by Saudi Arabia and its Vision 2030 plan, this should help in showing the movement towards a post-rentier economy, demonstrating the unsustainable nature associated with rentierism.

1.4. Foundations of the Research

Due to the fact that rentierism as a topic holds close ties to policy making, economic, and societal analysis, this thesis will posit the state as the unit of analysis through relying on the RST. One of theory’s most famous claims is the “resource Curse” which argues that political and economic issues present in rentier states result from the nature of rent itself as a source of revenue and how it is utilized\(^{15}\). The previous includes misallocation of funds and the lack of transparency by the state regarding its finances\(^{16}\). Nevertheless, the resource curse effect seems to be of less magnitude on certain rentier cases such as the United Arab Emirates (UAE) for example\(^{17}\). The previous underlines the simplicity of RST in analyzing such segment of states. In order to analyze this further, a thorough understanding of the body of literature on rentierism is necessary.


\(^{16}\) Ibid.

1.4.1. Rent and Rentierism

Although the concept of “rentier states” started to gather attention following the emergence of several rent-reliant economies in the 1970s, especially in the Middle-East region, the term “rent” was first addressed by Adam Smith. Smith defined rent as a source of income that is embedded into the price of commodities in a “different” way than wages and profits. Following-up on this description, David Ricardo added that rent is essentially a reward for the ownership of resources. Accordingly, “rentiers” were viewed to be belonging to a distinct group of unproductive owners as they are receiving income without any economic or labor contribution. Moreover, Author Hazem Beblawi supports the previous by describing rentierism as a social function rather than an economic one since the main recipients of rent do not actively participate in the process of generating income, yet are still receiving a “handsome” share of the profits.

Since rent income is usually associated with revenues coming from the ownership and sale of a resources that is accrued directly to the owner of the resource, it is important to mention that some rent resources do not accrue directly to the owner or state. For example, Despite the fact that workers’ remittances and tourism generate rent income, such rent is not received or controlled directly by the state. According to Luciani, The term rentier falls on a state which derives the majority of its government revenues from resource-based industries.

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20 Ibid.

21 Ibid.


23 Ibid.
such as mining or oil extraction\textsuperscript{24}. A common misconception is labeling a country such as Egypt a rentier state due to its revenues from tourism, aid, remittances, and Suez canal revenues\textsuperscript{25}. Unlike Kuwait, Saudi Arabia and Russia for example, a small portion of the rent income is accrued directly to the Egyptian government. Additionally, rent revenue does not constitute a major share of the annual government revenue in Egypt. Authors Niblock and Malik add to Luciani’s definition by stating that rentier states could be easily pinpointed as they derive around 40\% of their gross domestic product (GDP) from oil and energy rents, which also constitutes a majority share of their governmental revenues\textsuperscript{26}. As such, countries like Egypt which share some aspects and characteristics seen in rentier states are labeled as “Quasi-rentier” states\textsuperscript{27}.

Another important defining factor of a rentier state is that only a few are engaged in the generation of the such revenue, while the government is the main and only recipient of the revenue. As a result, the government takes-on the role of controlling, allocating and distributing the rent, leaving the rest of the society with the utilization of said income\textsuperscript{28}. The previous ultimately poses citizenship as a sort of economic benefit since the government “distributes” the revenue through lavish spending on public services, patronage packages to certain groups, and high salaries for government employees\textsuperscript{29}. Finally, Beblawi adds that the externality of such rent revenue is of epitome importance as an internal source of rent cannot

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\begin{itemize}
    \item \textsuperscript{24} Ibid.
    \item \textsuperscript{26} Niblock and Malik, \textit{The Political Economy of Saudi Arabia}, 15.
    \item \textsuperscript{27} Luciani, “Allocation vs. Production States: A Theoretical Framework”, 70.
    \item \textsuperscript{28} Ibid, 52.
    \item \textsuperscript{29} Ibid, 53.
\end{itemize}
be sustained without sizable industrial and consumer bases\textsuperscript{30}. As such, in the scope of this thesis, a rentier state is defined as one which derives the majority of its annual government revenue from externally generated rent, rendering the government as the sole recipient, controller, and distributor of said rent.

1.4.2. The Rentier State Theory (RST)

The advancement of RST in academia is most notably accredited to authors such as Hussain Madevy, Hazem Beblawi, and Giacomo Luciani. Focusing on states receiving most of their income through rent, the theory not only identifies the main characteristics of rentier states as shown beforehand, it also outlines the effects of such reliance on state planning, the economy, and the society under what is dubbed as the “resource curse”. Author Michael Ross subscribes to the previous by underlining three causal mechanisms of oil reliance; the rentier effect, repression effect, and the modernization effect\textsuperscript{31}. The former underlines how rentier governments use their oil revenues to quench popular pressures, reduce accountability, and strengthen their legitimacy mainly through expenditure\textsuperscript{32}. This is quite understandable since such states act as the sole intermediary between the society and rent revenue\textsuperscript{33}. For instance rentier governments are less likely to tax their population in an attempt to reduce pressures for more accountability\textsuperscript{34}. Without taxation, citizens would demand substantially less government representation and political participation\textsuperscript{35}. This brings into mind the phrase “no taxation without representation”. Should these states begin taxing their citizens, there would

\textsuperscript{30} Hazem Beblawi, “The Rentier State in the Arab World, in the Rentier State”, 51


\textsuperscript{32} Ibid, 322.

\textsuperscript{33} Mahmoud Abdel-Fadil, ”The Macro-Behavior of Oil Rentier States in the Arab Region,” in The Rentier State, ed. Hazem Beblawi and Giacomo Luciani (Croom Helm, 1987), 83.

\textsuperscript{34} Ross, “Does Oil Hinder Democracy?”, 332.

\textsuperscript{35} Beblawi, “The Rentier State in the Arab World”, 53.
be more calls for political representation and accountably from the government, Thus highlighting the need for rentier states to uphold the status quo\textsuperscript{36}. This is also tied to the fact that rentier governments strive to prevent the formation of social groups that are independent from the state, which would otherwise be more inclined to demand more representation\textsuperscript{37}. Otherwise known as the “group formation effect”, this outlines how Arab gulf states have hindered the formation of civic institutions that lie between the state and the society due to the fear of developing considerable influence that is independent from the regime\textsuperscript{38}.

Apart from the minimal taxation, the rentier effect also stipulates that oil income encourages more patronage spending schemes\textsuperscript{39}. According to Luciani, the need for developing a strong economic policy is substituted by the need for an expenditure policy since it will be seen as more beneficiary by the masses\textsuperscript{40}. In this sense, such states provide their population with various public goods and services such as education, health, social security, infrastructure, and other services of adequate or even excellent quality\textsuperscript{41}. Moreover, the government also poses as the primary and most favorable employer due to the huge compensations it provides\textsuperscript{42}. According to Beblawi, this creates a stigma regarding some professions that are eventually left for foreigners. For rentier states characterized by small population counts or high unemployment rates this poses as a problem as the expatriate workforce becomes quite sizable, filling the gap of manpower in activities that cater to the


\textsuperscript{37} Ross, “Does Oil Hinder Democracy?”, 334.

\textsuperscript{38} Ibid.

\textsuperscript{39} Ibid, 333.

\textsuperscript{40} Luciani, “Allocation vs. Production States: A Theoretical Framework”, 74.

\textsuperscript{41} Beblawi, “The Rentier State in the Arab World”, 54.

\textsuperscript{42} Ibid, 55.
ever-growing needs of the society in positions unfilled by the local population. According to RST, the lack of taxation and the increased spending are not only useful in fending-off callings for reform, but also contribute favorably to the stability of the government.

The second component or effect of rentierism is dubbed as the “repression effect” which claims that huge rent revenues grant the government the ability to spend more on internal security and defense budgets. This is accredited to two main reasons; (1) seeking self interest in arming the state against popular pressures, and (2) the fact that resource wealth could cause regional, international and ethnic conflicts. In this regard, it is important to mention that according to the world militarization index for 2015, which shows the relative weight and importance of a country’s military apparatus in relation to its society as a whole, rentier states such as Kuwait, Saudi Arabia, Oman, Bahrain and Iran are ranked amongst the ten most militarized nations in the Middle East. Moreover, 10 of the top 30 militarized nations globally are rentier states. More specifically Russia at (6); (8) Azerbaijan; (9) Kuwait; (11) Brunei; (13) Oman; (14) Algeria; (15) Bahrain; (17) Saudi Arabia; (24) UAE; and Iran at (27).

The last effect relating to RST is the “modernization effect” which argues that economic development that is based on resource wealth alone does not bring about the necessary social and cultural changes that would lead to economic modernization. Although the definition of economic modernity is quite elusive, this assertion focuses on the neoliberal

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43 Ibid, 59.
44 Ross, “Does Oil Hinder Democracy?”, 335.
45 Ibid.
47 Ibid.
economic development model; the movement from agriculture towards industry, and eventually reaching the post-industrial or the services sector\(^49\). Keeping the previous in perspective, one will find that the development process in rentier states quite lacking as the progression usually overrides industrial development. Author Abdel-Fadil subscribes to the previous by stating that oil provokes growth in the services sector due to the rising purchasing power of the society and to cater to the oil sector which requires massive storage networks, labor accommodation, logistics and pipelines\(^50\). Moreover, rentier governments usually direct their investment towards public services that are more visible and more effective politically such as highways and housing projects rather than improving the industrial basis of the country\(^51\).

Coinciding with the aforementioned, author Terry L. Karl supports the notion of the resource curse by stating that rentierism often leads to concealed social issues related to inequality, poverty, and unemployment\(^52\). Karl bases his views on the capital intensive nature of the energy industry, and the power of the government in being the sole recipient of the rent\(^53\). Ross argues that although rentier states tend to contribute large aid packages especially in the Middle East region, not to mention that they are often seen as engines of growth, they are also perceived to be performing far worse than they should have given their rentier wealth\(^54\). This is tied to the lack of economic diversification due to the over reliance on the energy sector in generating revenue, stemming from the focus on investing in providing


\(^{50}\) Abdel-Fadil, “The Macro-Behavior of Oil-rentier States in the Arab Region”, 85.

\(^{51}\) Ibid, 84.


\(^{53}\) Ibid.

\(^{54}\) Ross, “Does Oil Hinder Democracy?”, 328.
social goods and services\textsuperscript{55}. In that sense, Karl states that the presence of oil itself cannot yield negative outcomes for the state, instead it is the way by which such revenues are managed which brings about the resource curse\textsuperscript{56}.

### 1.4.3. Consequences of Practicing Rentierism

The notion of the resource curse provides valuable insight into the consequences of practicing rentierism, the most famous of which is commonly termed as the “Dutch Disease”. The dutch disease theory originated following the discovery of natural gas in the Netherlands during the 1960s by authors Corden and Neary\textsuperscript{57}. The theory contends that a huge inflow of capital which is caused by a resource boom leads to an appreciated real exchange rate. Accordingly, this would render the prices of imported goods cheaper versus domestically produced goods, especially in the case of states with a weak manufacturing sector. As a result of the previously mentioned, resource dependency would pose importation as more efficient and worthwhile fiscally instead of producing goods domestically\textsuperscript{58}. This eventually leads to a weak and volatile economy and even makes the process of diversification harder due to the uncompetitiveness of local goods internationally\textsuperscript{59}. In addition to the previous, studies have shown that this phenomenon leads to higher rates of unemployment since it “crowds-out” labor intensive sectors\textsuperscript{60}. Furthermore, it was also found that the dutch disease leads to a declining trend of growth on the long-run and it could also cause deterioration in terms of

\textsuperscript{55} Karl, “Oil-Led Development: Social, Political, and Economic Consequences”, 5.

\textsuperscript{56} Ibid.


\textsuperscript{58} Ibid.


governance. This is tied to some groups’ interest in holding certain bureaucratic positions in order to receive a larger share of the rent revenue, resulting in more corruption\(^{61}\).

The second consequence of rentierism is related to the high poverty rates and inequality present in rentier states\(^{62}\). Due to the fluctuating oil price cycles, per-capita income could greatly plunge during times of unexpected price busts, which would leave a portion of the society in poverty or suffering from extensive income drops\(^{63}\). Countries such as Venezuela and Nigeria have experienced a growing population living under the international poverty line over the past three decades of the twentieth century\(^{64}\). The previous is further exacerbated by what author Samuel R. Schubert dubs as the “poverty of policy”. This indicates the institutional flaws associated with rentier states failing to address societal issues as there is a general lack of transparency, freedom of speech, and accountability\(^{65}\). Schubert argues that some rentier states suffer from a stratified social class structure in which a small segment of the society earns most of the rent revenue and a portion of the population is left in poor conditions due to an inefficient trickle-down effect\(^{66}\). This issue of distribution inequality is especially evident in rentier states characterized by a large population such as Nigeria, where more than 50% of the society lives under the poverty line of $1 per day\(^ {67}\). Lastly, the crowding-out of sectors other than the oil industry as mentioned beforehand in

\(^{61}\) Ibid, 4.


\(^{63}\) Ibid, 9.


\(^{65}\) Ibid, 2.

\(^{66}\) Ibid, 2.

\(^{67}\) Ibid.
many rentier cases destroyed the agricultural and handicrafts sectors, leaving the population that lived on it suffering\textsuperscript{68}.

Furthermore, due to the unequal distribution of the oil revenue, a rentier mentality is cultivated in such societies. As a result of such mentality, the work-reward causation is broken as the society receives income without necessarily earning it\textsuperscript{69}. This mentality goes against the basic make-up of Lockean ideal of property which asserts that labour is required for the attainment of property and income\textsuperscript{70}. Instead, the population prefers to engage in rent-seeking activities to maximize their utility instead of doing productive work or risk bearing business activities\textsuperscript{71}. One example of rent seeking activities is the desire by citizens to work for their governments. Due to the large benefits provided by governmental jobs, not to mention the prestige it offers, the best and brightest aspire to hold such positions\textsuperscript{72}. The previous coupled by the high-consumption patterns evident in such societies and the capital intensity of its most important sector not only affects the state’s economy in terms of diversification, but also does little to create employment opportunities\textsuperscript{73}. For each unit of capital invested, the oil industry creates few jobs that require a certain set of skills, often not sufficiently offered by the local workforce. As for the remaining more “demeaning” job opportunities, they are left for expatriates as they are often associated with a stigma of “shamefulness” especially in Arab rentier states\textsuperscript{74}.

\textsuperscript{68} Niblock and Malik, \textit{The Political Economy of Saudi Arabia}, 32.


\textsuperscript{70} Levins, “The Rentier State and the Survival of ArabAbsolute Monarchies”, 389.


\textsuperscript{72} Levins, “The Rentier State and the Survival of Arab Absolute Monarchies”, 395.

\textsuperscript{73} Karl, “Oil-Led Development: Social, Political, and Economic Consequences”; 6.

\textsuperscript{74} Levins, “The Rentier State and the Survival of Arab Absolute Monarchies”, 395.
1.4.4. Criticisms of The Classical RST

Although RST helps in giving insights into the practices of rentier states, it is seen to have certain flaws which could hinder such an understanding. The first criticism of the theory is that it tends to overgeneralize with its predictability of the social and economic outcomes of resource reliance, when in reality such outcomes cannot be completely calculated\(^\text{75}\). Secondly, it perceives the state to be enjoying a great deal of autonomy without the risk of being influenced by any class or influential group\(^\text{76}\). Such autonomy however could be affected or even limited in some cases by causes that are internal to the state itself such as state officials, politicians or the ruling family members in the Saudi case for example\(^\text{77}\). A third criticism has to do with the theory’s inability to differentiate between the rentier capacity and centrality. Although the state is central in terms of being the main benefactor and distributer of oil revenues, its strength/capacity is measured by its ability to extract resources from the population when needed\(^\text{78}\). The best example is the lack of strong taxation infrastructures in most rentier states. This rather inexistent aspect of the state’s apparatus is not only useful during times of dire economic situations such as a fall of oil prices, but it could also prove useful in monitoring the economic activities of the population\(^\text{79}\).

Lastly, the theory fails to take note of the global comparative advantage that is enjoyed by rentier economies. This advantage has to do with the booming sector, which is related to the main driving force for industry and manufacturing\(^\text{80}\). Although the dutch

\(^{75}\) Niblock and Malik, “The Political Economy of Saudi Arabia”, 19.

\(^{76}\) Ibid.

\(^{77}\) Ibid.

\(^{78}\) Ibid, 20.

\(^{79}\) Ibid.

\(^{80}\) Ibid.
disease argument is quite evident in this area, the possibility of shifting towards a global petroleum and petrochemical industrial hub seems to be an interesting topic to analyze. Moreover there are cases of rentier states that moved towards strengthening other sectors of the economy with the aim of diversification such as the UAE for instance.

Based on the previously mentioned drawbacks in addition to the growing variations between different rentier cases, the applicability of RST became a concern. Although the theory’s tenets hold valuable insight regarding rentierism, the validity of the assumptions are time limited to the first great oil boom of the 1970s. The generality and simplistic nature of the theory deemed it unreliable in providing timely analytical insights over the years. As such, the theory evolved over the years in order to consider matters such as globalization, trade liberalization, technological advancement and unstable oil prices. Judging by the above, it is important to understand the imperatives of post-rentierism in order to overcome the classical RST’s over-simplicity.

The RST went through two main stages of development following the first phase of the classical RST which took place during the 1970s till the 1990s. Other than laying-down the fundamentals of rentierism as mentioned beforehand, this stage subscribed to the state’s absolute autonomy and the lack of rigid economic policies. The focus on rent distribution

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81 Ibid.
83 Ibid, 301.
85 Springborg, “GCC Countries as Rentier States Revisited”, 301.
87 Ibid, 7.
coupled by the lack of taxation meant that rentier states found little interest in investing in the development of their economies\(^88\).

Due to the changing practices of many rentier states, a second phase of RST emerged during the 2000s\(^89\). This stage marked the first move towards a post-rentier understanding and a movement away from the simplistic view of development as being dependent only on natural resource endowments\(^90\). Moreover, the claim of total state autonomy by the classical RST seemed outdated since some rentier states engaged in policy-making as a reaction to, or in anticipation of societal pressures\(^91\). Lastly, the classical RST failed to explain the diversity of political structures in rentier states. An example is Kuwait’s parliament on one hand, and Saudi Arabia’s Lack of democratic institutions on the other\(^92\). Dealing with the previous realizations, the second phase of RST introduced two sub-bodies to the theory; “Specialized RST” and “Conditional RST”. The former entails the inclusion of historical and pre-rentier state-society dynamics into the analysis of rentierism\(^93\), whilst the latter focused on understanding differences between rentier states based on demographic aspects as well as the state’s financial capacity\(^94\). Both of the previously mentioned “specialized” and “conditional” approaches of RST subscribed to the basic principles set by the classical theory, whilst focusing on the distinct and specific experiences of each rentier case in order to account for the classical RST’s analytical weakness when it comes to its applicability\(^95\).

\(^{88}\) Ibid, 8.
\(^{89}\) Ibid, 9.
\(^{90}\) Ibid, 10.
\(^{91}\) Ibid.
\(^{92}\) Ibid, 11.
\(^{93}\) Ibid, 13.
\(^{94}\) Ibid, 16.
\(^{95}\) Ibid, 14.
With some rentier cases accomplishing some level of economic diversification such as the UAE for example, there was yet another need for reassessing RST. This led to the emergence of another phase of RST, otherwise known as “late rentierism”. Understanding that rentier states have become more mature and sophisticated due to the amount of socio-economic threats that have evolved, late rentierism is a branch of RST which attempts to understand the reasons behind post-rentierism and the means by which it is reached. This approach takes into consideration matters such as globalization, population growth, employment pressures, and times of high and low rents as a result of shifting oil prices. All of the previous have clearly altered the perspectives of some rentier states when looking at rent income and their own survival, becoming more aware of their poor allocation of resources. Moreover, the fact that some rentier states such as Bahrain have faced public pressures further exacerbated the weaknesses of the rentier state model. As a result, some cases opted for more openness and responsiveness to societal needs at an extent which does not threaten their stability. Due to classical RST’s rigid assumptions, adopting a post-rentier mindset is more suitable in understanding why some rentier states have recently become more active economically by seeking-out longterm developmental policies in order to create certain socio-economic outcomes in anticipation of shrinking rent revenues.

Judging by the above-mentioned, classical RST alone with its narrow scope on rentierism and extreme take on state autonomy is outdated. While the theory helps in giving insights in highlighting rentier states and the notion of rentierism as a method of behavior and

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96 Ibid, 18.
97 Ibid, 19.
98 Ibid, 21.
99 Ibid, 22.
100 Ibid, 28.
policy making, the theory fails in taking into account rentier states which have recognized the unsustainability of rentierism, and why they would reach such a conclusion. This is quite clear especially when noting that the classical RST does not differentiate between rentier states whilst many cases are at different positions economically, socially and politically. As a result it is important to understand RST’s principles whilst keeping in mind the progression of the theory itself towards a post-rentier understanding in order to retain the theory’s analytical value.

1.4.5. Oil and Price Volatility

Since this thesis is focusing on oil reliant states, it is important to understand the nature of oil as a commodity. Oil was initially discovered in 1908 in Iran, later on it was discovered in Iraq, the Arabian peninsula and lastly in Africa. Ever since such discoveries, oil has played a decisive role in how rentier states are managed economically, not to mention the social and political implications it brought. Unlike most goods and resources, oil as a commodity holds a number of distinct characteristics. Apart from the obvious scarce and depletable nature of oil, it also plays a quintessential role in the process of industrialization. Moreover, it is highly volatile when it comes to price changes which results in unforeseeable boom-slump cycles. Additionally, oil production and extraction is characterized as being capital and technologically intensive in comparison to other industries. Lastly, oil wealth brings with it massive revenues due to its nature as a global strategic good.

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104 Ibid.

105 Ibid.
Before moving forward, it is important to understand the different oil price benchmarks. The most commonly used global benchmarks are the Brent, West Texas Intermediate (WTI) and Dubai/Oman crude benchmarks. Brent refers to approximately two-thirds of the global oil contracts and it represents crude oil that is of high quality, and is normally used in the refining of fuel and the production of other oil byproducts\(^\text{106}\). WTI on the other hand represents oil extracted from the US and it is the indicator generally used in North America\(^\text{107}\). The third indicator refers to crude that is of slightly lower quality and it represents oil that is extracted from Dubai, Abu Dhabi or Oman. Generally, all of the previous indicators move together as oil prices globally are tied, however for the purpose of this research the Brent indicator will be focused upon for oil price benchmarking\(^\text{108}\).

When looking at the reasons behind the oil price volatility, one will find a number of geopolitical and economic events responsible for price changes as seen in Figure 1\(^\text{109}\). Such reasons include wars, financial crises, disruptions in international trade, and changes in global demand and supply for energy. This volatility however has grown worse since the 1970s as statistics show that oil prices have become twice as volatile in comparison to other commodities, rendering rentier states more prone to frequent economic shocks\(^\text{110}\). This is also tied to the rise in number of corporations and entities involved in the global trade of oil. As such, oil prices are never static and global prices tend to move together as seen in Figure 2\(^\text{111}\). Additionally, oil is considered to be economically inelastic on the short-run; meaning


\(^{107}\) Ibid.

\(^{108}\) Ibid.


\(^{111}\) “What Drives Crude Oil Prices?”, 3.
that both supply and demand are not easily adjustable\textsuperscript{112}. The previous is mainly due to the time and capital required for affecting the supply, and for consumers to alter their consumption patterns\textsuperscript{113}. This volatility translates into a change in the prices of petroleum byproducts since a price change affects the cost of inputs\textsuperscript{114}. Figure 3 shows how the cost of refiner acquisitions change in relation to oil prices, thereby affecting the price of refined oil and its byproducts\textsuperscript{115}.

\textbf{Figure (1): Historical Oil Price Shocks}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure1.png}
\caption{Historical Oil Price Shocks}
\end{figure}

\textit{Sources: US Energy information, Thomson Reuters}

\begin{flushleft}
\textsuperscript{112} Ross, \textit{The Oil Curse: How Petroleum Wealth Shapes the Development of Nations}, 81.
\end{flushleft}

\begin{flushleft}
\textsuperscript{113} Ibid.
\end{flushleft}

\begin{flushleft}
\textsuperscript{114} “What Drives Crude Oil Prices?”, 4.
\end{flushleft}

\begin{flushleft}
\textsuperscript{115} Ibid.
\end{flushleft}
**Figure (2):** Movement of International Oil Prices/Indicators

**Figure (3):** Refiners’ Oil Price Acquisition Vs. Oil Price
In order to underline the extent of the price volatility of oil, it is important to map-out some prominent price fluctuations that occurred previously. In the late 90s, the sharpest price decline occurred due to the Asian financial crises at almost $8 per barrel. Such crisis led to a drop in demand for oil vis-à-vis the unchanged production patterns by the members of the Organization of Petroleum Exporting Countries (OPEC). Nevertheless, oil prices recovered but by 2001 another decline in prices occurred. Due to the growth disruptions and market uncertainty caused by the September 11 attacks, oil prices dropped to $23 per barrel. The third most notable drop in oil prices occurred in 2008 due to the global economic crisis which created uncertainty regarding oil prices, thus lowering them by 60% to be just below $40. It is clear that whether it is an issue of supply or demand, the number of catalysts that could affect the oil industry are many.

Such volatility makes it more difficult to exercise control over public finances and state planning due to its direct influence on the state’s budget in the case of rentier cases. Furthermore, it renders maintaining nation-wide economic targets harder as longterm economic development tends to deviate from its planned goals by at least 30% due to overestimating future oil revenues and failing to account for price shocks. Additionally, oil prices also affect transportation costs and households’ purchasing power which further shows how economic activities would improve if it was possible to reliably predict oil price fluctuations. Lastly, oil volatility also makes it harder to maintain long-term investment goals, poverty alleviation policies, and creates issues with regard to the equitable distribution

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117 Ibid.


of income. As a result, rentier states tend to exert force on the global oil market in times of price slumps in order to control such fluctuations. This is done through altering the global oil supply, specifically by reducing or freezing production which creates a shortage in order to profit from high prices later on. It is important to mention that the ongoing 2014 oil price shock witnessed a different action by some oil producing states which aimed at financially exhausting other international competitors, specifically the US. Nevertheless, this action of maintaining the same global supply of oil backfired as other international players re-entered the market such as Iran, while the US with its advancements in extracting shale oil was able to endure the low prices.

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2. Differentiating Rentier States

As mentioned beforehand, this thesis focuses on underlining the limitations of the classical RST. Namely (1) the theory’s inability to differentiate between rentier capacity and centrality, (2) failure to take note of the potential global comparative advantage that is enjoyed by rentier economies, (3) overgeneralizing assumptions regarding the autonomy of rentier states without accounting for internal aspects such as ruling family members or high ranking state officials, and lastly (4) the theory’s overly simplistic nature in predicting the economic and social outcomes of resource reliance, and the diversity of political structures present in rentier states\textsuperscript{123}. As such, the theory is time limited in providing reliable in-depth analytical insights on the subject of rentierism due to its simplicity. Underlining this simplistic nature is the following statistical analyses which will test for differences between different rentier cases.

The analyses below will attempt to segment rentier cases with regard to the level of per-capita share of oil rent in an attempt to understand the reasons behind the different rentier experiences by each state. In doing so, this thesis utilized Luciani’s simple definition of a rentier state, stating that it derives the majority of its government revenue from capital intensive resource-based industries. In doing so, 25 cases were chose according to the World Bank’s indicator of rent as a percentage of GDP\textsuperscript{124}. Such cases were then analyzed based on sources of government revenues and it was found that 60% of the cases derive more than 60% of their respective governmental revenues from oil, with the remaining cases deriving more than 50% of their governmental revenues from resource based industries, excluding

\textsuperscript{123} Niblock and Malik, “The Political Economy of Saudi Arabia”, 19.

\textsuperscript{124} According to the Worldbank database, Oil rent as a percentage of GDP is computed through finding-out the difference between the value of crude oil production at world prices and total costs of production domestically. This is later based on the state’s GDP for the same year.
Ecuador which is the smallest rentier OPEC state at 47%\textsuperscript{125}. It is important to note at this stage that the state of South Sudan was removed from the selected cases due to the unavailability of information on the state’s sources of rent revenue, which reduces the number of cases to 24\textsuperscript{126}. The two statistical studies that will be conducted would entail (1) looking at cases before and after oil shocks in order to show variable change between each and every case, and (2) attempting to cluster the cases into two groups based on a pre-defined threshold represented by the per-capita share of oil rent.

<table>
<thead>
<tr>
<th>Count</th>
<th>Case Name</th>
<th>%</th>
<th>Count</th>
<th>Case Name</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Iraq</td>
<td>97%</td>
<td>14</td>
<td>Equatorial Guinea</td>
<td>67%</td>
</tr>
<tr>
<td>2</td>
<td>Bahrain</td>
<td>91%</td>
<td>15</td>
<td>Oman</td>
<td>67%</td>
</tr>
<tr>
<td>3</td>
<td>Libya</td>
<td>91%</td>
<td>16</td>
<td>UAE</td>
<td>65%</td>
</tr>
<tr>
<td>4</td>
<td>Saudi Arabia</td>
<td>90%</td>
<td>17</td>
<td>Gabon</td>
<td>64%</td>
</tr>
<tr>
<td>5</td>
<td>Brunei</td>
<td>88%</td>
<td>18</td>
<td>Venezuela</td>
<td>55%</td>
</tr>
<tr>
<td>6</td>
<td>Kuwait</td>
<td>83%</td>
<td>19</td>
<td>Russia</td>
<td>54%</td>
</tr>
<tr>
<td>7</td>
<td>Turkmenistan</td>
<td>82%</td>
<td>20</td>
<td>Qatar</td>
<td>53%</td>
</tr>
<tr>
<td>8</td>
<td>Angola</td>
<td>79%</td>
<td>21</td>
<td>Trinidad &amp; Tobago</td>
<td>51%</td>
</tr>
<tr>
<td>9</td>
<td>Congo Republic</td>
<td>75%</td>
<td>22</td>
<td>Iran</td>
<td>50%</td>
</tr>
<tr>
<td>10</td>
<td>Chad</td>
<td>75%</td>
<td>23</td>
<td>Kazakhstan</td>
<td>50%</td>
</tr>
<tr>
<td>11</td>
<td>Azerbaijan</td>
<td>74%</td>
<td>24</td>
<td>Ecuador</td>
<td>47%</td>
</tr>
<tr>
<td>12</td>
<td>Nigeria</td>
<td>70%</td>
<td>25</td>
<td>South Sudan</td>
<td>N/A</td>
</tr>
<tr>
<td>13</td>
<td>Algeria</td>
<td>70%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Natural Resource Governance Institute, IMF, EIA, WorldBank


\textsuperscript{126} The WorldBank Database, Oil Rents (Percentage of GDP), Raw Data, accessed September 17, 2016, http://goo.gl/j3mc6u.
2.1. Variables, Indicators, and Statistical Shortcomings

The following statistical studies will entail the usage of specific indicators and variables which includes demographic and socio-economic factors. Such variables include Unemployment, Population, Human Development Index (HDI), Income-adjusted HDI, and the Per-capita share of oil rent. The following is a detailed explanation for each of the previously mentioned, the reasons for selecting them, and the methodology for computing each variable.

2.1.1. Unemployment

Unemployment represents one of the two used socio-economic indicators for this statistical study. According to the WorldBank database, unemployment refers to the percentage of the labor force that is without work but is able, eligible, and actively seeking an employment opportunity\(^\text{127}\). The methodology for computing unemployment simply encompasses dividing the number of citizens to which the above conditions apply, by the entire population count. The reason behind choosing unemployment as a socio-economic indicator is the fact that it reflects the health of the economy through accounting for the labor force and the amount of idle citizens that would otherwise be contributing in the economy. Generally, an acceptable unemployment rate should not exceed 6.7%, however, many economists would argue that any figure below the global average unemployment rate of 8% is acceptable as well\(^\text{128}\). For the purpose of this research, unemployment data will be


2.1.2. Human Development Index

Designed in 1990, HDI is a composite statistical tool which incorporates the measurement of life expectancy/longevity, education and income. The index sets equal weights for each of the previously mentioned elements in order to rank countries based on their score which is measured on a 0-1 scale; zero being the least developed and one being the most developed. From a functional sense, HDI is the most famous representations of human well-being and quality living standards; allowing comparisons to be made amongst different countries as well as regions. The empirical results of the index became key indicators for UN agencies, governments, and scholars worldwide. It is important to mention that although poverty as an indicator would have proven to be more useful and direct for this research, it is substituted by HDI due to the lack of reliable information on poverty for the selected cases. The Human Development Index is composed of three main criterions believed to be the fundamental indicators of human wellbeing in any given country; namely education, quality of health and per-capita gross national income (GNI). Based on the previous, each country is given a status of either very high development, high development, medium development or low development. For the purpose of this study, HDI data is collected for the years 1997, 2000, 2008 and 2011.

129 Due to the fact that full data on unemployment for rentier states is not available through a single source, especially when it comes to looking at a series of years, the Global-Economy Database and the Index-Mundi Database were both used to gather data on unemployment for the selected rentier cases.


131 Ibid.

132 Ibid.

133 Ibid.
2.1.3. Income-adjusted HDI

Since the second part of the statistical testing for this research would include per-capita share of oil revenue, HDI was computed differently by disregarding the aspect of income represented by per-capita GNI which will be represented by the per-capita share of rent revenue. This is done in order to avoid accounting for double sources of income through putting equal weights on health and education and calculating their geometric mean. Such an adjustment is easily conducted using the HDI Adjustment tool made available online. Each published Human Development Report (HDR) contains a detailed breakdown of each of the three sub-indicators used in designing the HDI for each case. The data compiled for the income-adjusted HDI covers the year of 2014 due to the unavailability of a HDI data for 2015.

2.1.4. Population Count

Based on the simple definition of population, this variable indicates total population in a given country regardless of the legal status or citizenship excluding all refugees. Data on this indicator was collected through the CIA World Factbook online database for 2015.

2.1.5. Per-capita Share of Rent Revenue

This variable represents an estimated value of the oil and gas production per-capita in 2009 based on calculations conducted by British Petroleum. Computing this variable is simply done by dividing the total rent revenue for a given year by the respective population.

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count. It is important to mention that the reason for choosing 2009 instead of a more recent year was due to some rentier states not officially disclosing their revenues from rent. It is the assumption of this thesis that population as well as per-capita share of oil revenue affects the previous socio-economic indicators; inversely in the case of unemployment and directly when it comes to HDI due to the increased spending capabilities by the government.

### 2.1.6. Limitations

Before moving further, it is crucial to map-out the limitations faced whilst conducting the following statistical tests. In addition to the previously stated issue with the case of South Sudan, the list of rentier cases includes some countries that proved to be outliers such as Iraq and Libya. Such cases suffered from civil wars and instability that poses them as extreme cases compared to other rentier states. Furthermore, although poverty would have aided in showing differences between the cases, the statistical work focuses on unemployment and standard of living as dependent variables since data on poverty was not available which is why the HDI alone was used to represent the overall state of wellbeing in a given state. Lastly, in the case of per-capita share of oil income, the preferable data would have been for the year 2015 in order to account for the latest figures as well for the latest drop in oil prices, however due to the fact that many rentier states tend to keep their financials hidden, such data could not be obtained, thus data for the last available year, 2009 in this case, was used instead.

### 2.2. Reacting to Oil Price Shocks

Over the past two decades, a number of oil price shocks took place with the latest occurring in mid-2014\(^\text{139}\). The first one took place in the late 1990s as a result of the Asian

financial crisis, the second in 2001 due to the 9/11 attacks and the third in 2008 due to the
global financial crisis. It is important to note that the 9/11 oil shock was considered to be
short-term as the prices recovered shortly after unlike 2007 and 1996 which were regarded to
be the most severe shocks before 2014\textsuperscript{140}. In order to underline the inherent differences
between the 24 rentier cases, this study will show how unemployment and HDI varied before
and after the Asian financial crisis and the 2008 global financial crisis. Since rentier cases
according to RST largely base their spending and income on rent revenues, such drops in
prices should entail lower financial capabilities, thus affecting unemployment and HDI.
Unemployment data was collected for the years 1997-2000 and 2008-2012 through the global
economy online database\textsuperscript{141}. Similarly, HDI was collected for the same series of years
through the annual HDR issued by the United Nations Development Program\textsuperscript{142}.

2.2.1. The Asian Financial Crisis

The Asian Financial Crisis took place towards the end of 1997, affecting most Asian
nations and spreading fears of an imminent economic failure globally\textsuperscript{143}. The Crisis first
started in Thailand due to the state’s large foreign debt, failure of the real estate market, and
the devaluation of the Thai Baht causing the government to completely float it\textsuperscript{144}. This
economic meltdown quickly started spreading due to the increased interconnectedness of
economic systems to nearby nations such as the Philippines, Malaysia, Indonesia, Singapore,

\textsuperscript{140} Matthew J. Morgan, The Impact of 9/11 on Business and Economics: The Business of Terror: The Day That

3etpLB.


\textsuperscript{143} Rufus Ayodeji Olowe, “Oil Price Volatility, Global Financial Crisis and The Month-of-the-Year Effect,”

\textsuperscript{144} Ibid.
South Korea, Taiwan, and Hong Kong\(^{145}\). Resulting from the previous, stock markets started collapsing, currencies depreciated in value and asset prices declined which severely impacted the economies of these nations. Evidently, the affected states stopped investing and lending developing nations which led to a global economic slowdown\(^{146}\). Moreover, since Asian economies represent huge markets and even bigger industrial hubs, demand on oil decreased which dropped the prices of oil to $8 per barrel by the end of 1998 from $24 in December 1997\(^{147}\). Undoubtedly this dealt a huge blow to oil exporting nations worldwide as their oil revenues declined.

Looking first at unemployment figures for the 1997 Asian financial crises, the T-test depicted in Table 2 formulated through SPSS shows that the mean unemployment for all 24 cases before the crises in 1997 was at 9.75% with a standard deviation of 6.29. However after the crises occurred in the year 2000, the mean unemployment for all cases was at 10.25% with a standard deviation of 6.81. The previous results show that the overall unemployment increased in rentier states as a result of the Asian financial crises. Moreover, the standard deviation shows an increase from 6.29 to 6.81 which signifies an increase in dispersion from the mean for each year and a spread between cases. This is further exacerbated by the confidence interval shown in Table 3, which in 1997 depicts lower and upper confidence interval of 7.09 and 12.41 respectively whilst in 2000 was at 7.38 and 13.13.

**Table (2): 1997-2000 Unemployment Rate - One Sample T-test Statistics**

<table>
<thead>
<tr>
<th>Year</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997 Unemployment</td>
<td>24</td>
<td>9.75</td>
<td>6.299</td>
<td>1.286</td>
</tr>
<tr>
<td>2000 Unemployment</td>
<td>24</td>
<td>10.25</td>
<td>6.813</td>
<td>1.391</td>
</tr>
</tbody>
</table>

\(^{145}\) Ibid.

\(^{146}\) Ibid.

Table (3): 1997-2000 Unemployment Rate - Confidence Intervals

![Table 3: 1997-2000 Unemployment Rate - Confidence Intervals](image)

In order to further show the degree of dispersion between the cases, Table 4 shows how each state was affected with their respective trend lines. According to the chart, only four cases; Saudi Arabia, UAE, Trinidad and Tobago, and Russia had a slight improvement in unemployment from 1997 to 2000. On the other hand 46% of the cases experienced a growing rate of unemployment and the remaining 38% experienced virtually no change with regard to unemployment. The differing reactions to the Asian financial crisis is also visible in Figure 4 which shows how each rentier case varied from the other during the period of 1997 to 2000 in addition to the upwards-sloping trend line which depicts the growing average unemployment between the two years.

Table (4): 1997-2000 Unemployment Rate - Actual Trend-lines

![Table 4: 1997-2000 Unemployment Rate - Actual Trend-lines](image)
The above shows that the Asian financial crisis incurred an overall negative effect on the selected cases at varying extents, signaling to differing experiences by each case. Turning to HDI, the T-test shown in Table 5 depicts the mean HDI figure for 1997 of 0.68 and a decrease in that figure in 2000 to 0.65. Moreover, the standard deviation for HDI in this scenario slightly increased from 0.1457 in 1997 to 0.1459 in 2000. Similar to the results on unemployment before and after the Asian Crisis, HDI seems to have slightly worsened. Additionally, the increased standard deviation for HDI signifies an increase in dispersion from the mean for each year and a spread between cases. Figure 5 represents a graphical illustration showing the degree of change in HDI for each rentier case in addition to the overall average sloping line through regression. The down-sloping line shows that the overall HDI was negatively affected for the entire population due to the crisis and the variance in
change between each case on its own signifies a lack in uniformity when it comes to reacting to this specific price shock.

**Table (5):** 1997-2000 HDI - One Sample T-test Statistics

<table>
<thead>
<tr>
<th>Year</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>24</td>
<td>.6820</td>
<td>.14569</td>
<td>.02974</td>
</tr>
<tr>
<td>2000</td>
<td>24</td>
<td>.6530</td>
<td>.14591</td>
<td>.02978</td>
</tr>
</tbody>
</table>

**Table (6):** 1997-2000 HDI - Confidence Intervals

<table>
<thead>
<tr>
<th>Year</th>
<th>t</th>
<th>Mean Difference</th>
<th>95% Confidence Interval of the Difference</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>22.934</td>
<td>.68204</td>
<td>.6205</td>
<td>.7436</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>21.925</td>
<td>.65300</td>
<td>.5914</td>
<td>.7146</td>
<td></td>
</tr>
</tbody>
</table>

**Figure (5):** 1997-2000 HDI - Overall Trend-line

Judging by the results above, it is deductible that on average the selected population of cases was negatively affected in terms of unemployment and HDI due to the Asian Crisis. Moreover the figures for the standard deviation in addition to the graphical representations
imply that although the general trend was not favorable, each case behaved differently from
the other.

2.2.2. The Global Financial Crisis

In order to further illustrate that rentier cases respond differently to oil price shocks, this section will test how the same sample of rentier cases reacted to the global financial crisis of 2008. The crisis was originally triggered by the subprime mortgage crisis in the United States of America. The deregulation policies during this period of time gave an ample space for banks and other financial institutions to conduct their businesses without being strictly reviewed by the government. As such, the failure of the housing market affected several other financial institutions and led to a massive failure of the economic system. The problem evolved into a global credit crisis leading to a sharp drop in shipping and commerce, in addition to bank failures and reductions in the value of assets and equities worldwide.

Resulting from the previous was general feeling of uncertainty regarding commodity prices including oil. This uncertainty translated into a world-wide decrease in demand which placed a downward pressure on global oil prices. It is important to mention that this crisis was addressed through several recovery plans that were quickly placed into action by several governmental bail-outs around the globe, however it was considered to be sluggish.

Looking at the figures for unemployment in 2008 and 2011 through the simple T-test in Table 7, one will find that the overall mean percentage of unemployment roughly stayed unchanged between both periods at 8%. Moreover the standard deviation decreased from 4.854 in 2008 to 4.568 in 2011. Table 8 compliments the previously mentioned, representing

148 Ibid.
149 Ibid.
150 Ibid.
151 Ibid.
the shrinking lower and upper confidence intervals. For instance, the lower and upper confidence interval levels decreased from 5.95 and 10.05 respectively in 2008 to 6.07 and 9.93 in 2011. The decreasing standard deviation in this case implies a movement towards the mean of the population. However, in order to test the spread between the cases it is important to look at each case and their trend lines. According to the data in Table 9, more than 29% of the cases incurred an increase in unemployment due to the global financial crisis, 42% of the states experienced no changes in terms of unemployment and the remainder experienced a minor improvement in employment. Similar to the previous test, this shows a decent variation between rentier cases specifically with regard to unemployment vis-a-vis oil price shocks. Figure 6 further exacerbate the previous as the graph shows varying degrees of change in unemployment.

Table (7): 2008-2011 Unemployment Rate - One Sample T-test Statistics

<table>
<thead>
<tr>
<th>Year</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>24</td>
<td>8.00</td>
<td>4.854</td>
<td>.991</td>
</tr>
<tr>
<td>2011</td>
<td>24</td>
<td>8.00</td>
<td>4.568</td>
<td>.933</td>
</tr>
</tbody>
</table>

Table (8): 2008-2011 Unemployment Rate - Confidence Intervals
**Table (9):** 2008-2011 Unemployment Rate - Actual Trend-lines

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuwait</td>
<td>2%</td>
<td>4%</td>
<td>Brunei</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Congo Republic</td>
<td>8%</td>
<td>8%</td>
<td>Qatar</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>7%</td>
<td>7%</td>
<td>Chad</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Libya</td>
<td>19%</td>
<td>18%</td>
<td>Iran</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>5%</td>
<td>6%</td>
<td>UAE</td>
<td>3.9%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Iraq</td>
<td>15%</td>
<td>15%</td>
<td>Algeria</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Gabon</td>
<td>21%</td>
<td>20%</td>
<td>Bahrain</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Angola</td>
<td>7%</td>
<td>7%</td>
<td>Ecuador</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Oman</td>
<td>8%</td>
<td>8%</td>
<td>Turkmenistan</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>6%</td>
<td>5%</td>
<td>Tr. &amp; Tobago</td>
<td>4.5%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>7%</td>
<td>5%</td>
<td>Russia</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>7%</td>
<td>8%</td>
<td>Nigeria</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

**Figure (6):** 2008-2011 Unemployment Rate - Overall Trend-line
Looking at the situation of the HDI pertaining to the same population of cases, Figure 7 represents an overall down-sloping trend line for all cases showing that HDI was negatively affected as a result of this price shock. Moreover, the T-test in Table 10 shows that the overall average HDI for the population decreased from 0.7588 in 2008 to 0.7041 which signifies a drop in the level of wellbeing for these states. Furthermore, the figures for the standard deviation also dropped from 0.15 to 0.13, showing that in the case of HDI, most states are not widely spread and are equally situated around the mean value. The same could be also implied by the shrinking lower and upper confidence intervals depicted in Table 11.

**Figure (7):** 2008-2011 HDI - Overall Trend-line

![Figure 7](image)

**Table (10):** 2008-2011 HDI - One Sample T-test Statistics

<table>
<thead>
<tr>
<th>Year</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 HDI</td>
<td>24</td>
<td>.7588</td>
<td>.15414</td>
<td>.03146</td>
</tr>
<tr>
<td>2011 HDI</td>
<td>24</td>
<td>.7041</td>
<td>.13241</td>
<td>.02703</td>
</tr>
</tbody>
</table>
### Table (11): 2008-2011 HDI - Confidence Intervals

<table>
<thead>
<tr>
<th>Year</th>
<th>HDI</th>
<th>t</th>
<th>Mean Difference</th>
<th>95% CI of Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td></td>
<td>24.117</td>
<td>.75883</td>
<td>(.6937, .8239)</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td>26.052</td>
<td>.70412</td>
<td>(.6482, .7600)</td>
</tr>
</tbody>
</table>

### 2.2.3. Results

Judging by the mentioned beforehand, one can easily deduce that oil price shocks negatively affect unemployment and HDI in rentier states at varying extents. As implied by the test conducted on the effects of the Asian financial crisis, 46% of the cases experienced an increasing unemployment rate and the overall average HDI for all cases dropped. The same could be said in the case of the global financial crisis in which 29% of the cases experienced a growing unemployment rate whilst the mean HDI also dropped. Although in the case of the global financial crisis the spreading between the cases seems to be shrinking, the regression graphs still show that cases are unevenly spread around the mean in addition to the difference in reaction between each case. Lastly, these results prove that the Asian financial crisis had a more profound impact on oil prices compared to the global financial crisis. \(^{152}\) These findings lead to two main realizations; (1) Oil prices generally have an indirect relationship on unemployment and HDI in the case of rentier states, and (2) rentier cases behave differently in the case of oil price shocks which calls for a need to differentiate between them in order to understand such variance.

### 2.3. Rentier Differentiation & Segmentation

The previous section showed that HDI and unemployment change differently with regard to the selected rentier states in the case of an oil price shock. Such results imply

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different reactions of rentier cases, underlining the limits of the classical RST pertaining to overgeneralizing when it comes to analyzing rentierism. Accordingly, the second part of the statistical section will aim at highlighting one of the most defining differences between such cases and attempt to segment them accordingly. The same cases depicted in Figure 4 will be used to ensure uniformity, but the data however is updated to the most current, or available year to account for the latest oil price drop. The data collected for the 24 rentier cases span across four different variables; unemployment, population count, per-capita share of oil income and income-adjusted HDI.

Unlike the previous tests, data on unemployment was collected as of 2015\(^\text{153}\). According to the data present in Table 12, Turkmenistan comes in first with a staggering unemployment rate of 60%, following it is Congo Republic with 53%, and Libya with 30%, Angola with 26%\(^\text{154}\). The second variable used is population count as of 2015 shown in Table 13\(^\text{155}\). According to the data on population count, the most populated rentier states are Nigeria, Russia, Iran, Algeria, Iraq, Venezuela and Saudi Arabia. The third variable utilized is the 2009 per-capita share of oil income which is shown in Table 14 which shows Qatar, Kuwait and UAE as having the largest oil income per-capita\(^\text{156}\). Lastly, HDI was adjusted to discard GNI from its results as to avoid accounting for double sources of income.


\(^{154}\) As per the Index Mundi Database, data on unemployment for Saudi Arabia only accounts for Saudi males. Moreover the Index Mundi database states that estimates for Saudi Arabia currently go as high as 25%.


### Table (12): 2015 Unemployment Rate

<table>
<thead>
<tr>
<th>Country</th>
<th>Unemployment</th>
<th>Country</th>
<th>Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkmenistan</td>
<td>60%</td>
<td>Algeria</td>
<td>10.3%</td>
</tr>
<tr>
<td>Congo Republic</td>
<td>53%</td>
<td>Venezuela</td>
<td>7.9%</td>
</tr>
<tr>
<td>Libya</td>
<td>30%</td>
<td>Chad</td>
<td>7%</td>
</tr>
<tr>
<td>Angola</td>
<td>26%</td>
<td>Azerbaijan</td>
<td>6%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>23.9%</td>
<td>Tr. and Tobago</td>
<td>5.9%</td>
</tr>
<tr>
<td>Eq. Guinea</td>
<td>22.3%</td>
<td>Russia</td>
<td>5.8%</td>
</tr>
<tr>
<td>Gabon</td>
<td>21%</td>
<td>Ecuador</td>
<td>5.58%</td>
</tr>
<tr>
<td>Iraq</td>
<td>16%</td>
<td>Kazakhstan</td>
<td>5.3%</td>
</tr>
<tr>
<td>Iran</td>
<td>16%</td>
<td>Kuwait</td>
<td>3.4%</td>
</tr>
<tr>
<td>Oman</td>
<td>15%</td>
<td>Brunei</td>
<td>2.6%</td>
</tr>
<tr>
<td>Bahrain</td>
<td>15%</td>
<td>UAE</td>
<td>2.4%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>10.5%</td>
<td>Qatar</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

### Table (13): 2015 Population Count

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Country</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>181,562,056</td>
<td>Libya</td>
<td>6,411,776</td>
</tr>
<tr>
<td>Russia</td>
<td>142,423,773</td>
<td>UAE</td>
<td>5,779,760</td>
</tr>
<tr>
<td>Iran</td>
<td>81,824,270</td>
<td>Turkmenistan</td>
<td>5,231,422</td>
</tr>
<tr>
<td>Algeria</td>
<td>39,542,166</td>
<td>Congo Republic</td>
<td>4,755,097</td>
</tr>
<tr>
<td>Iraq</td>
<td>37,056,169</td>
<td>Oman</td>
<td>3,286,936</td>
</tr>
<tr>
<td>Venezuela</td>
<td>29,275,460</td>
<td>Kuwait</td>
<td>2,788,534</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>27,752,316</td>
<td>Qatar</td>
<td>2,194,817</td>
</tr>
<tr>
<td>Angola</td>
<td>19,625,353</td>
<td>Gabon</td>
<td>1,705,336</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>18,157,122</td>
<td>Bahrain</td>
<td>1,346,613</td>
</tr>
<tr>
<td>Ecuador</td>
<td>15,868,396</td>
<td>Tr. and Tobago</td>
<td>1,222,363</td>
</tr>
<tr>
<td>Chad</td>
<td>11,631,456</td>
<td>Eq. Guinea</td>
<td>740,743</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>9,780,780</td>
<td>Brunei</td>
<td>429,646</td>
</tr>
</tbody>
</table>
Since rentier states derive most of their revenue through rent income, per-capita share of oil income will be utilized as the independent variable upon which a threshold will be set when differentiating cases. However, the significance of the relationship between the independent and dependent variables must be tested first. Looking at the descriptive statistics for the data across all variables in Table 15, one will initially find that the average income-adjusted HDI for the entire population is at 0.68 with a maximum HDI score of 0.79 for Brunei and a minimum score of 0.36 for Chad. According to the HDR guidelines, this mean score renders the state to be treated as having medium human development\(^\text{157}\). Such a deduction seems unreasonable since RST subscribes that rentier governments tend to overspend on public services as it is more politically sound to improve living standards than to invest in the economy\(^\text{158}\). Figure 8 validates such a statement, showing the skewness of the

\(^{157}\) United Nations Development Program, *Human Development Index*.

\(^{158}\) Beblawi, “The Rentier State in the Arab World”, 54.
data graphically towards higher HDI scores with a skewness of -1.31. Nevertheless, these findings altogether hint at different developmental conditions for the cases despite their massive rentier wealth.

Table (15): 2014/2015 Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>N Valid/MISSING</td>
<td>24</td>
<td>24</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Mean</td>
<td>.68717</td>
<td>.154658</td>
<td>5870.00</td>
<td>27.0997</td>
</tr>
<tr>
<td>Skewness</td>
<td>-1.311</td>
<td>1.811</td>
<td>1.717</td>
<td>2.569</td>
</tr>
<tr>
<td>Std. Error of Skewness</td>
<td>.472</td>
<td>.472</td>
<td>.472</td>
<td>.472</td>
</tr>
<tr>
<td>Minimum</td>
<td>.362</td>
<td>.0030</td>
<td>230</td>
<td>.43</td>
</tr>
<tr>
<td>Maximum</td>
<td>.793</td>
<td>.6000</td>
<td>249490</td>
<td>181.36</td>
</tr>
</tbody>
</table>

Figure (8): HDI and Unemployment - Data Skewness

Moving towards unemployment, we find that for 2015, the average unemployment across the entire population was at approximately 16% with a minimum rate of 0.2% for Brunei Darussalam and a maximum rate of 60% for Turkmenistan. The previous average rate of unemployment is considered to be quite high since the global unemployment rate for 2013 was at 8.4% according to the CIA Fact-book159. Moreover, the skewness chart depicted in Figure 23 shows that the majority of cases suffer from an unemployment rate that ranges from 30% to 10%, which still falls higher than the global acceptable rate of unemployment.

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159 Williams and Weidner, “What Is the New Normal Unemployment Rate?”.
As for the population, the average count for all 24 cases in 2015 was at 27 million with a maximum of approximately 182 million for Nigeria and 430 thousand for Brunei Darussalam. Once again by looking at the skewness of the data in Figure 9, it is deductible that most of the rentier cases have a population count ranging from 20 to 50 million. Lastly, the mean per-capita share of oil income is at $5,870 with a minimum of $230 for Chad and a maximum of $24,940 for Qatar. Figure 24 clearly shows that most cases are skewed towards lower ranges of per-capita share of oil income.

**Figure (9): Population and Per-Capita Rent Revenue - Data Skewness**

In order to test for the significance of the relationship between the independent variable of per-capita rent and the dependent variables, a series of sample t-tests were conducted. Table 16 shows a test between per-capita share of oil income and unemployment. According to the 2-tailed significance results of ‘.000’, the null hypothesis is rejected and we can deduce that there is a highly significant relationship between unemployment and per-capita share of oil income. Similarly, Table 17 depicts the same test conducted between adjusted HDI and per-capita share of oil income and the results show a significance level of ‘.000’ which also shows a highly significant relationship between the two variables. These results poses the next step of segmentation as a feasible step especially that the main
threshold of differentiation will be decided based upon the variable of per-capita share of oil income.

Table (16): One Sample Test - Per-Capita Rent Revenue and Unemployment

Table (17): One Sample Test - Per-Capita Rent Revenue and Unemployment

The following step entails the usage if SPSS’s “Two-step Clustering” analysis tool. According to the SPSS guide, this tool is designed to explore and reveal natural groupings within a given dataset that would otherwise not be apparent. Through its preset algorithm, the two-step clustering tool handles both categorical and continuous variables whilst assuming all variables to be independent of each other. The algorithm also compares values across different clustering possibilities in order to automatically arrive at an optimal number of clusters based on the input data. Furthermore, the tool shows an assessment measuring the cohesion of separation on a three tiered scale of poor, fair and good. It is important to note that applying the two-step clustering tool yielded a good assessment of measuring cohesion of separation. Lastly, the resulting clusters are shown based on a distance measuring a likelihood probability distribution of the variables.\(^{160}\)

Applying the above to the data, Table 18 shows the resulting segmentation of the 24 cases based on per-capita share of oil income as a deciding factor for differentiation. The clustering resulted into two distinct groups; one containing 5 cases, while the other is made-

up of the remaining 19 countries. Since the clustering was based upon per-capita share of oil income as a continuous variable, the resulting groups were named as “high income rentier states” and “low income rentier states”. High income rentier states included Kuwait, Equatorial Guinea, Brunei Darussalam, Qatar and the UAE. On the other hand the low income rentier states group included cases such as Congo Republic, Saudi Arabia, Libya, Angola, Oman, Russia, etc… Moreover, the case with the lowest per-capita share of oil revenue in the high income rentier states is Brunei Darussalam with $11,590 and the highest per-capita rent in the second group is $7,800 for Saudi Arabia, the threshold upon-which this clustering is decided is set approximately at $9,695 per-capita rent annually based on calculating the mean revenue for the maximum and the minimum figures in both groups.

Table (18): Segmentation of Rentier Cases

<table>
<thead>
<tr>
<th>Clustering based Per-Capita Share of Oil Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cluster (1): High Income Rentier States</strong></td>
</tr>
<tr>
<td>(1) Kuwait, (2) Equatorial Guinea, (3) Brunei Darussalam, (4) Qatar, (5) United Arab Emirates.</td>
</tr>
<tr>
<td><strong>Cluster (2): Low Income Rentier States</strong></td>
</tr>
</tbody>
</table>

The first part of this chapter showed that rentier cases react differently in the event of an oil price shock. These preliminary tests showed that dealing with rentier cases similarly based on the classical RST’s simplistic deductions is not accurate. Figure 10 below furthers this hypothesis by showing a stunning 436% difference between both clusters as the mean per-capita rent revenue for low income rentier states is set at approximately $3,076 annually with a maximum of $7,950 and a minimum of $230 per year. Additionally, the first cluster has an average population of 2,386,700 which is more than 1000% less than the mean of the
second group which is set at 33,603,100. Table 19 shows the descriptive results for each cluster with respect to population, unemployment and adjusted HDI in more detail. For instance, the mean per-capita rent for high income rentier states according to the data was at $16,488 annually with a maximum of $24,940 and a minimum of $11,590. In terms of unemployment, high income rentier states seem to have a minimum and maximum rates of 0.3% and 22.3% respectively in comparison to the low income rentier states’ minimum and maximum of 5.3% and 60%. Lastly but not least, the maximum HDI figures for both clusters seem to be at an equal figure of 0.79, however the minimum HDI for the high income rentier states is at 0.51 while the minimum for the other group is at 0.36.

**Figure (10): Clustering - Mean Differences in Population and Per-Capita Rent Revenue**

In addition to the previous results, Figure 11 depicts graphical representations showing the differences between both clusters with regard to the average unemployment and HDI in both groups. The average unemployment in low income rentier states is set at approximately 18%, which is almost twice as large as the average unemployment in high income rentier states which is set at a modest 6%. Lastly, when looking at the adjusted HDI, one will find that there is an ample difference between both groups of approximately 6%. The reason for this minor difference unlike previous results is tied to the focus of several rentier
states both high and low income, on investing and improving their social, medical, and educational services.\footnote{Beblawi, “The Rentier State in the Arab World”, 54.}.

**Table (19): Clustering - Descriptive Results**

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Statistic</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (M) 2015</td>
<td>Mean</td>
<td>.23667</td>
</tr>
<tr>
<td></td>
<td>95% Confidence Interval for Mean</td>
<td>Lower Bound</td>
</tr>
<tr>
<td></td>
<td>Minimum</td>
<td>.43</td>
</tr>
<tr>
<td></td>
<td>Maximum</td>
<td>5.78</td>
</tr>
<tr>
<td></td>
<td>Low Income Rentier States (2)</td>
<td>Mean</td>
</tr>
<tr>
<td></td>
<td>95% Confidence Interval for Mean</td>
<td>Lower Bound</td>
</tr>
<tr>
<td></td>
<td>Minimum</td>
<td>.52</td>
</tr>
<tr>
<td></td>
<td>Maximum</td>
<td>10.79</td>
</tr>
<tr>
<td>Adjusted HDI 2014</td>
<td>Mean</td>
<td>.7208</td>
</tr>
<tr>
<td></td>
<td>95% Confidence Interval for Mean</td>
<td>Lower Bound</td>
</tr>
<tr>
<td></td>
<td>Minimum</td>
<td>.79</td>
</tr>
<tr>
<td></td>
<td>Maximum</td>
<td>181.56</td>
</tr>
<tr>
<td></td>
<td>Low Income Rentier States (2)</td>
<td>Mean</td>
</tr>
<tr>
<td></td>
<td>95% Confidence Interval for Mean</td>
<td>Lower Bound</td>
</tr>
<tr>
<td></td>
<td>Minimum</td>
<td>.79</td>
</tr>
<tr>
<td></td>
<td>Maximum</td>
<td>.79</td>
</tr>
<tr>
<td>Unemployment 2014</td>
<td>Mean</td>
<td>.06200</td>
</tr>
<tr>
<td></td>
<td>95% Confidence Interval for Mean</td>
<td>Lower Bound</td>
</tr>
<tr>
<td></td>
<td>Minimum</td>
<td>.003</td>
</tr>
<tr>
<td></td>
<td>Maximum</td>
<td>.223</td>
</tr>
<tr>
<td></td>
<td>Low Income Rentier States (2)</td>
<td>Mean</td>
</tr>
<tr>
<td></td>
<td>95% Confidence Interval for Mean</td>
<td>Lower Bound</td>
</tr>
<tr>
<td></td>
<td>Minimum</td>
<td>.053</td>
</tr>
<tr>
<td></td>
<td>Maximum</td>
<td>.600</td>
</tr>
<tr>
<td>Per-Capita Oil Income 2009</td>
<td>Mean</td>
<td>16488.00</td>
</tr>
<tr>
<td></td>
<td>95% Confidence Interval for Mean</td>
<td>Lower Bound</td>
</tr>
<tr>
<td></td>
<td>Minimum</td>
<td>2350.25</td>
</tr>
<tr>
<td></td>
<td>Maximum</td>
<td>1940.65</td>
</tr>
<tr>
<td></td>
<td>Low Income Rentier States (2)</td>
<td>Mean</td>
</tr>
<tr>
<td></td>
<td>95% Confidence Interval for Mean</td>
<td>Lower Bound</td>
</tr>
<tr>
<td></td>
<td>Minimum</td>
<td>230</td>
</tr>
<tr>
<td></td>
<td>Maximum</td>
<td>7950</td>
</tr>
</tbody>
</table>

**Figure (11): Clustering - Mean Differences in Unemployment and HDI**
2.3.1. Results

Judging by the above mentioned, it seems that rentier states vary in a number of ways due to their respective rent capabilities. Furthermore, such financial capacity, which is closely tied to the demographics of each state, affects socio-economic indicators such as unemployment and living conditions. Additionally, the over-generalizing nature of the classical RST undermines such inherent differences as seen by the clustering results above, which resulted in two distinct rentier groups; high income and low income states. Although population count is a huge contributing factor to the differences in per-capita rent revenue, the rise of oil producing states over the past two decades also contributed to the reduction in average oil income as a result of the increased supply as seen in Figure 12. The resulting two groups of rentier cases display huge differences in all aspects tested above. For instance, the high income oil states such as Kuwait, Guinea, Brunei, Qatar and UAE compared to states of the second group such as Nigeria, Saudi Arabia and Libya experience a slightly higher HDI rate, less unemployment, a lower population count and in turn a higher per-capita rent revenue. Additionally, these high income oil states also react differently to oil shocks. Although most gulf states have moved towards implementing similar tax reforms, future economic plans and areas of spending cuts have varied from one case to the other depending on the severity of the price impacts.\textsuperscript{165}

\textsuperscript{162} Ross, The Oil Curse: How Petroleum Wealth Shapes the Development of Nations, 33.

Taking the ongoing mid-2014 price shock into perspective, one will find that Kuwait for example will implement a 10% corporate income tax and is working on applying its 2020 development plan\textsuperscript{164}. This plan includes suggestions for increasing public-private partnerships, facilitating foreign direct investment, implementing anti-corruption laws and reducing the energy subsidies through increasing fuel prices by 42%, with an 83% increase in the price of premium petrol\textsuperscript{165}. Similarly, Brunei Darussalam have also moved on implementing its “Vision Brunei 2035” development plan which will focus on diversifying the economy through focusing on small and medium enterprises and attracting more foreign direct investment\textsuperscript{166}. Additionally the Brunei government also implemented a general spending cut of 1.78% in 2016\textsuperscript{167}. Similarly, Qatar implemented a spending cut of 7.28% in

\textsuperscript{164} Ibid.


\textsuperscript{167} Ibid.
2016 which mainly affected its 2022 Fifa World-cup budget in addition to the reduced energy subsidy which increased oil prices by 30%\textsuperscript{168}. Last but not least, the Algerian government announced new tax reforms and spending cuts for the 2017 fiscal budget. Such cuts would raise the prices of energy, several consumer goods, and would entail the termination of several infrastructural projects and import activities\textsuperscript{169}. It is important to mention that the severity of such reforms on the Algerian society led to massive uprisings and aggressive strikes in three eastern provinces during January 2017\textsuperscript{170}.

On the other hand, the second group of rentier cases have undertaken more drastic measures as they are suffering more from the prolonged plummeting oil prices. For instance, Angola have drastically reduced its government spending in 2015 and 2016 by 50% and 20% respectively, not to mention the complete cancellation of most of the fuel subsidy\textsuperscript{171}. It is important to mention that this huge cut in spendings have heavily affected the Angolan healthcare sector especially in the midst of the recent yellow fever health-crisis\textsuperscript{172}. Similarly, Russia implemented a 10% budget cut in 2016 which in turn reduced social spending and the defense budget\textsuperscript{173}. The areas affected by the reduction in social spending included sectors such as education, healthcare, social security and pensions\textsuperscript{174}. The last example showing the


\textsuperscript{170} Ibid.


severity of the measures adopted by the low income rentier group is Oman which in 2016 experienced a 27% budget deficit. Accordingly, the Omani government resorted to cutting its overall spending by 16% which entailed a drop in the budget for civil ministries by 11%. Moreover, the state reduced subsidy spending by 64% and have increased the corporate income tax from 12% to 15%.

Apart from differences in terms of policy decisions in the face of the recent oil price shock, the two groups also experience varying break-even oil prices; The oil price required by a rentier state in order to balance its annual budget. States from the first group such as Kuwait, Qatar and UAE for example would require prices of $51.8, $57.8 and $67.5 per barrel of oil respectively in order to break-even their budget planning. On the other hand, states such as Nigeria, Russia, Algeria, Saudi Arabia, Oman, Bahrain and Venezuela would require prices of $75.2, $84.9, $93, $95.8, $97.5, $105 and $111.3 respectively. The aforementioned clearly denotes that there is an inherent difference between both groups of rentier states in terms of their behavior to oil price shocks, experienced effects of rentierism, demographics and break-even prices. As such, one can deduce from this statistical work that differences in population and per-capita share of oil rent lead to variant modes of rentierism which calls for assessing rentierism and the notion of the rentier state differently. This research proposes that rentierism should be dealt with through segmentation of high and low

176 Ibid.
177 Ibid, 1.
179 Ibid.
180 Ibid.
income rentier states as shown beforehand. In this regard, the simplistic nature of the classical RST alone holds little value in differentiating and understanding variances between different rentier cases.
3. The Kingdom of Al-Saud

As seen by the previous chapter, countries like Kuwait and Brunei possess large reserves of oil whilst suffering from less issues in comparison to states such as Iran for example. One extremely peculiar case is the Kingdom of Saudi Arabia which houses the largest global proven oil reserves whilst suffering from multiple issues related to poverty, unemployment and recently, fiscal problems as a result of the low oil prices. Despite such massive wealth, the previous chapter has shown that KSA falls in the second group of low income rentier states with the highest recorded per capita oil share of $7,800. Such oil wealth not only defined the Saudi developmental trajectory, it was also the main reason behind its formation. This precious resource granted the Saudi rulers and their family a valuable “bargaining chip” through which they were able to solidify their monarchial authority\textsuperscript{181}. Without a doubt, oil is not the only decisive factor in the emergence of KSA as there is a plethora of other aspects contributing to this cause. Nevertheless, remaining reliant on this single resource since the emergence of the modern Saudi state have resulted in several socio-economic issues, not to mention rendering the state volatile in the face of prolonged periods of low global oil prices as seen recently.

3.1. Saudi State Formation

Many consider the modern Saudi state to be relatively young, only to be founded a century ago\textsuperscript{182}. The relative “young” age of Saudi Arabia and most of the states surrounding it however is largely tied to the nature of the Arabian peninsula. Looking at Arabia in the 1700s, one will find that it was not only poor in terms of resources, but also sparsely inhabited and

\textsuperscript{181} Michael Herb, \textit{All in the Family: Absolutism, Revolution, and Democracy in the Middle Eastern Monarchies} (Albany: State University of New York Press, 1997), 69.

\textsuperscript{182} Wayne H. Bowen, \textit{The History of Saudi Arabia} (Westport, CT: Greenwood Press, 2008), 81.
mostly known by its relation to the origins of Islam. Dominantly controlled by bedouin tribes that controlled trade and provided protection to merchants and travelers, this region gained little attention before that time. Moreover, the fact that the main income was derived from herding animals and growing date groves, there was little interest for major powers at such time to enter the region. Nevertheless, due to its geographical location and the trade routes it held with the rest of Asia, British merchants started being significantly present in the eastern region of Arabia towards the 1750s. By the early 1800s, Britain solidified its presence in Arabia in order to protect its trade routes and colonial interests in India. Such presence took the form of a signed treaty with the rulers of the Gulf coast which granted Britain the right to intervene in the regional affairs of such states, which lasted until 1971.

Amidst such rising attention, several tribal clans started forming alliances, the most important of which was between a tribal chieftain named Muhammad Ibn Saud and a religious leader called Muhammad Ibn Abdul Wahab. This pact which took place in 1744 led to the establishment of several close ties between the Al-Saud and Al-Wahab families, committing the Saudis to adopting the Wahabi version of Islam for years to come. It is important to mention that Wahhabism follows the Hanbali school of Sunni Islam, calling for fundamentally returning to the simplest teachings of Quran and Hadith without extensive elaboration or hesitation. As such, Abdul Wahab was an advocate of the strict enforcement of Shari’a law. This pact provided the Saudis with immense religious legitimacy throughout

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183 Ibid, 67.
184 Ibid.
185 Ibid, 68.
188 Ibid, 70.
their conquests over moderate Islamic communities in the region and granted their warriors encouragement to combat other interpretations of Islam such as Sufism and Shia’sm. However, this growing Saudi power did not go unnoticed by the British, whom at that time were at opposite sides from the Ottoman empire. As such, Britain provided financial backing to the Saudis, which helped in the enlargement of the already present Saudi forces, marking the beginning of their conquests in Arabia.

From their relatively small base in Diriyah, the Saudis began expanding in all directions, spreading their views, and the Wahabi doctrine in order to form other pacts with other bedouin and tribal groups throughout the Nejd region. With such growing power, the Saudis invaded Iraq in 1801 and captured Mecca and Madina in 1803 and 1804 respectively. With their amassed revenues, the Saudis started to systematically dispatch forces to newly conquered territories, whilst funding Wahabi Ulama in their already conquered districts in order to strengthen their legitimacy. With this form of control, the Saudis started imposing taxes, collecting zakat and funding charitable activities such as building mosques. Noticing this rising power, the Ottoman empire dispatched several attacks against the Saudis with great failure of containing their influence over the region, and By 1810 the Saudi forces gained control over most of the peninsula. Nevertheless, even with their control over Mecca and most of Arabia, the Saudis suffered from internal issues.

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189 Ibid.
191 Bowen, The History of Saudi Arabia, 71.
193 Bowen, The History of Saudi Arabia, 71.
194 Ibid.
195 Ibid, 74.
related to the lack of a modern army, an efficient communications system and a general lack in popularity from other neighboring states, especially Egypt, which held close ties with the Ottoman empire during this period\textsuperscript{196}. As such, by 1813 Muhammed Ali of Egypt successfully took over Mecca and Medina and controlled the entire coastal region of Hejaz\textsuperscript{197}.

Following the liberation of the region from Saudi control, most of the natives welcomed the end of the Wahhabi teachings and embraced the Ottoman’s relatively tolerant approach towards Islam\textsuperscript{198}. Trade soon returned to the region after it was banned with non-Wahhabis, and Jews, Christians, and Salafis were once again able to practice their faiths openly\textsuperscript{199}. This situation continued until 1824 when the new leader of the Saudi family; Turki Ibn Abdullah Ibn Muhammad Ibn Saud successfully utilized his remaining loyal relations in the region and regained Riyadh, making it the new Saudi capital\textsuperscript{200}. During this period, the Saudi family regained much of the territory they lost to Muhammed Ali, who declared his independence from the Ottomans in 1831. Nevertheless, This second phase of Saudi influence over the region did not last for long, especially after the assassination of Turki in 1834 by his cousin Musher Ibn Abdelrahman who aspired to rule the Nejd region himself\textsuperscript{201}. Following his death, inter-family disputes took place between the newly appointed ruler; Khalid Ibn Saud and Faisal Ibn Turki, whom has succeeded eventually in overthrowing Khalid in 1843\textsuperscript{202}. This however did not mark the end of the internal Saudi disputes as the

\textsuperscript{196} Ibid.
\textsuperscript{197} Ibid, 75.
\textsuperscript{198} Ibid, 76.
\textsuperscript{199} Ibid.
\textsuperscript{200} Ibid, 77.
\textsuperscript{201} Ibid, 78.
\textsuperscript{202} Ibid.
sons of Faisal; Abdullah and Saud fought a civil war against each other for the control of the Saudi state. As a result of such infighting, the Saudi grip over the Nejd region weakened.

Understanding that their weak forces alone cannot compete against the Ottomans, in 1866 the Saudi family signed a “friendship” treaty with Britain in exchange for money and weapons which barely facilitated their control over Nejd. Eventually, the Rashid tribe, which was based in Ha’il and held an alliance with the Ottomans, posed as a more powerful competing force against the Saudis and successfully defeated them by 1891. Following their defeat, the Saudi family escaped in exile to Kuwait. During their time in Kuwait, which was already an ally to the British under the rule of Sheikh Mubarak, the Saudi family received major support from the Sabah family and Britain, which was bent on completely marginalizing the Ottoman presence in the Arabian Gulf. Fearing for an attack on his territory, Mubarak led an attack on the Rashids and was utterly defeated. By 1901, the newly delegated Saudi leader; Abd al-Aziz Ibn Abd Al-Rahman Ibn Faisal Al-Saud, also known as the first king of modern Saudi Arabia, confronted the Rashidis and successfully seized Riyadh in 1902. Despite the immense British support, building a state once more was not an easy task, especially with the droughts, clashes with the Ottomans and the first world war (WWI). Nevertheless, this marked the third phase of the Saudi state, during which it witnessed the complete collapse of the Ottoman empire and a shift in alliances from Britain to the United States of America. On September 23, 1932, Ibn Saud officially declared the

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203 Ibid, 79.
205 Bowen, The History of Saudi Arabia, 79.
208 Bowen, The History of Saudi Arabia, 81.
creation of the Kingdom of Saudi Arabia, holding the title of “Imam” and abiding by Wahhabism\textsuperscript{209}.

Shortly after the consolidation of internal power by Ibn Saud, he began creating a number of institutions that were crucial for the survival of the regime. Such entities oversaw matters such as the national budget and the collection of zakat\textsuperscript{210}. Moreover the king focused on courting wives from every major tribe in the region in order to strengthen his ties in the peninsula. Such ties were further solidified by the gifts and grants that Ibn Saud provided to his loyal tribal leaders\textsuperscript{211}. Due to the fact that Ibn Saud was widely respected because of his strong character and charisma, he chose to commit to traditional tribal patterns when running the state instead of majorly relying on formal state institutions. The previous was seen in the lack of a unified Saudi military force and instead, a number of armed forces all competing for arms, funding and orders from Ibn Saud\textsuperscript{212}.

Currently, Saudi Arabia constitutes approximately 80% of the Arabian peninsula, sharing borders with eight other countries; Yemen, Oman, UAE, Qatar, Bahrain, Kuwait, Iraq and Jordan\textsuperscript{213}. The country is divided into four main sections; Al Hejaz towards the Northwest with an approximate area of 135,000 square miles; Asir in the Southwest with an area of 40,000 square miles; Al Nejd central plateau with an area of 650,000 square mile; and Al Hasa Eastern region which is about 40,000 square miles. The geography of the state is mostly made-up of desert land which is why almost half of it is uninhabitable with a mountainous region towards the South. The previous makeup renders less than 2% of the

\textsuperscript{209} Ibid, 94.
\textsuperscript{210} Ibid, 101.
\textsuperscript{211} Ibid, 102.
\textsuperscript{212} Ibid, 101.
\textsuperscript{213} Ibid, 2.
total Saudi land to be arable and less than 1% supporting sustained agricultural activity due to the increased desertification\textsuperscript{214}. Islam is the official religion in Saudi Arabia where more than 90\% of the population are Sunni Muslims. The remaining 10\% are Shi’a Muslims and are mostly located in the eastern region of the country\textsuperscript{215}. In addition to the previous breakdown of the population and the vast majority of the foreigners that are Muslims, more than 100,000 residents living in Saudi Arabia are from different religious backgrounds. Nevertheless, Saudi Arabia is considered to be one of the least free nations in the worlds when it comes to religious liberty\textsuperscript{216}.

\textbf{3.1.1. Socio-political Affairs}

As indicated by the title, KSA is an absolute monarchy, in which the general public do not partake, in any form, in the decision making process. Alternatively, the ruling family, in addition to other circles of constituencies are the deciding factors when it comes to running the state\textsuperscript{217}. As of 2015, the Saudi ruler and prime minister is king Salman Ibn Abdul Aziz Al-Saud\textsuperscript{218}. As a monarchy, the king holds immense power in running the state, however such power is not endless and is bound by the desires of the family as a whole. This form of rule, which is based on power distribution within the ruling elite, was crucial to the survival of the modern Saudi state. The key with this Saudi monarchic make-up, or for better terms; Dynastic Monarchism, is its rather “consultative” mechanism of regulating internal family conflicts\textsuperscript{219}. Exacerbating on the importance of this unity is Kahlid Ibn Sultan, a grandson of

\begin{footnotesize}
\begin{enumerate}
\item Bowen, \textit{The History of Saudi Arabia}, 2.
\item Ibid, 5.
\item Ibid, 6.
\item Ibid, 14.
\item Herb, \textit{All in the Family: Absolutism, Revolution, and Democracy in the Middle Eastern Monarchies}, 11.
\end{enumerate}
\end{footnotesize}
Ibn Saud, which stated; “at moments of crisis, we stick together, which is one of the reasons that the family has remained strong. We must therefore bring up our children to believe in the overriding importance of family unity”\textsuperscript{220}. The previous explains why the Saudi monarchy is centered around the entire family\textsuperscript{221}. Resulting from this form of monarchism, the ruling family monopolizes the most important state offices through distributing family members throughout the state apparatus. Given the immense size of this immediate circle of cooperation which consists approximately of 7,000 princes, one can regard the royal family’s role as that of a political party in a single party state\textsuperscript{222}.

In addition to the aforementioned, when it comes to appointing the successors to the king, major support must be granted from the family, and not just by an appointment from the king. In the process of choosing a leader, primogeniture is not the most crucial aspect to consider, other factors such as the personality and charisma are decisive factors as well\textsuperscript{223}. Moreover, precedence based on seniority is primarily decided on the basis of age which forms one of the bedrock principles of this form of rule, where there is a strong cultural tradition of respecting the eldest of elders\textsuperscript{224}. Lastly, in a dynastic monarchy, those who fail to win the succession receive compensation prizes in order to satisfy their desires for more prestige and power amongst their family. This in turn reduces the probability of inter-family quarrels over kingship\textsuperscript{225}. Although Saudi Arabia is currently considered to be the most famous monarchy globally, dynastic monarchism was first introduced to the Arabian

\begin{flushright}
\textsuperscript{220} Ibid, 36. \\
\textsuperscript{221} Ibid, 37. \\
\textsuperscript{222} Niblock, \textit{Saudi Arabia: Power, Legitimacy, and Survival}, 11. \\
\textsuperscript{224} Abedin, \textit{Abdul Aziz Al-Saud and the Great Game in Arabia, 1896-1946}, 100. \\
\textsuperscript{225} Ibid, 99.
\end{flushright}
peninsula by the Al Sabah family of Kuwait. It is important to mention that this form of monarchism was virtually unattainable in most gulf monarchies prior to the discovery of oil. Oil is believed to have provided the leverage needed to resolve inter-family disputes through bargaining instead of resorting to violence. Such rentier income made it more possible to create more state offices, thereby expanding the scope and power of the ruling family. The previous also provided the ruler with a valuable bargaining power.

In addition to the king and the Saudi ruling family, there is the Council of Ministers which was created in 1953 and is composed of executives from all branches in the government. This body’s primary role is to coordinate the most important decisions of the state by advising the king, preparing royal decrees and implementing key decisions in the country. It is worth mentioning that in 1954, Faisal Ibn Saud was appointed as the first premier head of the Saudi council of ministers. Additionally, there is also a smaller Consultative Council which from its name, provides advice to the ruler and the ministries regarding matters of national security and other economic affairs. At the local administrative levels, Saudi Arabia is divided into a total of 13 provinces with each one headed by a royally appointed governor. The main objective for each governor is to oversee the application of key decisions regarding internal security, education, law, and the management of police affairs. Despite all of the previous specificities, the current Saudi Arabian constitution which was adopted through a royal decree on March 1992 by King Fahd does little to outline this.

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226 Ibid, 10.
227 Ibid, 89.
228 Ibid, 90.
229 Bowen, _The History of Saudi Arabia_, 15.
231 Bowen, _The History of Saudi Arabia_, 15.
Instead, the constitution focuses heavily on maintaining family loyalty, following and implementing Shari’a law and the importance of showing obedience to the king and the regime\textsuperscript{232}. As a result, all state affairs are governed by royal decisions that are subject to a national court system which regularly checks the king’s decrees against the Shari’a law in order to grant it legitimacy\textsuperscript{233}.

When mentioning Shari’a and Saudi Arabia in a single sentence, Wahhabism is the key term that comes into mind. As stated above, the king’s power is limited by the desires of the ruling family as a whole, which in practice, should be inline with the traditions, Shari’a law and its Wahhabi interpretations set by the Ulama\textsuperscript{234}. The previous shows that Wahhabism and the Saudi monarchy are both intertwined and inseparable, forming the second circle of constituency. Many would even argue that the amount of legitimacy it granted to the ruling family was the main driver behind the creation of Saudi Arabia\textsuperscript{235}. Wahhabism, as an Islamic sect, was born in the middle of the 18th century in Diriyah by the father of Wahhabism; Ibn Abdul Wahab. Amongst the other sects, Wahhabism could be easily viewed as the most conservative one due to it’s strict interpretations of Islam. For instance, not only does Wahhabism forbids religious freedom and the freedom of expression, it also outlaws the celebration of the prophet’s birthday, bans modern forms of recreation such as art, and is in favor of the harshest methods of punishment in Islam\textsuperscript{236}. Additionally, Wahhabism abhors singing, dancing, and smoking\textsuperscript{237}. Currently, the internet and all other forms of transmitting


\textsuperscript{233} Bowen, The History of Saudi Arabia, 14.

\textsuperscript{234} Ibid.


\textsuperscript{236} Ibid, 2.

\textsuperscript{237} Ibid.
media in Saudi Arabia are censored by the government. Due to the rigidness of Abdul Wahab’s teachings, his beliefs did not gain much praise by the public, including his own family. Nevertheless, with the pact between Abdul Wahab and Al-Saud, Wahhabism as a religious and political movement was officially solidified. Due to this joint arrangement, each head of the Al-Saud family assumed the title of a Wahhabi Imam, whilst elder Wahabi heads assumed full control over religious interpretation.

With such a pact, Saudi Rulers were capable of producing cultural and ideological symbols tying them to the public, instead of simply relying on distributive methods. The extent of the Ulama’s influence is also seen in the legal aspect of running the kingdom. For instance, the acting king has the power to issue decrees that are binding and enforced by the legal authorities, but only if such decrees follow the Wahhabi interpretation of shari’a law by said Ulamas. Furthermore, Meetings between the king and the this class of religious scholars are regularly held in order to give legitimacy to the decisions of the king. Lastly, this class of advisors also serves in the Supreme Judicial Council which was created in the 1970s to provide recommendations to the ministry of justice and the king. Such form of legitimacy is of epitome importance to the ruler as it could also cause trouble if the Ulama choose to withhold their support from the king’s decisions. In addition to their virtual control over the legal system, the Ulama exerted their influence over the Saudi population through the creation of their “Committees for Encouraging Virtue and Forbidding Evil”


240 Ibid.


243 Ibid.

244 Ibid.
throughout the state. In a nutshell, one can easily say that the Ulama have greatly contributed to shaping modern Saudi Arabia from the moment Al-Wahab formed a pact with the Al-Saud family.

The third factor of cooperation worthy of addressing in Saudi Arabia takes the form of the close ties between the ruling Saudi family and the chieftains of major nomadic tribes in the region. Such close relations were solidified as a result of the expansionary conquests through which the modern Saudi state was formed. Although not all tribes supported the Saudi proliferation, such groups play a crucial role in guaranteeing the quiescence of their tribal members. Through patronage spending, intermarriage and providing tribe members with government and military roles as well as land, which the state had the right to repossess in an event of disobedience, a form of solidarity with said tribes was solidified. This form of solidarity proved to be a pivotal asset in facilitating the Saudi military activities in the region. Moreover, through the help of their Wahhabi Ulama, tribal raiding became a crime instead of a livelihood. As such, in the eyes of tribal leaders, Saudi rulers became the arbiters of power and welfare in the region. This resulted in guaranteeing complete compliance by the neighboring tribes, ending the possibility of future rival alliances that could threaten the Saudi rule. To this day, tribal leaders hold meetings with senior Saudi princes in order to pledge loyalty and gain more largesse.


246 Ibid, 12.

247 Ibid.


251 Ibid, 93.
3.2. Oil and the Saudi Economy

Before the discovery of oil, Arabia was virtually one of the least developed regions in the world, with no arable land or exportable goods. Even its population was considered to be amongst the most illiterate in the world, not to mention the general lack of communication and infrastructure. In the case of the Saudi region, the main sources of external revenue at that time revolved around the fees received from Hajj taken from the thousands of pilgrims annually. Although there are no consolidated details regarding the economic life before oil, most of the population was engaged in pastoral activities, which was largely focused on a subsistence basis. Moreover, towards the eastern province, people depended on the cultivation of date groves and fishing in the villages of Dammam and Al-Khobar. In the Nejd region, animal husbandry and date cultivation provided the main livelihood to the population. Lastly, handicrafts manufacturing was present and it mainly supplied the population with their clothing requirements, carpentry and supplies needed for construction. As a result of the previous, if one would excluding the revenue derived from Pilgrimage, the government revenue before the discovery of oil did not supersede 150,000 British pounds annually. Such resource poverty was also seen in the minimalist role of the Saudi family during the previous phases of their rule as they were financially unable to create the administrative bodies necessary to manage the state.

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253 Ibid.


255 Ibid, 5.

256 Ibid, 30.

257 Ibid, 6.

As a result of the previous, the Saudi family often reached out to local wealthy merchants for credit during times of financial crunches, and in some instances, defaulting on such payments\textsuperscript{259}. This implicitly granted merchants with considerable power as they were regarded to be “elites” alongside religious scholars and state bureaucrats\textsuperscript{260}. Furthermore, leading merchant family members were appointed by Ibn Saud to serve as KSA’s foreign representatives\textsuperscript{261}. This however was not the first time such families enjoyed considerable influence in the region as merchants were regarded to be the prime source of prosperity and financial assistance by other tribes before the Saudi rule over the region\textsuperscript{262}. These merchant families which basically controlled most of the trading networks were originally nomads that overtime became successful in establishing links with India, China, and the entire Far-East to Egypt, Rome and Greece\textsuperscript{263}. Such influence however depreciated overtime, especially with the discovery of oil as the revenue streams earned by the government were considerably larger than what merchants earned from undertaking their export/import functions\textsuperscript{264}. This marked the first instance of witnessing the “group formation” effect in place by the Saudi regime which became less dependent on merchants and instead created new “Najdi businessmen” elites that are intertwined with the ruling family\textsuperscript{265}.

\textsuperscript{259} Bowen, \textit{The History of Saudi Arabia}, 96.

\textsuperscript{260} Ibid, 55

\textsuperscript{261} Wynbrandt, \textit{A Brief History of Saudi Arabia}, 193.

\textsuperscript{262} Seymour, \textit{The Death of Rentierism in The Kingdom of Saudi Arabia}, 7.

\textsuperscript{263} Wynbrandt, \textit{A Brief History of Saudi Arabia}, 13.

\textsuperscript{264} Niblock, \textit{Saudi Arabia: Power, Legitimacy, and Survival}, 45.

\textsuperscript{265} Altunisik, Rentier State Theory and the Arab Uprisings: An Appraisal, 79.
With the discovery of oil in the 1920s, Ibn Saud sought to establish ties with the United States of America as a foreign power. This relationship which was entirely based on oil, and essentially dictated the interests of both states for years to come. In 1933, Ibn Saud signed an agreement with the Standard Oil of California, marking the formal beginnings of the Saudi-American relations and giving the company oil concessions in exchange for royalty payments. Although Ibn Saud could have easily continued to be a client state for the British, due to geo-political reasons, he preferred to marginalize the British dominance in the region by turning to the Americans. Despite the fact that Britain provided much strength against the Ottomans, Ibn Saud feared from the declining power of the British, especially following WWI. Moreover, this decision of not joining states such as Kuwait and Iraq in signing oil concessions with Britain was mainly because the Americans agreed to pay in gold instead of paper currency. Following a period during which Abdul Aziz went almost broke due to the cost of government salaries and the payments he gave-out to tribal chieftains, Ibn Saud received his first royalty payment which exceeded $1.5 million in 1938. This moment marked a major turning-point in Saudi Arabia's history, Table 20 shows the trend in Saudi oil revenues from 1969 till 2004 according to the Saudi Arabian Monetary Agency in SR.

266 Bowen, The History of Saudi Arabia, 93.
267 Ibid, 104.
268 Ibid, 104.
Starting in the 1940s, the Saudi Economy has been entirely based on petroleum which constituted 90% of the exports, 75% of the governmental revenues and 40% of the Gross National Product\textsuperscript{271}. The reason for such reliance is the fact that Saudi Arabia possesses the largest oil reserves in the world, estimated at approximately 18% of the global reserves\textsuperscript{272}. Moreover, unlike oil in other parts of the world, Saudi oil is extremely close to the surface and the cost of extracting it declines overtime. Additionally, Saudi oil is rich in sulfur and “light” in texture making it of very high quality and easy to pump and transport\textsuperscript{273}. With this huge inflow of revenue, the state was unprepared for such wealth especially with it's mostly uneducated population and low level of development. As such, the government began to

\textsuperscript{271} Bowen, The History of Saudi Arabia, 4.

\textsuperscript{272} Index Mundi Database, Saudi Arabia Economy Profile, June 30, 2015, accessed September 17, 2016, http://goo.gl/JbQ6XD.

\textsuperscript{273} Bowen, The History of Saudi Arabia, 4.
finance the education of hundreds of Saudi students abroad. Moreover, the state allocated a portion of its budget towards developing the infrastructure, health, education and other services sectors in the country\textsuperscript{274}.

Following the death of Ibn Saud in 1953, huge oil revenues started showing in the form of lavish spending by the royal family. This expensive lifestyle led to a huge debt of over $400 million by 1958. The financial standing of Saudi Arabia, alongside other oil rich states led them to question their arrangements with the western oil companies, which resulted in establishing OPEC by 1960\textsuperscript{275}. This organization which contained rentier states dominating the global production of oil, started to renegotiate the royalty terms with the West, thus increasing their stake in the revenues even further\textsuperscript{276}. Entering the final quarter of the twentieth century, the true extent of OPEC as a powerful interstate institution started to show. Having a dominant interest in the global share of oil and committing to production quotas in order to ensure control over oil prices, OPEC states seemed untouchable\textsuperscript{277}. This power was further exacerbated in 1973 when a number of OPEC nations, led by Saudi Arabia, used oil as a weapon for the first time in imposing an oil embargo on Western nations supporting Israel. This embargo did not only triple oil prices globally, but it also shocked the West as it underlined the first instance which truly revealed the power of OPEC in general, and Saudi Arabia in specific\textsuperscript{278}.

Led by the charismatic Faisal Al-Saud, the Saudi state started to quickly modernize as oil revenues increased twenty-fold during the mid 1970s. While the Iran-Iraq war hindered

\textsuperscript{274} Ibid, 105.
\textsuperscript{275} Ibid, 112.
\textsuperscript{276} Ibid.
\textsuperscript{277} Ibid, 116.
\textsuperscript{278} Ibid.
this progression, the Saudi government continued to pour funds into developing its infrastructure, armed forces, health and education sectors. Nevertheless, due to the huge earnings from oil, the Saudi government started giving foreign aid, investing in overseas markets and acquiring assets abroad due to their inability to spend all of the revenues domestically. On the administrative front, the government established a number of ministries such as the ministry of Justice in 1970 and the ministries of higher education, municipal and rural affairs, central planning, public works and housing, commerce, industry, electricity, and posts, telegraphs and telecommunications in 1975. Moreover, the ministry of justice was established in addition to the supreme judicial council which was tasked with reconciling legislative laws with the Wahabi Shari’a teachings.

Faisal also made several commitments with regard to the economic planning of KSA, starting with the central planning organization which later became the ministry of planning, and the “Ten Point Program” which set the scene for a number of infrastructural, industrial and agricultural development plans. Such plans however were not quick to emerge which led to the first and second “five year plans” in the 1970s. The first plan aimed at raising the rate of GDP growth, diversifying the economy, and developing human resources for more local labor participation. The second plan focused on maintaining the religious and moral values of Islam and assuring the security of the state. Unlike the second plan, the first five year plan did not gain enough attention or expenditure by the state, and as a result the targets

\[279\] Ibid, 118.
\[280\] Ibid.
\[282\] Ibid.
\[283\] Ibid, 39.
\[284\] Ibid, 40.
were not attained with the exception of the increased GDP growth rate of 13.2% in the 1970s in comparison to an average of 9.8% in the 1960s thanks to the rising oil prices\textsuperscript{285}.

The sudden increase in oil revenues also impacted the aspirations and demands of the general population, which was seen in the increasing consumer imports. Due to the kingdom’s liberal approach towards trade, large-scale importation of goods further hindered the possibility of establishing a strong and diversified Saudi industrial base\textsuperscript{286}. Furthermore, most of the private sector became preoccupied by commercial activities instead of focusing on manufacturing as there was little incentive to invest in production. Nevertheless, during that time, a number of cement, date processing and soft drinks factories were established but only operated at a capacity that would satisfy the local demand\textsuperscript{287}. Moreover, the state became agriculturally self-sufficient in the production of barley and wheat and as for the local handicrafts sector, it was not able to cope with the competing imported products, thus it remained limited in size\textsuperscript{288}. Taking note of this rising wealth, foreign workers started to flow into KSA, noticing the vacant opportunities unfilled by the local Saudi population. Since most Saudis aspired to hold positions within the government and military apparatuses, many jobs requiring doctors, engineers, scientists, teachers and professors were left vacant\textsuperscript{289}. As such, foreign workers accounted for over half of the labor force in Saudi Arabia\textsuperscript{290}.

\textsuperscript{285} Ibid, 41.

\textsuperscript{286} Niblock, \textit{Saudi Arabia: Power, Legitimacy, and Survival}, 45.

\textsuperscript{287} Kabli, \textit{Industrial Development in Saudi Arabia}, 44.

\textsuperscript{288} Niblock, \textit{Saudi Arabia: Power, Legitimacy, and Survival}, 45.

\textsuperscript{289} Bowen, \textit{The History of Saudi Arabia}, 118.

\textsuperscript{290} Ibid, 119.
All of the mentioned above rendered Saudi Arabia a wealthy welfare state where the government finds it more politically beneficial to redistribute income to the masses\(^{(291)}\). In addition to the lack of any taxation policies, the larger public received massive subsidies in the form of social services, healthcare, education, energy, and governmental scholarships for the youth\(^{(292)}\). Moreover, under the kingdom’s public land distribution act of 1968, individuals could receive up to 10 hectares of land, while a maximum of 400 hectares could be awarded to commercial companies subject to royal grants by the king\(^{(293)}\). Such form of distribution depended on mutual interests shared by the royal family, tribal members, and other Saudi bureaucrats\(^{(294)}\). Another form of wealth distribution is seen in the how some senior state positions are distributed amongst family members depending on premiership and influence. The rationale behind rewarding “winners and losers” is to minimize the possibility of a family dispute arising\(^{(295)}\). All of the above serves in ensuring the allegiance and loyalty of the recipients of such wealth and minimizing state accountability\(^{(296)}\). Nevertheless this form of distribution is not only economically inefficient, it is also inequitable as KSA suffers from a substantial poverty rate\(^{(297)}\).

Currently 90% of the Saudi Revenues are coming from oil-related activities, controlled directly to the central government alongside the kingdom’s huge foreign


\(^{(294)}\) Ibid.


\(^{(296)}\) Al-Rasheed, *A History of Saudi Arabia*, 9

reserves\textsuperscript{298}. In addition to the fact that the public has a vague idea about the size of such earnings and the huge spending schemes by the ruling family, officially disclosed figures are either obscurely defined or not released\textsuperscript{299}. For example, 40\% of the government’s budget is labeled as “other sectors” which includes spending on national defense, internal security, government intelligence, and global direct investments by the kingdom\textsuperscript{300}. Moreover, since the Saudi central department of statistics was not established until the mid 1960s, data on employment and population count do not go back before 1970. As a result, the most reliable statistical snapshots pertaining to Saudi Arabia utilize data that follows this period\textsuperscript{301}.

In a nutshell, it is quite clear from the this historical record that indeed Saudi Arabia is one of the relatively young states existing today, owing such existence to its alliances with global powers, local tribes, and oil wealth. In addition to the previous, there is also the Saudi-Wahhabi alliance which is seen by some as the main catalyst behind the Saudi state formation\textsuperscript{302}. The Ulama’s influence over the state through their “fatwas” proved to be a decisive instrument in promoting the ruling family’s objectives in running the state\textsuperscript{303}. As a result, this led to the political and developmental trajectory that the state undertook over the years, with the oil industry acting as the driving force behind it.

Saudi Arabia was not only blessed with the abundance of oil, but also the cheap costs associated with extracting it\textsuperscript{304}. As the global average cost of extracting and producing a single barrel of oil ranges from $4 to $5, Saudi Arabia sits at $0.5 per barrel. When


\textsuperscript{299} Ibid.

\textsuperscript{300} Ibid.

\textsuperscript{301} Niblock, \textit{Saudi Arabia: Power, Legitimacy, and Survival}, 38.


\textsuperscript{303} Niblock, \textit{Saudi Arabia: Power, Legitimacy, and Survival}, 27.

\textsuperscript{304} Ibid, 1.
comparing this cost to Russia’s $8 per barrel and the U.S.’s $14.5 per barrel, taking advantage of this resource seems quite logical\textsuperscript{305}. However, focusing on a singular form of specialization on the long-run have proved to be volatile and unsustainable as seen from the historical oil price crunches. From an economic standpoint, a state’s wealth is best invested in different sectors in order to avoid the classic “all eggs in one basket” scenario. This is attainable through a coherent and thorough diversification process that would develop other industries where the economy holds a comparative and/or competitive advantage\textsuperscript{306}. Not only will this cover the losses of the state in the event of an oil price shock, but it would also insure a stable rate of growth, raise the national income, provide more employment opportunities and generate more investment opportunities\textsuperscript{307}. Furthermore, overtime such diversification would indirectly induce a social and cultural breakthrough from the traditions of the state by expanding the horizons and aspirations of the general population\textsuperscript{308}. As such, economic diversification is not only the efficient method of running an economy, it is crucial in the case of KSA due to the volatile and temporal nature of oil as a source of income, in addition to the ever increasing needs of the growing Saudi population.

\textsuperscript{305} Ibid.


\textsuperscript{307} Ibid.

\textsuperscript{308} Ibid.
4. The Limits of Rentierism in Saudi Arabia

Judging by the previous background on the formation of the modern Saudi state, it is quite clear that rent revenue forms the backbone of the Saudi economy. Although this source of revenue helped in transforming Saudi Arabia from an arid, uninhabitable piece of land to one of the G20 states, it also inflicted its own limitations on the state. One can witness such effects on the state of unemployment in Saudi Arabia, its level of industrial diversification and status with regard to inequality and poverty. Such problems intensify even more during times of oil price crunches, which by looking at the historical trends, are quite cyclical. Due to oil’s volatile nature towards exogenous factors such as demand and supply, misallocation of funds and poor planning whilst “living-off” oil renders the Saudi economy as a ticking time bomb, vulnerable in the face of prolonged oil price drops. Although there are several bodies of literature on rentierism addressing several political, cultural, and economic drawbacks of oil reliance, for the purpose of this research, the limitations that will be focused upon will represent areas which are easily observable and/or quantifiable.

4.1. Obstructed Industrialization

One cannot argue about the fact that oil assisted in boosting the Saudi economy with its massive revenues, however it is important to analyze how such revenues were utilized in the developing the state. As stated in various published works on rentier economies, fixating on oil revenues tends to have harmful effects on sectors that are unrelated to the energy sector. Moreover, while rentierism boosts government revenues and spending schemes, the same cannot be said for the private sector and Saudi Arabia represents a clear

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309 Kabli, Industrial Development in Saudi Arabia, 23.
example\textsuperscript{311}. Hinging such a statement on oil revenues alone undoubtably involves a narrow understanding of how the Saudi economy operates. As such, it is important to keep in mind that the issues that the state suffers from in terms of its undiversified economy relates back to systematic deficiencies in state planning and the process of allocating resources.

When drawing a distinctive line that defines the difference between the public and private sectors, according to the World Bank, this line becomes extremely blurred in the case of Saudi Arabia\textsuperscript{312}. In absolute terms, the public sector represents the state and comprises a number of state-owned agencies whilst the private sector constitutes a number of enterprises that are run and owned by individuals not representing the state\textsuperscript{313}. In the Saudi case however, ownership and control of the state over the private sector is apparent, making it hard to differentiate between both sectors. This problem is exacerbated even more with the fact that the Saudi government tends to wholly or partly own some of the largest industrial powerhouses worldwide. Apart from ARAMCO, Saudi Arabia’s most valued entity and the world’s largest energy company, the state also owns SABIC, the second largest listed company in the Middle East\textsuperscript{314}. Additionally, the state also owns the largest Saudi Telecommunications company, the largest bank in the state, in addition to a number of other banks and companies\textsuperscript{315}. There are mainly two issues the result from this extent of state control over the private sector. Firstly, from a free market perspective, privatization is regarded to be more efficient economically as it is entirely profit driven, unlike the public

\textsuperscript{311} Ibid.

\textsuperscript{312} Niblock and Malik, “The Political Economy of Saudi Arabia”, 26.

\textsuperscript{313} Ibid.

\textsuperscript{314} Ibid.

\textsuperscript{315} Ibid.
sector. Secondly, government involvement renders the economic contribution of such substantial entities classified, similar to the state’s national accounts\textsuperscript{316}.

Not only is there a problem with defining the contribution of the private sector in the Saudi economy, the country also suffers from a problem related to “too much” specializing with the oil industry. Although this seems quite understandable as the state possess the largest proven oil reserves globally, from an economic stand-point this contributes to the instability of the economy during price shocks\textsuperscript{317}. With the huge increase in purchasing power following the discovery of oil, the general population had a huge demand for imported manufactured goods\textsuperscript{318}. As such, with the limited industrial capabilities of the economy, even light products were imported from abroad\textsuperscript{319}. Although the Saudi economy grew extensively since the discovery of oil, this culture of importing instead of locally producing is still witnessed today. The above was facilitated with the appreciated exchange rate as a result of the Dutch Disease\textsuperscript{320}. This further reduces the competitiveness of locally produced goods as it becomes economically feasible to import instead of producing locally. Eventually, this leads to focusing on a single industry, oil in this case, and disregarding other industrial possibilities\textsuperscript{321}.

The industrial base in Saudi Arabia currently revolves around the hydrocarbon sector, petrochemical industries, downstream derivatives involving oil byproducts and the construction/housing sector\textsuperscript{322}. It is important to mention that although the Saudi construction

\textsuperscript{316} Ibid.


\textsuperscript{318} Kabli, \textit{Industrial Development in Saudi Arabia}, 36.

\textsuperscript{319} Ibid, 44.

\textsuperscript{320} Rodriguez, “Dutch Disease in Saudi Arabia?”\textsuperscript{a}, 21.

\textsuperscript{321} Brahmbhatt, Canuto and Vostokonutova, “Dealing with Dutch Disease”, 4.

sector is a booming one due to the ever-growing demand by the population, it is one of the sectors that do not create a long-term value for the economy. On the other hand, there are a number of other sectors that could contribute by at least 60% of the overall growth needed to double the GDP by 2030 if more focus is placed on them. Such sectors include mining and metals, Telecommunications, manufacturing, health care, finance and tourism and the hospitality sector. Currently the Saudi manufacturing sector, excluding oil refining contributes to 10% of the total GDP.

4.2. Labour Market

If oil is Saudi’s main addiction, foreign labor is second on the list. In Saudi Arabia, the dependency on foreign workers is a clear issue that the state is suffering from. Due to the country’s focus on the oil sector and its demand for a highly skilled labor force, many positions are filled by foreign workers. Moreover, due to the so called “rentier mentality”, relatively low paying job are deemed unworthy for the local Saudi labor force, thus they are also filled by foreigners. This poses as a problem for the economy because of the nature of such workers to remain in the country for a short period of time, not to mention transferring their earned income abroad to their respective countries. This leads to a considerable amount of funds not circulating in the Saudi economy. Additionally, the capital intensive nature of the oil industry and the huge demand for foreign labor has a direct effect on the level of

324 Ross, The Oil Curse: How Petroleum Wealth Shapes the Development of Nations, 76.
326 “Saudi Arabia Economy Profile”, Index Mundi Database.
328 Bowen, The History of Saudi Arabia, 5.
329 Kabli, Industrial Development in Saudi Arabia, 84.
unemployment in KSA\textsuperscript{330}. Although accurate figures regarding unemployment are not readily disclosed, unemployment estimates for both genders currently surpass the 25\% threshold\textsuperscript{331}.

This issue of unemployment becomes even worse when taking into account the amount of youths that are unable to find jobs. In KSA, anyone below the age of 30, which represents two-thirds of the population, cannot find a job because the need for more experienced, and a cheaper expatriate labor force\textsuperscript{332}. If one would take the period between 2005 and 2009 for instance, the positions that are filled by foreigners represented 90\% of all available and created jobs in KSA\textsuperscript{333}. The remaining 10\% available opportunities however encompass higher level positions that are mostly left for the locals. Although expatriate workers tend to be cheaper compared to Saudi nationals by at least 60\%, choosing an economically cheaper workforce is not the sole reason behind the increased unemployment in Saudi Arabia\textsuperscript{334}. There is also the fact that Saudi nationals tend to aspire for attaining jobs in government agencies due to the huge benefits they would receive in comparison to other sectors in the economy\textsuperscript{335}. Nevertheless, such positions are generally scarce which is why it is important to mention that in essence, the problem of unemployment is highly connected to the issue of manufacturing, or the lack thereof in the Saudi case. Stimulating non-oil based sectors would counter the capital intensive nature of the economy which revolves around a


\textsuperscript{331} Ibid.


\textsuperscript{333} Ibid, 12.


\textsuperscript{335} Gause, “Saudi Arabia in The New Middle-East”, 13.
single resource, employing only 1.6% of the entire available labor force which constitutes less than 0.5% of the population336.

4.3. Poverty and Inequality

In theory, the resource curse as mentioned beforehand tends to yield issues related to high poverty rates, which is perplexing when looking at the amount of revenue such states are receiving. However, the failure to explore other self-sustaining economic activities instead of focusing on one capital intensive industry, especially in the case of Saudi Arabia, poses itself as an obstacle to pro-poor development337. As a result, regardless of the significant increase in income that Saudi Arabia has experienced over the years, the living conditions for a number of locals tend to either remain unchanged, or deteriorate in times of oil boom/bust price cycles338. Signifying the extent of the problems the Saudi society is suffering from, in 1994, a Saudi diplomat in the mission to the UN requested asylum in the United States for disclosing his views against the Al-Saud family for the inequitable distribution of wealth, poverty, corruption and marginalizing the status of women in the society339.

Whether there is a problem of over reliance on oil, or an issue related to unemployment, Altogether, this contributes to the problem of poverty and inequality that are widespread in the country340. Although Saudi Arabia is established as one of the world’s richest states, 40% of all local Saudi citizens live under SR3,000 or $850 a month341. Moreover, the per-capita income is believed to have been halved since the 1980s. Measured

338 Ibid.
341 Ibid.
in constant dollars, real per-capita income in 1981 was valued at $28,600 and by 2001 it plunged to $6800\textsuperscript{342}. As for the statistics on poverty, the government believes that the rate is at 9\%, whilst external statistical approximations believe it to be falling between 13\% and 30\%\textsuperscript{343}. All of the above statistics seem perplexing when compared to the state’s growth rate over the past three decades, however it is important to understand that growth in GDP does not signify an improvement in the society’s overall well-being and in alleviating poverty, especially when we factor in the growing population as well as the apparent inequitable ownership of most resources in the state by a handful few\textsuperscript{344}.

Regarding the topic of poor living conditions, Saudi Arabia is characterized by a pool of poverty in every major city, encompassing foreigners whom are tasked with doing menial jobs\textsuperscript{345}. Some of those workers are living in factory dormitories and subsistence tenements. In addition to this portion of suffering foreigners, some 19\% of Saudi nationals are living under $480 per month. These conditions seem to deteriorate even further as Saudi Arabia is characterized by an average family size of approximately 7 members\textsuperscript{346}. This creates more stress on improving the living conditions and the need for more employment opportunities in the economy. In a rentier state such as Saudi Arabia, this is highly unstable as evidenced by the household surveys showing that oil price shocks tend to have a strong effect on households when it comes to employment opportunities, food and transport prices\textsuperscript{347}.


\textsuperscript{344} Ross, The Oil Curse: How Petroleum Wealth Shapes the Development of Nations, 269.


\textsuperscript{346} Ibid, 172.

5. Effects of The Recent Oil Price Shock

Saudi Arabia amongst other rentier states are currently facing a number of challenges that will put their economies and societies into test. After a prolonged period of oil boom, international oil prices have dropped during the second half of 2014 by almost 50% from a price of $112 per barrel\textsuperscript{348}. This came after what many forecasters dub as an increase in the “competitive global energy landscape”\textsuperscript{349}. Due to lifting the sanctions over Iran’s economy, the surprisingly high production in states such as Libya and Iraq, the advancements reached in extracting US shale oil as well as the development of alternative energy sources, oil became extensively over supplied globally\textsuperscript{350}. Normally, events of increased supply pushes large rentier states towards reducing their production in order to cope with the new market dynamics and shorten the period of oversupply. However, as the world’s largest oil producer, Saudi Arabia opted for maintaining its level of oil production in hopes of pressuring the shale oil producers in the US\textsuperscript{351}. Backed by its huge foreign reserve, the Saudi regime assumed that low prices will push out the shale rivals due to the higher prices associated with the cost of extracting this type of oil\textsuperscript{352}. Coupled by the geopolitical tensions in the gulf region, and the apparent global economic slow-down as seen by the state of the European Union and China since 2015, demand further declined which led to prices remaining just below $48 per barrel\textsuperscript{353}.

\textsuperscript{348} Al-Kibsi et al., “Saudi Arabia Beyond Oil: The Investment and Productivity Transformation”, 5.

\textsuperscript{349} Ibid.

\textsuperscript{350} Ibid.


\textsuperscript{352} Ibid.

5.1. A Different Financial Squeeze

As mentioned beforehand, Saudi Arabia was one of the most affected states by the recent decline in oil prices as it experienced a huge drop in revenues since 2014. Although Saudi Arabia is not a stranger to such price squeezes, this is considered to be the most severe drop in the past two decades and it will undoubtedly affect the patronage schemes adopted by the regime. Combined with the low oil prices, the government experienced double digit deficits and resorted to spending cuts as it realized its inability to continue on its old spending trajectory with such low oil prices. The problem intensifies even further when taking into account the demographics of the country. For instance, there is a growing Saudi youth population of 25 years old and younger, which constitutes more than 50% of the kingdom’s entire population count. This not only stresses on the importance of creating more employment opportunities, but also signals to the need for altering the old forms of patronage packages as this influx of educated Saudi youths is bound to bring-about different demands and aspirations than before. It is important to also take note of the growing number of elderly citizens that require support by the government, consequently increasing the demand for improving the country’s health system and social spending.

In addition to the aforementioned, managing this prolonged period of low oil prices based solely on Saudi Arabia’s historically amassed assets would be impractical due to the growing debt and budget deficit. Such deficit results in shortening the horizon for state

planning which in turn could subvert development plans\textsuperscript{359}. A fluctuating government budget could also affect state projects that would normally take years to implement especially in the areas of education, infrastructure and healthcare due to the risk of depleting revenues\textsuperscript{360}. This is specially critical in times of excruciating low revenues as the state opts for coping with its current problems and tends to suspend “unnecessary” investments until revenue trends increase\textsuperscript{361}. This however in the case of Saudi Arabia with its large unemployment and poverty rates, not to mention the growing population, would not be a risk-free decision. As such the state should become selective in its spending schemes by focusing less on matters such as increasing the state defense’s budget for example. However due to the current geopolitical developments, especially the ones Saudi Arabia is directly involved in such as the ongoing war in Yemen, it is unlikely that the Saudi defense spending would substantially decrease in the foreseeable future\textsuperscript{362}. Moreover, the huge spending on energy subsidies by the government is unsustainable as the domestic consumption keeps on growing. With such a growing rate of energy consumption, statistics show that by 2030 the break-even price of oil would have to be around $300 per barrel so that the Saudi government could sustain its domestic energy obligations, assuming no structural economic change occurred\textsuperscript{363}.

A final worrisome reason for the Saudi case is the global movement towards developing alternative energy sources, which will in time reduce the significance of oil and oil producing nations\textsuperscript{364}. Due to environmental as well as political pressures, several

\textsuperscript{359} Ross, \textit{The Oil Curse: How Petroleum Wealth Shapes the Development of Nations}, 284.

\textsuperscript{360} Ibid.

\textsuperscript{361} Ibid.

\textsuperscript{362} Gause, “Saudi Arabia in The New Middle-East”, 11.

\textsuperscript{363} Ibid.

developed nations have been trying over the past decade to diversify their energy sources. Although we have not yet mastered renewable energy sources, one can notice the sizable developments in using wind and solar energy worldwide. This in due time will undoubtably reduce the demand on oil which will result in reducing its prices globally. In order to cope with the above changes, Saudi Arabia has to accelerate the shift from its current heavily oil-dependent economy to a more diversified economy. Developing industries unrelated to the oil sector would increase labour opportunities thereby increasing the participation of the local population in such sectors. Additionally, instead of simply financing the incurred deficits, creating more revenue sources through taxation or increasing foreign direct investment as in the case of the UAE is currently of prime importance.

5.2. Fiscal Pressures and Solutions

As forecasters remain unable in predicting the end of this oil slump, international consumers continue to benefit and oil producers are greatly suffering. As part of the latter group of states, Saudi Arabia’s budget enjoyed a surplus of 6.5% of the GDP in 2013 but was greatly affected by this perfect storm of unfavorable market conditions which turned its surplus into a deficit of 5% in 2014, resulting in an increase of its public debt by 1.6%. In 2015 the conditions worsened even further as the budget deficit rose to 15% of the GDP while the public debt increased to 5.8% of the GDP as revenues declined by approximately

365 Ibid.
367 Ibid.
368 Ibid.
42% compared to 2014\textsuperscript{371}. To make matters worse, the Saudi budget for 2016 projected a deficit of SR326.2 billion as the Saudi minister of finance announced that such deficit will be financed through debt issuance and tapping into the country’s foreign reserve\textsuperscript{372}. It is important to mention that such reserves has already declined by 13.2% in 2015 alone\textsuperscript{373}.

Despite the aforementioned, the Saudi government announced that its defense and security spending for 2016 will go unchanged which is set at 25% of the entire budget allocation, accounting for the single largest share of government spending\textsuperscript{374}. Figure 13 shows a segmentation of the state budget as of 2016 with the largest shares allocated for Military and security services (25%), and Education and Training (23%), leaving the infrastructure and transportation as well as the economic resources sectors with the lowest budget tranches. It is worth mentioning that the government spent 12% of its planned budget on healthcare and social development. Although the reason behind such planning is highly affected by the current situation in Yemen, it still remains to be economically inefficient especially considering the current fiscal crunch the state is suffering from. Moreover, it is inherently deductible that economic diversification would call for investing in infrastructural development as it would facilitate trade and the movement of goods, labour, and capital. This clearly was not on the Saudi government’s fiscal agenda during the 2016 fiscal year judging by its allocable tranche of only 3% from the total planned budget.

\textsuperscript{371} Ibid.
\textsuperscript{372} Ibid, 2.
\textsuperscript{373} Ibid.
\textsuperscript{374} Ibid.
**Figure (13):** 2016 Saudi State Budget Breakdown

With a growing population of approximately 29 million as of 2015 and an annual GDP growth rate of less than 2%, the Saudi government was bound to exercise some budget restraint. The government announced a series of budget cuts, the latest of 14% for 2016. It is important to mention that this reduction in budget mainly affected the state’s spending on transportation and infrastructual development by 63%. Moreover, the Saudi government also raised the price of subsidized local energy prices by 50%. Additionally, an increase in the prices of electricity and water services was levied at a progressive rate. Figure 14 shows the drop in spending vis-à-vis the decline in revenues.

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377 Ibid.

378 Ibid.
In addition to the various spending cuts applied by the Saudi government, there were also a number of tax reforms that were put into place. This marked a drastic change in the rentier nature of the Saudi Arabian economy\(^{379}\). Apart from the annual 2.5% Zakat payment which the Saudi General Authority of Zakat and Tax officially enforces on individuals and entities alike, Saudi citizens enjoy huge spending on public goods as well as minimal taxation\(^{380}\). This however changed in 2015 when the government stated that a 6% tax would be applied on non-national residents receiving a monthly income of SR3,000 or more. In 2016 the government further stated that it is considering increasing this percentage to 10%\(^{381}\). As a result, many expatriates have raised their concerns over this law\(^{382}\). Moreover, the government also plans to introduce a VAT in conjunction with other GCC states by 2018.


\(^{380}\) Ibid.


\(^{382}\) Ibid.
which will be entirely burdened by the consumers, reducing their purchasing power. Lastly, there is also a proposition to introduce a “sin tax” on products such as Tobacco. According to the government, the above spending and taxation reforms should contribute to the state’s budget by at least $100 billion by 2020.

In order to back such reforms, it was crucial for certain governmental restructuring to take place, not to mention the need for a solid development plan to withstand such low oil prices. This is exactly what the deputy crown prince formulated on April 2016 dubbing it the “Saudi Arabian Vision for 2030”. Being of a relatively young age, deputy crown prince Mohammed bin Salman understands that the current rate of unemployment combined with the lack of transparency and the recent inability by the government to maintain the same patronage and spending habits will do little to satisfy the Saudi youth. As such, the Vision 2030 plan came after a lengthy process of government restructuring, and according to the deputy crown price, it aims at “fulfilling the aspirations of the new generation”. In more detail, the plan included goals for creating the world’s largest sovereign wealth fund which will have more than $2 trillion in assets in hopes of financing Saudi Arabia in the future through investments. Moreover, the government also announced its plans for an initial

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385 A sin tax is a type of excise tax that is levied on certain goods or practices that are generally perceived to be socially condemned such as cigarettes, alcohol, and gambling.
387 Waldman, “The $2 Trillion Project to Get Saudi Arabia's Economy Off Oil”.
389 Waldman, “The $2 Trillion Project to Get Saudi Arabia's Economy Off Oil”.
390 Waldman, “The $2 Trillion Project to Get Saudi Arabia's Economy Off Oil”.
public offering (IPO) of 5% of Saudi Aramaco’s shares, which will be the largest IPO in financial history due to the sheer size of the company.\(^{391}\)

In addition to the above mentioned, the goals of the Vision plan includes increasing Saudi Arabia’s oil refining capabilities in order to turn it to the largest refining nation by 2030 instead of the largest oil producer.\(^{392}\) Furthermore, the government hopes to privatize a number of its services and localize at least 50% of its military equipment spending.\(^{393}\) The plan also includes reforming the private sector by reducing regulatory and bureaucratic obstacles to make it easier to set-up new businesses.\(^{394}\) Last but not least, the plan includes goals of increasing the Umrah capacity from 8 million to 30 million and to double the amount of Saudi cultural sites with the aim of increasing tourism revenues.\(^{395,396}\) All of the previous goals should translate into increasing the private sector contribution from 40% to 65% of the GDP, increasing foreign direct investment contribution from 3.8% to 5.7% of the GDP, and raising the share of non-oil exports from 15% to 50% of the non-oil GDP.\(^{397}\) This is also expected to reduce unemployment to reach only 7% by 2030, increase SME contribution to GDP by 15%, increase the participation of females in the labor market, and increase the household savings rate from 6% to 10%.\(^{398}\)

\(^{391}\) Ibid.

\(^{392}\) Ibid.


\(^{394}\) Ibid.

\(^{395}\) Ibid.

\(^{396}\) Umrah is a non-mandatory form of pilgrimage performed by Muslims in the city of Mecca which could be performed at any time of the year unlike Hajj which is considered to be one of the five pillars of Islam and is undertaken only during the last month of the Islamic calendar at least once in a lifetime if a Muslim is physically and financially capable.


\(^{398}\) Ibid.
With the beginning of the 2017 fiscal year, the Saudi government disclosed its new budget plan. As public debt reached 12.3% and is forecasted to increase to 30% by 2020, the new budget seemed more geared towards increasing the growth of the non-oil sector, which already grew by 20% in 2016. Figure 15 depicts the budget breakdown showing a 2% increase in Healthcare spending compared to 2016, 3% increase in spending on infrastructure and transportation, and a 4% decrease in the defense budget. Coinciding with the new state budget was the government’s statement on increasing the financial burden on expatriates in Saudi Arabia. Such budget is expected to increase the non-oil revenue by at least 7%. The government also stated that all subsidies will be gradually removed over the medium term of the following three years taking into consideration low and medium income citizens while financing the deficit through internal debt.

**Figure (15): 2017 Saudi State Budget Breakdown**


401 Ibid.

402 Waldman, “The $2 Trillion Project to Get Saudi Arabia's Economy Off Oil”.
Although the objective of the transformation plan is starting to translate into eliminating Saudi Arabia’s dependency on oil revenues, if past history is of any indication, it is that Saudi development plans are often under-realized. A perfect example is King Faisal’s “Ten Point Program” as well as the “Five Year Development Plan” of the 1970s. Such plans aimed at diversifying the economy, improving the state’s services such as education and healthcare, and reducing the state’s dependency on oil. Although these plans have set the stage for much of the infrastructural development that is currently seen in Saudi Arabia, much of the growth in GDP was due to the oil sector and the increase in global oil prices. Although this caused many to question the Saudi Vision 2030 plan, the disclosed budget for 2017, the fiscal reforms that were applied, and the bold comments by the deputy crown prince signals to the leadership’s commitment towards accomplishing such transformation.

5.3. The Death of Saudi Rentierism

It is widely known that spending on public services and low taxation were considered essential to the stability of the Saudi regime in previous years. As a result, one can notice that the government stressed on the fact that its taxation plans will mostly target expatriate workers. Nevertheless, the plan to include a value added and sin-taxes, and the increased prices of local services and energy will be burdened on the local citizens. The previous is bound to result in more demand for representation by the general population as their incomes will undoubtably become affected. This is seen in the number of Saudi nationals whom

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404 Ibid.

405 Ibid, 41.

406 Waldman, “The $2 Trillion Project to Get Saudi Arabia's Economy Off Oil”.


have recently been expressing their discontent through social media platforms over the increased price of water bills by as much as 1,000% and the plan to sell-off a portion of Saudi Aramco; the Saudi-owned global powerhouse of oil production409.

The previous could explain the keenness of the Saudi government, under directions from deputy crown prince Mohammed, to issue statements explaining the logic behind introducing taxes and implementing spending cuts. Moreover the government also stressed on its plan to increase transparency and accountability410. Additionally, there were also statements on introducing social reforms that would modernize the Saudi education system, improve the healthcare system, increase the accessibility to public spaces as well as the number of cultural and entertainment destinations and granting women the right to drive411. The “bravest” of all such propositions however is banning the Saudi Religious Police from making arrests without supervision of other police authorities which currently jeopardizes the Wahhabi backing of the Saudi Family412.

In order to assess the applicability of Saudi’s new transformational plan, one must look at the country’s resources and capabilities. In this regard, Saudi Arabia possesses a number of advantages that would facilitate its transformation towards a post-rentier state, the most important of which is its huge foreign assets413. Moreover, the country still enjoys a relatively cheap and abundant energy source which under any international price point will be profitable to sell in order to finance the state’s developmental plan414. The decisive factor

409 Waldman, “The $2 Trillion Project to Get Saudi Arabia's Economy Off Oil”.
412 Waldman, “The $2 Trillion Project to Get Saudi Arabia's Economy Off Oil”.
413 Kabli, Industrial Development in Saudi Arabia, 27.
414 Ibid.
however is related to the culture of importation instead of manufacturing which the
government should address. The reason for the previous assertion is that it could potentially
hinder the progress of its transformational plan in an event of an oil price increase which was
seen beforehand in the 1970s\textsuperscript{415}. Under any circumstances, it is clear that the government has
realized that for this transformation to take place, it has to dictate unforeseen reforms. This
will eventually result in more demands by the public and in of it self shows that “business as
usual” is not viable anymore.

Whether the Saudi Vision Plan is fully realized or not, the number of taxation and
spending reforms that the government undertook recently signals to a movement away from
the main tenets of RST\textsuperscript{416}. The mere fact that the government has realized the instability of its
rentier model and is attempting to change it underlines a pivotal change in state planning and
calls for analyzing Saudi Arabia from a post-rentier perspective. A post rentier state is one
where expenditure outstrips rent income as it becomes insufficient for running the state\textsuperscript{417}.\nMoreover, post-rentierism is associated with a series of deficits, debt and ultimately
bankruptcy in extreme cases. Although the Saudi Arabian economy is still holding its ground
thus far, one can easily see that it is going through the conditions necessary for reaching post-
rentierism\textsuperscript{418}. Last but not least, a post-rentier state would normally pursue transformational
plans with the hopes of diversifying its revenue sources and investments which is exactly
what Saudi Arabia is currently attempting to accomplish with its 2030 Vision plan\textsuperscript{419}. As
such, a “post-rentier state” labeling seems to be more fitting for Saudi Arabia.

\textsuperscript{415} Niblock, \textit{Saudi Arabia: Power, Legitimacy, and Survival}, 41.

\textsuperscript{416} Moore, "How Does Taxation Affect the Quality of Governance?", 18

\textsuperscript{417} Andrew Kirkpatrick, “Nauru: The First Post-Rentier State,” Southwestern Political Science Association,

\textsuperscript{418} Ibid.

\textsuperscript{419} Ibid.
6. Conclusion

In conclusion and contrary to RST’s simplistic assertions, oil wealth does not affect all rentier states equally. While the problems stemming from over-reliance on oil revenues could be similar in nature, differences in terms of economic size, demographics, and oil capabilities result in different vulnerabilities and maladies\textsuperscript{420}. While international oil prices is an important factor when it comes to the amount of revenue a rentier state receives, factors such as population count and per-capita rent revenue are the decisive aspects in understanding whether the rentier state model is sustainable or not\textsuperscript{421}. Unless the state is capable of forecasting oil price drops and is able to maintain a manageable rate of population growth, rentierism will not become a viable option on the long-run. There are a number of rentier states that realized this beforehand such as UAE through extensive developmental plans that reduced the state’s dependency on oil which helped it counter periods of low oil prices efficiently. Although countries such as Saudi Arabia are currently attempting to follow the same concept, it will not be as easy to apply in the case of large oil-saturated rentier states\textsuperscript{422}.

The aim of this thesis was to investigate whether the assertions of RST are capable for accounting for differences between rentier cases in terms of issues and sustainability. The classical RST seems to be overly simplistic in this area as it regards all of the rentier cases equally, only depending on a pre-defined percentage of rent to governmental revenue rate. Moreover, classical RST seems to be useful in explaining the main tenets and characteristics of rentierism but it is not useful anymore when it comes to analyzing rentier cases. As such, it

\textsuperscript{420} Ross, \textit{The Oil Curse: How Petroleum Wealth Shapes the Development of Nations}, 308.

\textsuperscript{421} Ibid, 309.

\textsuperscript{422} Ibid.
was statistically shown that rentier cases differ in reactions to oil price changes in terms of changes in unemployment and living standards, as well as government responses. This was done through segmenting a series of rentier cases based on per-capita rent revenue, which is directly tied to the population count of each group, and then analyzing the average rates of HDI, unemployment, and population per each segment of rentier cases. In this regard, this thesis proposes looking at rentier cases through segmentation of low and high per-capita income rentier states, taking into consideration population count and per-capita rent revenue in order to understand why some oil reliant states are more capable of sustaining low rent revenues, while others are suffering or undertaking unprecedented transformational reforms.

In addition to the previously mentioned, the second part of the research attempted to analyze a case from the low per-capita income segment of rentier states to assess how it treaded since the 2014 oil price drop. The selected case was non other than Saudi Arabia; the largest oil producing state globally. Looking at Saudi Arabia’s history, and responses to the price drop, it seems that the government is bent on moving away from its rentier activities in order to diversify its revenue sources. However, due to the introduction of new tax policies and the massive budget cuts implemented, it is only a matter of time before the masses start to have different demands than the old patronage packages and public spending schemes. This also underlines a movement towards post-rentierism which further ties to the inadequacy of using classical RST labeling and analysis. Through assessing the Saudi case, a “post-rentier state” labeling proves to be more fitting as the recent reforms and future Saudi plans have revoked most, if not all RST’s tenets.

In a nutshell, RST provides useful concepts but it is too simplistic and overstretched in treating all rentier states equally. As such, the theory has become incapable in providing solid analytical insights in explaining why certain rentier cases are experiencing excruciating
effects due to the low oil prices while others seem to be “weathering the storm”423. In this regard it is more beneficial to employ a post-rentier outlook when analyzing such class of states as it proves to be more timely in utilizing the basic tenets of RST, while analyzing rentier states on a case-by-case; accounting for inherent differences between cases and explaining the rationale behind the movement away from a rentier based economy424.

423 Springborg, “GCC Countries as Rentier States Revisited”, 301.

424 Ibid.
7. Bibliography

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