



The Politics of Rentier States in the Gulf

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The Project on Middle East Political Science

The Project on Middle East Political Science (POMEPS) is a collaborative network that aims to increase the impact of political scientists specializing in the study of the Middle East in the public sphere and in the academic community. POMEPS, directed by Marc Lynch, is based at the Institute for Middle East Studies at the George Washington University and is supported by Carnegie Corporation of New York and the Henry Luce Foundation. For more information, see <http://www.pomeps.org>.

The politics of rentier states in the Gulf

More than two generations have passed since oil transformed the economies and societies of the Gulf monarchies. Gulf citizens enjoy opportunities unimaginable without oil wealth and have the security of a comprehensive welfare state. But how sustainable are the Gulf economies? Citizen populations continue to grow, oil reserves continue to fall, technological advances could lessen world demand for the Gulf's oil, and price fluctuations make planning difficult. Most Gulf monarchies have made little progress in transitioning away from oil despite these widely-recognized incipient problems. Periods of lower oil prices are met with deficit spending until prices rise again, rather than serious economic restructuring. They have built economies with deep structural imbalances that make it more rather than less difficult to reduce their reliance on oil – and political orders which are deeply constituted by those imbalances and threatened by reform.

The political economies shaped by oil wealth have been primarily studied in the political science literature through the concept of the *rentier state*, which suggests that the dominance of oil wealth has distinctive, largely unavoidable political, social, and economic effects. Rentier state theory developed to explain the difficulty of diversifying economies, the bloating and inefficiencies of state institutions, the absence of democracy, the power of national security states, and patriarchal political cultures. Among scholars whose work focuses on the Gulf, though, the theory of the rentier state appears more often as a foil than as a bedrock theoretical perspective. Does rentier state theory actually explain political outcomes and structures in the Gulf?

The contributions and limitations of rentier state theory in the Gulf were the focus of a workshop convened by the Project on Middle East Political Science at the Elliott School of International Affairs in September 2018. The discussions among a diverse, interdisciplinary set of scholars revolved around the nature and extent of the coming challenges to Gulf economies, and the inadequacy of existing theories of the rentier state to account for the political implications. The papers presented in this collection range widely across countries, economic sectors, and political manifestations. They sought to bring anthropological and ethnographic perspectives into dialogue with economists and political scientists. Two themes dominated the discussions.

First, the extremely unbalanced labor markets in Gulf countries pose a profound challenge to any effort at economic reform. The vast majority of the private sector labor force across the Gulf is composed of foreign labor, and in four of the six GCC countries foreign residents outnumber citizens in the population as a whole. Any effort at economic diversification will have to confront these extreme imbalances, and doing so will require confronting the political institutions and political culture which have evolved over decades around them, in addition to business interests with a deep stake in the status quo.

Second, the “theory” of the rentier state itself needs significant rethinking to be useful in the contemporary context. The field has moved beyond simple assertions of causal effects and is now better placed to probe specific causal mechanisms and to marshal new kinds of evidence to evaluate the predicted effects of rentierism on state institutions, the structure of national economies, and

political culture. Political science approaches to the rentier state need to move beyond abstract concepts of the social contract to examine precisely how citizens engage with the state under the conditions shaped by oil. What expectations do Gulf citizens actually have of their governments – and how do those governments attempt to shape citizens?

Labor markets and economic reform

Discussion of the economic effects of the rentier state typically focuses on the crowding out of other industries, the domination of the public sector over the private sector, and the significance of the resources to finance extensive welfare and security states. But as important as those dimensions is the underlying structure of labor markets, the distinctive problems of employment which those economies have created, and the political expectations about the state which they have generated.

The Gulf monarchies have no hinterlands from which to recruit citizen labor, so the labor attracted to their booming economies comes from other countries. The logic of rentierism, however, makes it difficult to widely grant citizenship to these migrants. Claire Beaugrand quotes Kuwait's foreign minister protesting that "our citizenship is expensive!" And it is. Each new citizen means that the country's fixed sum of oil export revenues will be divided amongst that many more people. As a consequence of this logic, the Gulf states have not widely granted citizenship to foreign workers. But that has not in any way lessened their thirst for labor.

The ability of the regimes to offer jobs, paid for by oil revenues, to many or most of their citizens has created an expectation among citizens that they will receive a job in the state (though the expectation is most pronounced in the richest rentiers, Qatar, the UAE and Kuwait). The private sector, for its part, strongly prefers to hire inexpensive labor from abroad. The result is that all six Gulf GCC states feature a sharply divided labor market in which citizens prefer to work for the state and the private sector prefers to hire foreigners. This all costs a lot of money: it is expensive to provide state employment to so many citizens, and it is expensive to pay for the infrastructure to support the millions of foreign workers in the private sector.

The reliance on foreign labor creates challenges for economic diversification, which is critical to the success of the Gulf monarchies in preparing for a post-oil future. These challenges are seen most acutely in Saudi Arabia, where Crown Prince Mohammad Bin Salman has been pushing an ambitious agenda of social and economic change ostensibly aimed at transitioning the country to a post-oil future.

Ishac Diwan sketches out two possible scenarios for Saudi Arabia. One he calls *Egyptianization*, in which low wage foreign workers continue to dominate the labor market, while "dwindling oil revenues continue to be shared among nationals, cheap labor continues to be freely imported, and Saudi reservation wages only fall slowly over time." The long-run implications of this are dire: over time, "the kingdom will turn into an increasingly impoverished welfare state..." The alternative, Diwan argues, is to replace foreign labor with citizen labor. How would this help? He says that this would not likely generate globally tradable exports, but it would mean that Saudis themselves provide the labor for the

rest of the economy, which ultimately is less expensive than hiring foreigners. He and Michael Herb point out that the current strategy is instead to develop a “mega-Emirati” economy in which foreign labor continues to dominate the economy, including the production of tradeables. Saudi Arabia is too large for this strategy to succeed.

Steffen Hertog looks at the same set of issues from a different point of view: he asks what sort of transformation would be necessary for Saudi Arabia to restructure its economy to resemble that of an OECD economy. The private sector will need to create a vast number of jobs for citizens, a number that implies a rate of job growth that has few precedents elsewhere in the world. Tax collections would need to go up. Crystal Ennis similarly observes that while Saudi modernizers view women as an untapped resource – and indeed they are – the participation of more women in the labor force will require the generation of even more jobs for citizens. Hertog, ultimately, is not optimistic that Saudi Arabia can make the transition. He sees *pauperization* as a real possibility – this is Diwan’s *Egyptianization* by a different name.

Andrew Leber, on a slightly more optimistic note, observes that one benefit of Muhammad bin Salman’s willingness to confront established Saudi elites is that he is willing to use state authority to force the private sector to provide jobs for Saudi citizens in a way that had not been found under previous Saudi rulers. This suggests at least the possibility that the Saudi regime is willing to break through some of the logjams that make labor market reform so intractable in the Gulf. Those efforts both depend upon and encourage repression and abuses by state security forces, which could be popular if directed against widely resented elites but if extended too broadly could drive resentment and public opposition faster than the economic reforms can demonstrate success.

While all six GCC states have unbalanced labor markets, the severity of the problem and the urgency of addressing it vary across the Gulf states. The richer states – Kuwait, Qatar, and the UAE – will not go broke if they maintain the status quo for the short term and, if oil prices cooperate, even the medium term. Oman has a much more immediate problem. And the GCC states are not likely to adopt the same strategies in addressing their labor market problems. Even today the UAE and Kuwait are responding quite differently, with much discussion in Kuwait about limiting the number of foreigners, while the UAE continues to build an entrepôt economy that requires abundant foreign labor. These choices will shape the political economies of the Gulf monarchies in the years ahead, with the potential to create strikingly different political, economic and social structures across the GCC.

Rentier state theory and the social contract

One of the original intuitions of the rentier state theory – beyond the slogan “no representation without taxation” – is the idea that there is a social contract in the region between rulers and ruled. The basic terms of the contract are that rulers would provide citizens with oil revenues and citizens would provide allegiance, or political quiescence, to their rulers. It did not entirely escape the authors of the earlier contributions to the rentier state literature that the trade of political quiescence for oil wealth might not last forever. Yet in much of the literature, and in the large-n works that followed, these qualifications are muted.

Recent work by scholars of the region on the rentier state view this social contract as a social construction, one that must be created and renewed over time. There is good historical evidence for the ability of rulers to deploy oil revenue to quell dissent, as Christopher Davidson points out in his analysis of the decline of the Arab nationalist opposition in Dubai in the 1960s. But the contributors offered multiple suggestions for productive ways that we can think of the rentier social contract as a construct that changes over time. Moritz calls for a reappraisal of how oil affects attitudes toward the state: “the link between rents, rent distributions, and societal quiescence is not nearly so settled.” Krane argues that the success of subsidy reform suggests that the rentier “social contracts are less rigid than portrayed in the rentier literature.” Such questions cannot be resolved in the abstract, instead requiring rigorous research – whether qualitative interviews (such as those by Moritz, in this collection) or survey research (such as Gengler in this collection) - on the views of citizens themselves about the state and society.

Perhaps one of the more productive avenues for future research is research that takes an empirical approach to citizen attitudes toward oil wealth. Moritz has extensively interviewed Gulf citizens, asking them about their views on oil revenues and political activism. Karen Young suggests that we can see in the different strategies followed by sovereign wealth funds an indication of how regimes see the responsibility for managing “shared wealth.” And Justin Gengler offers some very specific insight into how citizens view the responsibilities of their rulers: when given a hypothetical choice of various combinations (baskets) of spending choices by the government, they rated most highly those that provided classic welfare benefits to citizens, especially health care and education. Spending on those outside Qatar was a much lower priority.

Some questioned the existence of the social contract altogether. David Waldner and Ben Smith ask just who is making a contract with whom, and how would such a contract be enforced. The notion of a contract is, from the beginning, a metaphor, a description of how citizens view the state. Those views can change over time, and the mere existence of oil revenue does not freeze them into place. As times change, so does the framing of the social contract and the relationship of citizens to the rentier state. As Claire Beaugrand points out, Kuwaitis have come to feel that they are shareholders in the state: they benefit from its provision of goods (tied tightly to their citizenship) and their “expectations turn into injunctions” as they view the spending choices of the regime.

Finally, several participants, including Makio Yamada, explore the problem of how to restructure the expectations of citizens. Calvert Jones views the problem from the point of view of the rulers, who themselves seem to view the rentier social contract as a construction, and based on this try to influence how citizens view the state. She uses the term social engineering to describe this sort of regime initiative, and points out that it “flies in the face of rentier state theory.” And she says that the “rentier social contract” engenders loyalty “of a rickety sort.” She closes by pointing out that Kuwait, which is more democratic, does less social engineering than the others. Finally, Crystal Ennis points to the role of women in engaging with these political economic changes, as the state carefully encourages their entrepreneurship.

As regimes and citizens work out new understandings of the relationship between citizens and the state we should expect to see a good deal of variation among the Gulf monarchies. Rentierism does not produce the same results everywhere, and we see today quite different relationships between the state and citizens – compare, for example, Kuwait, Bahrain, and Qatar. These differences may well widen in the future as choices the regimes make today, and have already made, constrain their options going forward.

Conclusion

One critical point made by Khalid Abu-Ismael is that this is not simply a Gulf matter. The region's poorer economies are tied to the economies of the Gulf oil-exporters, and they have a major stake in labor market reforms in the Gulf monarchies. While it might be in the interests of citizens of the oil-exporters to reduce their reliance on foreign labor, even at the potential cost of a shrinking of their economies, this would make that much more serious the economic challenges faced by labor exporting countries in the region and beyond.

The Gulf states face hard choices about how to transition away from their current reliance on oil and foreign labor. There are no certainties about how these choices will be framed by the regimes or understood by citizens. The old rentier social “contract”, if it ever really existed, is clearly under strain, and citizens increasingly feel a sense of entitlement to oil revenues. The regimes will attempt to frame the way that citizens understand the upcoming changes, in some cases via very explicit social engineering. Citizens may or may not frame the changes to their countries' political economies in the same way as the regimes, however, and their perceptions of what they are owed, and what they owe to their countries, will shape the development of Gulf political economies as they attempt these transitions.

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Labor markets and economic diversification in the Gulf rentiers¹

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Introduction

The Gulf monarchies must eventually diversify their economies: they must sell something to the world other than oil (Cherif and Hasanov 2016; Staff of the IMF 2016; Callen et al. 2014). For some Gulf economies – Oman, for example – the need to diversify is pressing. Others, such as Kuwait, can sustain their citizen populations on oil revenues for a while longer, but still need to consider how to structure their economies in preparation for the day when oil export revenues will not sustain the current standard of living.

It is not easy to diversify any economy dependent on the export of a single primary resource. In the Gulf, such diversification is made even more difficult by the structure of the labor markets. Each of the Gulf monarchies has two labor markets, one for citizens and the other for foreigners. In the richer rentiers these two labor markets are almost entirely separate. Citizens mostly work in the public sector and foreigners in the private sector. In the public sector, citizen employment is a method of distributing oil revenues. Thus the relatively high wages paid to most Gulf citizens — especially in the richer rentiers — have little relationship to labor productivity and have little relationship to market wages for foreign labor. Private sector employers typically hire citizens only when obliged to by government policy and even then often do not make much effort to put citizen labor to productive use.

Labor costs in the private sector are therefore low due to the presence of millions of foreign workers whose reservation wage rates are set by their home economies. This shapes the nature of the potentially competitive sectors available to investors in the Gulf economies. Successful economic diversification in the Gulf today has taken place primarily in the UAE, where diversification is highly reliant on foreign labor. No Gulf monarchy has

successfully diversified any substantial part of its economy by employing citizen labor. The central question of Gulf diversification, then, is whether it will be citizens or foreigners who provide the labor in the diversified sectors of the economy.

Diversification with whose labor?

There are roughly four options for labor in diversification in the Gulf. Each carries potential risks as well as benefits, and each touches on core elements of political economy and ruling structures. These options are the result of two choices. First, how heavily do the Gulf states want to rely on foreign labor in their economies? Second, to what degree do they want to create a separate labor market for citizens with a higher wage rate, less onerous working conditions, and so forth?

		<i>Foreign labor</i>	
		More	Less
<i>Labor market segmentation</i>	More	Embrace foreign labor	Limit role of foreign labor
	Less	Merge labor markets	Rely on citizen labor only

1. Embrace foreign labor

One approach, found most prominently in Dubai, is to fully embrace the use of low-cost foreign labor to build a diversified economy. This favors economic sectors like tourism that require large amounts of low-cost labor. This economy is then taxed, producing revenue that can be distributed to citizens via public sector jobs (though citizens today primarily rely on the state's oil income). The Dubai strategy requires plentiful foreign labor: in the UAE today the ratio of non-citizens to citizens is in the

¹ This draws on a Policy Brief prepared for the Economic Research Forum (Herb 2017).

neighborhood of eight to one.

While there is some high-wage foreign labor in Dubai, the bulk of the diversified economy is low-wage, especially in the hospitality and logistics industries. This makes it hard to transition to a high-wage economy that relies on expensive citizen labor. The more likely result is that Dubai continues to tax the diversified economy and uses the proceeds to fund government services and to pay the salaries of the citizens who provide those services. In the long term the strategy has an immense political cost: it makes citizens a small but very privileged minority in their own country, living on the tax revenues generated by millions of resident non-citizens.

Perhaps the most serious problem with the model, however, is that it is not easily achievable outside the richest and smallest of the Gulf rentiers. The model works best in countries with a high per capita oil income (as is the case in the UAE as a whole) and a relatively small number of citizens. Saudi Arabia has too many citizens, as does Oman. Kuwait has not created a business environment attractive enough to seriously imitate Dubai. But despite the impracticality of the Dubai model, a survey of Gulf labor markets until very recently would suggest that is exactly the model all six Gulf monarchies wish to follow.

2. Merge the labor markets

A second strategy is to embrace a low-cost labor strategy but combine the citizen and non-citizen labor markets into one without reducing the role of foreign labor in the economy. Diversification could then proceed with low-cost citizen and foreign labor. International financial institutions favor this strategy. It would be carried out by reducing the number of citizens employed in the public sector and cutting the wages of those who remain (International Monetary Fund 2015, 19).

If cheap foreign labor remains abundant, this strategy impoverishes less-skilled citizens. Some citizens would adapt to the decline in their circumstances and join the labor market alongside foreign labor from poor countries, but many would remain at home, unemployed, reflecting

on how they are not receiving their fair share of their country's oil wealth. None of this is politically palatable. Education is not the solution, except at the margins: there needs to be a place in the labor market for less well educated Gulf citizens.

Budget pressures, in the end, may require some of the Gulf monarchies to limit employment by citizens in the state sector and to cut salaries. But overall this strategy, executed in a determined way, is likely to be a very last option. In countries that still enjoy substantial oil wealth, reducing the standard of living of unskilled citizen workers to that of laborers from some of the world's poorest countries is simply not a politically sustainable option.

3. Rely on citizen labor only

A third strategy is to radically reduce the amount of non-citizen labor in the Gulf countries. This would close the door to a low-cost labor diversification strategy and force the Gulf economies to diversify, if and when they do, with citizen labor.

The Gulf monarchies are very unlikely to embrace this strategy completely (though some public discourse in Kuwait suggests some support for the strategy there). Nonetheless it is worthwhile, as a thought experiment, to consider the consequences of radically less foreign labor in the Gulf as a way of illustrating the complex interactions between labor markets, diversification, budgets, and political constraints. Economic activity would decline sharply, with the most serious impacts falling on owners of real estate and businesses that employ mostly foreign labor. Wage rates would rise sharply and the cost of locally produced services would also rise. Because the state does not tax the economy much the decline in economic activity would not harm state revenues, and a decline in the number of residents would reduce state expenses on infrastructure, health care, policing, energy subsidies, and the like. Put differently, the fixed amount of available hydrocarbon resources would last longer. Funds that would have been sent abroad as remittances would stay in the local economy. Countries that rely on remittances from the oil-rich Gulf states would lose these remittances, and

overall would be the most seriously harmed from a result of more restrictive labor policies in the Gulf monarchies.

Finally, businesses that seek to produce tradeable goods would face higher labor costs but would also have available a citizen labor force accustomed to working in the private sector. In the long run, the goal would be to develop a citizen labor force that works productively in the private sector producing non-tradeable goods for other citizens. Citizen labor that is productive in the private sector might also develop the skills necessary to produce non-energy exports as well.

4. Limit the role of foreign labor

The fourth strategy is the one most likely to be pursued by the Gulf regimes (apart from the UAE and maybe Qatar). Instead of relying only on citizen labor, the regimes segment the private sector labor market, reserving some areas (usually sectors, or professions) for high-cost citizen labor, and other sectors for low-cost foreign labor. This achieves some of the positive aspects of the third strategy while avoiding the most intense negative effects. Less foreign labor raises the cost of labor overall, lowering state expenses. Citizens, however, retain some of the cost advantages of having non-tradeable services provided by low-cost foreign labor.

The strategy requires a very strong administrative apparatus that rigidly maintains the boundaries between sectors reserved for citizens and those open to expatriates. In the absence of strong institutions, politically connected businesses will circumvent the rules and hire foreign labor wherever and whenever possible. The Gulf states, however, have a poor record of imposing labor market regulations on powerful private interests.

Recent changes?

The key measure of the success of these choices of strategy is the ratio of citizens to foreigners in the labor force, and in particular in the private sector. Until very recently, all the evidence pointed toward movement toward, if anything, the Dubai model: the number of expatriates in

the workforce in Gulf countries rose across the board. This was true of the UAE and Qatar, but also of less-wealthy Oman, Bahrain, and Saudi Arabia. Figure 1 gives a sense of the changes between 2009 and 2015 in Saudi Arabia: employment grew for expatriates in the private sector and citizens in the public sector. This was despite the many and widespread government announcements of labor market reforms that would lead to increased citizen participation in the private sector.

In the past year or so, however, we have seen some signs of actual change in labor market figures reported by some of the Gulf rentiers. The Saudi government released figures for the first quarter of 2018 that showed a decrease in the number of foreigners in the labor market of 700,000 over the previous five quarters, to 10.2 million (Bloomberg 2018). This was in part a result of the imposition of a \$26 monthly fee on the dependents of expatriates, along with the announcement of the reservation of most retail jobs for Saudi citizens. Yet it is also the case that these sorts of labor market regulations have been announced in various Gulf states in the past and have been accompanied by ever greater reliance of the private sector on ever greater amounts of foreign labor. The crucial measure of the effectiveness of these regulations is their impact on demography. An actual decline in the number of foreign workers is significant, especially as comes during a period of a recovery in the price of oil.

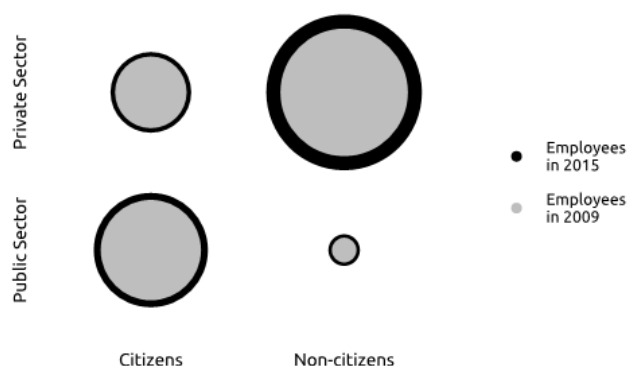


Figure 1: Saudi employment by sector and citizenship, 2009 and 2015. Circle sizes are proportional to the number of workers. Source: Jadwa Investments, February 2016, *Labor Market Update*, p7

In Oman, where the non-citizen percent of the population rose from 29 percent to 45 percent from 2007 to 2017, the number of non-citizens in the country dropped by two percent from May 2017 to March 2018 (The Times of Oman 2018). This is not enough of a drop to suggest a permanent change, though there are indications that it is more than just a statistical blip. Across much of the Gulf the real estate market has declined recently, and the industry blames this on the departure of foreign labor. In Kuwait one industry source cited a fall in residential rents of 13 percent in a report for 2017 (Gulf News 2018). In Oman the departure of skilled labor has been blamed for a real estate crisis that has left numerous building owners facing bankruptcy, according to a Bank of Oman official (al-Shaibany 2018). That said, the real estate market is also weak in Dubai, where the population increased over the past year from 2.9 million residents to 3.13 million, so fewer non-citizens is not the explanation there (Government of Dubai. Dubai Statistics Center n.d.). Nonetheless the fact that the real estate industry blames price declines on labor force policies does illustrate who has something to lose in the Gulf governments, successfully limiting the number of foreign residents.

Conclusion

It may be that, after decades of talking about demographic reform, the Gulf states have actually become serious about it. The consequences of this for expatriates and their home countries are not good: remittances will fall, and job opportunities will be more limited. In the worst cases, undocumented immigrant families have been broken apart in immigration raids. The most severe consequences are visited on those with the fewest resources.

The implications for the future diversification of the Gulf economies, however, are more positive. In the long term the only permanent solution to lower oil prices is the production of non-hydrocarbon tradable goods and services in the Gulf economies. This can be done with citizen labor, or without. The Gulf economies need to either adopt the Dubai model, with its political risks, or find ways to put citizen labor to work in productive ways in both the non-tradable and tradable sectors.

Recent changes suggest, for the first time, that some Gulf states may choose to rely on citizen labor in the further development of their economies.

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Exploring why institutional upgrading is not so easy in rentier states

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Can rentier states reform themselves? The governance capabilities of rentier states in the Gulf increasingly loom as a concern as their reform initiatives gradually shift from centrally setting general directions of wanted changes to implementing specific policies and programs. While the policy-implementation stage of reforms is influenced by the institutional quality of state apparatuses, the literature implies that such governance capabilities are systematically lacking in rentier states. The institutionalist scholarship has long viewed developing states outside the West and East Asia—not only rentier ones—as suffering from clientelistic institutions that are responsible for economic stagnation.¹ Even Malaysia, one of the major post-Asian Tigers emerging economies, is seen as struggling to move out of the middle income trap due to institutional problems such as corruption.² In these states, institutions tend to remain inefficient and under-meritocratic as inherited and reproduced patronage networks keep inviting rent-seeking behaviors and prohibiting necessary prioritization of productive players.³

These states still can leverage productive enclaves – sometimes referred to as “islands of efficiency,” which are shielded from the rest of national institutions by the strong political mandate (as shown by Steffen’s Hertog’s analysis of efficient state-owned enterprises in Gulf economies, for instance)⁴ – and achieve growth “on spot”. Such enclaves are often created in an “additive” manner, without dismantling the existing institutions—a logic similar to

the creation of Special Economic Zones in China, which are largely populated by migrants from other parts of the country that have been more successful in developing governance capabilities than other older industrial cities that continue to suffer from inherited and reproduced clientelistic forces.⁵ Nevertheless, for economies to grow sustainably and inclusively, a wider institutional upgrading is required.

Then when do governance capabilities develop? Although this is a frequently asked question, the dynamics of institutional upgrading has remained a puzzle since Peter B. Evans said in the late 1980s that solving it will demand “intellectual imagination.”⁶ The observation of the emergence of governance capabilities itself is not new: it is, indeed, a classical agenda in social science, most prominently advanced by Max Weber’s theory of bureaucracy in the early days of the discipline. However, as Francis Fukuyama points out, social scientists since then have studied this topic much less than the process of policy-making.⁷ Recently, scholars, nevertheless, have gradually been disentangling this complex puzzle through closely examining the historical experience of states in the West and East Asia as well as those in other regions.

Subscribing to the discourse of contemporary liberalism, many scholars associate participation with governance via accountability. However, in recent years, more comparativists and historians have paid attention to the

¹ Daron Acemoglu, Francisco A. Gallego, and James A. Robinson, “Institutions, Human Capital, and Development,” *The Annual Review of Economics*, Vol. 6, 2014, pp. 875-912.

² Herizal Hazri and Nina Merchant-Vega, “Malaysia’s Middle Income Trap,” The Asia Foundation, 26 January 2011.

³ Peter B. Evans, “Predatory, Developmental, and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State,” *Sociological Forum*, Vol. 4, No. 4, 1989, pp. 561-587.

⁴ Steffen Hertog, “Defying the Resource Curse: Explaining Successful State-Owned Enterprises in Rentier State,” *World Politics*, Vol. 62, No. 2, 2010, pp. 261-301.

⁵ Mary Ann O’Donnell, Winnie Wong, and Jonathan Bach, ed., *Learning from Shenzhen: China’s Post-Mao Experiment from Special Zone to Model City* (Chicago: University of Chicago Press, 2017).

⁶ Evans, “Predatory, Developmental, and Other Apparatuses,” p. 584.

⁷ Fukuyama, “What Is Governance?,” pp. 347-348.

record of institutional upgrading in the pre-participation era. They have been increasingly forming an understanding that the initial transformation of authoritarian states from those captured by clientelism to those hosting meritocratic bureaucracy results in economic growth creating a broader, productive middle class, which is more self-reliant and, thus, possesses greater bargaining power vis-à-vis the state than the previous patronized generations; and here begins the participation–governance linkage.⁸

This trend, often found in the scholarly agenda of “state formation,”⁹ has been directly and indirectly met by the long-standing puzzle that early modern growth took place in a time of political authoritarianism in a range of countries, from England and Prussia to Japan and South Korea, and by an increasing view that, without due governance capabilities, participatory political systems would be fragile and distortive, rather than stable and developmental.¹⁰

The dynamics of (the beginning of) institutional upgrading

When do the reduction of rent-seeking behaviors and the unraveling of the existing clientelistic order occur? Pierre Bourdieu once described the emergence of formal institutions in historical patrimonial dynastic states as a gradual process, in which *homines novi*—disinterested technocrats—constructed the chain of authorities that increasingly form a “public order.”¹¹ Nevertheless, the anatomy of how these “new humans” armed with modern knowledge grasped political power against the long-standing clientelistic forces was left unanswered by him.

Here the question may not be so much about the emergence of a political coalition of reformists itself, but rather about why some coalitions succeed in installing effective bureaucracy while others have failed in doing so, for the coalition’s reform attempts are normally exposed to obstruction by veto players with vested interests from major political constituencies of the regime. In the eyes of rulers, depriving these vested interest players of their long-granted entitlements will risk the stability of their regime and/or their political and physical life; this “perceived reform-stability trade-off,” thus, in many cases, keeps them cautious toward changes that will drastically alter the existing clientelistic order—even when preserving the status quo will only gradually undermine the regime’s longevity. In other words, it is structurally difficult for rulers to be free from the belief that they must keep serving as generous providers of largesse, especially as the distribution of rents is precisely what has created and cemented the foundation of their political power.

These vested interest players also appear to be myopic: if they stop seeking rent and their obstruction of reform attempts, and instead cooperate in developing the state’s capacity, they will eventually attain greater gains from a larger economic pie. Then why do they remain against their own long-term interest? Here, rather than rationalist assumptions, insights from behavioral economics, which incorporates humans’ cognitive biases and the resultant systematic deviation from rational choice models, seem to better explain the behavior of these vested interest players. Their behavior is constrained by “bounded rationality” and subject to a range of human tendencies, such as the “endowment effect” (overvaluation of the item already in one’s hands)¹² and the “ambiguity effect” (aversion to

⁸ Rolf Schwarz, “The Political Economy of State-Formation in Arab Middle East: Rentier States, Economic Reform, and Democratization,” *Review of International Political Economy*, Vol. 15, No. 4, 2008, pp. 615-616.

⁹ Tuong Vu, “Studying the State through State Formation,” *World Politics*, Vol. 62, No. 1, 2010, pp. 148-175.

¹⁰ Francis Fukuyama, “What Is Governance?,” *Governance: An International Journal of Policy, Administration, and Institutions*, Vol. 26, No. 3, 2013, p. 351; Jonathan R. Stromseth, Edmund J. Malesky, and Dimitar D. Gueorguiev, *China’s Governance Puzzle: Enabling Transparency and Participation in a Single-Party State* (Cambridge: Cambridge University Press, 2017), p. 4.

¹¹ Pierre Bourdieu, “From the King’s House to the Reason of State: A Model of the Genesis of the Bureaucratic Field,” *Constellations*, No. 11, Vol. 1, 2004, p. 33.

¹² Rick K. Wilson, “The Contribution of Behavioral Economics to Political Science,” *Annual Review of Political Science*, Vol. 14, 2011, p. 213

risks when the probability of the alternative choice is unknown).¹³

The above, indeed, speaks to the sheer difficulty of developing governance capabilities in states where the reformist coalition is balanced by the groups of rent-seeking political clients. This, however, in turn suggests that when a change in these vested interest players' cognitive patterns happens, a space can be created for the reformist coalition in its advancement of governance agendas in a more autonomous and influential manner. How possible are such situations? Such situations look abnormal, but recent studies by historians, in fact, indicate that these abnormal situations did occur and served as critical junctures for institutional upgrading in Western Europe and in East Asia.

Institutional upgrading in England and Japan: Implications for Gulf rentier states

For instance, Patrick O'Brien's analysis of the restoration of the Stuart Dynasty following the turmoil of the English Civil War and the short-lived autocratic Cromwellian republic (1642–60) examines the behavioral change of the dynasty's political clients.¹⁴ These political clients, largely landed nobles, collectively relinquished their lucrative rent-seeking opportunities—tax farming—and agreed on initiating centralized taxation. This change was driven by their consensus on building a stable patron state even at the expense of their private interest, as, having experienced the crisis of their political lives in the period of Interregnum, they saw a loss of their privilege as a lesser evil than the lack of protection. They had learned that their continuous enjoyment of the entitlements under the previous clientelistic order had precipitated the decline of the dynasty. (Indeed, this awareness was a zeitgeist that

Thomas Hobbes referred to as a “social contract” in his *Leviathan* (1651)—a recognized need for a strong state capable of providing security and collective goods that ensure the survival of individuals' political and economic lives.) Hence, the nature of Parliament began shifting from the house of rent seekers to the house of pain sharers. This institutional upgrading paved the way for the stable dynastic state supported by capitalism-accommodating nobles, with the rise of a taxation administration (Board of Excise) operating as a competitive economic regulatory body.¹⁵ O'Brien suggests the applicability of the same logic to major Continental European monarchical states in the period after the turmoil of the French Revolution and the Napoleonic Wars, where institutional upgrading led to their modern industrial growth in the mid-nineteenth century.¹⁶

In the late nineteenth century, Japan, headed by the emperor, also began its early industrial take-off. The origins of Japan's governance capabilities date back to the institutional upgrading in two local samurai states, Choshu and Satsuma, which played leading roles in toppling the old Shogunate and formed the core of the restored imperial state. In these local states, reformist lower-rank samurais led administrative reforms in mid-century: through their cooperation with capable merchants and farmers, they built mercantilist local states and promoted proto-industrialization. According to Mariko Yamagata, what was common to these two local states was their experience of fiscal breakdown.¹⁷ Insolvency placed samurais in these local states at an imminent risk of losing their political lives, and even the status of samurai in the case the reign of their lord granted by the Shogunate would be repealed. Thus, upper-rank samurais, who had previously gripped the control of the state's fiscal and economy policy, had no choice but to grant space to the new meritocratic coalition.

¹³ Jonathan Baron, *Thinking and Deciding*, 4th Edition (Cambridge: Cambridge University Press, 2008), p. 281

¹⁴ Patrick O'Brien, “The Nature and Historical Evolution of an Exceptional Fiscal State and Its Possible Significance for the Precocious Commercialization and Industrialization of the British Economy from Cromwell to Nelson,” *Economic History Review*, Vol. 64, No. 2, pp. 408-446.

¹⁵ William J. Ashworth, “Quality and the Roots of Manufacturing ‘Expertise’ in Eighteenth-Century Britain,” *Osiris*, Vol. 25, No. 1, 2010, pp. 231-254.

¹⁶ O'Brien, p. 436.

¹⁷ Mariko Yamagata, “Yūhan no Hansei Kaikaku to Senbai-sei,” *Rekishi Hyōron*, No. 717, 2010, p. 66.

In contrast, in more fiscally-stable local states, lower-rank samurais' reform attempts were effectively nipped in the bud by upper-rank samurais and their crony-capitalists.¹⁸

In both these English and Japanese cases (both economies were commodity-exporting peripheries before their institutional upgrading), the behavioral change of the vested interest players occurred due to their strong feeling of the vulnerability of their patron dynastic state, and a predicted or experienced loss of their protection. Thus, they took a collective action of pain-sharing aimed at empowering the state to ensure their long-term survival. It was the moment in which private and public interests strongly overlapped in their eyes. As indicated by Prospect Theory of behavioral economics, they, finding themselves in the domain of losses, became risk-taking for this collective action, while they otherwise remained risk-averse when they saw themselves in the domain of gains.¹⁹ This "cognitive change and collective action" approach may well complement existing hypotheses in the state formation literature such as war and elite politics.²⁰ In particular, it may identify more specific dynamics of elite politics concerning vested interest players and find commonalities between war and non-war shocks resulting in the similar outcome of institutional upgrading.

If this hypothesis of a patronage-to-governance transition applies universally, it should be able to explain, at least partly, the barriers facing Gulf rentier states in their institutional upgrading. In these states, due to their still-high distributive capacity, the vulnerability of the patron dynasty is not much felt by vested interest players (although, if low oil prices continue, the long-term fiscal sustainability of states with lower income per capita such as Saudi Arabia and Oman will be uncertain). Moreover, the majority of citizens in these states enjoy high income levels owing to broad public sector employment. Such

wide and robust patronage networks host equally wide and robust veto forces, making pain-sharing considerably difficult. With the majority of political clients remaining risk-averse and sensitive to the reduction of their entitlements, the reform–stability trade-off perceived by rulers appears tangible, as hinted by the reinstallation of the public-sector benefits and the introduction of compensatory distributions along with fiscal adjustment programs in Saudi Arabia. Here, the two representative classical rentier ideas—distributional state (allocation state) and the dominance of patronage over meritocracy (rentier mentality)²¹—appear to remain relevant, albeit in a neoclassical way, involving the erecting of barriers to institutional upgrading.

Further research agendas

This essay clarifies two further research agendas. The first is the dynamics of the *continuation* of the institutional upgrading: even if reform were to be kicked off, whether its process continues until new, efficient, meritocratic institutions are consolidated is another issue. If pain-sharing political clients lose their patience, a behavioral reversal may happen, leading to their attempts to recover the lost rent-seeking opportunities. Such attempts would result in a counter-reform, renewed political struggles, and a continuous re-composition of patronage networks, rather than the development of governance capabilities. To keep such political clients away from resistance to the reform, some alternative gains need to be offered to them.

In seventeenth-century England, the economic growth resulting from the institutional upgrading discussed above benefited nobles who were landowners and agricultural producers; they also gradually coalesced into the circles of new economic elites in the financial and service sectors in London.²² A comparable case is colonial Korea, where

¹⁸ Ibid., p. 75.

¹⁹ Rose McDermott, James H. Fowler, and Oleg Smirnov, "On the Evolutionary Origin of Prospect Theory Preferences," *The Journal of Politics*, Vol. 70, No. 2, 2008, pp. 335-350.

²⁰ Vu, "Studying the State through State Formation," p. 152.

²¹ Hazem Beblawi and Giacomo Luciani, *The Rentier State* (London: Croom Helm, 1987).

²² P. J. Cain and A. G. Hopkins, *British Imperialism, 1688–2015* (London: Routledge, 2016), pp. 73-115.

political clients of the Yi Dynasty, the *yangban*, were coercively pensioned off by the colonial regime, which attempted to reproduce Japanese institutions there. The colonial rule benefited these former administrative elites who were also landowners and agricultural producers through the introduction of modern technology and the export of their agricultural products to Japan.²³ The success of South Korea's post-independence developmental coalition led by Park Chung-hee needs to be understood within this context: the absence of old nobles from the state apparatuses. For Gulf rentier states, it is, however, not easy to think of possibilities of a similar "pain–gain circuit" for their broad political clients. In these states, reform without sufficient alternative gains may easily lead to wide discontent—although their still-abundant financial capital may potentially be wisely deployed for less counterproductive re-cooptation.

The second research agenda is a search for the second-best option in case general institutional upgrading is unlikely to occur sometime soon. One possibility is a strategic empowerment of productive enclaves. A gradual aggregation of these enclaves has been a hope of reformists, but there may be room for doing more. One such way is to help develop organic relationships among these enclaves by facilitating their communication and creating productive patterns of interactions such as cooperation, competition, and a division of labor, whereas many of them currently operate solo or without sufficient external cooperation due to the segmented nature of the rentier state. Another possible approach is to support institutional spill-overs from these efficient enclaves to other state apparatuses through various means, including model-making and the movement of human capital; they may also contribute to the country's education effort with the aim of expanding the future reformist population.

²³ Atul Kohli, *State-Directed Development: Political Power and Industrialization in the Global Periphery* (Cambridge: Cambridge University Press), 2004, pp. 42–45.

Subsidy reform and tax increases in the rentier Middle East

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Several recent developments challenge the conventional academic theories that model the governance parameters of the oil exporters of the Middle East. At least nine Middle Eastern governments have partially retracted energy subsidies which provided citizens with cheap fuel, electricity, and desalinated water.¹ What is more, Saudi Arabia, the United Arab Emirates, and Bahrain have imposed a five percent value-added tax (VAT) on goods and services, including energy and food. Other countries, including the three remaining Gulf monarchies as well as Egypt, Algeria, and Iran, have levied VATs or announced plans to do so.

For autocratic regimes which fund their national budgets with oil and gas export rents, the imposition of taxes and retraction of subsidies runs counter to social contract stipulations enshrined in the rentier literature. Why?

The growing burden of domestic demand for oil and gas has begun to threaten the core rentier structure. High rates of energy demand growth are eventually incompatible with steady exports. Energy subsidies, a core element of rentier social policy, risk undermining the rentier economic structure, the rent lifeline that funds the state.² Tax increases and subsidy reforms address the energy intensity (high per-capita demand) incubated by subsidies, as well as aim to reduce domestic consumption and preserve exports.

The politics of energy subsidy reform turn the theoretical convention about linkages between rent and Middle Eastern autocracy on its head. Rentier theory's claim about

oil's influence on politics also works in reverse. Oil rents probably do increase the durability of autocratic regimes, but autocratic governance (at least in Middle Eastern oil exporters) also appears to increase demand for oil. That is because regimes stay in power not just by distributing oil *rents*, but also by distributing *oil itself*, a practice that stimulates demand. The Middle East's oil-exporting states tend to be both autocratic and oil-intensive, a notion that has largely been ignored in the literature. (See Fig. 3 and Table 1)

Rentier theory has largely been disengaged with the use of energy within rentier states, including the intensity of that use. Luciani, one of the few early rentier theorists to engage with domestic consumption, wrote in 1987 that oil "has value only to the extent that it is exported."³ Minimizing oil's domestic role was probably justified in the 1980s and 1990s, the classic period of rentier scholarship, when the Gulf states remained underdeveloped and lightly populated. Circumstances have changed. Energy products such as electricity and refined fuels have been distributed for decades at low, fixed prices which have encouraged demand for the domestic oil and gas used to produce them. In-kind energy distribution has, over time, greatly influenced residents' consumption behaviors and preferences, as well as the physical shape of the built environment. The rentier economies of the Gulf exhibit per capita oil consumption that ranks among the highest in the world. (Table 1) That condition is a direct outgrowth of the pervasive and structural role of oil and gas in the formation of many of these states⁴ and their governance bargains, which has imposed deep influences on their institutional design and outcomes.

¹ Covered in Jim Krane, "Political Enablers of Energy Subsidy Reform in Middle Eastern Oil Exporters," *Nature Energy*, April 2018, <https://doi.org/10.1038/s41560-018-0113-4>.

² This theme is addressed in greater detail in Jim Krane, "Stability versus Sustainability: Energy Policy in the Gulf Monarchies," *The Energy Journal* 36, no. 4 (2015): 1–21, <http://dx.doi.org/10.5547/01956574.36.4.jkra>; Jim Krane, "Guzzling in the Gulf: The Monarchies Face a Threat From Within," *Foreign Affairs*, December 19, 2014, <http://www.foreignaffairs.com/articles/142692/jim-krane/guzzling-in-the-gulf>.

³ Giacomo Luciani, "Allocation vs. Production States: A Theoretical Framework," in *The Rentier State*, ed. Hazem Beblawi and Giacomo Luciani (New York: Croon Helm, 1987), 65–68.

⁴ Useful works on oil's historical role in state formation include: Nathan J Citino, *From Arab Nationalism to OPEC: Eisenhower, King Saud, and the Making of US-Saudi Relations*, Indiana Series in Middle East Studies (Bloomington: Indiana University Press, 2002); Robert Vitalis, *America's Kingdom: Mythmaking on the Saudi Oil Frontier* (London: Verso, 2007); Timothy Mitchell, *Carbon Democracy: Political Power in the Age of Oil* (Brooklyn: Verso, 2013); Toby Craig Jones, *Desert Kingdom: How Oil and Water Forged Modern Saudi Arabia* (Cambridge, Mass.: Harvard University Press, 2010).

A useful way to envision these effects is as a second stage in the resource curse. Oil rents first helped cement tribal autocratic systems to survive modernization, and those systems, in turn, launched policies that made their states extremely energy-hungry. Oil bolstered autocrats and autocrats bolstered oil. The Middle East has maintained nearly six percent yearly growth in consumption over the four decades since 1973, a much faster rate of growth than the two percent world average. Over time, Middle Eastern oil export economies which faced few pressures to rationalize demand or reduce intensity of use became less competitive on an energy basis relative to importing economies. Availability of cheap oil created distinct physical, institutional, and sociological outcomes in the Middle East, incentivizing wasteful behavior and an energy-intense building and capital stock.

These new taxes and subsidy reforms would not seem remarkable in a participatory governance setting where economic and social policymaking sometimes requires corrective retrenchment. But in the rentier Middle East, they run contrary to four decades of scholarship.⁵ Academics have long held that the oil kingdoms of the Middle East are subject to a strict set of governance conditions. Rulers cultivate support from their citizens by providing them with welfare benefits and subsidies, funded through export rents. These rents were sufficient

to eliminate taxes and other forms of extraction, thus allowing regimes to avoid accountability links with taxpayers. Energy subsidies have been described by scholars as “rights of citizenship,” provided by regimes in exchange for public acquiescence to autocratic rule.⁶ Were the state to break its side of the bargain, the theory suggested, the entire pact was liable to unravel.⁷

These arguments proved robust during the 1986-2004 oil bust period, when oil rents were strangled by a 20-year glut in global supply. Despite intense fiscal privations that squeezed rentier distribution, none of the six Gulf monarchies raised energy prices or re-imposed taxation that had been phased out during the boom period.⁸ But in recent years something has changed. Initial signs that longstanding subsidy policy commitments were weakening came in 2010 when Iran launched a major increase in energy prices. Dubai followed with a more modest reform in 2011.⁹ Increases elsewhere, delayed by pan-Arab uprisings, began to unfold in 2014. (Fig. 1)

These price increases were greeted by a flood of complaints in social media. In Saudi Arabia, commentary ranged from outright support to personal attacks on ministers, technocrats and even royal family members. Cautious Saudis began tweeting pictures of King Abdullah unaccompanied by text. The portraits evoked the late

⁵ For an in-depth review of rentier literature's prohibitions on subsidy reform, see pp. 67-77 in Jim Krane, “Stability versus Sustainability: Energy Policy in the Gulf Monarchies” (PhD dissertation, University of Cambridge, 2014), <http://dx.doi.org/10.17863/CAM.5943>.

⁶ Hazem Beblawi and Giacomo Luciani, “Introduction,” in *The Rentier State*, ed. Hazem Beblawi and Giacomo Luciani (London: Croon Helm, 1987), 1-21; Jill Crystal, *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar* (Cambridge: Cambridge University Press, 1990); F. Gregory Gause III, *Oil Monarchies: Domestic and Security Challenges in the Arab Gulf States* (New York: Council on Foreign Relations, 1994). F. Gregory Gause III, “The Political Economy of National Security in the GCC States,” in *The Persian Gulf at the Millennium*, ed. Gary Sick and Lawrence Potter (New York: St. Martin's, 1997), 61-84; Michael Herb, *All in the Family: Absolutism, Revolution, and Democracy in Middle Eastern Monarchies* (Albany: SUNY Press, 1999); Gwenn Okruhlik, “Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States,” *Comparative Politics* 31, no. 3 (April 1999): 295-315.

⁷ Beblawi and Luciani, “Introduction”; Gause III, *Oil Monarchies: Domestic and Security Challenges in the Arab Gulf States*; Gause III, “The Political Economy of National Security in the GCC States”; Oliver Schlumberger, “Rents, Reform, and Authoritarianism in the Middle East,” in *Dead Ends of Transition*, ed. Michael Dauderstadt and Arne Schildberg (Frankfurt: Campus Verlag, 2006), 100-113; Rolf Schwarz, “The Political Economy of State-Formation in the Arab Middle East: Rentier States, Economic Reform, and Democratization,” *Review of International Political Economy* 15, no. 4 (2008): 599-621; F. Gregory Gause III, “Saudi Arabia in the New Middle East,” *Special Report No. 63 New York: Council on Foreign Relations*, 2011.

⁸ Not for lack of trying. Saudi Arabia raised but quickly reversed an increase in electricity prices in 1985. The kingdom reduced gasoline and electricity prices in 1992 (and lowered gasoline prices further in 2006); Bahrain in 1992 imposed substantial cuts in prices of electricity and water. Author interview with Abdullah M. al-Shehri, governor of Electricity & Co-Generation Regulatory Authority of Saudi Arabia, Dhahran, Oct. 21, 2012. See also: Saudi Press Agency “Al-Naimi Hails King's Order To Slash Prices of Petrol and Diesel” (May 1, 2006): <http://www.spa.gov.sa/English/details.php?id=357585>; also: Fred H Lawson, “Economic Liberalization and the Reconfiguration of Authoritarianism in the Arab Gulf States,” *Orient (Hamburg)* 46, no. 1 (2005): 19-44. Also: Sean Foley, *The Arab Gulf States: Beyond Oil and Islam* (Boulder: Lynne Rienner, 2010); Lawson, “Economic Liberalization and the Reconfiguration of Authoritarianism in the Arab Gulf States.”

⁹ See case studies of the Iran and Dubai subsidy reforms in Jim Krane, *Energy Kingdoms: Oil and Political Survival in the Persian Gulf*, Center on Global Energy Policy Series (New York: Columbia University Press, 2019), pp. 98-116.

ruler's patronage of the poor as commentary on his successor's turn toward extraction. Physical protests broke out in populous hydrocarbon exporters, including Iran and Algeria, as well as in Oman, where citizens picketed the Ministry of Oil and Gas after gasoline price increases.

The outcry over rising prices was met with stepped-up repression in most of the affected countries.¹⁰ The use of mild repression to quell breaches of the state-society pact is predicted by early rentier works, while later writing argues that the state prefers to head off dissent with patronage and consultation.¹¹ The ongoing crackdowns on speech along with the state-directed murder of a Saudi dissident in Istanbul provided further evidence that benevolent characteristics of Gulf autocratic rule were eroding.

These developments suggest that a reassessment and update to theory is due. Rents certainly remain of primary importance to governance in these autocratic export states, but some rules that theorists have advanced over the past four decades now appear more like guidelines; and guidelines can be disregarded when circumstances allow.

Evidence: Subsidy reform and tax increases

The subsidy reform that swept the Middle East since the 2014 decline in oil prices is undeniable. Over a four-year period, at least nine countries raised prices on energy products that, in most cases, had been fixed at low levels for many years. Reformers include all six of the wealthy Persian Gulf

monarchies (Saudi Arabia, United Arab Emirates (UAE), Kuwait, Qatar, Oman and Bahrain), petroleum exporters Algeria and Iran, as well as Egypt, a mid-sized producer that is currently a net importer. These price increases have been covered elsewhere,¹² but Fig. 1 provides detail.

As Fig. 1 shows, the initial increases took place alongside a decline in the crude oil market price, providing a fiscal impetus – as well as political cover – for reform.¹³ However, some of the largest increases came in 2018, well after oil prices had recovered much lost ground. This suggests that the subsidy rollbacks were driven by determination to stem demand growth. By late 2018, with Brent prices nearing \$85 per barrel, none of the countries had rescinded the increases in domestic energy prices except Oman, where 2017 protests led the government to cap gasoline prices for 10 months. In 2018, the government revived a small gasoline subsidy and restricted it to low-income Omanis, forcing expatriates and higher income citizens to buy fuel at unsubsidized prices.¹⁴

What about the tax increases? In January 2018, Saudi Arabia and the UAE imposed the Gulf's first-ever value-added tax, imposing an extra five percent price hike on nearly all goods and services. Bahrain followed suit in 2019. The remaining three monarchies have announced plans to impose VATs of their own, demurring on launch dates. The Saudi imposition of VAT, higher utility, and fuel prices was partly offset by the launch of the Citizen's Account program, a government cash transfer that has

¹⁰ Human Rights Watch, Freedom House and Amnesty International reported losses in civil liberties and political freedoms, and increased state repression since 2010 in several Arab countries, including much of the Gulf. Bahrain and the UAE saw the largest decreases in personal freedom, according to Freedom House.

¹¹ J. E. Peterson, "The GCC States: Participation, Opposition and the Fraying of the Social Contract" (London: London School of Economics, Kuwait Program on Development, Governance and Globalization in Gulf States, 2012); Matthew Gray, "A Theory of 'Late Rentierism' in the Arab States of the Gulf" (Scholarly Paper, Doha: Georgetown University Center for International and Regional Studies, 2011).

¹² Krane, "Political Enablers of Energy Subsidy Reform in Middle Eastern Oil Exporters"; Jim Krane and Elsie Hung, "Energy Subsidy Reform in the Persian Gulf: The End of the Big Oil Giveaway," Issue Brief (Houston: Baker Institute for Public Policy, Rice University, April 28, 2016), http://www.bakerinstitute.org/media/files/research_document/0e7a6eb7/B1-Brief-042816-CES_GulfSubsidy.pdf; Glada Lahn, "Fuel, Food and Utilities Price Reforms in the GCC: A Wake-up Call for Business," research paper (London: Chatham House, June 2016), <https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/Food%20Fuel%20and%20Utilities%20Price%20Reforms%20in%20the%20GCC%20A%20Wake-up%20Call%20for%20Business.pdf>.

¹³ Krane, "Political Enablers of Energy Subsidy Reform in Middle Eastern Oil Exporters."

¹⁴ In 2018, the Omani government launched its National Subsidy System which allows for low-income Omani citizens to buy up to 200 liters of gasoline each month at a price capped at 180 baisas (47 US cents) per liter. Some 300,000 Omani citizens had registered as of October 2018. See: National Subsidy System website <https://nss.gov.om/site/home>

provided monthly payments ranging from \$80 to \$250 to the lower-income half of the citizen population.¹⁵

Where subsidies have not been completely lifted, their provision has often been narrowed to citizens, or even poor citizens, as the examples in Oman and Saudi Arabia illustrate. The UAE and Qatar had long ago split electricity and water tariffs, retaining cheaper (or free in Qatar) power and water for citizens. Bahrain and Kuwait have also developed differentiated prices based on citizenship. So, even as citizens are asked to pay *something* for a previously

free service, or pay a bit more than was customary, foreigners have shouldered much larger increases. These actions appear to violate rentier claims about inviolability of subsidies, even as they conform to academic portrayals of citizenship as a source of economic privilege

Evidence: Energy intensity

The main reason behind the imposition of tax and subsidy reform is the rising consumption of exportable hydrocarbons within these states. Four decades of compounding demand

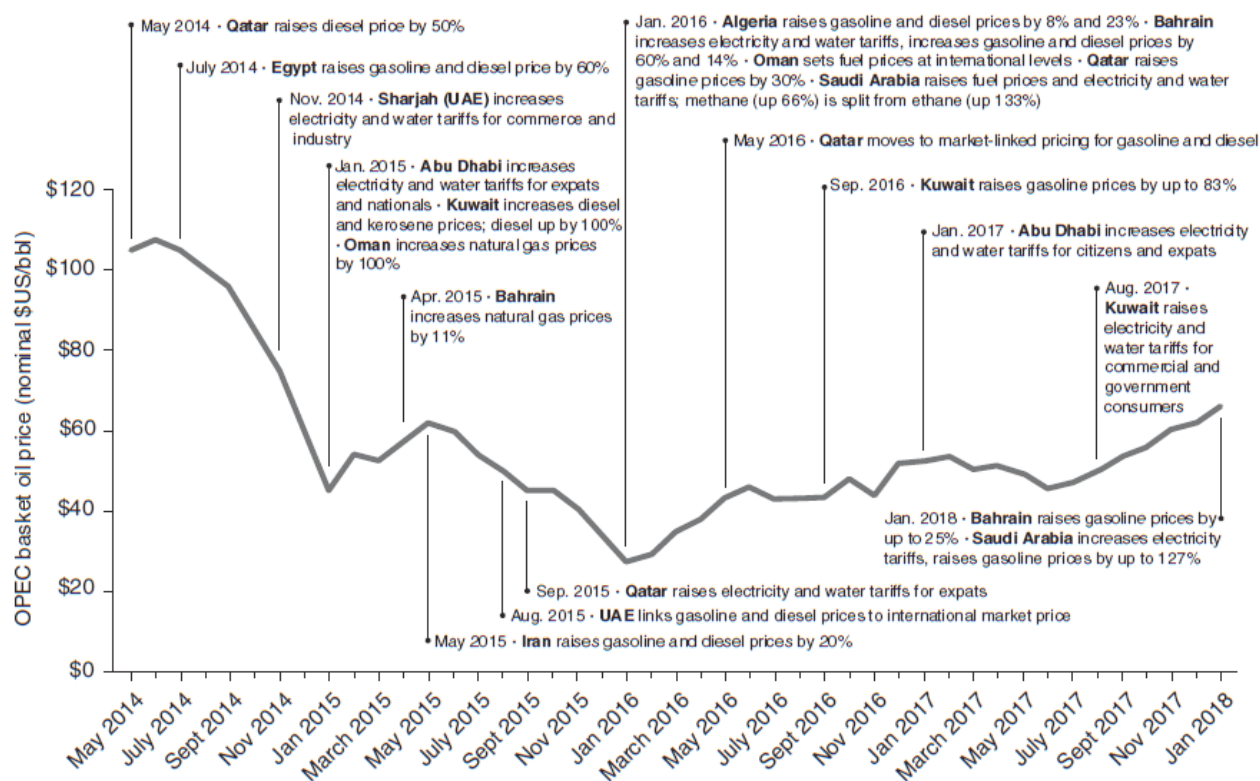


FIGURE 9.3 GCC and selected MENA countries energy subsidy reforms and international oil prices.

Governments began launching subsidy reforms in 2014. Most, but not all, came after the drop in oil prices in late 2014. Reforms continued through 2018 as oil market prices remained low.

Source: Glada Lahn, "Fuel, Food, and Utilities Price Reforms in the GCC: A Wake-up Call for Business," research paper (London: Chatham House, June 2016); Baker Institute research compilation; "OPEC Basket Price," Organization of the Petroleum Exporting Countries, 2018, http://www.opec.org/opec_web/en/data_graphs/40.htm.

Figure 1. (Source¹⁶)

¹⁵ Vivian Nereim, "Saudi Arabia Begins Payouts to Buffer Belt-Tightening Blow," *Bloomberg*, December 21, 2017, <https://www.bloomberg.com/news/articles/2017-12-21/saudi-arabia-begins-payouts-to-buffer-belt-tightening-blow>.

¹⁶ Krane, *Energy Kingdoms: Oil and Political Survival in the Persian Gulf*.

growth now diverts substantial shares of oil and gas away from export markets. (Fig. 2) In 2008, two of the six GCC states – Kuwait and the UAE – became net importers of natural gas. Were demand growth of oil not slowed or halted, some or all of the six countries would see their oil exports – the economic underpinning of all six – put at risk.

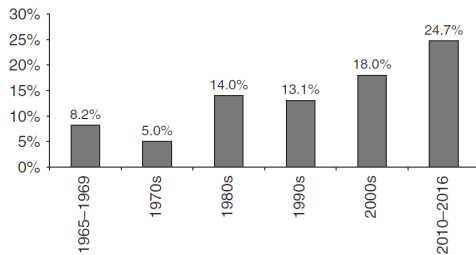


FIGURE 6.1 Average percentage of GCC oil production consumed domestically, per decade.

Domestic demand as a portion of oil production has crept higher over the decades. This chart depicts average oil demand growth for the GCC per decade.

Source: Statistical Review of World Energy 2017, London, BP, June 2017.

Figure 2. (Source¹⁷)

Documentation of the so-called “cannibalization” phenomenon has been produced by financial analysts¹⁸ and think-tanks¹⁹, but has yet to be scrutinized in the rentier theoretical literature.²⁰ All of the autocracies depicted in the bottom right quadrant of Fig. 3 (the most energy-intensive and least democratic) are oil exporters. Table 1 also shows that most Middle Eastern exporters were less democratic and consumed more oil per-capita than the average in the OECD and the world. Thus a reassessment of oil’s role on the state is due; not only as an example of an historic omission from the rentier literature, but because energy intensity is a *product* of rentier governance, caused in large part by the distributive mandates of the rentier social contract.

Theoretical amendments

The evidence shows that rentier governments have begun engaging their citizens with energy policymaking in ways that do not follow the script laid out by rentier state theory. Governments which (probably unintentionally) incubated high energy intensity in their economies are now revoking supposedly sacrosanct energy benefits. Citizens are largely accepting their losses without making demands for democracy. These developments imply that rentier theory needs updating.

	Oil demand per capita (Barrels of oil/ person/yr)	Democracy Index (1 to 8, min- max)
OECD avg.	13.3	7.2
World avg.	4.7	5.5
Libya	16.3	4.8
Iraq	9.3	4.1
Algeria	4.0	3.8
Kuwait	47.4	3.8
Oman	14.7	3.3
Qatar	35.3	3.2
Bahrain	16.5	2.9
UAE	30.0	2.5
Iran	9.7	2.0
Saudi Arabia	35.8	1.8

Table 1: Middle East oil exporters tend toward lower democracy and higher oil demand than the average globally or in the OECD (2013 data; source: IEA, EIU)

¹⁷ Krane 2019.

¹⁸ Brad Bourland and Paul Gamble, “Saudi Arabia’s Coming Oil and Fiscal Challenge” (Research report, Riyadh: Jadwa Investment, 2011); Heidyy Rehman, “Saudi Petrochemicals: End of the Magic Porridge Pot?” (Citibank research report, Dubai: Citi Equities Research, 2012).

¹⁹ Glada Lahn and Paul Stevens, “Burning Oil to Keep Cool: The Hidden Energy Crisis in Saudi Arabia” (London: Chatham House, 2011); Glada Lahn, Paul Stevens, and Felix Preston, “Saving Oil and Gas in the Gulf” (London: Chatham House, August 2013); Krane, “Guzzling in the Gulf: The Monarchies Face a Threat From Within”; Krane, “Stability versus Sustainability: Energy Policy in the Gulf Monarchies,” 2015; Jean-Francois Seznec, “Saudi Energy Changes: The End of the Rentier State” (Washington: Atlantic Council, March 2016), http://www.atlanticcouncil.org/images/publications/Saudi_Energy_Changes_web_0323.pdf.

²⁰ Although my work does cover this issue. See: Krane, “Stability versus Sustainability: Energy Policy in the Gulf Monarchies,” 2014.

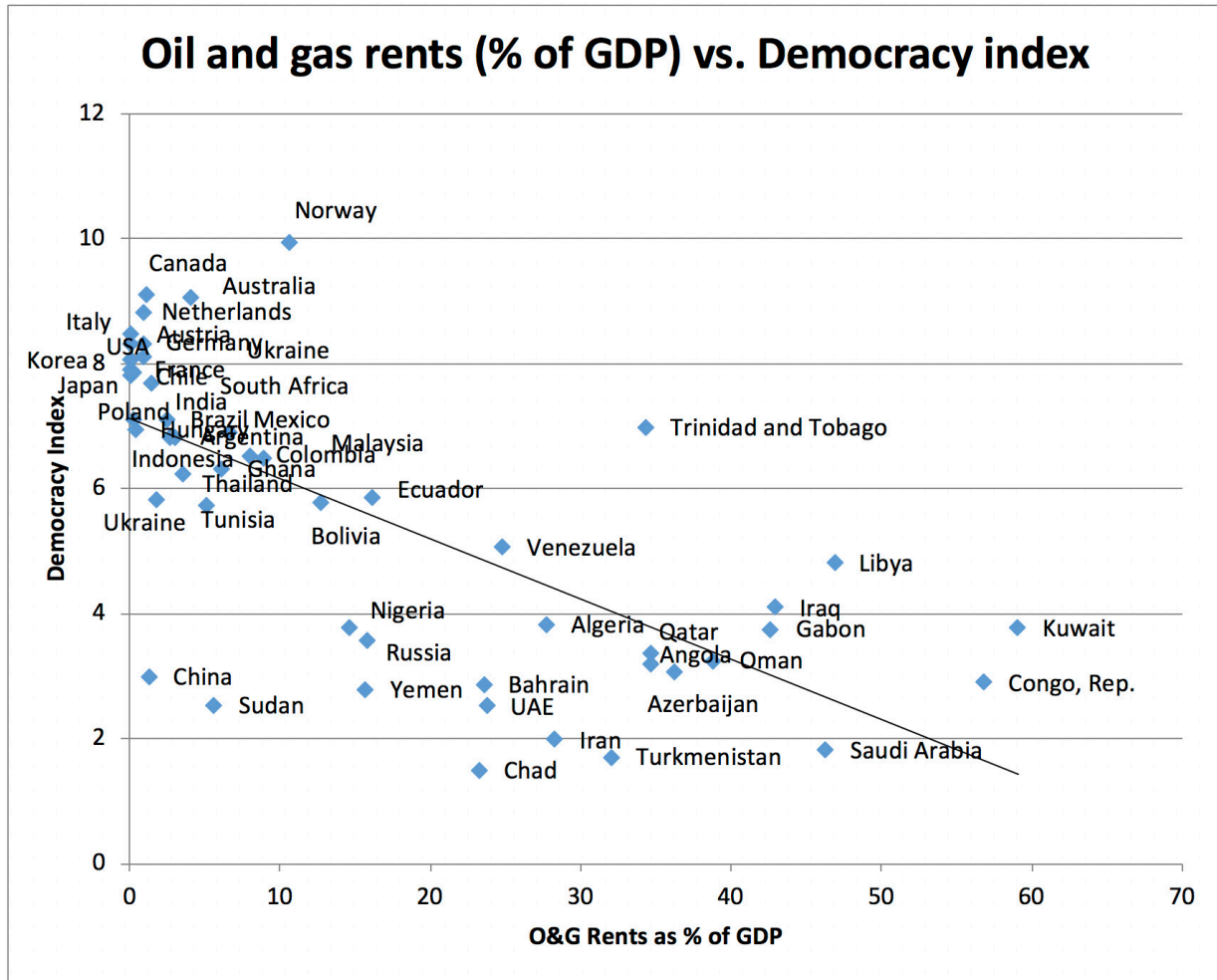


Figure 3: Oil exports tend to correlate with lower levels of democracy. Data is from 2013. (Source: Oil rents: World Bank World Development Indicators; Democracy index: Economist Intelligence Unit)

First, as regards subsidy reform, we should acknowledge that the domestic subsidization of primary exports comprises an encumbrance on the economy. Left intact over the long term, domestic resource distribution can undermine the rent stream and destabilize the governance structure. Regimes should be expected to take action to lessen the strain.

Second, academics' central misunderstanding about subsidies is that they are inflexible. By portraying subsidies as rights, theory implies that they cannot be reformed without upsetting stability. On the contrary, I argue that subsidies are ultimately more destabilizing to rentier

systems than the corrective retrenchment actions that have occurred since 2014.

Citizen benefits can be more accurately depicted as "customary privileges" that may be restricted in ways that once appeared illegitimate: towards low-income citizens or "reasonable" levels of consumption, or replaced by alternate handouts. As long as aggregate patronage remains roughly constant, regimes appear to have some control over the type of welfare goods and services they provide.²¹ In other words, social contracts are less rigid than portrayed in the rentier literature.

²¹ Tsai argues that the subsidy portion of the social contract is being shifted to the state employment sector, where premium salaries and benefits continue to be available for citizens. I.-Tsung Tsai, "Political Economy of Energy Policy Reforms in the Gulf Cooperation Council: Implications of Paradigm Change in the Rentier Social Contract," *Energy Research & Social Science* 41 (2018): 89–96, <https://doi.org/10.1016/j.erss.2018.04.028>.

These amendments provide theoretical allowance for the reforms that have already begun in the rentier heartland of the Gulf. Thus modified, theory can anticipate the likelihood for regimes to continue to streamline social welfare policies in the interest of preserving power.

How should theory deal with the extraordinary oil intensity of the Gulf monarchies? By acknowledging that the resource curse hypothesis that “oil bolsters autocracy” has a follow-on stage, whereby autocratic policies incentivize domestic oil demand. That is because energy is leveraged as a tool of state development and political control.

The practices of rentier policymaking have expanded beyond the boundaries assumed by existing theory. We may be witnessing the top-down imposition of a new social contract featuring increased regime flexibility in social policy, implemented under a heightened level of repression.²² These developments do not signal a reduced regime reliance on rents or the demise of rentier or “allocative” governance. World Bank data show a continued large role for oil rents in GDP and for rent distribution via public wages in state spending. Instead, the levying of low-level taxation and reductions in energy benefits look more like coordinated course corrections. Regimes are streamlining bloated social contracts to contain the distortionary effects of policies that have remained in place since the 1970s. At that time, poverty alleviation was a much larger concern. Today, oil intensity is a countervailing worry for younger ruling elites updating rentier governance for new generations.

²² Sultan al-Qassemi, “The Gulf’s New Social Contract” (Middle East Institute, February 8, 2016), <http://www.mei.edu/content/article/gulfs-new-social-contract>; Tsai, “Political Economy of Energy Policy Reforms in the Gulf Cooperation Council: Implications of Paradigm Change in the Rentier Social Contract.”

A landing strategy for Saudi Arabia

Ishac Diwan, Columbia University

With rising population and incomes, the “rentier” mode of development in Saudi Arabia has long been unsustainable. While the issue of fiscal stabilization will occupy policy-making in Saudi Arabia in the short and medium terms, the long-term challenge of finding new sources of growth to complement oil has only been made starker by the recent drop in oil prices. Analysis of the prospects for such reforms in KSA has long been divided between two opposite camps: those who believe that the inadequacies of the rentier model will necessarily usher a doomsday scenario sooner or later, regardless of economic policies; and those who believe the impending crisis can be met by moving from the current mono-sector economy to a modern and diversified knowledge based economy OECD-style.

The optimistic scenario recommends that KSA becomes some form of Dubai on steroids, where Saudi youth ends up managing hordes of migrants in a super competitive economy driven by private initiative and serving as a bridge between East and West (Vision 2030). [Steffen Hertog's](#) paper carefully dissects why this vision remains a fantasy. Given the Saudi starting point, with a large population and an economy structurally dependent on oil, it would take many decades before KSA can wean itself out of oil and insure a good standard of living to its growing population by diversifying its production in other competitive areas. No easily discernible economic policy could deliver the needed transformations before the crisis point arrives.

The doomsday scenario also makes unrealistic assumptions, however. The oil shock of 2014, coming on the heels of a post-Arab Spring fiscal expansion, has caused a large deficit in the government budget. Given its existing reserves, KSA can borrow abroad and sell assets to theoretically finance at least 10 years of deficits at the current level. The government could therefore continue kicking the can down the road for a while without considering serious reforms, but this would lead down the

road to bankruptcy. However, it is not realistic to assume a continuation of the current socio-economic path, even as it becomes increasingly apparent that it leads into a wall. Too many interests have skin in the game to allow such a disastrous scenario to unfold unopposed.

While the first pessimistic scenario is more likely than the second dream scenario, both fail to draw the contours of a reasonable vision for KSA in an age where oil revenues will remain sizable but not sufficient to sustain the past model of development.

Youth employment and rentier adaptation

To develop a reasonable landing scenario, it is necessary to be clear on its objectives. There is no value to diversification of exports per se, at least as long as oil revenues are sufficient to cover import needs. Rather, the key goal for KSA should be to gainfully employ its educated youth in high enough productivity jobs. While it made sense in the past to import labor to build the country, by now, there are cohorts of educated Saudi students coming out of school that need to be gainfully, and productively employed. The situation is thus profoundly different, and it requires profoundly different economic incentives and structures.

The existing economic model has become anachronistic. It is only a bit of a caricature to state that the current growth model rests on a two separate deals: one deal with businesses for a free hand at importing labor from abroad, and one with citizens for guaranteed public sector jobs and life-long support. With its current population of 20.8 million (General Authority for Statistics 2018), it can be computed, based on World Bank data (World Bank Indicators, 2018), that oil revenues were only \$6,600 per capita in 2016, compared to about twice as much in 1990, on the eve of the previous oil crisis. KSA has clearly outgrown the current arrangement.

The government is no longer hiring all Saudis who are willing to work. Already, unemployment is officially at 12.8 percent, 33.1 percent for women, and 31.3 for youth (age 25-29), and rising (General Authority for Statistics 2018).

Oil rents are not sufficient to finance anything close to current consumption levels for the population, and this can only get worse over time in the absence of a new source of growth.

The main problem with the current economic path is that under the current system, nationals are simply not employable in large numbers in the private sector. Dwindling oil revenues will provide less income to nationals over time. If cheap labor continues to be freely imported, Saudi will continue to shun working in the private sector until they become much poorer. Significant policy reforms are needed to offer them incentives to join the labor force well before their incomes decline to expat wage levels – which tend to be the lowest global wages at any level of skills.

By employing its nationals more productively, KSA can aspire to become a *normal* oil economy - one that exports mostly oil, but that derives much greater national income from the work of its population. This would require radically scaling back the massive import of foreign labor. In the Norway model of a normal oil economy, Saudi workers would replace expats over time, mainly in the private service sector. The economy would remain dominated by oil. Many public sector firms will continue to play an important economic role, employing specialized Saudi workers (in the oil sector, health, academia, telecom, finance).

The current labor arrangements place a heavy disincentive on nationals from joining the labor force. Yet, huge gains could be made if they were instead encouraged to do so, both because national labor is grossly under-employed,

but also because it is increasingly well educated, thus increasing the opportunity cost of low participation. Currently, only 40.3 percent of the working age is in the labor force, and only 35.1 percent of the population works (the rest is unemployed) - see General Authority for Statistics 2018. This compares to employment rates of about 60 percent in the OECD. Low national participation rates are largely due to very low participation by women (17.4 percent), but men's participation is not high by international standards either at 62.1 percent (General Authority for Statistics 2018).

Employing young Saudi women and men productively would create a great boost of growth, and it would save on foreign exchange now being remitted by expats abroad. At the end of this transition, millions of expats would have returned to their home countries. The Saudi economy will then become possibly smaller than it is today, but it will be employing a large share of its own population productively. It may have a lower GDP, but it would have a larger National Income. Oil will remain central, but it will have a much larger multiplier effect in terms of national income.

In a normalized Saudi economy, one can envisage that in the next phase (say the next 10 years), a large share of the Saudi labor force (say half) will remain employed in government. In such an economy, except in a few areas of comparative advantage, not many firms would produce globally competitive tradables. Those that do compete globally now will be unlikely to survive given that unskilled wages will rise, and on the fiscal front, subsidies will fall and taxes will be introduced. Perhaps a select few tradable sectors could develop, such as religious tourism and sectors with linkages to petroleum. Together with oil, these would generate foreign exchange earnings of 40 to 50 percent of GDP, which under normal conditions, should be sufficient to finance the needed imports of a normalized economy.¹

¹ In comparison, Norway's imports to GDP ratio is 35%. Its exports to GDP ratio is about 50% GDP, like KSA. Its exports include Crude Petroleum (\$22.7B) (<https://atlas.media.mit.edu/en/profile/hs92/2709/>), Petroleum Gas (\$21.6B) (<https://atlas.media.mit.edu/en/profile/hs92/2711/>), Non-fillet Fresh Fish (\$5.24B) (<https://atlas.media.mit.edu/en/profile/hs92/0302/>), Refined Petroleum (\$3.23B) (<https://atlas.media.mit.edu/en/profile/hs92/2710/>), and Raw Aluminium (\$2.59B) (<https://atlas.media.mit.edu/en/profile/hs92/7601/>).

To give a sense of magnitudes of the potential gains if national labor was employed more effectively, a simple projection model suggests that with participation rates growing from 40 percent to 60 percent of the working age population, and unemployment dropping to its natural rate, non-oil national income would more than double if the additional workers join the non-oil sector at current productivity levels. Improvements in labor productivity would add to this growth rate further. Altogether, it can be estimated that this addition to national wealth would ultimately be comparable in magnitude to the kingdom's oil wealth itself.

Obstacles to transitioning to a normal economy

There are multiple political economy challenges to the establishment of such a “normal” Saudi economy. The economic elites would want to keep their privileged access to cheap foreign workers. They will hesitate to make the investments needed to create jobs with the level of productivity that can make them attractive to Saudi workers. They will claim that the quality of the education and the attitudes of the population are not favorable to their employment. National workers will resist working in the private sector at wages lower than those their parents earned in the public sector. In time, as they become less dependent on rent distribution, they will start questioning the autocracy of their rulers.

Besides political economy issues however, the main economic challenge of the transition to a normal economy is to create *productive* jobs. It is easy enough to just create jobs - in the public sector and security forces, or by replacing migrants in labor-intensive private sector occupations. To pay the youth in ways that preserve their consumption levels close to those of their parents, the first method would expand fiscal deficits and raise public debt. The second method would lead to higher non-tradables prices if productivity does not rise, which would erode the standards of living of the whole population.

For labor productivity to rise, private investment will have to rise. Indeed, private sector firms will need to not only pay sufficiently to attract Saudi workers, but they also will need to invest in more capital and skill-intensive production methods, and to start training their workers so they can improve their productivity. In the service sector in particular, labor-intensive jobs now manned by expats need to disappear and be replaced by more productive jobs occupied by Saudis. Each Saudi worker would need to be equipped with skills and machines to accomplish the tasks being delivered now by several departing low-wage expats in order to be able to earn a multiple of their unskilled wages. There are two key challenges to such a scenario.

First, there is a need to improve substantially the business climate and to enlarge access to credit so as to allow for the formation of new firms that can innovate and create the needed highly productive jobs. More targeted industrial policies can help speed up the adjustment of SMEs to the new input price structure. For new SMEs that disrupt the labor-intensive way of doing business to play a leading role in the transformation of various industries toward more productive structures, there is a need to encourage the (creative) destruction of the old inefficient firms, so that the new firms have space to increase their market shares.

Second, the required investment will generate large new aggregate financing needs. To create about one million jobs every five years, they can be of the order of \$0.5 trillion over ten years.² These funds will have to come from the national banking and financial sectors, FDI, or from public funds. At the macro level, this creates a trade-off with the speed of adjustment. Large amounts of public financing of deficits will end up crowding out funds that need to go instead to the private sector. Given that the private investment required for a successful structural reform strategy is large, there is therefore a global finance trade-off. In our back of the envelope calculations, it would not be possible to wait 10 years to adjust while at the same time creating one million new good jobs. Thus, slowing adjustment too much will constrain how much can be

² This assumes that each job requires on average an investment in machinery of \$250,000, which is 20 times an average wage.

invested to upgrade jobs and improve labor productivity.

The considerations above, both financial, and political, suggest that the reform program would ideally advance at a deliberate but gradual pace, taking advantage of the existence of a sizable fiscal space to smooth the cost of reforms over time but at the same time moving deliberately along a pre-set multi-year agenda. It is true that cases where ambitious reforms were carried-out gradually way before crisis point have been historically rare. Moreover, the challenge of foresight and restraint is contrary to the rentier tendency for expenditures to rise to the level of revenues, “kicking the can” as long as possible. But countries with significant fiscal space *and* a clear understanding of their need to change their growth path in fundamental ways are also rare. And it is precisely this coincidence that sets KSA apart.

Important elements of the reforms needed for KSA to become a normal economy are already in place. Vision 2030 focuses on many aspects of this agenda. Taxes are rising and subsidies are coming down slowly. Saudization policies, which were started a decade ago, are becoming more binding, and expats are becoming more expensive and are starting to leave in droves. And strong policy signals have been sent to encourage more innovative SMEs to enter domestic markets. But overall, the program projected by Vision 2030 is not sufficiently focused on the creation of jobs for nationals and is overly concerned with an unattainable diversification agenda. As such, it remains blurred and lacks credibility. This is partly to be expected as structural reforms of this magnitude necessarily involve trial and error. But it is now apparent that it is not realistic, nor necessary, to aim at a rapid and brutal fiscal stabilization. Instead, to send an unmistakable signal that productive jobs are the priority, Saudization policies would need to become more ambitious. At the same time, there is a need for a much more ambitious effort to improve the business climate, which remains opaque and constraining, and to open up the access to finance, which is now severely restricted for new firms. It is also becoming clear that risky mega-projects (such as Neon city) that could easily turn into white elephants should be replaced by

pragmatic industrial policies that help whole sub-sectors to modernize rapidly and adjust to new input prices.

For any of this to happen, the most immediate challenge is for the Saudi elite and increasingly restive population to coalesce around a reasonable landing strategy, as opposed to pie-in-the sky plans that do not amount to a credible plan around which economic and political actors can get organized.

General Authority for Statistics, Kingdom of Saudi Arabia, 2018: https://www.stats.gov.sa/sites/default/files/labor_market_q3.pdf

World Bank. World Bank Indicators, 2018. <https://data.worldbank.org>

What would the Saudi economy have to look like to be “post-rentier”?

Steffen Hertog, London School of Economics

Most oil producers in the Global South have espoused plans to diversify their economies away from hydrocarbons pretty much since the onset of oil production. Yet very few have managed to transcend their hydrocarbons dependence – and those who have done so are mid-level rentiers like Malaysia, with annual resource rents per capita in the hundreds of dollars per year. High-rent countries like the GCC monarchies, Libya, Brunei, or Equatorial-Guinea, where per capita rents amount to many thousands of dollars, all remain deeply dependent on oil income despite decades of diversification plans.¹

Why is post-oil diversification so difficult? Researchers point to a number of explanations, including economic factors like the Dutch Disease and the negative impact of revenue volatility, as well as political factors like elite-level rent-seeking and the quality of institutions in oil-rich countries. These apply to different degrees in different economies, yet the track record of diversification is generally poor. To help account for this puzzle, this research note will point to an easily overlooked obstacle to economic diversification away from oil: the sheer scale of economic change required to transition away from a high-income oil economy to a post-oil economy.

This memo will spell out what transition to a “post-oil” economy would mean in the case of Saudi Arabia, the MENA region’s most important rentier state. The key finding is that to support a “normal”, non-oil fiscal system and a “normal”, non-oil labor market, the Saudi private sector would need to undergo drastic changes. It would need to grow dramatically if it were to support current levels of state spending through non-oil domestic taxes, all the while dealing with severe contractionary and inflationary effects of taxation. Private employment of

Saudis would have to grow by a factor of four or more in order for the kingdom’s labor market to resemble that of non-oil economies. The path to such a non-oil economy is, at best, very long, measured in generations rather than decades.

The Saudi economy’s state dependence

Although the size of the Saudi private sector has grown significantly since the 1970s, the Saudi economy remains highly dependent on state spending, which in turn is largely financed through oil income. Even after the considerable fiscal reforms of 2015-17, recurrent taxes and fees only accounted for slightly more than 10 percent of total state spending in 2017.²

The government continues to account for about two-thirds of all employment of Saudi citizens (figure 1), a dramatically higher share than the 10-20 percent in most other countries.

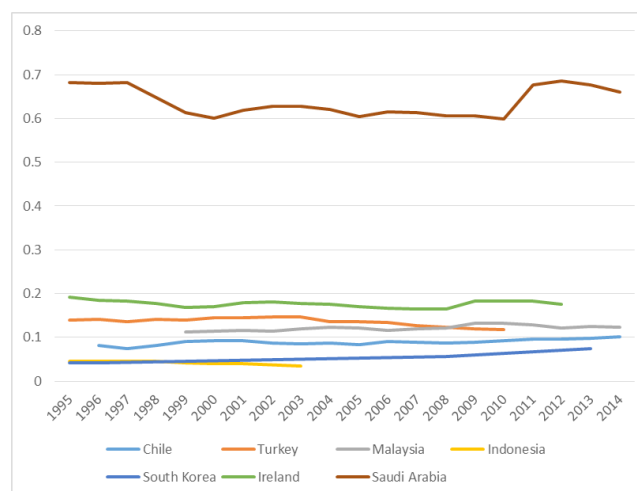


Figure 1: Share of public in total employment of citizens

¹ <https://link.springer.com/article/10.1007/s41825-017-0007-2>

² See the MoF’s 2018 budget statement, which contains an overview of 2017 spending and expenditure categories: <https://www.mof.gov.sa/en/financialreport/budget2018/Pages/default.aspx>

Salaries constitute close to 50 percent of all Saudi government expenditure, compared to a typical ratio of 20-30 percent around the world. Pay for the minority of Saudis employed in the private sector is lower than in government. Because much of the income of the foreign workers who dominate the private sector is remitted home, household demand in the private economy therefore depends on spending from government employees and thereby is indirectly fed by government.

The kingdom has seen significant economic adjustment measures since 2015, including a brutal corruption crackdown, slashing of government capital expenditure, and delayed or cancelled contractor payments. Most of these have affected economic elites rather than the population at large, however. When fiscal adjustment really hit households in the shape of public sector allowance cuts, the measures were reversed after a couple of months. The recent introduction of VAT and higher energy prices were accompanied by generous compensation measures for Saudi households. Among the major budget items, salary spending has increased the fastest in 2017 and is set to do the same in 2018.³ Broad-based wealth distribution and sensitivity to the popular mood have continued even under the kingdom's new, much more ruthless leadership.

The private sector – while treated more harshly – remains as deeply state-dependent as Saudi households, both indirectly through the consumption spending of government employees and directly through contracts and subsidized inputs. The ratio of private sector GDP to state expenditure has remained in a steady state ratio of about 1.2-1.3 since the 1990s, meaning that private economic activity closely tracks state spending. The ratio of government to private consumption in Saudi Arabia is about three times higher than the international average, and much of the private consumption is indirectly state-induced.

The private sector has far to go to create an economy that is driven by self-sustaining private demand, not

rent-financed government spending. But how far? One way of answering this question is to estimate what the Saudi private sector would have to look like to sustain a non-rentier system of a similar size to the current rentier economy. We will look at two key aspects of the non-rentier economy: the ability to finance of state operations through domestic taxes rather than external rents and the private sector's capacity to be the main provider of citizen employment. These two can be understood as minimal criteria for a “post-rentier” economy and reflect economic structures in all of the world's (non-Communist) non-rentier economies.

Taxes

States in non-rentier economies are largely financed by domestic taxes, and these taxes are derived from private economy activity. They can be levied on profits, employment or consumption and be borne by owners of capital, workers or consumers. But no matter who takes the hit, the income to pay these taxes needs to be generated in the private economy (unless the state taxes itself). Assuming that the kingdom wants to maintain its current level of state activity, we therefore estimate which level of taxation the Saudi private sector would have to bear to maintain recent levels of state spending.

Saudi state spending reached 926 billion SAR in 2017 and planned spending for 2018 is 978b SAR, while income from recurrent taxes and fees in 2017 amounted to less than 100b SAR.⁴ Taxes would have to fill a gap of close to 900 billion SAR (about a third of Saudi GDP) to fully finance state operations planned for 2018. How large would the private sector need to be to be able to bear such a burden? We use OECD taxation levels to provide benchmarks. The average OECD tax/GDP ratio is 34 percent, the lowest being 23 percent (Ireland) and the highest 45 percent (Denmark). The current Saudi tax/GDP ratio is about four percent.⁵

³ For 2018 and 2019 Saudi budget data and details on social transfers see <https://www.mof.gov.sa/en/financialreport/budget2018/Pages/default.aspx> and <https://www.mof.gov.sa/en/financialreport/budget2019/Pages/default.aspx>

⁴ See the official budget statement from December 2017: <https://www.mof.gov.sa/en/financialreport/budget2018/Pages/default.aspx>

⁵ <https://data.oecd.org/tax/tax-revenue.htm>

Table 1 shows that the Saudi private sector would have to grow significantly to be able to realistically finance current government expenditure through taxes. Even at Danish taxation levels, the private sector would still need to grow by 29.8 percent to fill the financing gap.

Assumed tax/GDP ratio	OECD ave.	Ireland (34%)	Denmark (45%)
total private sector GDP needed (SAR)*	2124b	3140b	1605b
private sector growth needed rel. to 2017	71.9%	154.0%	29.8%
years of growth needed at 3% private GDP CAGR	18	32	9
share of total taxes in private sector GDP*	43.6%	29.5%	57.7%
inflation at 50% pass-on	19.5%	13.2%	25.8%
inflation at 100% pass-on	39.0%	26.4%	51.6%

Table 1: How large would private sector GDP have to be to support current government spending under different tax/GDP ratios?

* assuming the GDP share of the private economy in KSA reaches the OECD average of 78%

At current levels of private sector activity, Saudi government expenditure levels simply cannot be tax-financed – especially if we consider that for reasons of political feasibility and competitiveness an Ireland-level tax ratio is much more realistic than a Danish one.

In practice, given weak private demand generation and strong dependence on government stimulus, increasing taxes would lead to significant *contraction of the Saudi private sector*. There is an acute trade-off between raising non-oil revenue and private sector growth. Conservatively assuming a fiscal multiplier of 0.5 (based on IMF estimates)⁶, raising taxes by 900b SAR would shave 450 SAR off GDP – more than a third of the size of the current private economy, while creating significant inflation. This makes the growth assumptions needed for the above taxation scenarios even more implausible. Total factor productivity and labor productivity would have to increase dramatically to allow such private growth. They have, however, been stagnant since the 1970s.

Employment

Most employment in non-oil economies is created in the private sector. How many jobs would the Saudi private sector have to provide to make local labor market structures converge on those of non-oil countries? We again use the OECD as benchmark. Figure 2 below shows the share of public in total employment in the OECD. The average of 20 percent is drastically lower than the Saudi share of about 65 percent.

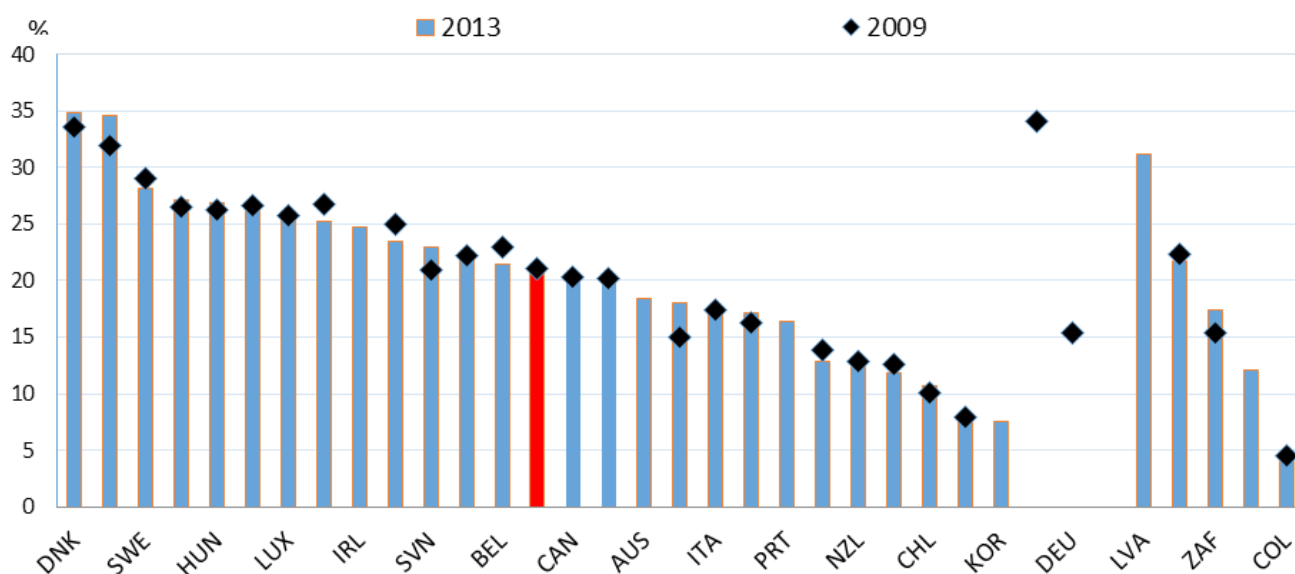


Figure 2: Public sector employment as a percentage of total employment across the OECD (2009 and 2013)

⁶ <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/How-Strong-are-Fiscal-Multipliers-in-the-GCC-24715>

In estimating how many private jobs would be needed for the kingdom to converge on OECD levels, we first build a scenario in which total employment levels for Saudis stay constant. In this case, 2.27 million jobs would need to move from the public to the private sector – a growth of 120 percent on the private side (see table 2). At a compound annual growth rate of five percent for private Saudi jobs, this would take 16 years; at a three percent growth rate, 27 years. In principle, shrinkage of state employment would allow lowering of state expenditure and thereby reduce the fiscal burden on the private sector estimated in the previous section. Less expenditure would also reduce government-induced private demand, however, in turn making it harder to create private growth and jobs. There are millions of low-cost foreign workers in the Saudi private sector that could in principle be replaced by Saudis. Attempt to induce such substitution in the past have, however, created considerable costs for business and a shrinkage in aggregate employment. (See [Leber](#) in this collection).

	current	OECD distribution	change rate
private	1.89m	4.16m	120.3%
public	3.4m	1.13m	-66.9%

Table 2: Current and hypothetical OECD-like distribution of jobs in Saudi Arabia

In practice, the Saudi workforce continues to grow at about two percent per year, so job creation would have to be considerably faster to avoid quickly rising unemployment or continued reliance on government jobs.

The above scenario assumed a constant Saudi workforce. What if Saudi Arabia aspired to OECD-type employment ratios? The current share of Saudis in working age who hold jobs is 35.4 percent, a uniquely low number in global comparison. The OECD average is 67.8 percent.⁷ To reach

an OECD-level public/private job ratio and participation rate, private sector jobs for Saudis would need to grow by 321 percent to almost eight million (table 3). At a five percent CAGR of private Saudi jobs, this would take 30 years; at three percent growth, 49 years.

	current	OECD distribution & employment ratio	change rate
private	1.89m	7.96m	321%
public	3.4m	2.16m	-37%

Table 3: Current and hypothetical OECD-like distribution of jobs in Saudi Arabia assuming an OECD-level employment ratio

This estimate again abstracts from future growth of the Saudi working age population, which is likely to expand by about five million within the next 20 years. Accommodating this new generation at the average OECD employment ratio would require the creation of about 3.65 million more jobs, of which 2.88 million would need to come from the private sector. This could only be borne by a substantially larger private sector. At current (low) Saudi private pay levels, just the salaries of 7.96 million Saudis in the private sector would gobble up more than 60 percent of private sector GDP, compared to the current ratio of 17 percent.

In sum, even at private employment growth rates that have never been achieved among mid- to high-income countries, Saudi Arabia would need decades to reshape its labor market to reach the OECD benchmark of high employment and (relatively) low state dependency. The above scenarios are purely illustrative and should not necessarily be a target for policy-makers. They do, however, give an idea of how far the kingdom is from a “normal” economy based on private production and employment, and how heavily state-dependent the labor market is.

⁷ <https://data.oecd.org/emp/employment-rate.htm>

Conclusion

The point of this note is not prediction or prescriptive scenario-building; it is creating a theoretical benchmark to assess how far Saudi Arabia is from a post-oil economy. Moving beyond hydrocarbons dependence is a valid ambition, but the depth of the structural change needed is often underestimated. Even under ideal conditions, it will be impossible to become “post-rentier” by 2030 and hard to imagine even by 2050. The maths are quite similar for other high-rent countries, including those of the GCC.

The note has assumed that Saudi Arabia will remain a high-income country. There is in fact a quicker way to become post-rentier: through pauperization due to falling and eventually vanishing resource rents. The fiscal constraints created by lower oil rents would sooner or later lead to lower government spending, which will in turn also shrink the private sector – but quite likely at a proportionally lower rate, as happened during the austere 1980s and 1990s. Relatively speaking, the economy will be less oil dependent, but also poorer. Given the current oil price environment and the kingdom’s fiscal and overseas reserves, this is not an immediate prospect. Yet it might well happen before the structural conditions for a prosperous post-rentier age are in place.

Resisting rentierism: Labor market reforms in Saudi Arabia

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The mounting number of mechanisms linking oil wealth to political outcomes risks obscuring how the practice of politics affects the distribution of these rents. Explaining who gets what, why and how under authoritarian regimes, and how these choices change, is of particular interest in the Middle East and North Africa, where states control significant non-tax revenues (see Figure 1) and where changes in the distribution of state revenues can have a considerable impact on citizens' welfare. In this memo – through a case study of labor market reforms in Saudi Arabia – I suggest that instances of “rentier distribution” provides us with a window into broader questions of how resources are distributed under authoritarianism.

Theories in the rentier and “resource curse” literatures (Ross 2015: 243-248) are most commonly associated with the (usually negative) effects of oil on democracy. These approaches have typically fared better at predicting cross-national variation than change over time. Assumptions that the political fortunes of rulers closely track energy

markets tend to over-predict the collapse of resource-rich regimes (Lowy 2009; Gause 2015), while statistical tests have struggled to find a consistent effect of resource wealth on degrees of democracy (Haber and Menaldo 2011; Liou and Musgrave 2013). At the same time, explaining the political trajectories of oil-rich countries through durable institutions or founding “pacts” (Smith 2007) in turn overlooks the potential for substantial political change as regimes age (Slater 2010). Inequalities of distribution – even in the most generous of rentier states – can empower new social classes or generate new challenges to regime stability over the years (i.e. Chaudhry 1997; Okruhlik 1999; Gengler 2015).

Existing understandings of authoritarianism struggle to account for change in political “choices” about rent distribution. Perhaps rulers stand by durable coalitions of support formed at critical junctures in regime trajectories (Waldner and Smith 2015); or they cater to whichever constituencies are best organized to lobby for their

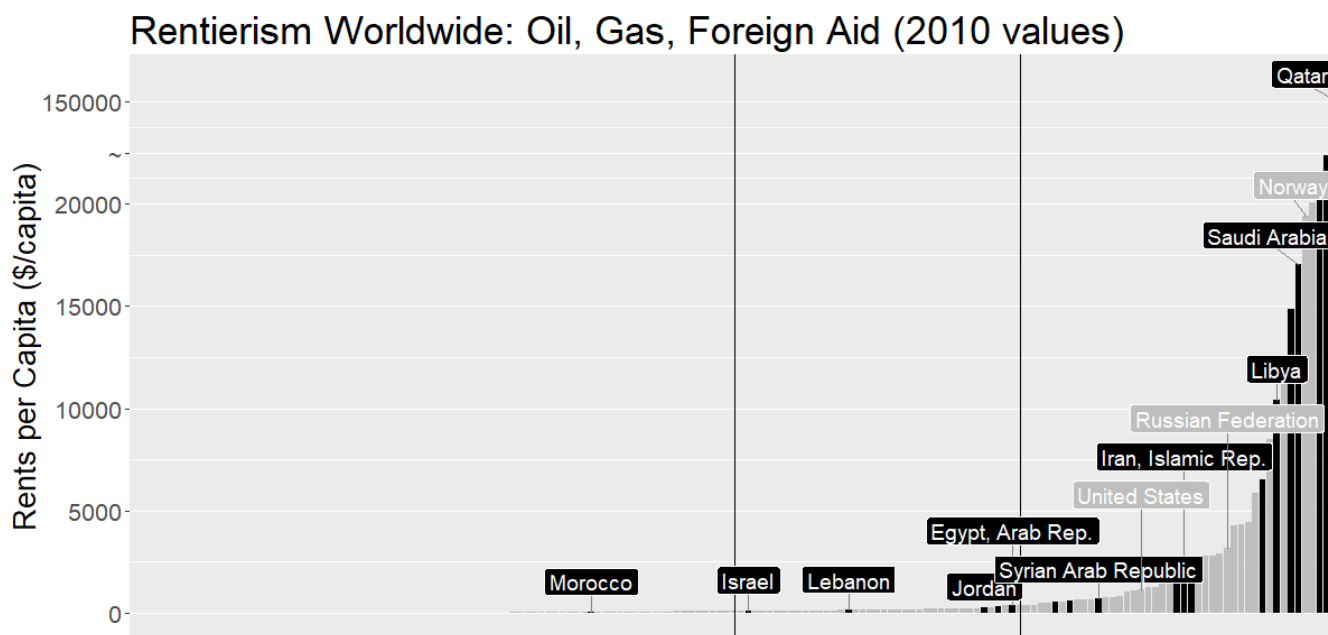


Figure 1: Countries of the world arranged in order of aid and gas/oil rents per capita (2010 values, Ross and Mahdavy 2014). Select countries labeled, MENA countries marked in black.

preferred policies (Karl 1997: 16-17); or they spend more in general on social services when resource booms permit (Morrison 2009) or simply whenever they feel threatened. Yet we know that top-down changes in authoritarian distribution can occur even in the most authoritarian of countries (Shirk 1993; Wallace 2014), changes that are difficult to account for when we assume that regimes are captive to social constituencies or the movements of international markets.

Even with rentier wealth, rulers have to make choices. My research suggests that rulers will seek to alter their political coalitions – the collection of social groups the regime takes to be its supporters – when they worry that they are retaining ineffectual allies at the cost of cultivating active sources of support. As Jessie Moritz notes in highlighting the limits to co-optation via rent distribution, there is plenty of cause for autocrats to worry when strategies of social control fall flat. Rulers can seek to remake coalitions through policies that distribute wealth or make costly symbolic concessions to new constituencies (Musgrave and Liou 2016), either to gain leverage against elite rivals (Waldner 1999) or to ward off political challenges observed in key reference countries (Koesel and Bunce 2013).

Yet while resource wealth can make it easier for rulers to afford costly new policy overtures, resource windfalls alone are not enough for leaders to cultivate new bases of “active support.” With regards to Saudi Arabia, for example, prominent commentator Ali Shihabi once argued that a “passive majority” could not maintain the Al Saud family in power, advocating instead the active cultivation of support among the “sophisticated intellectual elite” by permitting greater media freedoms, while revitalizing the clerical elite “with younger and more charismatic individuals, such as Sheikh Salman al-Awdah.” (Shihabi 2016: 84-86, 148-152)¹

Others in this volume outline the ways in which states have deployed rentier wealth to court such support, via policies that go beyond simply cutting a check for society

at large. State-funded programs to support women’s entrepreneurship, Crystal Ennis notes, court international approval and buy-in from some women – to varying degrees of success. Calvert Jones likewise notes the efforts of Gulf rulers to convert resource wealth into symbolic capital, such as social reforms by Saudi Crown Prince Muhammad bin Salman that aim at building popular support while undermining the authority of conservative religious clerics. Justin Gengler and others in turn demonstrate that some policies’ symbolic (and hence political) importance to citizens outweighs their raw material value.

Saudi labor regulation and coalitional choices

In terms of labor policy, the monarchies of the Gulf Cooperation Council (GCC) have long conceded efforts to nationalize private-sector workforces in the face of lobbying efforts by employers eager to prevent policy changes that would raise the cost of expatriate labor and cut into their profits. The resulting open migration policies, which cede considerable discretion to individual employers, have resulted in expats forming anywhere from 55% to 95% of these countries’ labor forces (GLMMP 2017).² Forceful action on nationalization might signal regimes’ concern with citizen unemployment and underemployment, yet would risk upsetting the seemingly sustainable status quo of shunting citizens into growing public-sector payrolls.

In Saudi Arabia, however, the Ministry of Labor has aggressively pursued “Saudization” in recent years – even before oil prices fell sharply in 2014 (cf. Shin 2017). Reforms came despite the fact that direct government subsidies appeared to have immunized the country’s Sunni population from the Arab Spring uprisings without angering Saudi employers. Representative political institutions such as the Shura Council remained little more than window dressing, affording citizens little means to counteract private-sector lobbying as is the case in Kuwait (Herb 2014). What happened?

¹ Shihabi now runs a pro-Saudi government think tank in Washington, D.C. Salman al-Awdah was arrested in 2017, joining a number of other liberal and Islamist reformers in the Kingdom of Saudi Arabia who have been arrested over the past year.

² Data taken from “GCC: Percentage of nationals and non-nationals employed in GCC countries (2015),” Gulf Labor Markets, Migration and Population Programme, 2017, <http://gulfmigration.eu/gcc-percentage-nationals-non-nationals-employed-population-gcc-countries-2015/>

Pre-2011: Roads not taken

Prior to 2011, workforce nationalization efforts dating back to the 1970s had come and gone to little effect in Saudi Arabia (Randeree 2012: 13). Hand-wringing about unemployment and “labor market imbalances” made a regular appearance in Saudi media during the 1990s and early 2000s, yet strategies for curbing the employment of foreign workers in favor of citizens frequently ran up against Saudi business lobbying. So “inexpensive” was imported labor that the expatriate population grew regardless of how the Saudi economy fared – employers could always find a way to turn a profit (Hertog 2012). Even as the Economic Development Board under Crown Prince Salman in neighboring Bahrain aggressively pursued coordinated action on labor-market and other economic reforms in the early 2000s, the Saudi Ministry of Labor struggled to maintain a coherent policy line on Saudization.

New regulations in Saudi Arabia were typically imposed by fiat, unevenly enforced, and suffered a slow death by a thousand cuts as private-sector interests leveraged personal ties to secure continued access to visas. As Steffen Hertog notes (2010: 191-203), technocrat Ghazi al-Gosaibi and other allies within the Ministry of Labor received royal backing from then-Crown Prince Abdullah to slow the number of new permits issued by 2005, only for the ongoing oil boom to strengthen the hand of the diffuse business community (Hertog 2010: 212-213). With representatives of the Council of Chambers and Industry lobbying (now King) Abdullah about the importance of migrant labor in fulfilling mounting state contracts quickly and cheaply, the King directed Gosaibi to quietly retreat from Saudization targets in sectors related to state development goals: education, healthcare, industry, and construction (Embassy Riyadh 2006).

As reflected in Figure 2, Saudization of the private-sector workforce slowed accordingly. Saudization remained a stated priority but would not be pursued at the expense of aggregate economic growth (Embassy Riyadh 2009). Expatriate labor remained a more economical choice for

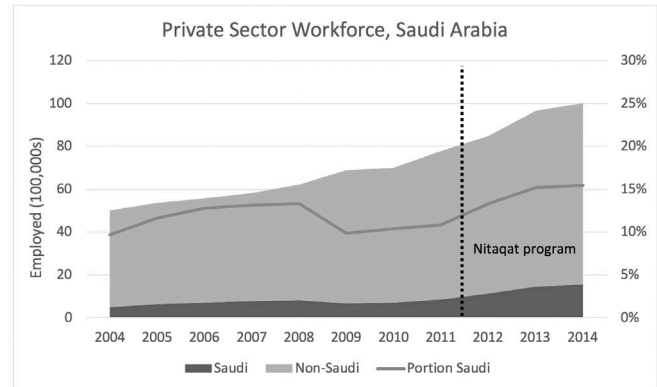


Figure 2: Composition of Saudi private sector by citizenship, 2004-2014. Source: Saudi Arabian Monetary Authority annual reports (2004-2014).

private-sector employers, leading to a surprising number of layoffs of Saudi citizens in the wake of the global financial crisis and crashing oil prices over the course of 2008 to 2009. The Ministry of Labor recorded a nearly 18% decrease in the number of Saudi citizens employed in the private sector across this time period, prompting Gosaibi to issue stern warnings of the Ministry’s willingness to “protect the interests of the national workforce” by sanctioning any employers using the financial crisis as a pretext to lay off Saudi citizens (“al-‘aml” 2009). While recruitment of foreign workers continued, barely 10 percent of private-sector employees were Saudi citizens on the eve of the uprisings that rocked the Arab world beginning in late 2010.³

Post-2011: Employment before profits

The uprisings of the Arab Spring changed perceptions among Saudi leadership that workforce nationalization could be put off indefinitely, prompting efforts to demonstrate a credible policy commitment to employing citizens. In contrast to the mass unrest of the 1994-1999 Intifada that helped precipitate economic reforms in Bahrain, the 1990s and 2000s in Saudi Arabia saw few protests marked by socioeconomic grievances outside of Shia areas in the country’s Eastern Province (Menoret 2016). Despite a small uptick in unemployment, driven largely by more Saudi women seeking to enter the workforce, the rate of Saudi job-seekers unable to find

³ Data taken from “Forty Seventh Annual Report,” Saudi Arabian Monetary Agency, 2011, pp. 206.

employment was still below what it had been just a few years earlier (see Figure 3).



Figure 3: Saudi unemployment rate by gender, 1999-2014.
Source: Saudi Arabia Monetary Authority (SAMA).

In 2011, however, authorities feared that the region-wide unrest of the Arab Uprisings might ignite latent grievances within the Kingdom as well. While online calls for demonstrations in Saudi Arabia never coalesced into a nation-wide movement, fears within the government were not easily dispelled. Official demands for quiescence were unequivocal: “The necessity of obedience in the land of Islam and the heartland of belief is not up for discussion,” underscored a Friday sermon following the GCC intervention in Bahrain (al-Tayyar 2011). While a “Day of Rage” in Riyadh planned for March 11 attracted only a single protestor, King Abdullah announced an incredible \$97 billion in new jobs, welfare payments, and housing support the following week. Government spending trended sharply upwards in the years that followed as Saudi Arabia joined its peer GCC monarchies in expanding public-sector hiring and welfare payments to increasingly unsustainable levels (“Labor Market Reforms” 2013).

Yet labor-market policy responses in Saudi Arabia went beyond mere handouts, driven by a perception that (particularly male) citizen unemployment was now a looming threat.⁴ “Saudi employment... had the priority back then because of the unrest in neighboring countries, so we had to come up with policies that would employ Saudis as

much as possible at that time,” noted one former official.⁵ Additionally, these policies would be publicly announced and enforced – signaling to the Saudi population at large that the government would prioritize their employment over the profits of wealthy “captains of industry”.

In summer of 2011, Minister of Labor Adel Faqieh announced the new Nitaqat (“Ranges”) program for Saudization, calling workforce nationalization “a pressing national necessity rather than simply a choice” (Al Jabril 2011). The program penalizes firms who fall short of sector-specific quotas that determine the acceptable ratio of citizen to non-citizen employees, denying them access to visas, government services, and public-sector contracts. As thousands of ordinary Saudi citizens began to draw salaries from the private sector, employers bore the costs of adjustment; numerous companies closed rather than meet Saudization requirements, while hiring of expatriates slowed (Peck 2017: 340-343).

Despite repeated suggestions by outside experts and the Kingdom’s Chamber of Commerce and Industry that structural factors limited the effectiveness of market-wide Saudization by fiat, the kind of blanket concessions made under King Abdullah have not been forthcoming (REF 2013; Herb 2017). Interviews with a number of Riyadh-based private-sector employers, undertaken several years into implementation, give the impression of a Ministry (now the combined Ministry of Labor and Social Development) with expanded capacity to monitor and enforce quotas and with little “flexibility” in allowing firms to fall short of regulations. Even critical interviewees noted a marked advance in Ministry speed and efficiency over the preceding years, with greater automation and the expansion of e-government services. Specific violations of the program’s terms – such as fraudulent efforts to obtain Saudization “credit” by employing Saudi citizens with disabilities – are met with equally specific threats of administrative retaliation (Al-Misbahi 2017).

Overall, despite minor concessions on the pace at which

⁴ Many Saudi officials are committed to expanding female citizens’ economic participation for reasons of productivity and gender equity. However, male unemployment has more commonly provoked concerns about political instability (Shihabi 2016: 63).

⁵ Author interview. Former senior employee, Ministry of Economy and Planning, 19 January 2018.

Nitaqat ratchets up Saudization requirements, the government has maintained its all-encompassing focus on Saudization. Firms' actions demonstrate costly efforts to comply with Saudization quotas, spending significant sums on hiring surplus Saudis regardless of qualifications or investing time and resources into constructing new pipelines of talented candidates.

Conclusion

While studying the decision-making processes of autocrats is a challenging endeavor, particularly in the Middle East and North Africa, it is a necessary step if we are to understand how the pathologies of the rentier state might be contained. Consider the dramatic policy changes under Crown Prince Muhammad bin Salman, son of King Abdullah's successor, who has shown far greater willingness to trade the support of long-standing regime allies in favor of mass appeals. Scores of erstwhile regime allies were imprisoned in the Ritz Carlton Hotel under his watch – with assets seized ultimately helping to pay for a new round of subsidies to citizens in the public sector (Reuters 2018).

Rentier theories have long assumed that politicians' perceptions and expectations of politicians play a key role in connecting the raw realities of government revenue into political outcomes – the mere anticipation of an economic boom may be enough to bring about the various social and political ills associated with rentier wealth (Frynas, Wood, and Hinks 2017). If this is the case, however, it is fair to assume that expectations about the future course of global energy markets contend with (and are frequently subordinated to) more proximate political concerns.

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Oil and societal quiescence: Rethinking causal mechanisms in rentier state theory

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Does the *absence* of revolution in the states of the Gulf during the 2011 Arab uprisings vindicate the argument that an oil or gas-rich government could ‘buy’ political loyalty by transferring vast sums of rent-derived material wealth to citizens? Such claims on behalf of rentier state theory (RST) are common in both academic research and in the media coverage of the region after 2011. “A fresh infusion of money has so far bought order,” concluded the New York Times about Saudi Arabia in early 2011, while Michael Ross asked later that year whether oil would “drown” the Arab Spring, noting: “the Arab Spring has seriously threatened just one oil-funded ruler – Libya’s Muammar al-Qaddafi – and only because [NATO]’s intervention prevented the rebels’ certain defeat.”¹ Academic research too has occasionally relied on simplistic characterizations of the relationship between oil and societal quiescence, as in Samuel Huntington’s claim that “the lower the level of taxation, the less reason for the public to demand representation.”²

My research suggests that the link between rents, rent distributions, and co-optation is not nearly so settled.³ This relationship is an important one to get right: without connecting oil and societal quiescence, it is difficult to identify the impact of oil on democratization or civil conflict, both of normative as well as theoretical importance to academic researchers and policymakers. That is, we must first understand how rents impact political mobilization before we can understand whether this will lead to violent conflict, regime change, or democratization.⁴ Given the often contradictory findings of research on rents and political outcomes, a reassessment of causal mechanisms is important, as is already happening in the related literature on natural resources and civil war.⁵

In part, as Michael Herb has argued, the ambiguous political outcomes of rentierism are due to complex causality, which in turn complicates the search for law-like

relationships between rents and political outcomes.⁶ He calls for the study of contextualized causal mechanisms through careful analysis of case studies, a suggestion reinforced here. However, even within case study research, political economy research in the archetypal rentier states of the Gulf has been heavily focused on top-down, state-centric processes of de-mobilization, pointing to the relative absence of street demonstrations or civil society associations as evidence of the state’s success. This ‘co-optation mechanism’ has become pervasive as an explanation for politics in petroleum-rich states, *especially* in the archetypal rentier states of the Gulf.

Pro-government narratives, for example, expressed outrage when citizens challenged the state despite benefiting from the rentier system. There was no Omani Spring, claimed Muscat Daily commentator Raya al-Kharusi in 2012, as:

we have no such thing because the West’s reference to what happened in Tunisia, Egypt, Libya, Syria and Jordan have [sic] no comparison to the very few misfits who are ungrateful for all that has been done for them – educationally, health, free plots of land at only One Rial Omani per square meter, overseas scholarships, overseas government paid medical treatment, and the list goes on.⁷

In Bahrain, the *Al-Rased* television show questioned those who accepted state benefits and yet challenged the government; for example, an episode on 11 May 2011 focused on doctors and medical staff from Bahrain’s public hospital.⁸ Also in Bahrain, incarcerated protesters reported their interrogators had expressed confusion over why medium and high-income Bahrainis risked their financial position to remain politically active. “They ask everybody about this...they aren’t thinking away from these material things,” claimed Mohammed al-Tajer, a Bahraini human rights lawyer who was detained in al-Qurain prison for

over two months in 2011. “They thought that people rise [sic] because they want their salary, they want to be better paid...they never thought that our revolution was because we want freedom, we want democracy, we want a kind of share...in managing the country.” But many policy-makers I interviewed in Bahrain and Oman did *not* consider a material response as sufficient to defuse societal unrest, so it is certainly not a universal attitude. Nor did many of the activists themselves, suggesting this is an important moment to rethink our understanding of the co-optation mechanism.

Testing the micro-foundations

In part, this is a call to move away from national or cross-national levels of analyses, and towards sub-national or meso- (group) and micro- (individual) level studies – in essence, to re-evaluate the micro-foundations of the rentier state. The literature has focused too much on how the state has attempted to *produce* societal quiescence and not enough on how and why members of society have chosen to promote, accept, or resist those attempts. Shifting the focus to society, of course, may uncover evidence that rent-based co-optation *does* work on some types of groups at certain times. If rentierism explains societal quiescence, in fact, then we *should* see evidence of its influence in the attitudes and actions of citizens (or at least a critical mass of citizens), especially in terms of determining whether or not to challenge state authority.

Nationally-representative surveys, though these are difficult to conduct in authoritarian contexts, may shed light on drivers of societal quiescence or citizen mobilization: one example is Justin Gengler’s 2009 study of Bahraini citizens, which found that material satisfaction explained Sunni, but not necessarily Shia, political activism.⁹ Jim Krane’s study of GCC citizen versus expert perceptions of rentier entitlements, too, found that experts (including senior ministry officials in all six GCC states) overestimated citizen opposition to subsidy reform, suggesting that the state may have more room to manoeuvre on economic issues than they realize.¹⁰

Such attempts to use different sources of evidence to reassess the rent-societal quiescence relationship, not only from the position of the state, but also from the perspective of citizens, are critical. For example, if rent distributions increased at the national level and protests faltered, this correlation between rents and societal quiescence could easily be taken as evidence of causation. However, is a causal relationship convincing based on data from the protesters themselves? Did individuals feel more economically satisfied following the distributions? Is this why they left the streets? Was repression involved? What about other drivers of attitudes or behavior? For instance, if a citizen is employed in the public sector and receives free healthcare, free education, and other material benefits from the state, then according to the co-optation mechanism they should be unlikely to mobilize politically. However, as I found in my research, many political activists who had received those benefits but still mobilized in 2011 justified their action by reference to an ideology that encouraged challenges to state authority (for example Marxist-leftism, or religious groups who perceived a moral imperative to push for their beliefs). This suggests that the co-optation mechanism has either been ineffective or overpowered by these other drivers of political mobilization.¹¹

A dynamic approach to rents and society

Qualitative evidence suggests that these other drivers are important,¹² yet the bulk of RST works remain fixed on state-centric, material-based explanations for political mobilization. Ironically, even Giacomo Luciani, one of the earliest architects of RST, specifically warned against promulgating theories of a ‘rentier *state*’ in 1987, arguing that in doing so there was “a distinct danger of exaggerating the argument and overlooking the fact that oil...is not the only significant dimension.”¹³

A better balance between society-centric and state-centric analyses would point towards the *dynamic* impact of rentierism. As rent distributions fluctuate, especially as the state attempts to curtail burdensome and unsustainable expenditures,¹⁴ how do these changes impact citizen

attitudes towards the state?¹⁵ Paying greater attention to societal activism at the sub-national level can highlight how citizens move between political quiescence, active opposition, and even active support of the state, as well as how they shift between different forms of political action – from street protests, to popular petitions, to expressions of reform desires on social and traditional media – in response to regime governance strategies. In doing so, we can more effectively analyze the *absence* of political mobilization, especially where the state has employed an innovative regime survival strategy. Such approaches may move beyond rent distributions to the use of social engineering (as [Calvert-Jones](#) covers in this collection), state-sponsored feminism (see [Ennis](#)), or coalition-shuffling ([Leber](#)), among other tactics.

In Qatar, where street protests did not occur in 2011, there have nonetheless been mobilizations on social media challenging key state directives (the sale of pork, for example, which is in turn linked to a perceived threat to culture driven by Qatar's rapid, state-led economic development program). "The good thing about Twitter is there's an avalanche factor," argued a Qatari who'd been involved in several 'hashtag movements' for social change, "which means that nobody can be pinpointed – [it is] very difficult to determine who started the thing. It's very difficult to determine if the person who started the thing actually wanted it to go to that direction, so it's very safe to write in that sphere." At the same time, direct calls for political liberalization in Qatar are very rare. A Qatari academic who otherwise expressed a desire for reform, when asked why there was no Arab Spring in Qatar, responded with the following:

You *know* that there's no political representation. You *know* that incarceration could happen if you raise your voice too much *and* you're living better than most people in the whole world...You're not going to change the entire system; it's not even conceivable, with that very few people [sic]. And the cost is very high because you're going to move from being one of the richest people in the world to being incarcerated. So because of that steep cost, people just say: "what the hell."

Alone, this interviewee has raised at least three mechanisms which have prevented their personal political mobilization: the threat of repression by the state (and, as the interviewee later went on to highlight, also by regime loyalists); the perception that reform would be unsuccessful (lack of opportunity); and material benefits (rent-based co-optation). All of these could be, directly or indirectly, linked to rentierism. At the same time, the cost-benefit analysis of political mobilization shifts considerably when these dynamics are altered, such as when state repression targets personal or kinship networks: one Bahraini participant in the 2011 protests, when asked why he had mobilized, said: "[w]hen you come from a Shia family, you have a family member in jail", whereas another noted that her Aunt's arrest had caused her to start publicly criticizing the state. The likelihood of these latter individuals becoming politically quiescent due to increased material distributions is low, illustrating the limits of the co-optation mechanism.¹⁶

Micro-level studies, of course, must be supported by data collected at the meso- and national level before patterns of political mobilization can be generalized. Nonetheless, they do offer an opportunity to identify a potential 'universe' of causal mechanisms relevant to societal quiescence in oil and gas-rich states, which, as Herb notes, may offer a productive way forward for a literature dealing with causal complexity.¹⁷ It may improve our understanding of co-optation generally, too: after all, the co-optive capacity of rentier states differs largely in scale, rather than nature, to that of non-rentier states. Moreover, returning to careful analysis of causal mechanisms, alongside a better balance between state-centric and society-centric explanations for political mobilization, may help to generate new understandings of rents and societal quiescence, including those that can more effectively incorporate non-material as well as material explanations for political mobilization. These findings, most importantly, may help RST to remain relevant as an explanation of a particular type of social contract, with both theoretical and normative implications for oil and gas-rich states.

Endnotes

- ¹ Neil Macfarquhar, "In Saudi Arabia, Royal Funds Buy Peace for Now," *New York Times* (June 8, 2011) <https://www.nytimes.com/2011/06/09/world/middleeast/09saudi.html>; Michael Ross, "Will Oil Drown the Arab Spring? Democracy and the Resource Curse," *Foreign Affairs* 90:5 (September/October 2011) 2.
- ² Huntington, *The Third Wave: Democratization in the Late 20th Century* (Norman: University of Oklahoma Press, 1991) 65.
- ³ See also Uriel Abulof, "Can't Buy Me Legitimacy: The Elusive Stability of Mideast Rentier Regimes," *Journal of International Relations and Development* 20:1 (January 2017) 55-79; Jocelyn Sage Mitchell and Justin Gengler, "What Money Can't Buy: Wealth, Inequality, and Economic Satisfaction in the Rentier State," *Political Research Quarterly* (2018) 1-15.
- ⁴ Michael Ross, "Does Taxation Lead to Representation?" *British Journal of Political Science* 23 (2004) 229-249.
- ⁵ Matthias Basedau, Annegret Mähler, and Miriam Shabafrouz, "Drilling Deeper: A Systematic, Context-Sensitive Investigation of Causal Mechanisms in the Oil-Conflict Link," *Journal of Development Studies* 50:1 (2014) 51-63; Lars-Erik Cederman, Kristian Skrede Gleditsch, and Halvard Buhaug, *Inequality, Grievances, and Civil War* (New York: Cambridge University Press, 2013).
- ⁶ Michael Herb, "Ontology and Methodology in the Study of the Resource Curse," *London School of Economics Kuwait Programme Paper Series* 43 (June 2017) 1-25.
- ⁷ Raya al-Kharusi, commenting in response to Marc Valeri, "'Qaboos Can Make Mistakes Like Anybody Else' – The Sultan of Oman DeSacrilised," *Jadaliyya* (18 November 2012) <http://www.jadaliyya.com/pages/index/8430/%E2%80%9Cqaboos-can-make-mistakes-like-anybodyelse-the-s>.
- ⁸ B4hrain, "al-rāed Wezāra al-aa wa al-Salmāniyya," *YouTube* (11 April 2011) http://www.youtube.com/watch?v=BCO-BL_6swU. See also Mahmoud Cherif Bassiouni, Nigel Rodley, Badria Al-Awadhi, Philippe Kirsch, and Mahnoush H. Arsanjani, *Report of the Bahrain Independent Commission of Inquiry* (Manama: Bahrain Independent Commission of Inquiry, 2011) pp. 39, 206, 394.
- ⁹ Justin Gengler, *Group Conflict and Political Mobilization in Bahrain and the Arab Gulf: Rethinking the Rentier State* (Bloomington and Indianapolis: Indiana University Press, 2015); see also Justin Gengler, Michael Ewers, and Bethany Shockley, "Gulf Citizen Preferences towards Spending, Subsidies, and Taxation in a New Economic Era" *POMEPS* (2018).
- ¹⁰ Jim Krane, "Stability versus Sustainability: Energy Policy in the Gulf Monarchies," *PhD Dissertation* (University of Cambridge, 2014) 164-189; see also Jim Krane, "Too much of a good thing: Theoretical implications of subsidy reform and tax increases in the rentier Middle East" *POMEPS* (2018).
- ¹¹ Jessie Moritz, "Reformers and the Rentier State: Re-Evaluating the Co-Optation Mechanism in Rentier State Theory," *Journal of Arabian Societies* (forthcoming).
- ¹² See for example Kristin Diwan, "Breaking Taboos: Youth Activism in the Gulf States," *Atlantic Council* (March 2014) 1-6; Courtney Freer, *Rentier Islamism: The Influence of the Muslim Brotherhood in Gulf Monarchies* (Oxford: Oxford University Press, 2018); Said Sultan al-Hashimi, ed., *al-Rabī' al-'Umāni: qarā'at fī al-siyyāqāt w-al-dalālāt* (Beirut: dār al-fārābī, 2013); Toby Matthiesen, *The Other Saudis: Shiism, Dissent, and Sectarianism* (New York: Cambridge University Press, 2015).
- ¹³ Giacomo Luciani, "Allocation vs. Production States: A Theoretical Framework," in *The Rentier State*, edited by Hazem Beblawi and Giacomo Luciani (London: Croom Helm, 1987) 67.
- ¹⁴ See for example Krane, "Subsidy reform and tax increases in the rentier Middle East"; Michael Herb, "Labor markets and economic diversification in the Gulf rentiers"; and Ishac Diwan, "A landing strategy for Saudi Arabia" *POMEPS* (2018).
- ¹⁵ For discussion of Qatari citizen views on taxation, for example, see Gengler, Ewers, and Shockley, "Gulf Citizen Preferences towards Spending, Subsidies, and Taxation in a New Economic Era".
- ¹⁶ For further details, see Jessie Moritz, "Slick Operators: Revising Rentier State Theory for the Modern Arab States of the Gulf," *PhD Dissertation* (Australian National University, 2016).
- ¹⁷ Herb, "Ontology and Methodology".

What's yours is mine:

Gulf SWFs as a barometer of state-society relations

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Introduction

The concept of rentierism is deeply entangled with understandings of state formation and state-society relations in the Arab Gulf states. But it's not just about oil; rentierism and late-rentierism are investigations about ownership, distribution of resources and sharing of everything from public employment to electricity to foreign investments. As [Claire Beaugrand](#) neatly unpacks, the idea of oil and of shared wealth is intrinsic to state identity, but also to the way that scholars have approached the region and their investigations of it. She explains that oil rentierism has morphed into a “theoretical metonym”, to use Appadurai's term, which has dominated knowledge production of the region. What the concept has engendered is a preoccupation with wealth, with competition for resources, and with the idea of ownership.

It should come as no surprise that this idea of ownership might be contested, especially in new times of changing understandings of what states can dedicate in their fiscal policy towards the public sector wage bill, mounting defense spending, regional aid and outwardly placed investment partnerships. One way of rethinking this relationship is through the concept of the “citizen shareholder”, a term deployed by Beaugrand and [Ennis](#) to suggest how capitalism and its particular ethics of ownership connect to Gulf political economies. While Ennis problematizes the role that women play as agents of liberalization and entrepreneurship in the late-rentier model, both scholars show how the metonym of oil and its rents define identities of citizens and inform descriptions of the politics of these states.

This essay focuses on a distinctive site of these relations between rentier economies and citizen shareholders:

the sovereign wealth fund (SWF). SWFs are based upon the shared rents from oil (really any natural resource) production, but as they have evolved they are also becoming transformative in new national development strategies. These SWFs now veer from traditional practices of safe-guarding wealth to more experimental and high-risk strategies that claim to be able to diversify national economies from oil dependency while also promising high returns. The moment of late-rentierism is now heightening questions of ownership, of the state's role as guardian or steward of society's wealth.

Society's wealth managed by the state

The purpose of a sovereign wealth fund (SWF) is like an inter-generational savings account, a collective nest-egg of society that is held and managed by the state. Not all sovereign funds are based on natural resource wealth, but in the Gulf states they are exclusively the product of oil and gas revenues. Foreign reserve assets, or traditional reserves in the Gulf, are also products of oil and gas sales abroad, but these funds may be managed more conservatively and are generally like cash savings, meant to stay liquid and easily transferred. Some sovereign wealth funds are focused on domestic investment, while most in the Gulf are meant to be deployed abroad in an effort to grow wealth, but more frequently also used to extend political reach. The deployment of SWFs as a tool of economic statecraft (using economic means to achieve foreign policy goals¹) is not unique to the Gulf states, but the intensity of their use as political outreach, leverage, and increasingly in competition with each other is a regional trend.

Like the economic diversification efforts unfolding across the Gulf Cooperation Council states since late 2014 when oil revenues sharply declined, there is a growing diversity

¹ Baldwin, D. (1985) *Economic Statecraft*. Princeton, Princeton University Press.

in approach by governments in both how to spend more precious income from oil and how to deploy the wages of oil² abroad. We now observe experimentation in fiscal policy across the Gulf, as governments make diverse decisions about where they can reduce spending on generous benefit programs and employment opportunities for citizens and how they might capture savings from their expatriate populations in the form of new taxes and fees or by simply excluding them from certain sectors of the labor force.³ This slimmer, meaner form of fiscal management has also meant a renewed focus on value for money in investments and aid abroad.⁴

Sovereign wealth funds of the Gulf states are thus developing some distinctive characteristics, reflective of the “visions” of their leaders for national economic development. SWFs and their management can tell us about how leadership in these states prioritizes (or minimizes) local economic growth and domestic constituencies. They tell us how Gulf governments view international partnerships as targets of state investment initiatives. They tell us a lot about appetite for risk, not just in the language of investments, but in how leaders take liberties with the savings of their citizens. Even more broadly, the ideas of collective wealth embodied in the SWF can serve as a barometer of state-society relations, defined by how leaders and governments view their responsibility for caretaking and increasing national wealth.

These choices also demonstrate how leadership perceives a time horizon for meeting development goals. For example, prioritizing short-term goals of job creation for nationals

by accelerating both domestic and outward-placed investments to acquire stakes in new firms that promise to provide local operations, including high tech-focused investments, invites a certain level of risk. A willingness to borrow signals a sovereign wealth fund is more of an active investment fund, or a hedge fund, rather than a safe deposit of shared wealth. In the latter, we see the emerging characteristics of the Saudi sovereign wealth fund, the Public Investment Fund (PIF). It is borrowing⁵, selling off existing stakes in state firms⁶, taking a short-term view of returns, and willing to engage in partnerships with foreign funds⁷. A higher risk tolerance in investments of a SWF can be an indication of the state’s perception of threats to its domestic legitimacy—perform and deliver now or risk unrest and an unsatisfied population at home. Those with longer-term horizons also include some institutional measure of accountability, through parliament or by law as in Kuwait. The Kuwaiti fund specifically declined opportunities to join UAE and Saudi partnerships with higher risk technology firms like Softbank.⁸ Mergers of investment funds also point to political consolidation within national systems, as we see in the federation of the UAE.

How they save, spend, and invest it: Diversity of SWF approaches in the Gulf states

Saudi Arabia

In Saudi Arabia, we have seen a recent radical shift in the government’s approach to sovereign wealth. The Vision 2030 diversification plan specifically tasks the Public Investment Fund with generating domestic growth

² I borrow the term “wages of oil” from: Michael Herb (2014) *The Wages of Oil: Parliaments and Economic Development in Kuwait and the UAE*. Ithaca, Cornell University Press.

³ Young, K. (2018) “Experiments in fiscal governance: The economic reform agenda in the GCC,” Baker Institute, Rice University, September 2018. <https://www.bakerinstitute.org/research/confronting-governance-crisis-middle-east/>

⁴ Young, K. (2017) “The New Politics of GCC Economic Statecraft: A Case Study of UAE Aid and Financial Intervention in Egypt,” *Journal of Arabian Studies*, 7:1, 113-136, DOI: 10.1080/21534764.2017.1316051

⁵ <https://www.bloomberg.com/news/articles/2018-09-11/saudi-wealth-fund-is-said-to-prepare-to-sign-11-billion-loan>

⁶ <https://www.bloomberg.com/news/articles/2018-09-10/citi-goldman-said-to-advise-on-mega-saudi-aramco-sabic-deal>

⁷ <https://www.entrepreneur.com/article/294681>

⁸ <https://www.tahawultech.com/cnme/news/bloomberg-softbank-seeking-kuwaiti-qatari-vision-cash/>

and employment opportunity, as well as increasing partnerships with international investment funds.⁹ Historically, Saudi Arabia did not see it appropriate to set up an outwardly-focused investment fund of its national oil revenues. The Saudi Arabia Monetary Authority (SAMA) is a central bank and has had responsibility for foreign reserve assets of the government. It was only in the recent upturn in global oil prices between 2003 and 2014 that Saudi Arabia began to amass such high reserves in foreign currency. Most of Saudi investment in this period was very safe, low risk in foreign currency accounts abroad and in the purchase of other governments' debt, specifically large holdings of US Treasury bonds. The earliest externally focused sovereign wealth fund in Saudi Arabia was established in 2008, the Sanabil Al Saudia, with just \$5.3 billion in assets.¹⁰

The Public Investment Fund (PIF) was founded by royal decree in 1971 with a focus on domestic investment. The PIF has been a part-owner of some domestic industry, including the petrochemical giant SABIC, which the PIF now intends to sell to another government entity, Aramco, the national oil company. The PIF is both a source of capital and a new destination for government funds. Its new role in Saudi political economy is unprecedented. It is the central engine of growth in the new Saudi Arabia, as envisioned by the new Crown Prince Mohamed bin Salman. State resources are directed to feed the PIF, and state assets are being sold to raise cash for the PIF.¹¹ At the same time, money is moved from foreign reserve assets to the PIF in order to be placed abroad in new kinds of investment opportunities outside of the norm of Saudi investment history. The new investments are not in long-term, low-yield US Treasuries, but rather more risky investments in technology firms like Uber, entertainment companies, and massive real estate projects or "giga-projects" as they are called in the Vision 2030 National

Visualization Programs. Perhaps most importantly, the PIF is now a strategic partner with private investment funds like the Softbank fund, which is responsible not to citizens, but to shareholders or fund partners.

The shift in Saudi Arabia from conservative SAMA to the new PIF is a repurposing of existing institutions to create a system of state institutions within the state. This is the Crown Prince's parallel Saudi state, with its own agenda for economic growth and a very strong hand against internal dissent or alternative ideas about the appropriate role of private enterprise in the service of the state, or ideas about the state in the economy. The other characteristic of the new PIF is its accelerated pace of investments and expansion of the institution itself.¹² The horizon for growth is short. The imperative is to demonstrate quick returns and opportunities for citizens now. The long-term growth horizon is hazy. If a technology firm wants PIF investment and agrees to start operations inside the kingdom in the next year, the payout can be huge for the firms.

For the citizens of Saudi Arabia, the benefits are meant to satiate immediate needs for job growth and to show demonstrable signs of diversification. This means new entertainment venues, theme parks, and the infrastructure of a changed society and service economy. Whether or not these investments provide long-term productivity growth or steady returns on investment become secondary priorities. Because the Crown Prince is concerned with a young constituency, his directives to the PIF are largely short-term in scope and equally high-risk. He wants results (and returns) now, though what will be left of the PIF in twenty or thirty years is less of a public policy priority.

United Arab Emirates

In the UAE, there has been a recent consolidation of

⁹ <http://vision2030.gov.sa/en/pifprogram/about>

¹⁰ Bahgat, G. (2017) "Sovereign Wealth Funds in the Persian Gulf States," *Oxford Handbook of Sovereign Wealth Funds*. Oxford, Oxford University Press, pp. 595-617.

¹¹ Young, K. (2018) "Spending to Grow," *Market Watch, Arab Gulf States Institute in Washington*, 10 August 2018. <https://agsiw.org/spending-grow-saudi-arabia/>

¹² <https://www.pif.gov.sa/en/Pages/vrp.aspx>

investment operations of multiple sovereign wealth funds. As the UAE is a federation, there are funds owned and operated by individual emirates and their ruling families, and inside of Abu Dhabi's government there are also multiple funds. The question of how sovereign wealth is shared and transferred to citizens is complicated in the UAE by the transfer of wealth within the federation. The fiscal policy of the UAE remains dependent on transfers from wealth based in Abu Dhabi to the other six emirates. These transfers are not clearly codified in constitutional law, such that there is tremendous latitude in what Abu Dhabi may or may not decide to share with the federal government.¹³ For example, the Investment Corporation of Dubai is an investment fund of the ruler of Dubai and contributes to the revenue of the emirate of Dubai, which makes some contribution to the federal budget. Revenue sources from the Abu Dhabi National Oil Company go to the emirate of Abu Dhabi and are then dedicated in part to the federal government. Funds from oil revenues also go to the Abu Dhabi Investment Authority, the largest outwardly-focused investment vehicle of the emirate.

Smaller funds in Abu Dhabi include the Mubadala fund, which was created to focus on domestic technology innovation and investment, and the International Petroleum Investment Corporation (IPIC) with an outward focus. In June 2016, a merger was announced between Mubadala and IPIC, which was finalized in January 2017.¹⁴ The merger was a result of financial consolidation in the emirate of Abu Dhabi in the era of reduced oil revenue and as a realization that the new investment funds were not delivering the returns for which the government had hoped. Abu Dhabi Investment Council (ADIC) formed in 2007 as an investment arm of the emirate with a focus on domestic firms, mostly in the finance sector. The Emirates Investment Authority is the only federal SWE, but it is also one of the smallest in assets. Created by federal decree in 2007, it invests both domestically and internationally, with significant stakes in the national telecom sector.

The overall SWF strategy in the UAE is divided between diversification efforts domestically, with a strong focus on technology and renewable energy innovation via Mubadala, and a quiet and traditional portfolio investment approach by ADIA. Much of ADIA's outward investment is managed by other funds, many based in the US or UK. This is an out-sourcing of public savings and resources, characterized by a very low profile within the country. Earnings are not public; holdings are not disclosed.

The UAE's design of wealth management is like a federation. The largest assets are held and managed by Abu Dhabi and its ruling family, but the assumption is the wealth is to provide services for all citizens of the UAE. As this wealth expanded substantially from 2007 (when many of the funds formed) to 2014, there are now choices about how to better merge funds and direct investment internally. There has always been competition between emirates, and SWFs are likely to share part of that ethic, especially as state-owned entities like telecoms, utilities and aluminum smelters are now considered for privatization. These firms are all partially held by state (or emirate) investment entities, but their sales are meant to provide revenue for the citizen population and its federal authority at large. The overall consolidation of investment vehicles in Abu Dhabi also relates to a consolidation within the ruling family and the identification of stewards of wealth, as well as rising stars within the emirate's power structure under the crown prince Mohamed bin Zayed. The appointment to management of these funds is also a sign of patronage.

Kuwait

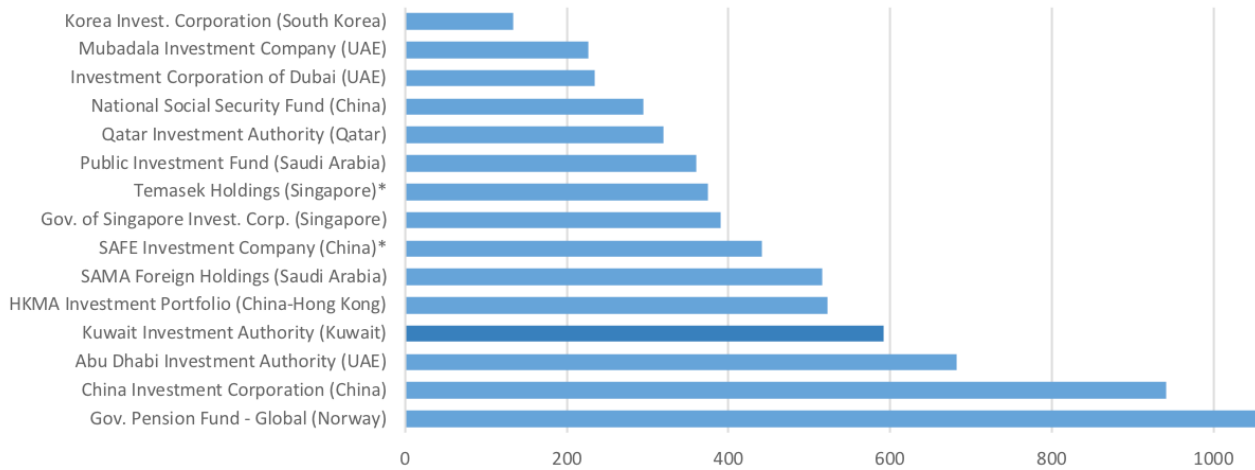
Kuwait and its massive SWF the Kuwait Investment Authority have a premier status in the investment world. Founded in 1953, it is the oldest SWF in the world. Known for its conservative management and consistent returns, Kuwait's strategy has always been focused on outwardly

¹³ Young, K. (2017) "UAE Fiscal Policy: Shining Light on Federal Resource Sharing," *Market Watch*, Arab Gulf States Institute in Washington, 20 October 2017. <https://agsiw.org/uae-fiscal-policy-shining-light-federal-resource-sharing/>

¹⁴ <https://www.mubadala.com/en/ipic-mubadala-merger>

Global Sovereign Wealth Funds

Largest sovereign wealth funds by assets under management as of November 2018
\$bn



Source: The Sovereign Wealth Fund Institute
*Best guess estimation

placed investment and never really bothered with domestic development or diversification goals. The idea is to export capital and have it return in multiples, mostly to be saved. In 1986, KIA revenues were more than oil revenues.¹⁵ The Kuwaiti strategy has the advantage of accountability. 10 percent of national oil revenues are committed to the fund each year by law. Kuwait's parliament has the ability to question ministers, including the head of the KIA, in its debate sessions. According to recent reporting by the *Financial Times*, the Kuwaiti investment strategy continues to be international but has made a recent pivot to Asia.¹⁶ China and other Asian states are the prime customers of Kuwait's oil exports, so the investment linkages reflect a broader integration of economic and political interests.

Oman

Oman does not have the wealth of its neighbors. Since 2014 its reserves have suffered and it has relied on extensive external finance to fund its fiscal budget. The Oman State General Reserve Fund is essentially a foreign

reserve fund established in 1980, but there are newer funds like the Oman Investment Fund of 2006 and the Tanfeedh program (which is a national development fund, not a sovereign wealth fund)¹⁷ that are designed to fund and encourage domestic investment that serves the goal of economic diversification away from oil dependency. Many of the investments have been in tourism, ports, and fisheries, and one of the key tourism partners has been the Omani military pension fund. The outcome is that many key non-oil sectors remain strongly in the hands of government ownership and frequently under the indirect control of the military.

The government is under significant pressure to demonstrate it can create jobs for nationals and that it can diversify its economic activity away from oil production. The Omani government follows a five-year development strategy and has been engaged in its own "national transformation" for economic diversification, with changes to managerial practice within ministries, including meeting key performance indicator targets

¹⁵ Bahgat (2017), p. 610.

¹⁶ <https://www.ft.com/content/e6fdc262-4e36-11e8-ac41-759eee1efb74>

¹⁷ <http://www.oman.om/wps/portal/index/interact/tanfeedh>

within the Tanfeedh program.¹⁸ Combining government investment funds and streamlining the multiple ministerial stakeholders in local development projects has meant disrupting inefficient management and integrating parallel investment silos across ministries.

There are new efforts to streamline these various funds, specifically the Reserve Fund and Oman Investment Fund along the model achieved by Mubadala and IPIC in the UAE.¹⁹ For Oman, this would help combine tourism investments so that outside partners might help shoulder some of the cost (and reap the benefit) of domestic economic development plans, as in the Omran fund.²⁰ The general trend is a gradual opening to partnerships in domestic investment funds and some consolidation under more technocratic management with a vision to the necessary political and economic changes ahead. Oman's first leadership transition in more than 40 years seems imminent, and the restructuring of its sovereign wealth funds reflects some of the bureaucratic preparation underway.

Bahrain

In Bahrain, oil reserves are scarce; surplus foreign reserves and capital to invest abroad are just as dear. The Mumtalakat is the Bahraini sovereign wealth fund established recently in 2006 by royal decree as an independent holding company for the government's commercial assets. The fund does not receive oil revenues from the state, but rather is a mechanism to invest the earnings of other government entities. The government transferred ownership stakes in a number of public entities to start the fund on the model of a holding company. The fund is a shareholder in a number of government-related

entities, like Gulf Air, Aluminum Bahrain, National Bank of Bahrain, and Batelco.²¹ Bahrain will likely sell off some of these entities in the future. The role of the SWF will be important as the government faces some difficult choices in cost-savings. The model of the Mumtalakat is representative of Bahrain's highly leveraged situation, squeezing the most out of every resource.

Qatar

In Qatar, the power to spend is the power to extend influence, to gain state recognition and international legitimacy. Founded in 2005, the Qatar Investment Authority serves to place surplus oil and gas revenue abroad to increase returns. QIA has invested far and wide, from equities to real estate and high-profile acquisitions in Western commercial brands, banks, and corporations. For many years, the fund was closely associated with the former prime minister Hamad bin Jassim al Thani (HBJ) and his deal-making was both prolific and brash. More recently, Qatar has used its purse power to seal political alliances, from Turkey to Russia.²² The demand for immediate return on investment is not dire, as Qatar does not face the fiscal constraints of its neighbors. For that reason, many of its investments seem more glamour- and identity-driven than earnings-driven. More recently, Qatar has made investment commitments that are clearly for political motivation, e.g. in Turkey.²³ The deployment of wealth by the state serves multiple purposes. Since June 2017 with the embargo of Qatar by Saudi Arabia, the UAE, Bahrain, and Egypt, the rising tide of patriotism and nationalism has inoculated against any public resentment for bad investment decisions made in the name of political solidarity.

¹⁸ <https://om.usembassy.gov/wp-content/uploads/sites/155/2017/02/Tanfeedh-10-Jan-17.pdf>

¹⁹ <https://www.bloomberg.com/news/articles/2017-04-24/oman-said-to-follow-abu-dhabi-with-sovereign-fund-merger-plans>

²⁰ Young, K. (2018) "Slow and Go: Oman's Investment and Reform Strategy," *Market Watch, Arab Gulf States Institute in Washington*, 25 January 2018. <https://agsiw.org/omans-investment-and-reform-strategy-slow-and-go/>

²¹ <http://www.mumtalakat.bh>

²² <https://uk.reuters.com/article/us-rosneft-holding-qia/qatar-glencore-venture-values-its-rosneft-stake-at-7-4-billion-euros-idUKKBN1L01WY>

²³ <https://www.nytimes.com/2018/08/15/world/europe/turkey-andrew-brunson-tariffs.html>

Conclusions

Comparing different investment strategies of Gulf sovereign wealth funds reveals some simple understandings of how states see their responsibility to shared wealth and how shifts in the management and organization of these funds reflects some institutional changes underway within the GCC states. Oil wealth, or its expected promise, is not the only source of state legitimacy in the Gulf, but it has been important in state formation and in the maintenance of state-society relations. Since late 2014, a period of economic reform has shifted some expectations of state provision of benefits and resources. Yet, the role of sovereign wealth funds has been slower to change, perhaps with the exception of the Saudi case in which the PIF is front and center of the diversification efforts. The efforts to reform the rentier structure of Gulf economies, including reduced subsidies of energy, openings to foreign ownership of firms, and relaxed visa restrictions on long-term residency all indicate the state's interest in diminishing citizen shareholding in public resources.²⁴ Conversely, citizens are more responsible for creating their own sources of wealth and social service provisions. SWFs are also under pressure to deliver higher returns, but often in more centralized development paradigms. Variation in how rulers leverage SWFs to broader diversification and development strategies tells us a lot about the immediacy of their reform agenda. How a state manages its nest egg may be an important indication of how it measures accountability to citizens and its willingness to gamble future savings for immediate demands to govern, provide, and maintain regime stability.

²⁴ Karen E. Young (2018) "The Difficult Promise of Economic Reform," Baker Institute <https://www.bakerinstitute.org/media/files/files/a9b497ad/cme-pub-carnegie-young-092618.pdf>

Understanding Gulf citizen preferences towards rentier subsidies

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The oil crash of 2014 spurred plans for lasting changes to the Gulf rentier economies. Headlined by Saudi Arabia's sweeping National Transformation Program, governments across the region have sought alternative revenue sources to maintain spending and fund ambitious development strategies.¹ To this end, new policy tools are being implemented, including a value added tax, fees for once-free government services, and reductions in water, electricity, fuel, and food subsidies (see [Krane](#) and [Leber](#) in this collection). But reforms aimed at deficit reduction pose serious challenges for authoritarian states² whose citizens are accustomed to generous welfare spending and subsidies as part of the so-called "rentier bargain" of financial patronage in return for political allegiance.³

As other contributions in this volume describe, modern revisions to classical rentier state theory have mostly dispelled the notion of rentier citizens as politically passive rent-seekers.⁴ (See [Moritz](#) and [Jones](#) in this collection.) However, a scarcity of reliable survey data from the Middle East and North Africa region generally,⁵ and from the oil-rich Gulf states in particular,⁶ means that we still know very little about how citizens view the structural economic changes being implemented in their countries, and whether and in what ways public opinion might serve to constrain or facilitate development toward a post-oil society. What limited survey data do exist⁷ are restricted to specific fiscal policy measures, rely on direct survey questions that may be susceptible to measurement error, and sometimes are not based on representative samples. In some economic surveys, nationals and expatriates are aggregated in a way that obfuscates the behaviors and preferences of citizens.⁸ Thus, important questions remain. How does the average national in the Gulf think about the restructuring of their society? And, more significantly, in what ways will public opinion facilitate or accommodate these changes spearheaded by decisionmakers?

Public opinion and Gulf fiscal reform

This paper examines how ordinary citizens of resource-dependent Gulf states view and prioritize the different economic benefits to which they are entitled as citizens, including freedom from taxation, against the backdrop of post-2014 fiscal reform. To this end, our study utilizes a rare survey of Qatari citizens conducted in 2016 by the Social and Economic Survey Research Institute (SESRI) at Qatar University. The survey was conducted by telephone using a comprehensive national frame with coverage of approximately 95 percent of adult nationals. The survey was implemented at a time when oil prices hit their lowest point in a decade at around \$27 US dollars per barrel. The steep decline precipitated Qatar's first budget deficit in almost 15 years and, thereafter, the introduction of various cost-saving measures aimed at reducing the shortfall.⁹ Thus, the survey timing made questions about fiscal austerity highly salient for our survey respondents.

Qatar's vast natural gas resources and citizenry of only around 300,000 individuals¹⁰ afford it unparalleled capacity for financial patronage. Indeed, in 2014 its annual oil and gas rents amounted to more than \$425,000 per citizen.¹¹ Qatar's unelected leadership distributes a generous portion of this income to citizens via an extensive system of welfare benefits, comprising land allotments, marriage allowances, free water and electricity, free education and medical care, tax-free salaries, and near-guaranteed employment in the public sector,¹² where 85 percent of working citizens are employed.¹³ Its "extreme"¹⁴ (or "über"¹⁵ or "ultra-"¹⁶) rentier status makes Qatar an instructive case through which to study the character and drivers of public attitudes toward economic reform of the rentier state.

Rather than the exception, however, the case of Qatar is especially meaningful as an exemplar for the rest of the Gulf countries. As the recipients of the most generous

welfare regime in the Gulf, Qatari perceptions about changes to wealth distribution should be relatively muted compared with Saudi Arabia or Oman, for instance, where a small increase in food or energy costs can have a substantial impact on a family's living expenses. The Qatar case raises different question from the relatively poorer Gulf states, namely: are people's views of things different when expectations are higher?

Studying citizen preferences through surveys and survey experiments

Our survey examines how Qatari nationals view and prioritize the various financial benefits they receive by virtue of being citizens of a wealthy rentier state. Such entitlements including free public services, direct cash transfers, and exemption from taxation. A sustained period of low oil prices would necessitate cuts in benefits, but which entitlements do citizens consider essential to the rentier arrangement, and which are deemed relatively more negotiable? Rather than relying on traditional straightforward survey questions, we assess preferences via a novel survey experiment that presents subjects with a choice between competing economic alternatives. Our experiment prompts Qatari respondents to think about the budget deficit facing the country and then asks them to identify which welfare subsidies they would prioritize in the event of a reduction in state spending.

The experiment presents subjects with a choice between randomized sets, or "baskets," of public goods (that is, a specific type of spending or subsidy), and they are asked to give priority to one basket over the other. We then calculate the change in probability that a basket is selected when it includes a given good. This procedure gives a straightforward ordering of citizen preferences. In addition, by forcing subjects to select between competing material interests, the experiment mirrors the real-life tradeoffs that citizens must make amid a retrenchment of the rentier state. A final benefit of the experimental design is that it allows citizens to reject or accept certain goods indirectly without revealing their preferences to the survey enumerator, mitigating measurement error due to

social desirability bias.¹⁷ To illustrate these benefits, in the paper's final section we compare our experimental findings to the answers to traditional survey questions that ask citizens directly about their subsidy preferences.

Experimental findings

The survey data reveal several important findings. First, the experiment demonstrates that Qataris perceive some rentier entitlements as being significantly more essential than others: namely, universal social benefits such as free education, healthcare, water, and electricity. Conversely, more individualistic or targeted subsidies, including direct cash allowances and even financially lucrative land allotments and government employment, are rated by citizens as being less essential benefits in comparative terms. Citizens in Qatar are therefore seen to prioritize universal subsidies in the form of basic public services, over subsidies that accrue on an individual basis, despite the fact that some of the latter are more valuable in absolute financial terms. We take this as evidence that Qataris tend to prefer economic subsidies in proportion to their expected likelihood of benefiting from them. Since access to free schools, healthcare, and utilities is nonexcludable, citizens can be confident of their eligibility. However, individualistic benefits such as housing and public sector jobs are mediated by more opaque processes of distribution and eligibility requirements, both formal and informal, which render them more excludable.

Another notable result from the experiment is that Qataris are less concerned about the possibility of paying taxes to the government than about potentially losing access to benefits they already enjoy. That is, citizens view the loss of existing subsidies as more problematic than the introduction of new taxes, regardless of the potential financial implications. Adding taxes could be relatively more costly over a lifetime than reducing cash allowances, for example, but also the simple five percent VAT introduced this year in some GCC countries could reflect the first step of government encroachment into a much broader income and sales tax regime. This result is consistent with principles derived from behavioral

economics, discussed elsewhere in this collection,¹⁸ which predict that uncertainty over the consequences of new policies may cause individuals to prefer a suboptimal status quo. It may also be the case that citizens in Qatar simply lack knowledge about the practical financial implications of taxes, whereas the impact of retrenchment of other subsidies can be more easily perceived.

Nonetheless, this result of the experiment is significant in light of the central place of taxation—or rather the lack thereof—in theorizing about the rentier state. The ability of rent-based economies to support citizens without extracting from them has long been posited as a fundamental aspect of rentier political economy, and one which, if violated, is expected to undermine an essential pillar of state stability in autocratic rent-dependent regimes.¹⁹ Yet our results suggest, at a minimum, that there is no automatic rejection of taxation among rentier citizens in line with the reverse principle of “no representation, so no taxation,”²⁰ as introduced in the earliest statements of the rentier state paradigm. This finding about the surprising acceptability of taxation among Qataris accords with Krane’s 2015 survey-based conclusion, that Gulf citizens view welfare subsidies as “customary privileges” rather than the political “rights” assumed by rentier theorists.²¹

Thus, for Qataris and potentially other citizens of the Gulf, *not* cutting current benefits is more important than adding new expenses, even though the final cost to the individual citizen may be the same. This demonstrates the importance of keeping up the appearance of state largesse even if some subsidies are ultimately transferred back to governments via taxes. More generally, the results of the experiment would seem to confirm predictions made by international economic institutions, that if Gulf tax rates are kept low and implemented correctly, the majority of citizens should not feel a drastic impact, thus precluding social disturbances or hindering investment and economic growth opportunities.²² In the extreme rentier case of Qatar, at least, freedom from taxation does not seem to be an inviolable component of the rentier social contract.

The need for new approaches

Beyond its substantive insights into public attitudes toward economic change in the Gulf states, our study also makes a substantial methodological contribution, demonstrating the effectiveness—and arguably the necessity—of experimental-based approaches to studying citizen preferences on complex and/or controversial topics in social science. This contribution can be observed by comparing our experimental findings to responses to corresponding direct survey questions. Whereas the survey experiment forces individuals to make a difficult choice between competing economic priorities, traditional survey questions demand no such compromise. In addition, because straightforward questions require direct responses, respondents cannot avoid revealing their preferences to the survey enumerator and thus may face incentives to conform to socially and politically acceptable opinions. Such social desirability bias may result, for example, if survey respondents view qualities like liberal-mindedness and lack of attachment to economic welfare as being more acceptable than resistance to change and financial dependence. Citizens also may be reluctant to express opinions that could be perceived as criticisms of state policy, especially in settings, such as Saudi Arabia, where reform agendas are closely associated with ruling elites and where political dissent is not only socially unacceptable but criminalized. By contrast, our experiment measures preferences indirectly, mitigating social desirability pressures. The choice experiment we employ has the added benefit of forcing respondents to designate some combinations of subsidies as more important than others. Compared to traditional question, this design better reflects the reality of benefit retrenchment by not allowing rentier citizens to have it all, as has perhaps been their custom. The result is that the experimental findings provide a meaningful ordering of preferences, which as we demonstrate below is not necessarily the case when direct questions are used instead.

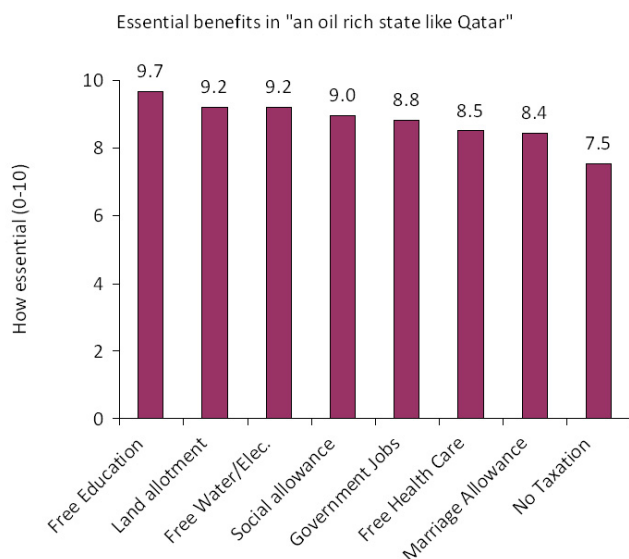


Figure 1. The mean importance of different rentier subsidies in Qatar

Consider, for instance, Figure 1. It reports the average level of importance attached to each of the eight rentier subsidies included in the experiment when respondents are asked directly to rate them on a scale from 0 (“not essential”) to 10 (“absolutely essential”). The question reads,

Many things are desirable, but not all of them are essential characteristics of an oil rich Gulf state such as Qatar. Please tell me for each of the following things how essential you think it is as a characteristic of a state like Qatar. Use this scale, where 0 means “not at all an essential characteristic” and 10 means it definitely is “an essential characteristic”.

As is plain from a visual inspection of the figure, when asked directly Qataris tend to report that *all* benefits are essential to upholding the rentier bargain, with almost no statistically significant variation across individual items. Apart from exemption from taxation, which has a mean importance rating of 7.5, all items fall within a narrow range from between 8.4 and 9.7. As such, the main conclusion that one can draw from Figure 1 is that no conclusions can be drawn at all: when the question is posed directly to survey respondents, no rentier benefit

is deemed significantly more important to Qataris than any other, with the exception of no taxes. To understand how Qataris and other rentier citizens think about the economic tradeoffs they have been asked to make since 2014, one needs a method that reflects the real-world choices they face.

Summary and implications

The contributions in this volume examine the evolving nature of the rentier state. In so doing, they also highlight changing theoretical assumptions about state-society relations in resource-dependent economies such as describes the Arab Gulf countries and much of the broader Middle East and North Africa. Many of these conceptual revisions serve to refocus examination away from the macro effects of oil and gas dependence and toward the individual-level mechanisms that are theorized to link rent distribution to social and political outcomes of interest. In some or even many cases, better understanding of the drivers of social and political behavior in rentier states has served to complicate rather than confirm hypotheses established in the literature. Such is the case with the present study, which finds no visceral reaction against the prospect of taxation among citizens of Qatar, widely cited as the purest case of rentierism in the world today.

In this task of interrogating the behavioral assumptions of rentier state theory, survey research has an important role to play, alongside other methods designed to probe the opinions and preferences of ordinary citizens. Yet opinion studies, not least those conducted in the Middle East region, must take care to account for known sources of bias that may produce misleading or ambiguous results.²³ The findings reported in this research note demonstrate the promise of experimental approaches to gauging citizen attitudes on complex and sensitive questions. By measuring preferences indirectly and approximating real-world processes of decision-making, survey-based choice experiments can avoid the social and political desirability bias inherent in more direct solicitations of opinion, while also eliciting more meaningful responses.

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Oil metonym, citizens' entitlement, and rent maximizing: Reflections on the specificity of Kuwait

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According to the rentier-state theory (RST), the “externally-derived, usually unproductively-earned income resulting from natural resources or other natural or innate assets of an economy or of a state’s position or territory” impacts the state-society relationship in a way that makes the state less sensitive to society’s pressure.¹ Expressions such as “buying off political acquiescence” have been commonly used to describe the autonomization of the ruling sphere from the ruled society and the process of authoritarian resilience. Scholars have early on contested this supposed political inertia: in the case of Saudi Arabia, Gwenn Okruhlik² shows that the allocation of the rent or state expenses is eminently political and reacts to pressures from different parts of the society. Kuwait provides another example where state resources allocation has been carefully designed to respond to, or prevent and pre-empt, citizens’ grievances. Far from resulting in political apathy, rentierism has led to citizens putting strong demands on the state. I argue that the reason why nationals lay claim to the state resources is to be found in their feeling of entitlement, depending on each national situation.

Feeling of entitlement or belief in the validity of one’s claim was indeed at the heart of my analysis of the puzzling presence of *biduns* in Kuwait³: the *biduns* are quintessentially distinct from any overstaying foreigners, because the latter would hardly think of claiming entitlement to Kuwaiti nationality. The exclusionary

citizenship law and the sponsorship or *kafala* system have both disciplined migrants into believing themselves to be temporary populations—despite the fact that this temporariness is historically a myth. Likewise, the feeling of entitlement is key to understand the dynamics of rentierism among nationals. How is it constructed in different polities? I argue, following analytical lines laid by Michael Herb,⁴ that the particular historical path followed by Kuwait led to a discursive construction and perception of the rent characterised by a strong feeling of citizens’ *ownership* of the rent, be it oil or the revenues derived from it. Secondly, against the background of a small and non-extendable polity, different segments of the population lay claims to the state in continuous competition with each other.

Discursive construction and perception of the rent

Since it was first formulated in 1970⁵ but most importantly fully theorised and made popular in 1987⁶, the RST has proved the overarching analytical framework for what became known as Gulf Studies. While refined, adapted, and updated⁷, the important thing is that its overall validity and prevalence has never really discarded until now—when the theoretical debate has shifted towards the “post-rentier” phase. From an epistemological point of view, oil rentierism in Gulf studies has morphed into what Appadurai⁸ calls a “theoretical metonym”, encapsulating

¹ Gray, Matthew “Theorising politics, patronage and corruption in the Arab monarchies of the Gulf” in Laura Ruiz de Elvira, Christoph Schwartz, Irene Weippert-Fenner *Clientelism and Patronage in the Middle East and North Africa*, Routledge, 2018. P.54

² “Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States”, *Comparative Politics* 31, 3 April 1999: 295-315

³ *Stateless in the Gulf: Migration, Nationality and Society in Kuwait*, London : IB Tauris, 2018.

⁴ *The Wages of Oil: Parliaments and Economic Development in Kuwait and the UAE*, Ithaca, NY: Cornell University Press, 2014.

⁵ Mahdavy, Hossein “The Patterns and Problems of Economic Development in a Rentier State: The Case of Iran” In M. A. Cook (Ed.), *Studies in Economic History of the Middle East*. Oxford: Oxford University Press, 1970.

⁶ Beblawi, Hazem and Giacomo, Luciani *The Rentier State*, London/New York, Croom Helm, 1987.

⁷ Gray, Matthew “A theory of late rentierism in the Arab States of the Gulf” Center for International and Regional Studies, Georgetown University, 2011. The buzz word of post-rentierism is yet the latest version of the evolution of RST.

⁸ “Theory in Anthropology: Center and Periphery” *Comparative Studies in Society and History*, Vol. 28, No2 (April 1986) 356-361.p.357.

the quintessential and dominant question of interest in the region. The knowledge production of the Gulf region has been dominated by this metonym.⁹ This metonym has been fundamental in shaping the projected identity of the region from outside but also essential in the process of self-identification.¹⁰

Oil is not only a world-traded, strategic commodity; it is also a perception. For the Marxist political economist Adam Hanieh in *Capitalism and Class in the Arab Gulf States*, oil is a “commodity embedded in a set of (globally determined) social relations.” Oil is endowed with a particular meaning conferred by the capitalist world market as a commodity centrally located within the reproduction of the system as a whole. Hanieh further quotes Marx who “warned of “commodity fetishism”—an attempt to explain patterns of social development through the presence or absence of a commodity rather than understanding the significance given to the commodity by the social relations within which it is situated.”¹¹ For anthropologists equally, oil is a perception. As noted by Mandana Limbert in the case of Oman, “oil means something to people: the understanding people have of its presence shape the way people act in the world.”¹² It does so, more emblematically than any other “natural or innate asset” or “state-position in a territory”, like the revenues drawn from the Suez Canal’s crossing by the Egyptian government, or even more than in the case of aid recipient states that, it is argued, also can qualify as rentier economies for deriving the majority of their revenues from external unproductive sources, like Jordan. The rent, in those cases, seems more detached from people’s imaginaries and world of representations. Differences

appear in this world of representation: while Limbert highlights the threat of the abstract notion of depletion hanging over the future of Omanis,¹³ from which derives the imperatives of post-rentierism,¹⁴ Kuwait has, as for her, been characterised by the “image of unlimited goods” in the words of anthropologist Sulayman Khalaf.¹⁵

If we take into account both Hanieh’s analysis of oil as reverberating unequal social relations at the global level and the entry into the capitalist logic as well as the anthropologist view on the construction of meaning, the presence of oil revenues has come to be interpreted over time in Kuwait in a way that reflects a feeling of *ownership* by its citizens/subjects, as a sort of patrimonial asset.

Kuwait’s legal idiosyncrasies

This feeling has its roots in some historical contingencies specific to Kuwait. First the 1962 Constitution enshrines several principles pertaining to property and entitlement: in part II on the “Basic Foundations of the Kuwaiti Society”, articles 16 and 17 mention notions of “ownership”¹⁶ and “public property”¹⁷; article 18 ensures that “private property is safeguarded”; article 21 states: “All of the natural wealth and resources are the property of the State. The State shall preserve and properly exploit those resources, heedful of its own security and national economy requisites.” In the part I, article six states: “Sovereignty is vested in the Nation as the source of all authority”, differentiating also between State and ruling family.

Second, and even before the 1962 Constitution, the land acquisition policy of the rulers of Kuwait has also given to

⁹ The 1986 book title of Muhammad Al-Rumaihi *Beyond Oil: Unity and Development in the Gulf* is somehow emblematic of the tendency that made the Gulf the showcase of the specific issue of oil-rent development.

¹⁰ See, by way of example, the recent theatre play by British-Kuwaiti writer, Sulayman Al Bassam, whose setting and main plot evolves around a petrol station : *Petrol Station*, London : Oberon Books, 2017

¹¹ *Capitalism and Class in the Arab Gulf States*, London, New York : Palgrave Macmillan, 2011, p. 16.

¹² Futures, Sovereignty and Policing: An Anthropological View of Gulf Studies, Gulf conference, Exeter, 3 July 2018.

¹³ *In the Time of Oil: Piety, Memory, and Social Life in an Omani Town* Stanford University Pres, 2010.

¹⁴ Masdar City for instance with its potential to provide political legitimacy is an exercise in political anticipation.

¹⁵ Khalaf, Sulayman N. “Gulf societies and the image of unlimited goods.” *Dialectical Anthropology*, vol. 17, no. 1, 1992, pp. 53–84.

¹⁶ Art. 16 “Ownership, capital and labor are the mainstays of the State’s social entity and of national wealth.”

¹⁷ Art. 17 “Public property is inviolable and its protection is the duty of every citizen.”

the citizens a form of role—if passive—in the management of state resources. The government's plan to transform Kuwait city from an old town into a modern city had required the purchase of large tracts of land for public development projects. To do so, it paid, in a transactional manner, phenomenally large prices for land located in the old mud-walled center resulting in the constitution of private fortunes overnight. According to Khalaf, "It has been estimated that between 1957 and 1962 close to US\$ 840 million of public money was spent on land."¹⁸

Thirdly, if we get back to the way oil rent perception has shaped people's behaviours, we will find that the idea of the rent as Kuwaiti nationals' asset, managed by the rulers and entitlement linked to a form of autochtony, has had concrete economic and socio-political implications as it shaped the definition of the size of the citizen body. The feeling of entitlement to revenues of oil being linked to autochtony or proximity is common wisdom if we just think as the way the disgruntling of Shiites of the Eastern province is portrayed or the current mobilization of Basrawis and inhabitants of the Southern province in Iraq who do not benefit from the revenues of the oil pumped *near their place of abode*. My research on statelessness has traced the origin of the conception and practice of nationality in Kuwait.

Kuwait has had two laws defining nationality: the first was issued in 1948 while the second, still in effect but amended several times, dates back to 14 December 1959. The existence of the 1948 Nationality Law bears testimony to the contingency of the national identity as constructed on the basis of the 1959 Law. The main difference between the two laws lays in the inclusion of the *jus soli* in the 1948 Law, absent in the 1959 law, which would have made the Kuwaiti polity look very different from the one we know now. As a matter of fact, the 1948 Law identified Kuwaiti subjects as ruling family members, those permanently

residing in Kuwait since 1899, the children of Kuwaiti men and the children of Arab or Muslim fathers *also born* in Kuwait.¹⁹ At the time, the inclusion of *jure soli* envisioned by the Emir Ahmad al-Jabir and drafted by his trusted secretary 'Izzat Ja'far, could allow a progressive sedentarization of tribespeople and naturalisation of Arab foreign expertise, like Ja'far himself, a Lebanese/Egyptian national. Eleven years later, the significance of Kuwaiti oil exports and the regional context—the rise of Arab nationalism and the fall of the Iraqi monarchy—led to the dropping of the *jus soli* in the law, the restriction of naturalizations and political rights, so as to keep the number of citizens and voters as limited as possible.

Citizens as shareholders

The assumed link between redistribution and exclusive and static vision of citizenry has solidified over time. The internalizing of the rent as an asset owned (internalizing linked to the pervasiveness of oil as a theoretical metonym) is clearly formulated and documented in the later debate regarding the possible solutions to the protracted issue of statelessness in the country in the 2000s. Those opposing naturalization would point at the economic cost of integration, known as *taklifa/kulfa maliyya* or *iqtisadiyya*. Naturalization for those who evaluate its cost would constitute a "liability on future generations that they cannot morally create."²⁰ The adverse economic shock would require adjustments that, they emphatically fear, would jeopardize their own privileges and precipitate the end of the subsidized provision of water, electricity, and food, a return to market prices, as well as an uncertain future for free domestic phone calls, education and municipality services (street cleaning or waste collection).

Longva²¹ underlines that the hostility towards integration of newcomers/foreigners in citizenries is typical of any *welfare* state in the world. Yet, one of the specific

¹⁸ Ibidem p.65

¹⁹ My emphasis. Naturalisation was possible after ten years of residence in Kuwait with employment and proficiency in Arabic, and also by special order for those offering valuable services

²⁰ interview, Kuwait, 2007.

²¹ 'Neither autocracy nor democracy but ethnocracy: citizens, expatriates and the socio-political system in Kuwait', in Paul Dresch and James Piscatori (eds), *Monarchies and Nations: Globalisation and Identity in the Arab States of the Gulf*, London: I.B.Tauris, 2005, pp. 114 – 35.

characteristics of what Michael Herb calls the “extreme rentiers”²² among the GCC rentier systems, as opposed to rentiers in general, is the size of their citizenry. In Kuwait citizens feel they have a stake in state assets and expected the rulers to manage them the best way possible.

From very early on, in Kuwait, the oil rent has been managed as an asset geared toward investment and growth, with the due diligence of “a good householder”. This is how the Kuwait Investment Authority, formerly Kuwait Investment Board, portrays itself: “The oldest sovereign wealth fund in the world” established in 1953, eight years before Kuwait’s independence, with the mission to “achieve a long term investment return on the financial reserves entrusted by the State of Kuwait, providing an alternative to oil reserves, which would enable Kuwait’s future generations to face the uncertainties ahead with greater confidence.”²³ The emphasis placed on future generations is asserted in 1976 with the creation of the Future Generations Fund (FGF), the “intergenerational saving platform” created with half of the General Reserve Fund with obligation by law for the state to transfer 10% of all its revenues and 10% of the GRF net incomes. The fund has built itself a reputation as a “responsible and stable shareholder and owner.” If partially a retro-narration, the idea that there is a responsibility on the part of the rulers to manage the rent on behalf of future generations exists early on. While the oil metonym persists, the reality is that the rent has gradually changed in nature as the revenues are drawn as much from the hydrocarbon as from the returns on interest: the financial cushion accumulated by investment funds amounts to \$592 billion nowadays.

Much has been written on the “rentier mentality” that emerged from the rent. Some analysis linked specific behavioural attributes to the rentier condition. This mentality pointed towards the inability to enter productive employment and the pursuit of rent-seeking behaviours—

Beblawi using the illustration of the *suq al Manakh* attitude of financial speculation.²⁴ Yet my ethnographic work would rather describe this behaviour as capitalist “shareholder/owner mentality”, that is, a logic according to which assets should yield returns. Citizens’ expectations then turn into injunctions, which is only possible due to the size of the citizenry, the clientelist system, and the very close if not parochial monitoring of redistribution between citizens/client communities. In Kuwait, the limited size of the citizenry makes the allocation and advantages conceded to some immediately known and envied.

The shareholder mentality thus has two consequences: first, it translates into the idea of getting a fair return on one’s share. Famously it is through its role as an owner and regulator in the economy that the political elites at the summit of the state exert strong informal control and thereby create the extensive interpersonal dynamics that are so ubiquitous in the political economies of the Gulf states. Conversely, groups in Kuwait that see themselves as disadvantaged by the rulers’ clientelist practices put claims that are in essence relative claims. This is illustrated, for instance by the request to bail out citizens’ debts: this claim for redistribution by middle-class people is founded on the perception that the merchant or economic elite part of the society has been unduly advantaged, be it the public markets attribution and the handling of public tenders made public or even more emblematically, the bailing out of banks by the government as was the case in the aftermath of the 2008 financial crisis. Second, the shareholder mentality creates a pressure for more returns. The ruling elite is placed in a position where its development and investment policy is expected to perform, what Gray²⁵ terms “late rentierism” or the “new state capitalism”. This imperative of rent maximising is comparable to that of the economic elites themselves involved in the global pursuit of returns on investment.

²² Michael Herb, *The Wages of Oil: Parliaments and Economic Development in Kuwait and the UAE*, Ithaca, NY: Cornell University Press, 2014.

²³ See KIA official website <http://www.kia.gov.kw/en/ABOUTKIA/Pages/MissionVision.aspx>

²⁴ “The Rentier state in the Arab world” in *The Rentier State* ed. Hazem Beblawi and Giacomo Luciani, IAI, 1990, 49-62.

²⁵ Ibidem.

Rentier-preneurship:

Dependence and autonomy in women's entrepreneurship in the Gulf

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Increasingly rentier states nurture a dysfunctional, but useful, relationship with neoliberal capitalism. This corresponds with global trends where neoliberal capitalism benefits from authoritarian modalities of governance.¹ Oil continues to play an overdetermined role in economic governance and economic life in Gulf states. Beyond its role in propping up governing establishments, the structural logic of the rentier economy runs deep and is resistant to change. Yet simultaneously the ideology and discourse of the free market, the importance of privatization, deregulation, and liberalization of economic spaces combined with an emphasis on self-employment and individual empowerment has become widespread. Like global financial institutions and consultancies, the Gulf states too are busy promoting entrepreneurship and private sector growth.

The promotion of women's entrepreneurship in the Gulf region can be understood within this broader evolution of rentierism and neoliberal capitalism. Women's empowerment projects around the world, whether run by multinational corporations, development actors, or the state, claim to empower women through market opportunities. Such feminism is critiqued for its abandonment of its radical roots and transformation by neoliberalism.² This form of gender empowerment cast through the lens of free market rationales is what Kantola and Squires have dubbed "market feminism."³ This global development trend melds with economic patterns in Gulf economies, cast between oil dependence and policy discourse on diversification.

Looking at the promotion of female entrepreneurship allows us to examine how the dual neoliberalization of feminism and rentierism interacts with women's economic engagement in the Gulf states. By claiming that the experience of female actors in the Gulf is not univocal, this essay suggests that state-society relations in

Gulf economies are more fluid and co-constitutive than usually depicted in accounts of rentier states.⁴ Feminist political economy helps to show that understanding the reimagining of the rentier state and its impact on society requires one to take seriously the deep structures of the economy alongside the stories and experiences of so-called rentier citizens - at least half of whom are women.

The rentier state meets feminist political economy

Much of the political science scholarship which emphasizes the link between rent and authoritarianism overlooks the ways in which neoliberalism interacts with authoritarianism. The expansion of neoliberal economic patterns does not sit well within the theoretical claims of rentier state literature, which view autocratic, oil-economies as power-maximizing, autonomous actors with politically-acquiescent populations dependent on the state and its various redistributive mechanisms. Using entrepreneurship as an entry-point contributes to exploring the diverse ways neoliberalism has impacted politics in the Gulf.⁵

Authoritarian neoliberalism, an analytic lens developed by Ian Bruff, helps explain some of these paradoxical behaviours.⁶ It was initially used to explain the rise of authoritarian tendencies in democracies, but various blends of authoritarianism and neoliberalism can also be identified across autocratic countries with recent histories of rapid economic development. Some call this 'state capitalism,'⁷ but I suggest that authoritarian neoliberalism better encapsulates the logic and disciplining power of the discourse of neoliberalism alongside explicit economic policy choices. Indeed, "neoliberalization in authoritarian states produces a symbiotic configuration whereby the reforms are enacted and protected through existing mechanisms of authoritarian statecraft."⁸ The promotion of women's entrepreneurship makes the marriage of

convenience between rentierism and authoritarian neoliberalism especially evident. The utilization of both state feminism and market feminism to promote private sector growth, diversification, and women's advancement advances narratives of state as reformer and underlines how policy agendas can be co-constitutive and mutually beneficial.

A gender-agency problem

Zooming in on women's entrepreneurship in the Gulf allows us to challenge two spaces of analysis common in rentier state literature – assumptions about weak popular agency in the Gulf ruling bargain and links between oil rents and development.

Gulf women face two marginalizations in economic research on the region. First, citizens in general are viewed as voiceless and lacking in agency given the rentier ruling bargain. Second, women are viewed as especially oppressed either by oil, Islam, or culture – victims of policies and norms who need to be saved either by benevolent leaders who champion their growth or by the market which promises liberation. Occasionally, they are instead presented as a *sui generis* privileged elite whose vast financial resources give them endless economic and entertainment opportunities.⁹ But such caricatures are no more useful than the more prevalent tropes of oppression.

The literature on rentier political economy therefore tends to neglect or to distort the role of women in economic change. Policies are not gender neutral, and neither are studies. By ignoring women in accounts of economic development in the Gulf, we fail to comprehend the depth and breadth of economic choices and their impact. As Okruhlik has noted, “Not the simple receipt of oil revenue, but the choices made on how to spend it shape development.”¹⁰

This essay focuses on one dimension of these economic policy changes to highlight the nuances of gender: why have Gulf states chosen to embrace a market discourse around entrepreneurship? It appears paradoxical to

promote independent income generation that may distance citizenry from cycles of economic dependence and loyalty. The promotion of women's entrepreneurship is a global trend which resonates in distinctive ways through Gulf political economy.

Because women's participation in labor markets is weak in the Middle East, international financial institutions (IFIs) view women as an “untapped resource” that can contribute to economic growth.¹¹ Gulf states are encouraged to motivate women to be entrepreneurial because of the potential gains possible from their productive economic engagement. The promotion of entrepreneurship is being sold globally as a universal remedy to weak economic development and labor market outcomes. IFIs, multinational corporations, global consultancies and governments across political spectrums have lined up behind this trend. Even the UN has embedded entrepreneurship for development among its Sustainable Development Goals (SDGs). Furthermore, already bloated public sectors have little capacity to absorb more citizens. Where the private sector is reluctant to hire Gulf nationals, the hope is that employment creation through entrepreneurship can be an escape valve.

Injecting Gulf women into entrepreneurship locates their productivity in economic accounts. These developments are depoliticized and rest upon an intensifying trend of technocratizing issues of economic development while at the same time failing to problematize the failure of economics to value reproduction and ‘women's work’ in economic accounts.¹² Moreover, such a discourse proffers freedom and autonomy through dependence on capitalist markets rather than men.¹³

Yet women, just like other social actors, do not experience state policies and business relations equivalently. Diverse forms of economic participation can be freeing or constraining and interact with patriarchal social and political forces. My research with female entrepreneurs revealed varied experiences with entrepreneurship.¹⁴ Certainly there were those who found it empowering – the source of autonomous income leading to financial

independence. These women embraced the discourse around entrepreneurship and self-employment. Others felt that entrepreneurship provided a different type of freedom – that is, it allowed them to become economically active without necessarily having to be in a male-dominated workplace (through, for example, home businesses or businesses with primarily female clients). Still others experienced it in a reverse way; the financial necessity of formal economic participation was a heavy burden. Women thus respond to policy discourse spaces diversely and find varying ways to use and navigate these opportunities to improve their situation.

Entrepreneurship promotion has melded with women’s empowerment projects globally.¹⁵ Women joining the labor market is viewed as win-win because it is growth maximising. Such neoliberal economic policy advice has been internalized and promoted from the Gulf state. Like corporate women’s empowerment projects “use a version of feminism” to earn legitimacy and “develop a reputation as good corporate citizens in a globalized economy,”¹⁶ so too do rentier states embrace female empowerment through entrepreneurship as one branch of state feminism. It supports state narratives of championing women’s roles in economics and government.

Oil rents, women, and the labor market

Scholars have been concerned with whether oil rents impede democracy and development in the Middle East for several decades.¹⁷ Binary answers have shaped much of the intellectual engagement around the impact of rent on economies, politics, and societies. Similarly, when it addresses gender, rentier state literature has asked whether rentierism hampers or facilitates women’s economic engagement. Women’s economic participation is also treated with binary, testable answers. The results of economic development choices are determinative of the shape and space for female participation.

The region is widely viewed as underperforming in terms of women’s economic engagement. Yet Gulf women have excellent access to education, health care, and child and

elderly care support. Moreover, Gulf women are entering universities and completing degrees at higher rates than men. They even comprise a higher percentage of computer science and IT majors than men.¹⁸ The story looks positive. However these outcomes are not well reflected in the labor market. Gulf women are decidedly underrepresented in the private sector workforce. The World Bank has dubbed this phenomenon the ‘gender paradox’ of the Middle East.

Some scholarship blames oil for these outcomes. Ross argues how oil-led development negatively impacts women’s labor market participation.¹⁹ Oil-dependent economies build industrial activities in sectors less hospitable to women’s employment globally, like extraction and refining.²⁰ Such structural claims have been met with vigorous debate.²¹ Indeed the Gulf region may not in fact be the “radical outliers”²² to the impact of economic development on women as often predicted for oil economies.

In fact, women in the Gulf are entering the formal labor force at higher rates today than previous decades. World Bank estimates show that formal female labor force participation has at least doubled over the past four decades in all six GCC countries (Table 1). While it still remains low in Saudi Arabia and Oman, rates in Kuwait and Qatar fall within EU averages.²³ Theories that view oil as relegating women to the home by lifting the financial imperative of work have given way to evidence which suggests that young Gulf women are more prepared to work in advanced industries than men.²⁴

Table 1: Female labour force participation
(% of female population)

Country	1980	2017
Bahrain	18.2	44
Kuwait	21.1	47
Oman	7.6	30
Qatar	14.4	58
Saudi Arabia	9.6	22
UAE	16.3	41

*World Bank*²⁵

What is evident from this data is that accounts which

suggest female labor force participation is low view the statistic as a percentage of the total workforce rather than as a percentage of the total female population (table 1).²⁶ It is, however, worth keeping in mind critiques of such measures which only consider populations of “economically-active” individuals. These data do not account for disenfranchised job seekers, the underemployed, and those who chose to remain in school because of a dearth of economic opportunities. Moreover, choosing certain segments of the population to base such estimates on, while revealing some trends, muddles citizen/non-citizen divides and other often gendered phenomenon like household workers and ‘trailing spouses’ in expat-dominated economies.

Data also show a clear preference for public sector employment. This is consistent with all Gulf nationals but more pronounced among women. As Figure 1 illustrates through the Omani case, Omani women comprise 35 percent of public sector employees, but only three percent of private sector ones.

Part of this can be explained with a view of how economic structures shape labor markets in the region. The over-reliance on oil rents in state budgets has sustained the characterization of Gulf states as the quintessential rentiers. This is coupled with a dependence on foreign

labor that began in the early oil boom years when expatriates were required to plug a human resources and skills gap. This dependence has continued, constructing rigidities in the labor market that are difficult to change.²⁸ The results are labor markets segmented by nationality, skill class, sector, and gender. The predominance of non-nationals and men in the private sector obscures the visibility of women.

Furthermore, GCC countries use public sector employment as a means of wealth redistribution and to manage unemployment. In economies like Bahrain, Oman, and Saudi Arabia, hydrocarbon revenues are unable to keep up with the expansion of the working age population, and unemployment among young people is high. Women’s growing entry into the workforce enlarges the employment burden on the state – especially where women’s employment is preferred in the safe and secure public sector. Thus along with the pursuit of diversification and economic growth, the entrepreneurship agenda is intended to help offset the state’s employment burden by offloading it on the private sector and the individual.

The state promotion of entrepreneurship can therefore be interpreted as reenvisioning ways of spending oil income and redistributing wealth to a wider network, including women and youth not necessarily from

Employment by gender and citizenship, Oman (2016)

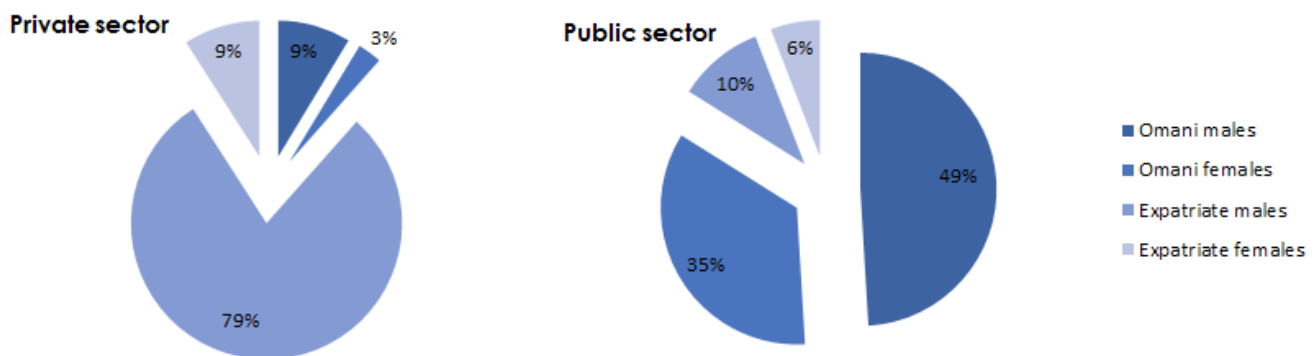


Figure 1
NCSI²⁷

privileged backgrounds. Gulf governments have needed to underwrite the provision of new economic possibilities by policy strategies like entrepreneurship promotion through grants, loans, business incubators, and more.²⁹ Individuals compete for access to such state support. The expansion of the rent-seeking net beyond political and commercial elites is a noteworthy dynamic.³⁰

Moreover, a variety of women from diverse social classes are embracing the state's promotion of entrepreneurship and self-employment. Few initiatives are innovative with a scope that responds to regional economic malaise. Rather much of the business activity centers on microenterprises and consumption goods. But these entrepreneurial forms provide a way of earning independent income. They also illustrate diverse ways women internalize and respond to economic options and structures in the economy.

Conclusion

My research on female entrepreneurship promotion provides three insights into the transformation of the rentier state. First, in trying to stimulate the private sector away from oil, the rentier state has found a new way of

expanding rent circulation. This reform distortion reifies the market as the place of liberation and elixir to domestic economic woes while at the same time creating a new mechanism of reliance on the state. Second, it decouples assumed linkages between economic liberation and political liberation. The embrace of neoliberal discourse and policy advice is not concerned with improving democratic outcomes, but coexists comfortably with authoritarianism. Third, while oil does not necessarily keep women out of the workforce, the neoliberalization of feminism and of rentierism has coalesced around the idea that women's formal labor market participation – especially through creating their own enterprises – resolves both economic and employment challenges.

This brief claims it is time to untangle gender in political economy analyses on the rentier state. It further suggests that scholarship on the rentier state should also consider the texture of policy impact. Asking qualitative questions around how impacts are felt and experienced whether deliberately or unintentionally can round out our analysis of rentierism and push the boundaries of the questions we can continue to ask at various levels of analysis.

¹ Ian Bruff & Cemal Burak Tansel, "Authoritarian neoliberalism: trajectories of knowledge production and praxis," *Globalizations*, (2018) DOI: 10.1080/14747731.2018.1502497

² Elisabeth Prügl, 'Neoliberalising Feminism', *New Political Economy* 20, no. 4 (4 July 2015): 614, <https://doi.org/10.1080/13563467.2014.951614>.

³ Johanna Kantola and Judith Squires, 'From State Feminism to Market Feminism?', *International Political Science Review* 33, no. 4 (2012): 382–400, <https://doi.org/10.1177/0192512111432513>.

⁴ Michael Herb, *The Wages of Oil: Parliaments and Economic Development in Kuwait and the UAE* (Ithaca, NY: Cornell University Press, 2014); Gwenn Okruhlik, 'Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States', *Comparative Politics* 31, no. 3 (1999): 295–315, <https://doi.org/10.2307/422341>; Matthew Gray, 'A Theory of "Late Rentierism" in the Arab States of the Gulf', *Center for International and Regional Studies Georgetown University School of Foreign Service in Qatar, Occasional Paper*, no. 7 (2011).

⁵ Michelle Buckley, 'Locating Neoliberalism in Dubai: Migrant Workers and Class Struggle in the Autocratic City', *Antipode*, 2012, 256–74, <https://doi.org/10.1111/j.1467-8330.2012.01002.x>; Laura Guazzzone and Daniela Pioppi, eds., *The Arab State and Neo-Liberal Globalization: The Restructuring of State Power in the Middle East* (Cairo: American University in Cairo Press, 2009); Adam Hanieh, *Capitalism and Class in the Gulf Arab States* (New York: Palgrave Macmillan, 2011); Crystal A. Ennis, 'The Gendered Complexities

of Promoting Female Entrepreneurship in the Gulf', *New Political Economy* (2018) <https://doi.org/10.1080/13563467.2018.1457019>.

⁶ Ian Bruff, 'Authoritarian Neoliberalism, the Occupy Movements, and IPE', *Journal of Critical Globalisation Studies* 1, no. 5 (2012): 114–16; Ian Bruff, 'The Rise of Authoritarian Neoliberalism', *Rethinking Marxism* 26, no. 1 (2 January 2014): 113–29, <https://doi.org/10.1080/08935696.2013.843250>; Bilge Yesil, *Media in New Turkey: The Origins of an Authoritarian Neoliberal State* (Urbana: University of Illinois Press, 2016).neoliberal practices have proved increasingly unable to garner the consent, or even the reluctant acquiescence, necessary for more 'normal' modes of governance. Of particular importance in the post-2007 crisis has been the growing frequency with which constitutional and legal changes, in the name of economic 'necessity', are seeking to reshape the purpose of the state and associated institutions. This attempted reconfiguration is three-fold: (1

⁷ Ian Bremmer, 'State Capitalism Comes of Age: The End of the Free Market?', *Foreign Affairs* 88, no. 3 (2009): 40–55.

⁸ Bruff and Tansel (2018)

⁹ Madawi Al-Rasheed, *A Most Masculine State: Gender, Politics and Religion in Saudi Arabia* (Cambridge: Cambridge University Press, 2013); Christopher M. Schroeder, *Startup Rising: The Entrepreneurial Revolution Remaking the Middle East* (New York: Palgrave Macmillan, 2013).

¹⁰ Okruhlik, 'Rentier Wealth, Unruly Law, and the Rise of Opposition', 297.

¹¹ World Bank. 'Gender and Development in the Middle East and

- com/citation-style-language/schema/raw/master/csl-citation.json}
- ²¹ Teri L. Caraway, 'Comparative Political Economy, Gender, and Labor Markets', *Politics & Gender* 5, no. 4 (December 2009): 568–75, <https://doi.org/10.1017/S1743923X09990389>; Alice Kang, 'Studying Oil, Islam, and Women as If Political Institutions Mattered', *Politics & Gender* 5, no. 4 (December 2009): 560–68, <https://doi.org/10.1017/S1743923X09990377>; Aili Tripp, 'Debate: Does Oil Wealth Hurt Women?', *Politics & Gender* 5, no. 4 (December 2009): 545–46, <https://doi.org/10.1017/S1743923X09990341>. Islam, and Women" by the discipline's flagship journal, the *American Political Science Review*, is a welcome development. It is the first empirical work with a primary focus on gender and political economy ever published in the journal and portends well for the development of research that focuses on such questions. My essay has two foci. The first is a critical engagement with Ross's analysis of why oil production negatively affects women's employment prospects. The second is how to further develop the study of gender in the comparative political economy of labor markets.;DOI:"10.1017/S1743923X09990389";ISSN:"1743-9248, 1743-923X";language:"en";author":["family":"Caraway";given":"Teri L."];issued":{"date-parts":["2009",12]}];{"id":"1450",uris":["http://zotero.org/users/432243/items/YZSUVXAH"],"uri":["http://zotero.org/users/432243/items/YZSUVXAH"],"itemData":{"id":"1450","type":"article-journal","title":"Studying Oil, Islam, and Women as if Political Institutions Mattered","container-title":"Politics & Gender","page":"560-568","volume":"5","issue":"4","source":"Cambridge Core","abstract":"By asserting that oil, not Islam, hurts gender equality, Michael Ross (2008
 - ²² Liou and Musgrave, 'Oil, Autocratic Survival, and the Gendered Resource Curse', 440.
 - ²³ Gail Buttorff, Bozena Welborne, and Nawra Al-Lawati, 'Measuring Female Labor Force Participation in the GCC', *Issue Brief*, Rice University's Institute for Public Policy, no. 01.18.18 (2018): 2.
 - ²⁴ Sean Foley, *The Arab Gulf States: Beyond Oil and Islam* (Lynne Rienner Publishers, 2010), 167–210.
 - ²⁵ World Bank, 'Gender and Development in the Middle East and North Africa: Women in the Public Sphere', MENA Development Report (Washington: World Bank, 2004), 59, http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2004/03/09/000090341_20040309152953/Rendered/PDF/281150PAPER0Gende010Development0in0MNA.pdf; World Bank, 'Labour Participation Rate, Female (% of Female Population Ages 15+)' (Washington: World Bank, 2018), <https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS>.
 - ²⁶ Buttorff, Welborne, and Al-Lawati, 'Measuring Female Labor Force Participation in the GCC'.
 - ²⁷ NCSI, '2017 Statistical Year Book' (Muscat: National Centre for Statistics and Information, 2017), https://www.ncsi.gov.om/Elibrary/LibraryContentDoc/bar_Statistical%20Year%20Book%202017_c2111831-e13a-4075-bf7b-c4b5516e1028.pdf.
 - ²⁸ Ennis, 'The Gendered Complexities of Promoting Female Entrepreneurship in the Gulf'.
 - ²⁹ Crystal A. Ennis, 'Between Trend and Necessity: Top-Down Entrepreneurship Promotion in Oman and Qatar', *The Muslim World* 105, no. 1 (2015): 116–38, <https://doi.org/10.1111/muwo.12083>.
 - ³⁰ Ennis.

Social engineering in rentier states

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Culture plays a limited role in rentier theory, and social engineering even less of one. Two of the best known contributors, Hazem Beblawi and Giacomo Luciani, argued in *The Rentier State* (1987) that such states need not bother with national mythmaking since they can build loyalty through the distribution of their large stores of resource wealth. Why spend time and effort trying to shape the culture of a population—constructing stories of peoplehood, legitimizing myths, narratives of citizenship, and the like—when loyalty can be acquired through easier and more direct means?

The argument is not without its merits. The Gulf monarchies, among the richest of rentier states, devoted relatively little attention in their early years to devising and inculcating elaborate forms of nationalism. Because rulers could gain loyalty by providing an unprecedented degree of economic and social welfare for citizens, “there wasn’t yet a deep coherence or political meaning to being Emirati or Saudi or Qatari” (Okruhlik 2011, 126), nor was there much urgency to establish one. Dirk Vandewalle (1998, 171) draws a similar conclusion in the case of Libya, noting that distributive states need not “elicit more than perfunctory loyalty” to survive and prosper. Comparisons to governments with fewer resources at the time of state-formation are especially revealing. Like the nearby Gulf states, Iraq was also a monarchy patched over tribal allegiances in its early years, yet it could not build loyalty in the same way. Shortly after independence, it turned to social engineering in the public school system; if it couldn’t “buy” loyalty, it would need to instill it by way of a powerful nationalist ideology.

It is striking, then, how ambitious and far-reaching social engineering efforts by the Gulf rentier monarchies have become, both at home and abroad. Not only does rentier theory not predict it, but the theory also gives us some compelling reasons not to expect it. Of course, such social engineering is not an entirely new phenomenon.

Even though the Gulf monarchies largely eschewed the inculcation of all-out nationalism, they dabbled in social engineering, especially during the first oil boom, by producing museums and histories to legitimize ruling families as rightful political leaders. Hence Qatar, although “sadly lacking in a civic myth” in the early 1970s, soon began “developing symbols that would clarify and legitimize [the emir’s] claim to rule” (Crystal 1990, 162).

Yet such early efforts at social engineering pale in comparison to the wider and more penetrating campaigns unfolding today. In Saudi Arabia, the new crown prince, Mohammed bin Salman, has famously declared his country “not normal” (Hincks 2017) and aims to transform it with a sweeping set of social and economic reforms, reversing the Kingdom’s longstanding preference for gradualism. Notably, he is taking on the “third rail” (Gause 2010) of Saudi politics—gender segregation—by lifting the ban on women driving and opening cinemas, including gender-mixed ones. Using new public rhetoric and symbolism, he is also promoting what he calls “moderate Islam,” reducing the power of the Wahhabi establishment, and moving toward a more secular nationalism as the basis for regime legitimacy.

In the UAE, the leadership has also sought to defy the “king’s dilemma” (Huntington 1968) by fostering a more open and globalized society knit together by a new nationalism, while maintaining regime legitimacy. As in Saudi Arabia, high-profile initiatives promoting knowledge, culture, and innovation, such as new universities and futuristic cities, are typical (Ulrichsen 2016). But the UAE campaign started earlier, and has gone deeper with extensive reforms to public education, starting with kindergarten. These aim to transform both the mindsets and the skillsets of the rising generation in a bid to create more “globalization-ready” citizens (Jones 2018). Reforms emphasize student-centered methods—pushing creativity, problem-solving, and vocational skill over the rote

memorization approach of the past—and also a revamped nationalism that celebrates UAE identity as pioneering, entrepreneurial, tolerant, and loyal. In addition, the regime instituted mandatory military service in 2014, with all men 30 years or younger required to register and live in barracks as they fulfill service requirements (Alterman and Balboni 2017).

Why social engineering?

Such bold social engineering flies in the face of rentier state theory and raises a number of important questions. First, why are we seeing such investments in social engineering on the part of Gulf rentier states? One answer may be cost. Social engineering is not cheap and may produce unintended consequences, discussed in more detail below. But, as a strategy of building loyal citizens, it is presumably cheaper and less distortionary than direct provision of government jobs and other forms of state largesse.

Another important reason is that resource wealth alone isn't enough to secure loyalty and stability and never has been. The rentier social contract—in which states provide economic and social welfare in exchange for citizen loyalty—is more theory than reality. Undoubtedly, resource wealth helps. It is telling that the Gulf's "extreme" rentier states (Herb 2014), such as Qatar and the UAE, were among the only regimes in the region to emerge from the 2010-2011 pro-democracy uprisings relatively unchanged, despite their near absolutism. But such wealth is unlikely to serve as a reliable basis for citizen loyalty in the longer term. Moreover, as Gulf regimes gear up for a confrontation with Iran, widely perceived as an external threat, they have further incentive to consolidate strength and loyalty.

The rentier social contract is a variation on what Rogers Smith (2003) calls an "economic story of peoplehood," in which rulers gain the support of constituents by making socio-economic promises. While there may be some leeway—for example, [Krane](#) (this volume) shows that Gulf governments have removed some subsidies, with little of the political consequences expected by rentier

theory, and [Gengler](#) (this volume) suggests that the rentier citizen's freedom from taxation may not be as sacrosanct as believed—this type of loyalty is a rickety sort. Without a deeper connection to the state, loyalty based primarily on economic stories of peoplehood is not likely to persist through hard times (Smith 2003), and is instead inclined to dissipate when socio-economic promises cannot be fulfilled. All the Gulf states are under growing strain stemming from a range of factors, including volatility in international oil markets, the unequal distribution of resource wealth, demand for greater political participation, and massive expatriate populations with few rights (Davidson 2012). The time will come when shrinking resources may constrain the ability to respond through distributing more rentier wealth.

Far from burying their heads in the sand, Gulf leaders are increasingly aware of these cracks in the rentier social contract, and that brings us to another driver of contemporary social engineering—elite agency. Earlier theorists attributed considerable autonomy to rentier states, seen as divorced from the need to tax and thus bargain with their citizens. But these theorists did not anticipate the degree to which ruling elites would become aware of their own rentier-induced weaknesses and seek to address them in innovative ways. In Terry Karl's memorable words, such ruling elites are "weak giants that could be rendered ineffective by hundreds of rent-seeking Lilliputians" (1997, 60). A neglect of elite agency is consistent with the oft-noted economic determinism that underlies much of the theory. But while rentier economic structures can and do influence political actors entangled within them, those actors can also make unexpected decisions, reflecting at least some degree of freedom to think and act within those structures (Hertog 2010).

Social engineering by Gulf rentier states is one area in which elite agency plays a key role. Many ruling elites know about the perils of resource wealth, not only economically, but also politically in the shaky basis for loyalty that an over-reliance on it for legitimacy can provide. Some of them have even studied the topic in political science courses in the West (Jones 2015), and they don't wish to

stand idly by as the challenges deepen. Social engineering efforts today are partly a reflection of political elites searching for solutions to these challenges, often with the support of top international experts (Jones forthcoming in 2019). They know that the rentier social contract will be difficult to sustain in the coming years, and so they are experimenting with ways to adapt it, attempting to instill greater economic self-reliance and less expectation of government jobs and other forms of state largesse—without undermining their own legitimacy.

The new nationalisms underlying these campaigns are therefore critical. Rulers need not only prepare their citizens economically for a post-petroleum age by upgrading skills and mindsets, but they also need to reconstruct the basis for legitimacy. In line with this need, political symbolism is shifting from rentier themes such as “Support us because of the good life we can provide you” to neoliberal nationalist messages such as “Work hard and contribute to your country because you love and owe it,” “Prove yourself by being successful in the nation’s private sector,” and “Support us, not because we provide for you, but because you are citizens of this great country and we are its leaders.” As *Ennis* (this volume) shows, such messages may also be gendered, reflected in Gulf government efforts to cast women’s entrepreneurship as a means of empowerment.

A third driver of contemporary social engineering is a widening recognition that resource wealth, rather than being a reason not to bother with mythmaking, nationalism, propaganda, and the like, in fact offers tremendous opportunities for and temptation to engage in such activities. In other words, the earlier rentier theorists may have been correct that rentier states do not “need” social engineering as urgently as resource-poor states do, especially at the time of state-formation. But that doesn’t mean they don’t engage in it, for political, economic, reputational, and other reasons. The rigid functionalism in early rentier theory (“if there’s no need for it, it doesn’t happen”) was therefore misplaced. Gulf leaders, far from being reluctant social engineers, are coming into their own as very enthusiastic shapers of attitude and opinion.

My research has investigated the consequences—intended and unintended—of Gulf social engineering. In my book, I focus on the UAE drive to build a new kind of citizen, better adapted to a more open and globalized world in the eyes of the leadership (Jones 2017). Surveying more than 2000 Emirati youth, comparing incoming and outgoing cohorts in regular public schools as well as public schools that had implemented major reforms in line with the state’s social engineering goals, I found mixed results.

While the evidence suggested UAE social engineers are succeeding in influencing civic attitudes, effectively increasing tolerance, civic-mindedness, and patriotism, their efforts appear to be backfiring with respect to economic and political attitudes. Notably, students subjected to social engineering seemed to grow more supportive of the citizen’s right to a government job, perhaps reflecting a heightened political consciousness surrounding ownership of oil rents and the right to one’s fair share—a “shareholder mentality” (*Beaugrand*, this volume). They also grew less entrepreneurial and more interested in political participation for themselves, albeit not other citizens. I described these new citizens as “entitled patriots,” highly civic and patriotic yet also highly entitled. To summarize, while the data pointed to success on the civic front, the evidence did not suggest that UAE social engineers are succeeding in their effort to cultivate more economically self-reliant citizens without triggering political demands. Solutions to the “king’s dilemma” remain as elusive as ever.

How and why social engineering efforts succeed or backfire—and the normative implications for society—are likely to remain important questions, especially as technologies allow ever-greater means of influence and invasion of privacy. For example, in my book, I found that the new nationalism being promoted by UAE social engineers was itself partly to blame for intensifying economic and political entitlement attitudes. By offering excessive praise for citizens and their nation, it did not motivate hard work and high achievement so much as justify elite status. Such “feel-good” nationalism was therefore very helpful in promoting civic and

patriotic attitudes, but not successful in fostering entrepreneurialism, risk-taking, and other development-friendly attitudes sought by leaders.

This trend can also be seen in Gulf leaders' use of social engineering abroad (Hertog 2017). Saudi Arabia has long been accused of promoting its own worldview in foreign locales, building schools and mosques that legitimize its claims to leadership in the Muslim world (Shane 2016). But changes in technology and the global media landscape have opened up new avenues for such cross-border social engineering and invited new entrants to play the game. Saudi Arabia and Qatar both have powerful media empires today that can be deployed for social engineering. Thus, in the wake of the Arab uprisings, Gulf leaders used these tools of soft power to complement their hard power interventions, furthering their shared interests in monarchical regime stability. While rebels in some countries, such as Syria, were portrayed in a sympathetic light, others closer to home and more threatening to the monarchs themselves, such as those in Bahrain, were largely ignored (Lynch 2018).

How do international audiences react to Gulf efforts at cross-border social engineering? And domestically, is social engineering working as Gulf leaders intend? We need to ask not only about origins and mechanisms of social engineering by rentier states, but also about outcomes and limits. While new media technologies have empowered social engineering ruling elites, they have also empowered citizens to resist efforts to influence them. Despite their media empires, the rich Gulf monarchies are far from universally loved; thus, while Qatar was popular right after the Arab uprisings, that popularity "collapsed when [Qatar] was seen to overreach and try to impose the Muslim Brotherhood on Egypt" (Lynch 2016, 61). Conflicts within the Gulf Cooperation Council (GCC) may also limit the power of social engineering, as Saudi and Qatari media promote increasingly divergent narratives. In addition, unintended consequences are typical, a lesson the Saudi leadership presumably learned from its earlier, brick-and-mortar efforts at social engineering in places such as Afghanistan and Pakistan.

In conclusion, rentier state theory should be extended to make more room for culture and social engineering. Any of the post-rentier strategies of reform outlined by Herb, Diwan, and others in this volume will need to be accompanied by newly legitimizing rationales to gain popular buy-in. Despite early predictions, rentier states can and do engage in ambitious social engineering schemes both at home and abroad, and we need to understand why, how, and to what effect. Because social engineering is booming in the Gulf rentier states, the region offers a valuable opportunity to investigate these questions in comparative perspective.

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Borders, sovereignty, and sample selection bias: Rethinking the politics of the resource curse

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Theories of the rentier state and the resource curse are amply discussed in the other papers in this collection and require no elaborate introduction. Here, we instead reconsider one central claim of that literature: that conditional on the availability of substantial resource rents, autocratic regimes are likely to be unusually long-lived, a quality usually described as durability or resilience. We echo and extend arguments made by Michael Herb (1999), Matthew Groh and Casey Rothschild (2012), and Justin Gengler (2015), each of whom finds that the countries of the Arabian Peninsula are empirically distinctive in ways that confound standard studies of the political and economic consequences of oil-based development. We provide a novel account of the distinctiveness of the Arabia Peninsula and the challenge the Peninsula's politics pose to standard quantitative analysis. We then re-estimate the effects of oil on regime durability to show that the conventional wisdom is not robust to model specifications that adjust for the distinctives of the Arabian Peninsula.

What make the politics of the peninsula distinctive? Many things, identified first by other scholars. Gengler (2015, 15) observes that the six GCC states of the Arab Gulf are outliers in two dimensions: their near-invariant low democracy scores and their fuel rents which, on a per capita basis, dwarf the average size of rents in the rest of the world. Consequently, looking at a simple bivariate, cross-sectional analysis of fuel rents per capita and a nation's Polity IV score, the negative relationship is between oil and democracy "is almost entirely dictated by the small number of outlying observations consisting of the Arab Gulf states along with Brunei and Libya." Herb (1999) argues persuasively that the monarchies of the Gulf states are "dynastic monarchies," a distinctive type of monarchy whose internal structure has proven to be unusually

resilient. Independent of any effects of oil, then, we have solid theoretical reasons to believe that the Gulf states will be resilient non-democracies.

Our current research, summarized in this brief paper and available in greater detail in other papers, asks a question prior to the analysis of Herb, Gengler and others: Why do the Arab Gulf states exist as sovereign states given the enormous threats to their survival in the early part of the twentieth century? After all, small principalities were common in pre-modern history but tended to disappear in the post-colonial era. Compare a map of the Arabian Peninsula to a map of pre-independence India: the former contains five principalities – Kuwait, Bahrain, Qatar, the United Arab Emirates, and Oman – that survived from the era of quasi-independence during the long period of *Pax Britannica*, while the latter contains the former Princely States – hundreds of them! – that enjoyed British protection but simply disappeared at Indian independence.

The phenomenon to which we are drawing attention is a type of sample selection bias called *survivorship bias*. Survivorship bias occurs when a social or political process causes many units to drop out of the sample, while those which survive and enter the sample exhibit peculiar features, consistent with their survival, that makes them non-representative of the larger population. Left uncorrected, survivorship bias can lead to biased conclusions. Therefore, standard practice is faulty. Standard practice is to estimate a conditional probability function, such as the probability of autocratic survival conditional on access to resource rents, on all units in a cross-sectional and longitudinal data set that spans the globe. Using all of the relevant data would seem to assure most scholars that they are not inducing bias through

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selecting a biased set of cases; but with survivorship bias, the bias is built directly into the data set.

The claim that survivorship bias exists such that commonly used data sets “over-sample” units that have extremely high oil resources and also have inordinately resilient monarchies likely to survive even in the absence of oil, requires the appropriate causal model. Figure 1 below provides this model and conveys the critical points we wish to defend and whose implications we then explore.

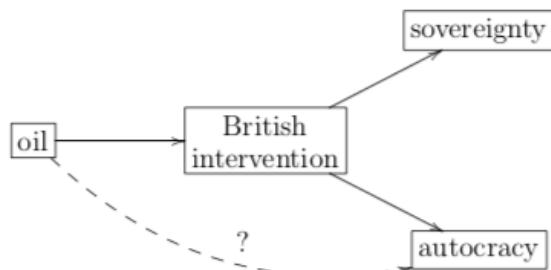


Figure 1: Endogenous Borders

Figure 1 commits us to validating three causal relationships, each represented by a solid arrow in Figure 1. Conditional on establishing these claims, Figure 1 also licenses us to make some necessary adjustments to the data set in order to reconsider the relationship between oil and autocracy. Here, we briefly summarize the set of causal claims that are validated in longer versions of this paper.

First, by the very end of the 19th century and the early part of the 20th century, British strategic interests in the Gulf were undergoing transformation. While the traditional interest in maintaining a secure link to India was never displaced, with the onset of the Age of Petroleum, the British Admiralty under Winston Churchill – later the Colonial Secretary in charge of the Middle East – became obsessed with the question of securing access to cheap oil. The British met this goal in part by adding new layers to existing arrangements with the rulers of Gulf principalities – Kuwait, Bahrain, Qatar, the original Trucial States that would become the United Arab Emirates, and Oman -- between 1913 and the early 1920s. These new agreements obligated local rulers to award oil concessions to British

firms *in the event that oil fields were discovered in the future*. These new treaty obligations further committed Britain to their continued independence, as the newly guaranteed monopolistic access to potential oil fields was only valuable as long as the signatories continued to rule.

Second, the desire to control potential oil fields led the British, beginning in 1920, to defend the five principalities from repeated incursions triggered by the dynastic and territorial ambitions of Ibn Saud. We feel highly confident concluding that were it not for British protection and intervention, the Kingdom of Saudi Arabia would have expanded to the shores of the Arabian Gulf: contemporary observers, British and Arab, agreed. While it is possible that some of the principalities would have survived as city-states, their hinterlands where the oil was to be found would be within the borders of a Saudi super-state.

Third, we argue that British intervention inadvertently transformed the five principalities in ways that made them inordinately durable monarchies; these transformations largely preceded the large-scale exploitation of oil. In particular, the dynastic stability that some attribute to either the special features of monarchies (Gandhi 2010), to the special political culture of Arabian monarchies cultivated over the centuries (Menaldo 2016), or to the specific dynastic institutions particular to Gulf monarchies (Herb 1999), was largely a product of relatively recent British intervention. Ironically, dating back to the mid-1800s, British policy-makers worried that their treaty protection of the principalities were engendering moral hazard; these worries were prophetic.

Given the reality of endogenous borders, one implication is we think incontrovertible: that these five principalities would not exist as sovereign nation-states were it not for their oil, and that the process of maintaining their independence contributed greatly to their autocratic resilience. Global data sets, then, are not a random sample of all potential data sets; they are a biased sample that over-represents small, resource-dependent countries that are highly likely to be anomalous autocracies.

How should we correct this problem? We have no choice but to begin the analysis with a standard global data set, but we feel justified in making some adjustments to it based on the counterfactual we have justified: without British intervention, the entirety of the eastern littoral would fly the Saudi flag. Using the existing data set, we first test a run-of-the-mill hypothesis: following the standard story of the political resource curse (Ross 2012, Geddes et al 2015) we posit a negative or deterrent effect of oil and gas revenues on the probability of authoritarian breakdown. The second hypothesis embodies our correction to the problem of survivorship bias. It constructs a counterfactual historical landscape in which all the other Gulf states have been annexed into Saudi Arabia, and thus tests whether their existence as independent states affects the impact of oil/gas revenues on authoritarian breakdown. Here, the oil revenues of the “annexed” five countries are incorporated into the oil income of Saudi Arabia. Kuwait, Bahrain, Qatar, the UAE, and Oman are dropped from the data set, and all of their oil revenues are assigned to the counterfactual super-Saudi state.

We test these two hypotheses, one referring to the imperfect world we happen to inhabit and one to the “corrected world” in which survivorship bias has been removed, by estimating first logit and then Cox semi-parametric hazard models. Each of these models contains the standard suite of control variables. The results are stark: while the rentier state hypothesis performs as advertised in the uncorrected data sets, the effect disappears in the counterfactually corrected data sets. Model coefficients are sharply reduced in size and they lose statistical significance. Without the five independent principalities, there simply is no rentier effect on autocratic stability. These results are robust to almost two dozen different model specifications.

We conclude with two comments. First, we recognize that some of the claims we are making are controversial. Much scholarship, beginning with Monroe’s (1981) classic

history of Britain’s “moment” in the Middle East, denies that Britain was motivated by the need to gain access to oil resources. Herb’s (1999, 29-30) exhaustive account of dynastic monarchies in the Gulf denies that the British played a significant role in the construction of dynastic monarchies. We take the claims very seriously, but we believe that substantial empirical evidence, far too lengthy to summarize here, justifies our claims.

Second, we are making a relatively narrow empirical claim about survivorship bias among the five Gulf principalities. We recognize that endogenous borders are quite common; we also recognize that borders in the Middle East have frequently been contested. Some principalities with oil and British sponsorship disappeared, after all.² Therefore, it is crucial to emphasize that our claim of survivorship bias rests on the causal model depicted in Figure 1 above. Parallel claims about endogenous or contested borders must be similarly justified before adjustments such as the ones we make here will be methodologically valid.

Still, while methodologically cautious, we encourage others to follow the methodological guidelines we propose here. We study political and economic outcomes by analyzing data, much of which has been generated by those same political and economic processes. We need to take the idea of a “data generating process” more seriously, taking the term literally to mean the creation of data, first and foremost by generating units for which attributes can be predicates. We suspect that as this practice becomes more widespread, other scholars will give us reasons to rethink some other conventional wisdoms.

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² We thank Steffan Hertog for bringing this point to our attention.

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Beyond the rentier state: Can regionalism work for Arab states?

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The extensive literature on the political economy in Arab states features a distinctively important role for the rentier phenomenon (Richards and Waterbury, 1990; Cammet et al., 2015; El-Badawi, 2004 and El-Badawi and Makdisi, 2011 and 2017, El Badawi and Selim, 2016). The rentier state hypothesis attributes the region-wide governance deficit to a so called ‘authoritarian bargain’ where the state (aided by rents from oil-revenues) pledges to low inequality and rapid social and economic progress in exchange for limitations on political reform and democratic governance (Desai, Olofsgard and Yousef, 2009).

Against this historical and theoretical backdrop, three questions are of interest. First, has the rentier state model delivered on its end of the social contract? Second, given the legacy of the Arab uprisings and the present economic and social context, is this bargain sustainable? If not, going forward, can regional integration work for Arab States?

Has the rentier state delivered on its end of the social contract?

The development landscape has improved dramatically compared to the early 1970s. Progress in health and education has been particularly impressive, as can be seen in the evidence collected by the global Human Development Report of 2010 (UNDP, 2010). Both money-metric and multidimensional poverty rates (the former is often measured by the World Bank’s \$1.9 dollar per day poverty line and the latter by UNDP and OPHI’s Multidimensional Poverty Index) are comparatively low in Arab States (UNDP, 2018 and OPHI, 2018). Complementing these results, income per capita rates (in PPP or constant prices) are on average higher than in other developing regions and inequality is relatively low (World Bank, 2016). Consistent with the authoritarian bargain narrative, socialist and redistributive state-led policies dating back to the 1960s and at least up to the early 2000s had produced a legacy of low inequality relative to other

regions such as Latin America, for example (Abdel Gader, and El Badawi, 2002).

However, other studies, including the 2012 *Arab Development Challenges Report*, touched upon structural challenges that were overlooked by this narrative (UNDP, 2012). For example, the middle class, which represented the dominant economic group in most Arab countries, has been under significant pressure since liberalization in the early 1990s (ESCWA, 2014a). Poverty, when measured appropriately, is much higher than commonly thought. For example, according to a 2017 international report adopted by Arab countries, two-thirds of the population in the ten Arab countries, covering more than two-thirds of the population of the region, are either multidimensionally poor or vulnerable to poverty (ESCWA, LAS, UNICEF and OPHI, 2017). Likewise, a key challenge for the region is that the earning of the majority of the middle class in many countries are not high enough to protect them from poverty. Thus, even a small increase in prices will cause them to become poor or vulnerable to extreme poverty. Not surprisingly, recent inflationary episodes in many Arab countries, especially those in conflict, have significantly increased poverty and vulnerability. In effect, this may have caused the middle class to shrink to about one-third of the population from 2010.

Broader developmental impacts have been examined more thoroughly in the first *Arab Human Development Report* (UNDP, 2002). Along with its sequels, it highlighted deficits in freedom (or good governance), knowledge, and gender equality, particularly in power sharing and employment, a peculiarity that is quite perplexing given the high diversity among Arab States in income per capita and albeit to a lesser extent in human development. Of these three deficits, the lag in good governance is arguably the most significant and consequential on development outcomes. (Abu-Ismail et al. 2016).

The link between the rentier growth model and its socioeconomic consequences is well established. Thus, even with a more educated labor force and relatively high growth rates from 1990 to 2010, opportunities for decent employment fell short. The public sector could no longer become the main employer, especially after the 2000s, as a result of fiscal constraints which also led to dwindling public salaries and reduced quality of public service delivery in many labor-rich and oil-poor countries (ESCWA, 2014). Job creation principally occurred in informal low value-added activities, mainly services. Consequently, total productivity dropped, real wages froze, and vulnerability to poverty increased. Hence, even as extreme poverty fell in most countries, the fear of falling into poverty rose. In some, notably Egypt, poverty rates increased paradoxically alongside handsome economic growth during the period from 2000 to 2010. At the same time, inequality rose sharply, albeit without being captured by official statistics (Sarangi et al., 2015). Alvaredo and Picketty (2017) and the World Inequality Report (2018) suggest that when taking into account the share of top 10 per cent receivers of the region's income, which is not captured in household survey data, inequality in the region is the highest world-wide.

In this context, it is not surprising that Arab youth, particularly those with higher educational qualifications, became disenfranchised and increasingly sought to migrate, an option that became more difficult for the vast majority as Gulf Cooperation Council countries gradually changed their immigration policies in favour of a cheaper workforce from Asian countries (ILO, UNDP, 2012). Crony capitalism, resulting from the distorted privatization and liberalization that mainly benefited the ruling elites, served to exacerbate the sense of injustice, especially by middle class youth who saw no pathway for economic or social mobility. The end result, as seen in the uprisings, was the middle and working class's shift in allegiance, which has tremendously benefited violent non-State actors (ESCWA, 2014a).

Is the rentier bargain sustainable?

Can the rentier state continue to survive under present global and regional circumstances? Evidence suggests not

for much longer. First, the rents themselves are dwindling and population size is much larger hence the rent per capita is much lower than in the 1970s and 1980s. One ramification is that the region's own consumption is projected to rise significantly, leaving less room for exports (ESCWA, Arab Vision 2030). Second, even with the recent rise in oil prices, long term trends will continue to be difficult to predict given uncertainty in global economic growth, geopolitical factors, availability of other sources (Shale oil) and the challenge posed by green technologies (low cost renewables). Third, in light of the above, workers remittances, which are still the main source of hard currency inflows for oil-poor Arab countries, are not expected to rise and may very well decline given the increasing pressure on fiscal space in the GCC, especially the KSA. Fourth, tourism receipts which are also a significant source of foreign exchange receipts have been hard hit since the uprisings and a rebound to the 2010 levels is unlikely in the short- and medium-run. Fourth, due to on-going conflicts and other factors, much of the physical capital has been destroyed, global and regional investment flows dropped sharply, and a significant share of the oil revenues are allocated to military expenditure.

These factors, put together, suggest many countries in the region are caught in a vicious cycle of low growth with rising poverty, vulnerability, and informality. Accentuating this downward spiral is conflict conditions and restrictive monetary policy in oil poor countries such as Egypt to encourage short-term capital inflows and maintain exchange rate stability, the effect of which is often overlooked or underestimated by policy makers. Consequently, foreign debt and debt service is projected to rise in many countries, which will add to the already high pressure on fiscal space for current expenditures, particularly social protection and public investment programs that are essential for the poor. (ESCWA rethinking fiscal policies 2017)

The Arab rentier state, with its current institutional capacity and governance framework, is ill-equipped to address these multiple challenges. The policy responses proposed by the regimes since 2010 have been either offering additional rents (oil rich) and/or less space for real

voice and accountability and other governance reforms (oil poor), essentially an extension of the very same trajectory that led to the uprisings.

What next?

Arab countries need to think beyond temporary fixes and address the root causes of endemic development challenges, which are not isolated from one another. The two region-wide priorities are ending conflict and reversing the trend of growing informalization of the labour market due to the concentration of economic activities in low value-added sectors. As argued in the Arab Vision 2030 Report (ESCWA, 2016), regional integration can support the transition from a rentier state to a developmental state, providing there is political will at the national and regional level to move towards two strategic objectives:

1. Generalized condition of peace and region-wide systems of good governance

Attainment of peace and security through a new regional integration formula is an integral component of and a prerequisite for any future regional integration vision. Only then will the region be able to transform itself through a new development model. This requires a framework for bringing about peace solutions to ongoing conflicts, as well as transitional justice frameworks to heal post-conflict countries and assist these societies in moving forward. Such a new accountability framework should be based on the separation of powers, a functioning system of checks and balances and the right to information (e.g. open budget initiatives or transparent political decision making). In all Arab countries, the independence, integrity, and efficiency of the judiciary should be safeguarded, not only for the sake of a just system, but also as a critical factor for long-term productive investment. To implement all this, the redesign and empowerment of the League of Arab States is a must for it to function as a governing body overlooking the implementation of regional economic and social policies. It is self-evident that a common regional foreign policy and a common defence strategy are an integral part of this new system.

2. Integrated economies with resource sustainability

Arab integration into Global Value Chains is an ultimate objective of economic integration in order to boost commodity exports, create decent jobs, and reduce poverty. This would require the establishment of region-wide infrastructure, energy, and renewable energy networks and the development of new routes to enhance regional supply chain efficiencies. Any regional integration scheme would also need to develop with the aim of diversifying patterns of intra-regional trade (in terms of commodity and services as well as in the direction of trade itself) and by consolidating economic and trade ties with neighbors and further to the east and the African continent. This would be aided by establishing an Arab Custom Union and reaching a regional agreement on trade in services. Eventually, convergence in trade policies and concurrently in macroeconomic policies (fiscal, monetary and exchange rate) can pave way for the preparation of a common currency. It would also necessitate a new regional financing mechanism such as the new Regional Bank for Reconstruction and Development with a large enough capital to support regional economic diversification goals and regional reconstruction and infrastructure projects.

These actions, the ESCWA projects, would not only result in a higher growth rate, but also in better outcomes of growth process to workers by generating around 60 million jobs by 2030 and guaranteeing their freedom of movement between Arab states. In the long term this will induce a rise in labour productivity and draw millions of workers away from low value-added informal sector activities, thus paving a way for their upward social and economic mobility. Eventually this employment-led structural transformation scenario would translate into lower poverty and higher human development outcomes, which themselves reinforce better institutions and economic growth: the vicious cycle of conflict and de-development is at once transformed into a virtuous one (ESCWA, 2016).

Finally, it would be naïve to think that a shift from the rentier state to a developmental state will be easy or that a move from nationalism to regionalism would happen instantaneously. Structural transformation and integration

require planning, advocacy, and negotiation. It would also be naïve to assume these proposals would not be opposed by powerful vested interest groups, including the well-connected ruling elites and their cronies. But as argued earlier, the rentier state model has reached its limit and extending the business as usual scenario will not resolve the region's long-standing development challenges.

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