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Saudi Arabia and the rentier regime trap: A critical assessment of the plan *Vision 2030*

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Abstract

The oil price drop which occurred in international markets in 2014 has revived concerns about the economic situation of Saudi Arabia. The country is at a crossroads, as evidenced by both its unsustainable economic model and the plan that the government proposed in spring 2016 to overcome dependence on oil, *Vision 2030*. This article examines the country's ability to achieve this objective by analysing the *Vision 2030* plan and the socio-economic challenges that Saudi Arabia is facing. The economic problems of Saudi Arabia do not stem from the weakness of its institutions. Quite the opposite, forged by oil exports, the structures of its rentier economy are well-established and difficult to push forward. To understand such a state of affairs, this article provides an analysis of the Saudi economy's accumulation regime. Furthermore, the article questions development economics regarding oil-rich countries which are concerned by the Dutch disease issue.

Keywords: Saudi Arabia, oil rent, Dutch Disease, accumulation regime

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March 2019

Abstract

The oil price drop which occurred in international markets in 2014 has revived concerns about the economic situation of Saudi Arabia. The country is at a crossroads, as evidenced by both its unsustainable economic model and the plan that the government proposed in spring 2016 to overcome dependence on oil, *Vision 2030*. This article examines the country's ability to achieve this objective by analysing the *Vision 2030* plan and the socio-economic challenges that Saudi Arabia is facing. The economic problems of Saudi Arabia do not stem from the weakness of its institutions. Quite the opposite, forged by oil exports, the structures of its rentier economy are well-established and difficult to push forward. To understand such a state of affairs, this article provides an analysis of the Saudi economy's accumulation regime. Furthermore, the article questions development economics regarding oil-rich countries which are concerned by the Dutch disease issue.

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I. Introduction

The fall in oil prices in 2014 has revived concerns about the economic situation of Saudi Arabia[1]. Unemployment, fiscal deficit and the transition toward a post-oil economy are the main challenges that the Saudi economy is facing. This situation is not specific to Saudi Arabia: natives' unemployment and the need for diversification are also the main challenges of the Gulf Cooperation Council (GCC)[2] countries which are based more or less on the same economic model (Okruhlik, 2016). All GCC countries experienced fiscal deficits since oil revenues dropped. All reacted by announcing new economic reforms. Like its neighbours, Saudi Arabia's government declared – once again – that its economy was on track to diversify and prepare the transition toward the post-oil era.

Before the Kashoggi scandal, the Western world welcomed with enthusiasm the political and social reforms undertaken by King Salman and his son Mohammed Ben Salman (MBS) since

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[1] The author would like to thank the three reviewers for their comments on an earlier version of the text.
[2] The GCC countries include Bahrein, Kuwait, Oman, The United Arab Emirates, Qatar and Saudi Arabia.

2016[3]. Western Media consider that Saudi Arabia experiences a sort of quiet revolution symbolized by the new right for women to drive a car (since June 2018). The country is also developing cinemas and theatres and plans to provide visas for Non-Muslim tourists. However, focusing on major economic variables, one cannot deny that the rentier structures forged by oil rent for decades are well established and difficult to displace. Such a state of affairs is shown by the analysis of the Saudi economy's accumulation regime which we provide in this article, using the French Régulation approach. This approach is relevant to grasp the institutional arrangements of an economy as a whole and its contradictions.

Based on the French *Régulation* approach, we collect and analyse a series of stylised facts to highlight both the nature of the Saudi accumulation regime and its creeping economic and social crisis. This article discusses economic reforms undertaken by the Saudi government and their expected impact, with a particular focus on the labour market. It delivers a sceptical view on the ability of the Saudi economy to successfully diversify as scheduled in the *National Transformation Plan* and *Vision 2030*.

The article is organized as follows: Section 2 introduces the French *Régulation* approach and shows its relevance for studying rent-led-growth regimes such as Saudi Arabia. Section 3 demonstrates the continued dependence of Saudi Arabia on oil revenues, while section 4 elaborates on the unsustainability of the current accumulation regime, in particular, because the oil rent per capita is in decline. Finally, section 5 assesses the ambitions of the plan *Vision 2030*.

II. The French Régulation approach and the rentier accumulation regime

Before expanding on the conditions of the Saudi economy, a detour is necessary to explain the theoretical framework that the paper uses to understand the Saudi economy's dynamics. It resorts to the *Régulation* approach, which was born in France in the 1970s, influenced by the Marxist theory of growth and capitalist accumulation. One of the aims of the *régulation* theory is to describe

> "the social and economic patterns that enable accumulation to occur in the long term between two structural crises. These regular patterns as a whole are summarised by the notion of an accumulation regime" (Boyer and Saillard, 2002, p. 38).

[3] https://www.reuters.com/article/us-saudi-succession-son/saudi-king-empowers-young-reformer-son-in-succession-shake-up-idUSKBN19C0AN ; https://www.theguardian.com/world/2017/nov/07/this-is-a-revolution-saudis-absorb-crown-princes-rush-to-reform

The purpose of the Régulation theory is therefore to study the driving force of an economy, granted that the accumulation regime is doomed sooner or later to the economic crisis that shakes its foundations (Boyer, 2018). In that sense, the *Régulation* theory matches with Marx's claim that a dynamics of accumulation is intrinsically condemned to a crisis (Marx, 1996, p. 455), and that a comprehensive economic analysis of a country includes the analysis of its crisis. The second important concept is the *mode of regulation* which enables to delay the crisis of the regime. The mode of regulation is

> "the set of procedures and individual and collective behaviours that serve to: i. Reproduce fundamental social relations through the mode of production in combination with historically determined institutional forms. ii. Support and 'steer' the prevailing regime of accumulation. iii. Ensure the compatibility over time of a set of decentralised decisions, without the economic actors themselves having to internalize the adjustment principles governing the overall system" (Boyer and Saillard, 2002, p. 341).

The rentier regime is a particular regime with its mode of regulation (Boyer, 2015, p. 254-257). The word *rentier* usually refers to the social position of the individual who owns lands and earns revenues of its properties without working – which means without creating value (Beblawi, 1987, p. 50). The classical economist Ricardo (2001 [1821], chapt. 2) represented the rentiers as the social class which owns lands – the "landlords" – and lives thanks to the endeavour of the two other classes – the working class and the capitalist class. However, a national economy can be considered as a "rentier" economy if its accumulation regime rests on the revenues from its exports, especially when their prices are determined offshore by international market forces. As for the landowner who rents its land to a capitalist according to the market value of the product from the ground, the rentier economy's revenues are determined offshore by the conditions of the market. While it is true that any economy is a rentier economy (even exports from industrialized countries contain rent), however, the degree of rent included in exports differs significantly depending on the structure of these exports.

The higher is the difference between export market prices and production costs of exports; the higher is the rent obtained by the economy. Among primary resources, oil is the paradigmatic example of commodities at the origin of the rentier growth regime. Often as a government's property, oil is taken freely from the subsoil[4] and sold on the international market. The oil rent

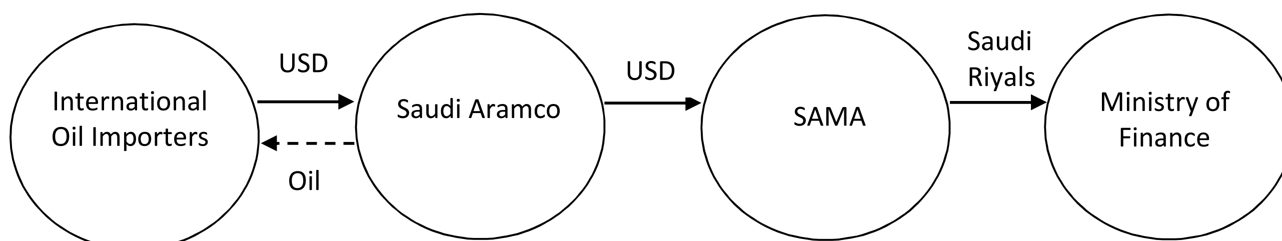
[4] Oil is taken "freely" in the sense that it is a given resource as well as the outcome of a natural process. Its extraction cost, which differs according to the location of the field and the technology used for extraction, makes the oil exploitation profitable or not, but it is another issue.

exists through the exchange: the exchange value of oil determines the level of the rent. It may provide generous export incomes for the domestic economy.

The underdevelopment of industrial capacities characterises the rentier accumulation regime. It is essential that the oil economy lacks production capacities (and in particular industrial facilities) to consume the oil resources of its subsoil. Underdevelopment is characterized by a relationship of dependence on industrialised nations. The lack of production of manufactured goods on the national territory requires importing these goods, which are themselves financed by primary exports.

Regarding Saudi Arabia, its accumulation regime has been based almost exclusively on oil rent since the discovery of oil fields in 1938 – only a few years after the birth of the Kingdom in 1932 –, which the 1973 oil shock accelerated. Oil remains the main engine of the Saudi economy (Albassam, 2015). The Saudi government wholly owns the national oil company – Saudi Aramco – since 1980 (figure 1). Of primary importance for the domestic economy is the international exchange value of oil, which, as stated above, needs to be largely higher than the oil extraction costs. Saudi Arabia is the biggest oil exporter in the world, and its oil production costs are among the cheapest in the world[5]. Therefore, the Saudi GDP depends on oil export revenues.

Figure 1: Oil Income Flow in Saudi Arabia



Source: Adapted from Banafe and Macleod (2017, p. 9). SAMA: Saudi Arabian Monetary Authority.

The redistribution of oil revenues in the domestic economy guarantees the reproduction of the fundamental social relations in the Kingdom (Faudot, 2014). A set of social practices constitute the Saudi mode of regulation:

i. A large public sector employing Saudi natives. Civil servants represent circa 40% of Saudi employees (SAMA, 2017, p. 41). Saudis represented 94.6% of government

[5] According to Rystad Energy, a Saudi barrel cost $8.98 in 2016 (including gross taxes, transportation and administrative costs, capital expenditures, and production costs). http://graphics.wsj.com/oil-barrel-breakdown/

sector employees in 2016 while they represented only 16.8% of private sector employees;

ii. To smooth public spending, the management of oil revenues between, on the one hand, accumulation of reserves in Central Bank accounts and sovereign wealth funds in a period of high prices, and on the other hand fiscal deficits each time it is necessary;

iii. The peg of the riyal to the US dollar which guarantees the economic integration to globalisation. The exchange rate anchor bridges the economy to a reliable means of payment – the US dollar – that enables to obtain all the goods and services that the country needs. The SAMA (Saudi Arabia Monetary Authority) intervenes on the exchange market to maintain the peg – which has remained the same since 1986 (1$=3.75SAR);

iv. A heavy reliance on contractual immigration for services and low paid jobs, mostly in the private sector. Alongside the dominant oil sector, the government use to keep "alive" an industrial sector thanks to the subsidies that the government offers by drawing on oil revenues. However, this sector is weakened as soon as the government stops its grant.

In such an accumulation regime, individuals get their wealth from the redistribution of the oil rent by the State which centralises oil incomes (figure 1). It occurs through several channels: public employment, various subsidies, and social allowances. As the following sections will show, the Saudi rentier accumulation regime has been falling into uncertain times (Looney, 2016). Its mode of regulation is unlikely to avoid, one day or another, the crisis of the accumulation regime, and the political coalition which is closely related to it. The way out expected with the plan *Vision 2030* is dubious at best and fraught with difficulties inherent in the Saudi economy.

III. Macroeconomic assessment of the dependence on oil

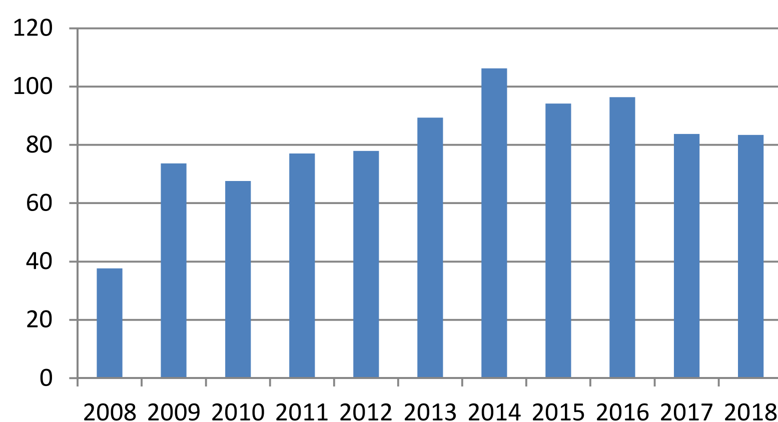
The Saudi "gross domestic product" actually does not rest primarily on "domestic product", but on the exchange value of oil, which is determined on international markets. In 2017, hydrocarbon exports still accounted for 76.7% of the country's total exports[6] (83.2% in 2014), which indicates its continued dependence on oil (SAMA, 2018, p. 101). Accustomed to huge trade surplus thanks

[6] This does not include petrochemicals, which account for another 14% in 2017.

to oil revenues, the oil price drop reversed the trend in 2014. The country recorded a current account deficit of 8.7% in 2015 and 4.3% of GDP in 2016 (27.5 billion of USD).

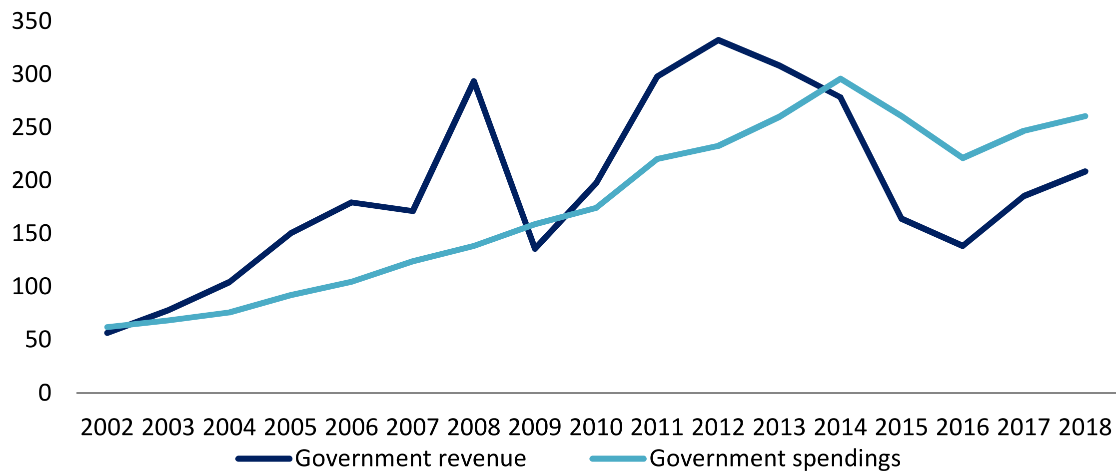
The country's accumulation regime is yet export-led. It needs export revenues to feed the domestic economy, passing in through the government budget. The problem arises when the export revenues no longer cover the local consumption needs. Despite severe cuts in public spending since 2015, the fiscal breakeven oil price – that is to say the price of the barrel that balances the Saudi government's budget – was estimated by the IMF to be $83.4 in 2018 (figure 2), which is still above the current price per barrel (circa $50 in December 2018, see figure 4).

Figure 2: Saudi Arabia Fiscal Breakeven Oil Prices, 2014-2018, US dollar



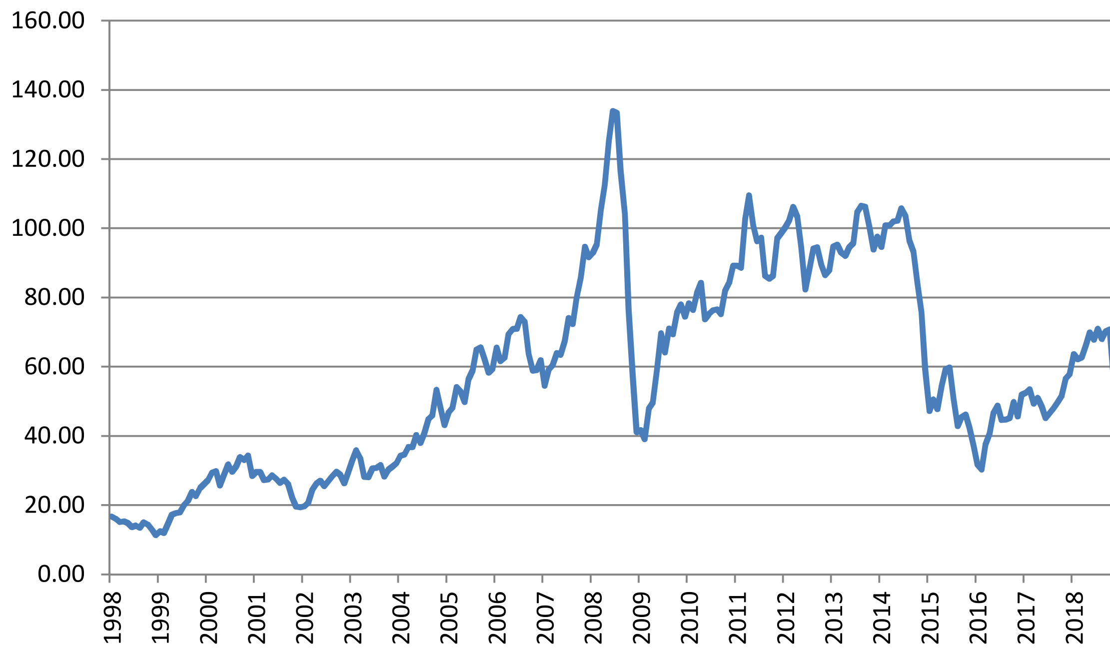
Source: Fred

Figure 2: Government revenues and spending, 2002-2018, billions of US dollars



Source: Saudi Arabia Monetary Authority

Figure 4: West Texas Intermediate (WTI) oil prices, current US dollar, 1998-2018

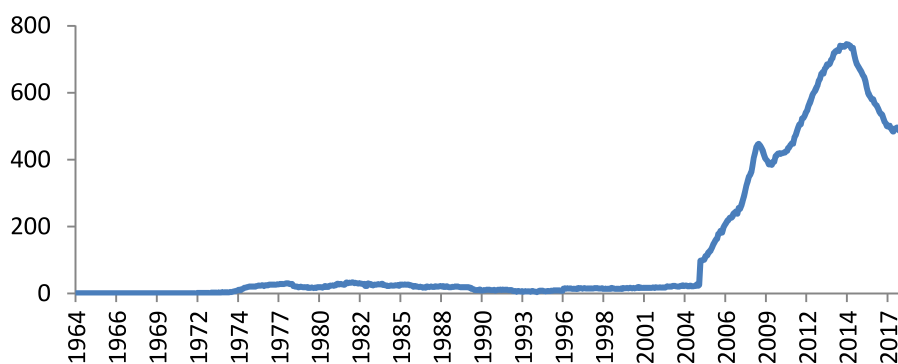


Source: Fred

Mainly for this reason, the government recorded significant fiscal deficits in 2015 (-14.8% of GDP) and 2016 (-12.9%). The fiscal deficit has decreased to 9.3% in 2017 and is expected to reach 4.6% of GDP in 2018[7].

In spite of these chronic deficits, the situation of public finances is not yet alarming (Setser & Frank, 2017). The government's debt, which stood at 102.9% of GDP in 1999, had melted subsequently during the blessed years of high oil prices, falling to 1.5% of GDP in 2014, it rose to reach 13.1% in 2016 and 17.2% of GDP in 2017 (it is expected to reach 21% of GDP in 2018). Considering this level, the government could continue to borrow. There are also reserves: having reached the record level of $ 745 billion in August 2014, they fell in September 2017 to $ 484 billion. In July 2018, they reach the level of $ 500 billion. The government started to employ these reserves to complete its budget (figures 3 and 5).

Figure 5: Total Reserves of Saudi Arabia, excluding gold, 1964-2018, billions of dollars



Source: Fred – Federal Reserve Bank of St. Louis

More worrying is the difficulty undertaking a disruption of the rentier regime's structures, which nonetheless everyone considers a medium-term need. While the country has a standard of living modelled on Western economies, the abundance of oil revenues and their redistribution have removed the prospects for the development of any industrial sector (except for the petrochemical industries that directly derive from oil). The main hurdle to the emergence of an industrial sector in Saudi Arabia is the competitiveness constraint brought by globalisation, which leaves no space for the production of exportable manufactured goods.

Alongside the first development of oil export revenues in the 1950s, the Saudi economy was subject to change at the expense of the non-oil productive sectors: "The oil income made possible

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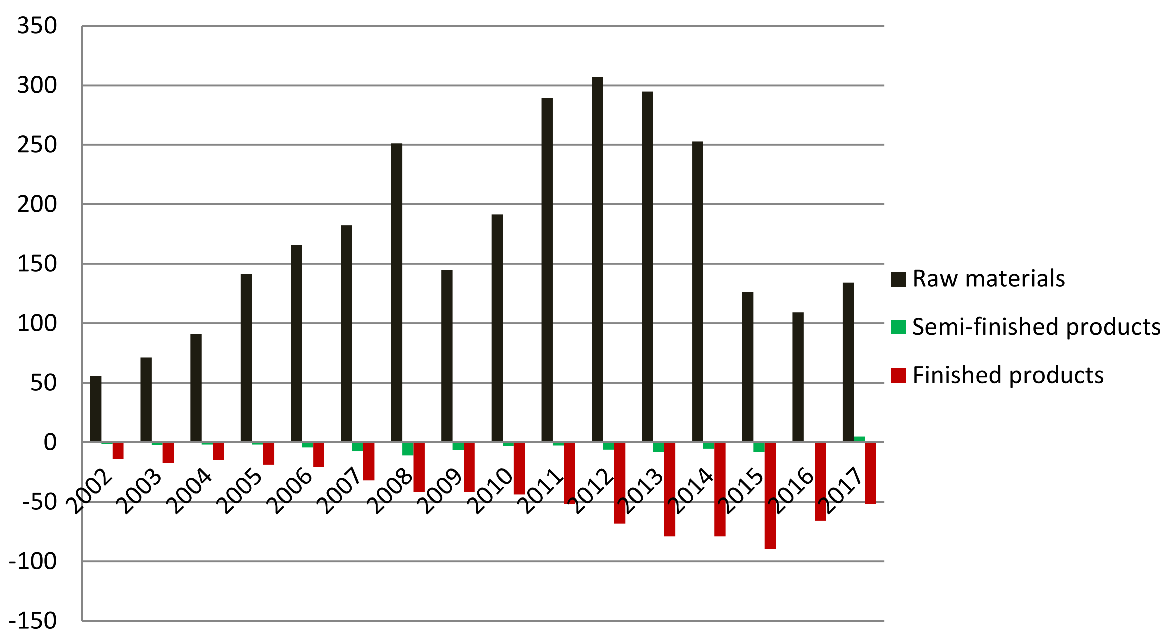
[7] https://www.reuters.com/article/saudi-budget-highlights/highlights-saudi-arabia-presents-295-billion-budget-for-2019-idUSL3N1YN494

the import of substantial quantities of consumer goods of all kinds. (…) The rural and artisanal population tended to suffer from the new developments. The goods they produced could not compete effectively with imports" (Niblock and Malik, 2007, p. 33). In the 1960s, "there was almost no private-sector industrial activity. (…) It was easier and more profitable to import than to produce locally". During the same period, "Pastoral agriculture, moreover, was shrinking rapidly" (Niblock and Malik, 2007, p. 48).

In parallel with the specialisation on oil, the dependence on oil exports to import manufactured goods has been widening (figure 6). Another major issue is that the oil sector is poorer than that of the manufacturing sector in terms of job creation. The rentier regime has never been able to generate enough employment for the population as a whole, which was not a problem as long as the redistribution of the rent made it possible to cope with the weakness of the agricultural sectors and manufacturing. The Saudi rentier regime rests mainly on the distribution of the rent through public employment.

Figure 6: Trade balance of Saudi Arabia by the nature of items, billions of US dollars, 2002-2017



Source: the author, based on annual reports from the Ministry of Economy and Planning.

In 2017, the Saudi Arabia population was of 32 million people. Twelve million Non-Saudis live in Saudi Arabia. Unemployment does not concern the vast majority of them. Since immigration is

ruled by a stringent system (the *Kafala* system)[8], immigrants need an individual Saudi sponsor (a *Kafeel*) which enables them to acquire a license (*Iqama*). Hence immigration is contractual, and immigrants must be active and employed. The unemployment rate of non-Saudis is logically insignificant (0.5% in 2016). By contrast, the official unemployment rate of Saudis amounts to 12.8% in 2017. With a natives population of more than 20.4 million people in 2017 (compared to 14.9 million in 2000), oil exports revenues are now insufficient to ensure the growth, or at least the stability of the per capita income. The public sector has reached a saturation point. The non-oil sector, which is heavily dependent on the oil sector (Albassam, 2015, p. 116), declined in 2015 and 2016. How will economically viable jobs be created to generate new incomes, especially since Saudi women and young, educated Saudis are beginning to enter the labour market? The question is now openly raised (Thompson, 2018, p. 302).

IV. The decline of the oil rent per capita urging for the creation of a labour market

The capital-labour relation is "the first cornerstone" of the capitalist economy according to the Regulation School (Boyer, 2018, p. 287). A particular attention should be paid on the shape of this relation in Saudi Arabia to understand the nature of the rentier regime and its unsustainability. The oil rent has been providing monetary and material assistance to a significant proportion of the Saudi natives, which resulted in the underdevelopment of the domestic labour market. We can broadly write that this result is at the opposite of the historical experience of labour markets in Western capitalist societies on the eve of their industrial revolution. Saudi Arabia looks like a pre-capitalist economy where happened the contrary to what Karl Marx described as the process of primitive accumulation[9]. Instead of being deprived of everything to constitute a working class, Saudi people have been kept away from the capitalist accumulation process thanks to the redistribution of the oil rent.

It does not mean that no poverty exists in Saudi Arabia[10], but the Saudi economy is mainly led by a distributive state, not by capitalist entrepreneurs and expropriation of labour. The enormous wealth accumulated by the royal family and by the Saudi elites who have privileged access to the oil rent does not make them capitalist entrepreneurs (Niblock and Malik, 2007, pp. 88-89). As Marx once wrote, 'property in money, means of subsistence, machines, and other means of

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[8] Working in Saudi Arabia requires a visa. The involvement of a Saudi citizen who will act as a sponsor is compulsory. The sponsor retains the worker's passport and vouches for him.

[9] The "so-called primitive accumulation is nothing else than the historical process of divorcing the producer from the means of production" (Marx, 1996, p. 705-706).

[10] Saudi Arabia has the lowest poverty rate among Arab countries according to the World Bank. However, as Cowan (2018, p. 65) reports, poverty remains a topical issue in the Kingdom. Furthermore, Saudi population is heterogeneous: the Saudi Shia community in the Eastern Province is particularly oppressed (Jones, 2010, chap. 6).

production, does not as yet stamp a man as a capitalist if there be wanting the correlative — the wage worker, the other man who is compelled to sell himself of his own free-will' (Marx, 1996, p. 753). Indeed, as Rahman (2017, p. 12) wrote in a recent sociological study of Saudi Arabia labour market,

> "Dependency on the state has rendered a large segment of the Saudi population unwilling even to consider employment beyond the public sector. In contrast, since migrants come only with the aim of working and earning a livelihood for themselves and their families back home, they tend to have positive attitudes toward work".

This observation echoes Marx's analysis of the development of capitalist-workers relations in the Western world:

> "Hence, the historical movement which changes the producers into wage workers, appears, on the one hand, as their emancipation from serfdom and from the fetters of the guilds, and this side alone exists for our bourgeois historians. But, on the other hand, these new freedmen became sellers of themselves only after they had been robbed of all their own means of production, and of all the guarantees of existence afforded by the old feudal arrangements" (Marx, 1996, p. 705-706).

The analysis of the social process of class formation that Marx drafted so clearly underlies the recent works of Hanieh (2014, p. 65), who highlighted the social conditions – inherited from neoliberal policies in home countries – that push foreign workers to migrate to the Gulf States. The presence of this "temporary, right-less and easily deportable working class" (Hanieh, 2014, p. 72) in Gulf countries is tied in with the enormous oil supplies and the regional economic order at the top of which stand the Gulf countries. Migration reflects the social restructuring of the Gulf economies that oversteps national boundaries. At the same time, the foreign workers employment in Saudi Arabia is itself a source of revenues for Saudi "brokers", as emphasised Hertog (2010a, 2010b). Due to the rules of the *Kafala* system, mere Saudi citizenship facilitates brokerage and rent-seeking with regard to foreign workers who have no access to the oil rent.

In Saudi Arabia, rentier arrangements have persisted over the past decades, at the expense of any infant capitalist-like industries[11]. As surmised Mahdavy (1979, p. 444), the founder of what is known as the rentier-state theory:

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[11] To qualify our argument, a handful of non-tradable or sheltered productive sectors such as the downstream petrochemical activities, manufacturing of energy-rich commodities and construction have been developing

> "Countries like Iran and Saudi Arabia that pass quickly from being a traditional society to being a Rentier state may achieve fairly substantial average *per capita* incomes, without going through the organizational changes which are usually associated with the process of capitalistic (or socialistic) economic growth."

At the same time, this particular social contract granted some indisputable benefits: in many aspects, the country is now a developed economy regarding domestic consumption and public services (Hertog, 2016b, p. 2). For instance, as noted by Nurunnabi (2017, p. 551), in 2015, the proportion of Saudi households with a computer was 67%, and 94% had internet access at home. Social services are at the level of some advanced economies – if not above. The Saudi expenditures on education are even higher than the average of the OECD countries (Abed & Zhang, 2018, p. 6). Regarding public services, as Mazaheri (2017, p. 188) wrote, oil rent "gives leaders both the revenues and the autonomy to make decisions about where, when, and how much to invest in service upgrading".

The domestic energy consumption per capita is currently among the highest in the world, which is incidentally another problem. As El Katiri and Fattouh (2017, p. 67) wrote, "Simulations of Saudi Arabia's domestic oil demand (…) show the potential for Saudi Arabia – under a business-as-usual scenario – to exhaust its own domestic reserve base in just 15–20 years, turning itself ultimately into a net importer of oil, unless alternative policy options are pursued". Putting aside this major issue, the current rentier arrangements appear unsustainable over time since oil is exhaustible and, most importantly, the oil rent per capita no longer grows (figure 7). The per-capita GDP has decreased dramatically for four consecutive years as of 2013 (figure 8).

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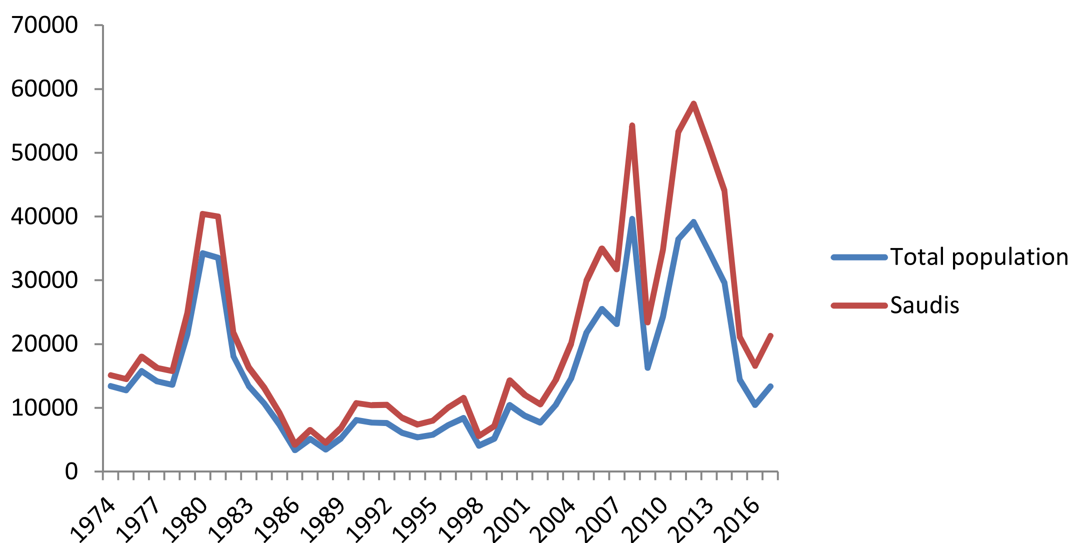
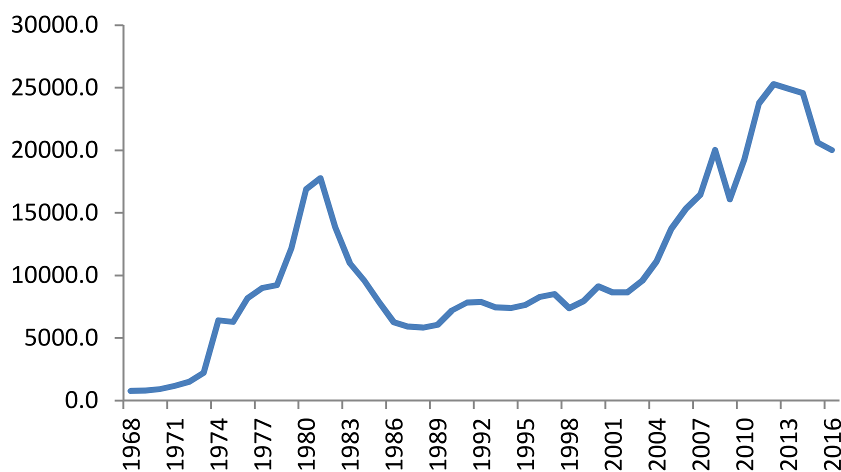
in a capitalistic way under the aegis of the state, as emphasized Hanieh (2011, pp. 112-118). It is noteworthy that these sectors are fully compatible with the rentier regime and even benefit from its development.

Figure 7 : Oil revenue per capita in Saudi Arabia, 1974-2017, in current riyals



Source: Author calculations based on SAMA annual reports. Blue curve: Total population (including foreign workers); Red curve: Saudis. Since 1986, the USD/SAR exchange rate is 1$ = 3.75 SAR

Figure 8: Saudi GDP per capita, in current US dollar



Source: Fred

As Boyer (2018, p. 298) argues, such a slump presents the risk that some institutionalised forms of the regime be "circumvented, eroded or destroyed." For several decades, the government has been aware that it had to diversify and develop new economic activities. However, the very nature of the rentier regime inhibited the making of a working class which is still necessary for any industrialisation process. The new rhetoric of the "transition to a knowledge economy" (Nurunnabi, 2017) endorsed by *Vision 2030*, is at the very least unclear and reminds the refrain on

economic diversification which prevailed in every Saudi political discourse since the 1970s – without conclusive results (Albassam, 2015).

In 2011, the Saudi government was facing protests led in particular by Saudi unemployed youth in the wave of Arab Spring. It decided to increase social spending, which allowed extinguishing protests. The fiscal package was huge: a total $110 billion or 19% of the Saudi GDP (IMF, 2011, p. 11). Hence the first reaction to uprisings was to increase patronage "through public employment or subsidies even more" (Hertog, 2017, p. 89). Due to budgetary constraints, the government would be probably more reluctant to do it again in case of massive political protests. But it could well be left with no choice.

What experiences a rentier country which has lost his rent? To put it in another way, what might expect a country which has neither external incomes nor financial reserves for importing the goods that its residents used to consume? First, it will take out a loan. Then, the external constraint will apply in harsh conditions. However, the structural adjustment could jeopardise the fragile political balances that characterise the Kingdom. King Salman and his government have considered a new plan for escaping this future.

V. Vision 2030

The *Vision 2030* report was commissioned by the government from the McKinsey group. It was published on June 6, 2016. This 112 pages report lists a series of projects to implement. It involves 24 particular entities (ministries, institutes, authorities...) with indicators and targets for each of these entities. The *National Transformation Plan* sets out intermediate near-term objectives (to be reached in 2020). It should be noted that a number of them remain under construction, followed by "under study" or "calculation in progress." The philosophy of the plan is nevertheless clear: it aims to increase the role of the private sector in the economy and to create high value-added industries. It is a plea for freer markets. It also foreshadows the privatisation of some public services though not all of which are specified. The National Centre for Privatization was created in 2017 to carry out the privatisations.

The plan will confront the rentier mode of regulation on several aspects. It has already started by cutting energy subsidies, to bring gradually the price that Saudi consumers pay in line with international prices (El-Katiri and Fattouh, 2017). Such measures also open the opportunity to decrease energy consumption which, as noted above, is increasing fast. It is worth noting that the energy cuts – as well as public salaries wages – will be offset by cash transfers to citizen's

account, in order to avoid massive public discontent[12]. The government considers introducing various taxes to create new fiscal revenues from the domestic economy. The problem that the government tries to solve is, therefore, to create the economic conditions for economic diversification without endangering the political context.

The plan also schedules to sell – at least partially – the golden goose: the national oil company Saudi Aramco (Seznec, 2016; Fattouh and Harris, 2017). The sale of 5% of the company to private shareholders is expected to clear enough funds (circa 100 billion dollars since the whole company was valued at least two trillion[13]) for financing the transition towards the post-oil era (via the Public Investment Funds which is expected to become the world's most substantial sovereign wealth funds after the IPO). The plan aims using the funds to reduce Saudi youth unemployment to 9% in 2020, as well as substantially increase the participation of natives in the private sector.

Among the main announces of the plans – *Vision 2030* and the *National Transformation Plan* – prominently figures the Saoudisation of the labour market. However, it sounds like the same old tune. Saoudisation has been central in national political discourses since the 1970s (Looney, 2004). Non-Saudis represented still more than 75% of the labour market in 2016 (SAMA, 2017, p. 41). Oil rent is the primary cause of the massive foreign workers' immigration, which is not difficult to prove. In the private sector in 2012, the wage of a Saudi was on average five times that of a non-Saudi. Public jobs have always been a privileged channel to convey the rent to the population. Non-viable jobs in the public sector were not a concern in the Saudi economy inasmuch as their purpose was the redistribution of the oil rent to citizens. However, a far more complex task for the government is the creation of economically viable jobs for Saudi citizens. Private companies – whose purpose is not to convey oil rent to citizens – have no incentives to hire Natives rather than Non-Saudis, taking into account wage differentials and the low productivity of Saudi workers compared to foreigners (see e.g. Azhar *et alii*, 2018; Ramady, 2013).

The objective of Saudisation of the private sector is hardly a new issue: the First Five-year Development Plan (1970-1975) decreed that in all businesses, Saudis should represent 75% of the workers (Alsheikh, 2015). Since then, all the Five-year plans consistently decreed the objective of a higher share of Saudis employees in the private sector – without succeeding (Looney, 2004; Ramady, 2013). The Eight Development Plan (2006-2010) established the quota of 30% of natives in the private sector. It has never been reached. Saudis represented 18.5% of the private sector employees in 2017 (SAMA, 2018, p. 32). Recent articles pointed out the Saudi businesses'

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[12] http://money.cnn.com/2018/01/09/news/economy/saudi-arabia-austerity-backlash/index.html
[13] https://www.bloomberg.com/news/articles/2018-07-07/saudi-aramco-s-2-trillion-zombie-ipo

dependence on foreign labour[14]. Such businesses experience crisis – sometimes having to close – after that foreign workers start leaving the country under the pressures of the government decisions. Workers immigration to such an extent resulted from the oil rent. Is it easy to reverse? Between 2016 and 2017, about 720,000 non-Saudis private employees departed from Saudi Arabia. The Saudis recently employed since then did not offset this massive departure of foreign workers: the number of private sector employees decreased by 5.8%, which corresponds to a loss of more than 630,000 jobs (SAMA, 2018, p. 32)

New advances in development economics reassumed the conflict between rentier and industrial sectors, the former developing quite naturally at the expense of the latter in the absence of opposite public interventions (Bresser-Perreira, 2008; Akbar, 2013). The approach developed by the Brazilian economist Luiz-Carlos Bresser-Pereira sheds light on well-known policy issues for developing countries concerned by the dominance of natural resources in their exports: deindustrialisation or lagging development. In doing so, it updated the Dutch Disease models (Corden and Neary, 1982), granted that such a "disease" also applies to developing countries[15]. Globalisation is undeniably an influential factor of sectoral reconfiguration for economies integrated into it, and as the biggest world oil exporter, Saudi Arabia is no exception to the rule. While the *Régulation* Theory has enabled us to highlight the rentier accumulation regime and its essential dependence on the rest of the world, the abovementioned advances in development economics help demonstrating how the relationship of dependence may become detrimental to the diversification of the national economy.

Vision 2030 heralds the maintenance of oil production and the development of the gas sector (Vision 2030, 2016, p. 52). The gas production is expected to grow from 12 billion standard cubic feet per day to 17.8 billion in 2020, while oil production should stay at 12.5 million barrels per day. After considering this objective, our analysis has considerable reservations about the country's ability to achieve the multiple goals of the plan, as the plan evades a thorough analysis of the hydrocarbon revenues' role in the country's industrial underdevelopment, as well as the impossible diversification which results from these external revenues.

Institutional reforms must be consistent. If the Saudi government plans to maintain the current level of oil production and increase the level of gas production, there is no reason that its consequent export revenues do not sustain the existing structures of the rentier regime as they did

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[14] https://www.economist.com/middle-east-and-africa/2013/11/16/go-home-but-who-will-replace-you

[15] By exporting minerals, developing countries, even without manufacturing, experience lagging industrialization and possibly "de-agriculturalization" (Corden, 1984, p. 363). See also Apergis *et alii* (2014).

for fifty years. The attitude of the Saudi government in 2016 and 2017 during the negotiations with oil-producing countries (OPEC countries but also non-OPEC producers such as Russia) is to call for cuts in oil production to increase the oil price[16]. As Fattouh (2017) highlights, the room for manoeuvre of OPEC countries is narrow since they are now threatened by various non-OPEC producers that can increase their output as soon as the world prices exceed $70 price range[17]. The period of high oil prices – higher than $100 – has become a thing of the past[18]. The oil prices have remained at a low level – dropping to a year low of $50 on December 2018 – in spite of geopolitical concerns surrounding international sanctions against Iran and Venezuela. Nevertheless, the behaviour of most of OPEC producers in the OPEC+ agreement – including Saudi Arabia – driven mainly by urging financial needs reveal that they make utmost efforts to extend the life of the current rentier regimes. As the article has demonstrated the prominent role of international integration in the shaping of the Saudi rentier regime, the event of international retaliation following on from the Kashoggi scandal could precipitate major changes in the Saudi economy. It is nevertheless difficult to determine the likeliness of sanctions and whether the scandal will have an impact on the economy's structures or not.

Concluding remarks

The fundamental social relations observed in this article are the institutional forms of the Saudi oil-rent-led-growth regime. Both the declining amount of oil revenues and the growing unemployed Saudi population have been bringing the country into a very unstable future. The oil rent per capita is decreasing. The Kingdom has probably reached a milestone, which questions the likeliness of drastic structural reform. The analysis developed in this article is pessimistic in that Saudi Arabia has planned further exploitation of its subsoil, which will likely make the rentier accumulation regime running for several years to come. The Kingdom could further "rationalise" its current model to postpone its crisis, e.g., by seeking more valuable rent from the sovereign wealth funds (Moshashai et alii, 2018, p. 11) or pressurising even more immigrant labour. It could also open the economy to new forms of monetary rents from the rest of the world, like tourism. If it is not enough, it can use its reserves, hoping for a swift increase in oil prices in the future. However, as this article has shown, Saudi Arabia faces social discontent and bleak perspectives.

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[16] http://www.arabnews.com/node/1184676/business-economy

[17] "if OPEC pushes for a higher price by tightening the market, it needs to accommodate higher production from US shale, otherwise it will risk prices going down and inventories building up" (Fattouh, 2017, p. 4).

[18] Anjli Raval, "Saudi Arabia's existential crisis returns as US shale booms anew", *Financial Times*, March 18, 2018.

Optimistic scholars and journalists have presented *Vision 2030* as an alternative exit. *Vision 2030* aims to liberalising the Saudi economy and building competitive hi-tech industries. Such a goal raises, however, some fundamental issues in development economics: is it possible for an economy integrated to world trade to skip the harsh stage of primitive accumulation and develop a proper labour market (which is the objective of the various existing Saudisation programs), as well as competitive hi-tech industries in such frenzied globalisation? In other words, could a pure rentier economy become a developed economy led by wage labour and hi-tech industries? If not, the economic crisis will jeopardise the political foundations of the regime. This difficult equation could give birth to a time bomb for the Kingdom. Furthermore, a thorough analysis of the oil rent's effect on economic behaviour and performance remains to be done. The country's industrial weakness should be understood by policy-makers as a result of the oil revenues fuelling the Saudi economy. It is not the road currently taken by *Vision 2030*, which also aims at maintaining the current level of oil production and raising that of gas production in order to generate even more export revenues.

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