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A Theory of "Late Rentierism" in the Arab States of the Gulf

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Abstract
Rentier state theory (RST), which seeks to explain the impacts of external payments—or rents—on state-society relations and governance, has been in wide usage for over two decades, and is still routinely cited by scholars writing on the Gulf or other parts of the world. Its tenets are widely—if by no means unanimously—accepted, and retain a strong validity at the broader level. However, RST has not adapted enough to explain the dramatic changes in the political economies of the Gulf in the past two decades or so, including the responses of Dubai, Bahrain, and more recently Qatar and Abu Dhabi, to globalization, new technologies, freer trade and investments, social changes, and development imperatives. It is argued here that a new phase of RST—"late rentierism"—should be applied to the wealthy Arab Gulf states. The case for late rentierism is made with an emphasis on the shortcomings or oversimplifications of other rentier approaches. This study also describes and explains late rentierism through a discussion and elucidation of its major features and characteristics, including how these vary, or not, from those of other rentier explanations.

Introduction

Rentier state theory (RST) is a political economy theory that seeks to explain state-society relations in states that generate a large proportion of their income from rents, or externally-derived, unproductively-earned payments. Rents are most commonly royalties or other payments for oil and gas exports, but other income such as fees and aid typically are considered rents as well. As its most basic assumption, RST holds that, since the state receives this external income and distributes it to society, it is relieved of having to impose taxation, which in turn means that it does not have to offer concessions to society such as a democratic bargain or a development strategy. While RST has been applied to a range of states in the Middle East, Africa, Latin America, and elsewhere, the literature focuses heavily on the major oil exporters of the Middle East: Iran, the Arab states of the Gulf, and, to a lesser extent, Jordan, Egypt, the states of North Africa, and others.

As such, RST seeks to answer some of the most fundamental questions about the political economy of oil exporting states and to explain the "democracy deficit" in the region, the development hurdles faced by many oil states, and the nature of both elite politics and wider state-society interactions. However, RST has evolved over time, as indeed have the Arab states of the Gulf. The Gulf Cooperation Council

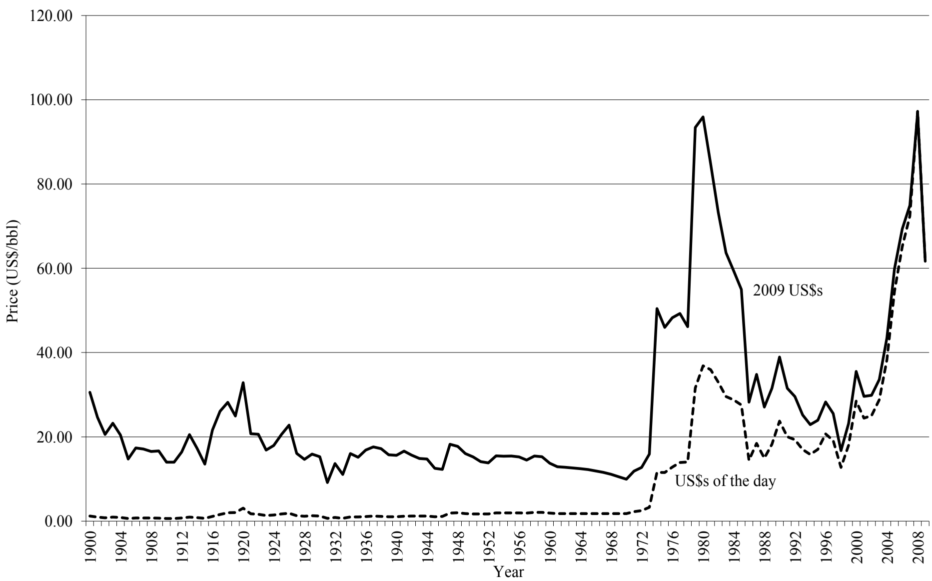
(GCC) states—Bahrain, Kuwait, Qatar, Oman, Saudi Arabia, and the United Arab Emirates (UAE)—are not the same as they were when RST was first developed in the 1980s. The GCC states have become more globalized—witness the dramatic transformation not only of Dubai since the early 1990s, but more recently that of Abu Dhabi, Doha, and others—and seemingly are spending their rentier wealth more intelligently to develop their economies and societies, diversify away from their strong reliance on oil, build new international images and roles for their cities and states, and even change the state's relationship with society. Yet at the same time, the tenets of RST seem to retain a general validity. The GCC states are not democratizing by most usual measures of "democracy;" the regimes retain clear "red lines" on what are acceptable or unacceptable political challenges to the state's authority, and economic power in these states ultimately remains highly centralized. RST has survived the changes in the Gulf in recent decades—at least in terms of the frequency with which the tag "rentier state" is still thrown about by scholars and observers of the Gulf—and has become more complex and often more sophisticated in the process. However, it is still a term that is overused, often simplistically deployed or taken at face value, and insufficiently characterized.

This paper seeks to audit and assess RST. The aims are several, including to outline some of the major two phases of RST and the characteristics of these phases, and to highlight the weaknesses or failings of some of the literature that represents these phases. It then proposes that, given the deep shifts in the political economies of the GCC states in the 1990s and 2000s, a third phase or type of RST should be applied to them: "late-stage" or "late" rentierism. Late rentierism accepts the broad validity of the principles of RST, but also allows for both domestic imperatives and external influences to have impacted the wealthy Gulf states, bringing significant changes to their political economies but retaining, even entrenching, ruling family and elite roles, as well as most of their privileges. The region has changed markedly, it is argued, but not in terms of a true or profound political transformation or dispersal of power. This case is made by explaining these principles and then by highlighting the main characteristics of the late rentier Gulf state. The paper also distinguishes the GCC states as late rentiers from more traditional rentiers, which still exist elsewhere, including Iran and Iraq in the Gulf, and some other oil states beyond the Gulf sub-region.

Oil Dynamics and the Context of the Emergence of Rentier State Theory

RST emerged as scholars began to digest the political impacts of the two oil "boom" periods that began in the mid-1970s. The first of these was due to the oil embargo that Iran and several important Arab oil states placed on the United States and other key states that supported Israel in the 1973 Arab-Israeli War. This embargo took roughly a net amount of four million barrels of oil off the international market and lasted from October 1973 until March 1974. This period saw oil prices approximately quadruple, and they held this approximate level of US$12-13 per barrel for some years afterwards, thereby consolidating the first oil boom and delivering enormous wealth to the oil-exporting states. Charts 1 and 2 below demonstrate these dynamics. Chart 1 illustrates the long-term oil price in both the US dollars of the day and in real or present-day US dollar values, while Chart 2 shows the collapse of oil production in Iran and Iraq after the Iranian revolution, the Iran-Iraq War, and through to the present day. Kuwait is included to show the decline in production there in the early 1980s and again after the Iraqi invasion and the subsequent 1990-1991 Gulf War.

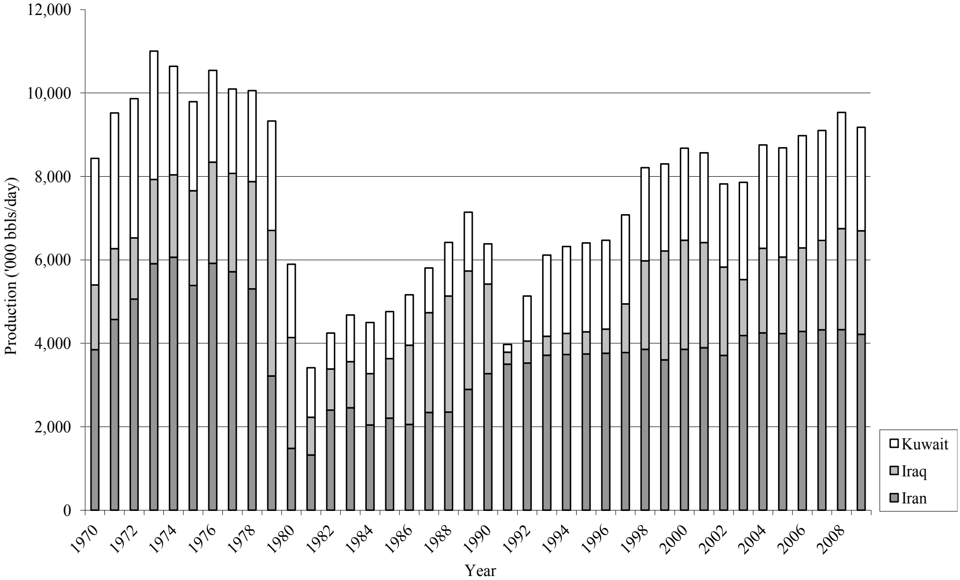
Chart 1: Long-Term Crude Oil Prices, 1900-2009



Source: Data extracted from *BP Statistical review of World Energy 2010*, http://www.bp.com/productlanding.do?categoryId=6929&contentId=7044622

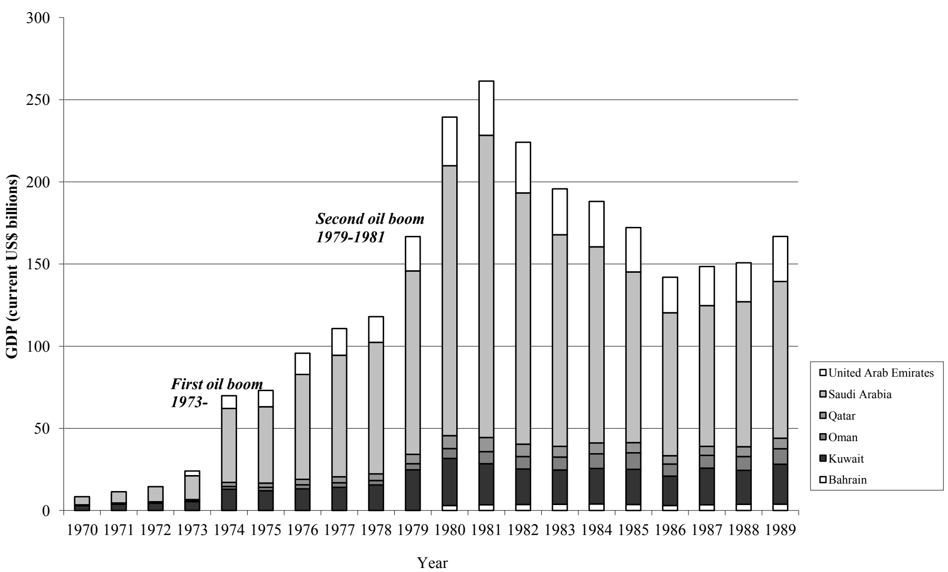
The second oil boom occurred in response to two dramatic events, the 1978-1979 Iranian revolution and the commencement of the 1980-1988 Iran-Iraq War (Chart 3). The Iranian revolution took over two million barrels per day of oil off the international market from late 1978 to mid-1979, which added uncertainty to supply from other states in the region. The Iran-Iraq War created further problems in supply, as both Iranian and Iraqi crude exports were deeply impacted. Iran's oil production has only ever reached about two-thirds of what it was prior to 1978, and Iraq returned to near-1980 levels in 1989, but was then permanently damaged by

Chart 2: Oil Production: Iran, Iraq, Kuwait: 1970-2009



Source: Data extracted from *BP Statistical review of World Energy 2010*, http://www.bp.com/productlanding.do?categoryId=6929&contentId=7044622

Chart 3: The First Rentier Booms, 1970s-1980s



Source: World Bank data extracted from http://data.worldbank.org/indicator the 1990 invasion of Kuwait and the subsequent 1990-1991 Gulf War, the sanctions from 1990 to 2003, and the 2003 Iraq War and the political and economic problems that have ensued since then. Beyond these factors, arguably less important to the price spikes of the 1970s and early 1980s—but still somewhat significant—were US price controls and an ineffectual level of discipline among the member-states of the Organization of Petroleum Exporting Countries (OPEC) in adhering to quotas and thus to price targets.

These events had multiple impacts that led to RST gaining the prominence that it has enjoyed for almost a quarter century in scholarship on the Middle East. In the West, among policymakers and even the public, there was a new appreciation for the economic importance of oil, and the US reliance on it for economic growth and military power. Among scholars studying the Middle East, some apparent paradoxes of oil-based economies began to emerge. First, far from oil wealth creating new educated middle classes that would demand political freedoms and democracy, as modernization theory assumed, there instead was a "democracy deficit" in the Middle East, not least of all in the major oil-exporting states. Second, far from guaranteeing greater stability and security, oil and the wealth it delivered instead appeared to destabilize oil regions, or at the very least, seemingly did nothing to allay or alleviate such instability. From these issues first emerged the basic concepts of RST.

The First Phase: "Classical" Rentier State Theory (RST) in the 1980s and Early 1990s

Hussein Mahdavy is accepted as the first scholar to lay out the fundamentals of rentierism, as a term and a concept, in writing about pre-revolutionary Iran of the 1960s.[1] Published in 1970, his piece is the first scholarly mention of the term "rentier" in the context meant here. The idea of rentierism gained currency however, in the literature on the Arab state and on the prospects for democratization in the Arab world. Early proponents of the theory such as Hazem Beblawi and Giacomo Luciani in particular,[2] made the argument in what now seem simplistic terms:

> A rentier or exoteric state will inevitably end up performing the role of allocating the income that it receives from the rest of the world. It is free to do so in a variety of ways … [A]s long as the domestic economy is not tapped to raise further income through domestic taxation, the

[1] Hussein Mahdavy, "Patterns and Problems of Economic Development in Rentier States: The Case of Iran," in *Studies in Economic History of the Middle East*, ed. M. A. Cook (Oxford: Oxford University Press, 1970), 428-467.

[2] See as examples Hazem Beblawi, "The Rentier State in the Arab World," in *The Rentier State: Nation, State and the Integration of the Arab World*, ed. Hazem Beblawi and Giacomo Luciani (London: Croom Helm, 1987); Hazem Beblawi, "The Rentier State in the Arab World" in *The Arab State*, ed. Giacomo Luciani (London: Routledge, 1990), 85-98; and Giacomo Luciani "Allocation vs. Production States: A Theoretical Framework" in *The Arab State*, ed. Giacomo Luciani (London: Routledge, 1990), 65-84.

> strengthening of the domestic economy is not reflected in the income of the state, and is therefore not a precondition for the existence and expansion of the state. …[F]or those that depend on income from abroad, allocation is the only relationship that they need to have with their domestic economy; all others [i.e. extractive/taxing states] ride their domestic economies.[3]

In other words, the rentier state is supposedly autonomous from society. Provided it allocates a minimum amount of wealth to society—presumably a sum similar to what the domestic economy in a wealthy extractive state would produce—then the state is free to do what it wishes with the remaining wealth. Further, the state also need not concern itself with domestic bases of support or legitimacy either: the population in effect is "bought off," with democratic input sacrificed by society in exchange for a share of the rental wealth accruing to the state from abroad. Those who do not accept this "rentier bargain" are subdued by the strong repressive apparatus affordable to the rentier state. The absence of democratic processes and institutions, therefore, is an outcome of rentierism according to a range of observers,[4] although there may be the scope for a fiscal crisis to create an impetus for political reform and democratization.[5] Even later RST literature, often seeking to be more precise or sophisticated than the early works by Beblawi, Luciani, and others, seemed to corroborate the correlation between oil wealth and an absence of democracy. A landmark article by Michael Ross in 2001, for example, seemed to substantiate the link between oil and undemocratic government.[6] This is an argument that Ross claims remains valid in the Middle East to the present time,[7] even if questioned in other contexts such as some Latin American states.[8]

Early RST, and indeed many later variants, also linked in with the theory of neopatrimonialism, which perhaps added to its validity and allure to scholars. Much rentier theory combines RST with neopatrimonialism, perhaps because it is usually

[3] Luciani "Allocation vs. Production States," 71-72.

[4] See among others Ibid., especially 76-77; Michael Ross, "Does Oil Hinder Democracy?" *World Politics* 53, no. 3 (2001): 325-361; Jill Crystal, *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar* (Cambridge: Cambridge University Press, 1990); Camilla Sandbakken, "The Limits to Democracy Posed by Oil Rentier States: The Cases of Algeria, Nigeria and Libya," *Democratization* 13, no. 1 (2006): 135-152; implied in Robert J. Barro, "Determinants of Democracy," *Journal of Political Economy* 107, no. S6 (1999): S158-S183.

[5] Giacomo Luciani, "The Oil Rent, the Fiscal Crisis of the State and Democratization," in *Democracy without Democrats? The Renewal of Politics in the Muslim World*, ed. Ghassan Salamé (London: I. B. Taurus, 1994), 130-155.

[6] Ross, "Does Oil Hinder Democracy?" 325-361.

[7] Michael Ross, "Oil and Democracy Revisited," Preliminary draft paper, (March 2, 2009), accessed July 6, 2010, http://www.sscnet.ucla.edu/polisci/faculty/ross/Oil%20and%20Democracy%20Revisited.pdf.

[8] Thad Dunning, *Crude Democracy: Natural Resource Wealth and Political Regimes* (Cambridge: Cambridge University Press, 2008). See also Ross' draft paper which includes a response to Dunning's book; Ross, "Oil and Democracy Revisited."

only a very small but important group within society that is involved in the generation of the rents and in sustaining the ruling elite.[9] In this way, neopatrimonialism explains the mechanisms by which the allocative state distributes oil wealth and manages the elite relationships that substitute for wider legitimacy or electoral mandates. Of course, all regimes consist of leaders and a small coterie of key elites who make bargains with others to form wider elite webs that sustain the regime, reinforce traditional patterns of privilege, and create new elite dynamics as circumstances dictate the need. However, neopatrimonial theory argues for a particular style of leadership where a sovereign—a monarch or president—is at the center of an elite web, with subordinate elites that are submissive to the leader but between which the leader encourages competition. This arrangement suits a leader anxious to keep any potential rivals for power in check.[10] These elites build their own patron-client webs further down the neopatrimonial system and into institutions and social units, and are a medium through which resources and political order are dispensed centrally to various groups and forces, and through which political information and requests for favors pass upwards to the higher elites and the sovereign. The neopatrimonial leader will, as necessary, foster a cult of personality and a public image of strong leadership to build a message of charisma and popularity, while usually conducting elite relations in an opaque, personal fashion that obscures and informalizes the political process. Thus, as Erdmann and Engel have astutely argued, neopatrimonialism results in the combination of dominant patrimonial dynamics and rational-legal institutions; the blurring of public and private spheres; and a resulting insecurity and unpredictability about the conduct and role of both institutions and agents.[11] Other studies have argued quite convincingly that neopatrimonial dynamics remain important in states such as those of the Gulf in ensuring elite solidarity, by managing business relationships and in sustaining a new version of state capitalism even in the face of market reform pressures and globalization.[12] Neopatrimonialism is also important in late rentier strategies, as will become clear when these are discussed later.

Another characteristic of early RST took the argument about state autonomy further and applied it to questions of economic policy—or the lack of it—and development strategies within a rentier economy. An example was Luciani's assertion

[9] Beblawi, "The Rentier State in the Arab World," 87.

[10] What follows is drawn from James A. Bill and Robert Springborg, *Politics in the Middle East*, 3rd ed. (Glenview: Scott, Foresman/Little, Brown, 1990), especially 152-161, although a range of sources discuss neopatrimonial dynamics in the region.

[11] Gero Erdmann and Ulf Engel, "Neopatrimonialism Revisited – Beyond a Catch-All Concept," *GIGA Working Paper 16-2006* (Hamburg, GIGA German Institute of Global and Area Studies, 2006): 17-20, accessed April 18, 2011, http://repec.giga-hamburg.de/pdf/giga_06_wp16_erdmann-engel.pdf.

[12] Oliver Schlumberger, "Structural Reform, Economic Order, and Development: Patrimonial Capitalism," *Review of International Political Economy* 15 no. 4 (2008): 622-649.

that: "The state, being independent of the strength of the domestic economy, does not need to formulate anything deserving the appellation of economic policy: all it needs is an expenditure policy."[13] This argument drew on the limited role of the state in supporting or sustaining a non-rent domestic economy as early rents grew. States also had limited interest in diversifying their economies until employment and population pressures, and a confused approach to food security as food self-sufficiency, caused some Gulf states—Saudi Arabia in particular—to meddle in subsidized economic diversification schemes in the 1970s and 1980s. Presumably the neopatrimonial nature of elite conduct, including competition between key elites in a ruler's inner circle as well as lower-level sub-elites, further acted against a more cogent or considered development policy. These individuals were co-opted by rulers, and thus sought rent opportunities from the state, all the while being played against each other by wily leaders.

The allocative rather than redistributive function of the state was important too, not least of all because economic problems or failings would cause little political damage to the state or to a ruler. A misallocation of wealth, corruption, waste, and inefficiency all were, the argument went, of little concern to populations provided their expectations from the state were still met. Rentier states at this time—from the 1950s to the mid-1980s—employed much of the population, paid well, and almost completely avoided taxation. As such, they could attract criticism, perhaps, but not mobilize opposition to the system from a constituency of economic losers, i.e. tax-payers. The idea of the rentier state lacking a positive and societally-engaged economic policy, therefore, probably held water in the early period of rent influx. There was little motivation for the state to invest in the economy, develop business-supportive economic policies, or create taxation-derived bargains with people, and thus little in the way of non-rent development. What this argument ignored, however, was the emerging characteristic of state capitalism in the Gulf,[14] which egged on rulers to develop new economic opportunities for themselves and their clients as an extension of the clientelism and neopatrimonialism of the rentier state. The "new" state capitalism[15] of the 1990s and 2000s is, as will be shown later, a core element of late rentierism.

Later works still held to the broad characterizations of the rentier state that Luciani, Beblawi, and others developed in the late 1980s and early 1990s. Ross'

[13] Luciani, "Allocation vs. Production States," 76.

[14] Schlumberger, "Structural Reform, Economic Order, and Development," 622-649.

[15] Ian Bremmer developed the specific term "new state capitalism" to capture the novel or modified elements of the state capitalism that became common in the 1990s and 2000s, including in the Gulf states. See among a number of works on the subject: Ian Bremmer, *The End of the Free Market: Who Wins the War between States and Corporations?* (New York: Portfolio, 2010) and Ian Bremmer, "State Capitalism Comes of Age," *Foreign Affairs* 88, no. 3 (May/June 2009): 40-55.

2001 time-series data analysis was not dissimilar in its findings. He outlined three effects of rents that, he argued, sustained or prolonged authoritarian and non-democratic governments in oil states. These were: the "rentier effect," where low or no taxation bought off the population and gained the public's political acquiescence or toleration; the "repression effect," where the wealth from rents helped the state to purchase repressive state apparatuses and institutions and to keep democratization pressures at bay; and the "modernization effect," where rents caused or enhanced socio-political stagnation or underdevelopment and, again, prevented democratic impulses from taking root.[16] While Ross later confessed that this study had its shortcomings,[17] its central claims fit with the orthodoxy of RST at the time—in fact, they gave it renewed verve in scholarly circles—and these ideas retained currency among political economists of the Middle East and elsewhere. Indeed, Ross still stands by the "rentier effect" argument relayed in his 2001 article.[18]

The Second Phase of RST

Engaging in what is in effect self-revisionism, Ross demonstrates the key issue with RST and the main genesis of this paper's proposal for a concept of late rentierism: that early RST models and concepts, while having some plausibility in explaining the early linkages between oil and authoritarianism, and oil and underdevelopment, remained unsophisticated and inadequate. Above all, their validity was most challenged by the changes in the Middle East, and especially in the hydrocarbon-based Arab states of the Gulf, in the 1990s and the 2000s, as well as the rise of more open, globalized cities such as Dubai. It is worthwhile, therefore, to consider early RST as a first phase of the literature, which had some validity in explaining the dynamics of oil states in the 1950s, 1960s, 1970s, and even the 1980s, but which had a shelf-life that has long-passed for understanding the Gulf in any nuanced, detailed way. The further material that emerged in the 1990s and 2000s is considered here a "second phase" of the literature. The studies retained the broad principles of early RST, and thus were developed to refine, augment, and develop the RST literature—not to debunk it. What follows is an outline of the major criticisms of the first phase of RST, and an overview of the key explanations developed in this second phase. The literature of the second phase is divided into two broad varieties: those that link RST to a sub-disciplinary approach, referred to here as "specialized RST;" and those that develop explanatory conditions, nuances, or individualized conditions as a lens through which first phase RST was reshaped into second phase RST, and which here is tagged as "conditional RST."

[16] Ross, "Does Oil Hinder Democracy?" 332-338.

[17] Ross, "Oil and Democracy Revisited," 2.

[18] Ibid., 24-25.

Criticism of first phase RST came from several sources. The most significant critique of the early literature was the claim that reductionism is inherent in simple regression modeling or in making economic generalizations without sufficient political context, and thus there is limited utility of it in the absence of other considerations.[19] Much of the early RST work was simplistic in that it "explained development performance solely in terms of the size and nature of countries' natural resource endowments,"[20] and, with insufficient explanatory frameworks, the early literature constituted "a case of economics pushing politics out the door."[21] Regression modeling has its place, certainly, but it lacks the finesse to give details of specific dynamics outside of the factors that are included in the methodology. Most of all, simple RST arguments and regression modeling risked confusing causality and correlation unless wider impacting dynamics were accounted for in the methodology —which they typically were not. These wider dynamics include historical experience and external political or cultural influences on the states being analyzed, and not just the size of external rents or their share of national or state income.

Second, and related to a different form of reductionism, was the problem that the explanatory claims of early RST appeared oversimplified. Was it really the case, scholars began to wonder, that the state becomes truly autonomous from society under a rentier structure? If so, one should not expect any responsiveness at all from the state, and yet most states presumed or claimed to be rentier still engaged in some reactionary policy-making in response to societal pressures, whether actual or anticipated. The state also could never truly buy independence from social and interest groups. While it indeed could stay aloof of broad class interests in many cases—certainly to a degree that extractive states could never match[22]—this autonomy from society was never complete. Several factors insured this: the threat of revolution was never fully removed; the state could be impacted by interests inherent to the state structure itself;[23] and the state would still face societal actors and forces able to defend their interests because of social, technological, or other changes.[24]

Finally, first phase RST gained currency and popularity because there seemed, prima facie, a correlation or causative link between rents and authoritarianism, the

[19] Andrew Rosser, "The Political Economy of the Resource Curse: A Literature Survey," *Institute of Development Studies Working Paper 268* (Brighton: University of Sussex, April 2006): 7, accessed July 6, 2010, http://www2.ids.ac.uk/gdr/cfs/pdfs/wp268.pdf.

[20] Ibid., 7.

[21] Pete W. Moore, "Late Development and Rents in the Arab World." Paper presented at the annual meeting of the American Political Science Association (September 2, 2004); 6, accessed July 6, 2010, http://www.allacademic.com/meta/p61099_index.html.

[22] Tim Niblock and Monica Malik, *The Political Economy of Saudi Arabia* (London: Routledge, 2007), 12.

[23] Ibid., 19.

[24] Sean Foley, *The Arab Gulf States: Beyond Oil and Islam* (Boulder: Lynne Rienner, 2010), 4-5.

absence of democratic processes and institutions, or economic underperformance. The wave of RST literature in the 1990s coincided with a period of scholarly focus on democratization.[25] It could be claimed that many found in RST a plausible quantitative and qualitative theory that avoided the controversial political culture approach,[26] or the trap of overstating the legacy of history in the region, yet which assisted an explanation of the paucity of democracy in the contemporary region without creating uncomfortable questions about Arab or Middle Eastern exceptionalism. The problem, however, was that first phase RST in the 1980s and into the 1990s lacked nuance and precision in this regard as well. Notably, it did not ably explain the variations in political activism in the Gulf. As just one example, there was no well-developed or convincing RST-centered explanation for Kuwait's very activist parliament on the one hand, and the near-absence of democratic institutions in Saudi Arabia or the United Arab Emirates (UAE) on the other.[27] Basic RST claims usually made simple assertions about a correlation between rents and an absence of democracy or, at best, an acknowledgement of some specifics among states but with such dynamics typically dismissed as subservient sub-points to the larger rentier argument.

In a somewhat similar vein, first phase RST also was very weak in explaining what had changed between the early oil booms (as in Chart 2) and the RST that might explain politics in those periods, as against the oil boom of the 2000s during which oil wealth was so much more appropriately, transparently, and responsively spent by regimes.[28] While this is partly an economic question, it is also inseparable from questions of accountability and responsiveness that are, in turn, related to the democracy debate and, of course, to wider political economy elements of the state-society relationship. Yet, first phase RST would have little utility in explaining it, or even much insight into elucidating the variations among rentier regimes in how efficiently or visibly oil money or other rents were handled and spent in earlier times.

These inherent issues with first phase RST led to several distinct and discreet sub-bodies of literature during the late 1990s and the 2000s. Here they are

[25] Moore, "Late Development and Rents in the Arab World," 5.

[26] On the political culture debate, and for a good outline of the basic arguments for and against it, see Lisa Anderson, "Democracy in the Arab World: A Critique of the Political Culture Approach," in *Political Liberalization and Democratization in the Arab World. Volume 1: Theoretical Perspectives*, eds. Rex Brynen, Baghat Korany, and Paul Noble (Boulder: Lynne Rienner Publishers, 1995), 77-92; and Michael Hudson, "The Political Culture Approach to Arab Democratization: The Case for Bringing It Back In, Carefully," in *Political Liberalization and Democratization in the Arab World. Volume 1: Theoretical Perspectives*, eds. Rex Brynen, Baghat Korany, and Paul Noble (Boulder: Lynne Rienner Publishers, 1995), 61-76.

[27] Michael Herb, "A Nation of Bureaucrats: Political Participation and Economic Diversification in Kuwait and the United Arab Emirates," *International Journal of Middle East Studies* 41, no. 3 (2009): 375-395.

[28] Suzanne Maloney, "The Gulf's Renewed Oil Wealth: Getting it Right This Time?" *Survival* 50, no. 6 (2008): 129-150.

categorized as either "specialized RST," where a sub-disciplinary addition to RST dominates its reconsideration and modification, or alternatively as "conditional RST," in which explanatory conditions, nuances, or individualized conditions within the theory increase its applicability, utility, or validity.

Specialized RST

The inclusion of historical dynamics or exceptionalisms into the analysis is one of the more common and convincing approaches. To critics of classical RST, historical experience and the unique social or developmental conditions of a particular state were ignored by the very mechanical methodologies and generalizations in first phase RST. States might be rentier and share certain characteristics in being distant from or unaccountable to society, but such states and their rentier dynamics, the argument goes, did not come into being the day that oil began flowing from the wells; the state or a ruling elite and at least some institutions of the state pre-date rents. For some scholars, therefore, RST needed to incorporate the pre-rent state-society dynamic into an analysis of post-rent political order and relationships,[29] and problems of state formation needed to be included in considerations of specific states' experiences.[30] Certainly, business-government relationships varied in the Gulf states: contrast the shared social origins of the political elite and the merchants in Kuwait[31] with the great differences between the two in Saudi Arabia,[32] and even more so in Iraq.[33] Saudi Arabia was, it can be argued, rentier long before oil wealth began flowing, given the reliance of the ruling family on rents from trade and pilgrimage, and the fact that such income allowed rulers to impose far less taxation on the population than otherwise would have been the case.[34] In the early years of the Kingdom, the royal elite had a symbiotic financial relationship with merchants, relying on them to provide money and goods in exchange for broader freedoms and new opportunities in their business activities as well as other concessions or privileges.[35] Foley makes this argument when looking at the Saudi Arabia of the 2000s. Although he broadly

[29] Moore, "Late Development and Rents in the Arab World," 8-11.

[30] 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.

[31] Crystal, *Oil and politics in the Gulf*, 18-26; 39-44.

[32] Kiren Aziz Chaudhry, *The Price of Wealth: Economics and Institutions in the Middle East* (Ithaca: Cornell University Press, 1997), 46-50; Giacomo Luciani, "From Private Sector to National Bourgeoisie: Saudi Arabian Business," in *Saudi Arabia in the Balance: Political Economy, Society, Foreign Affairs*, eds. Paul Aarts and Gerd Nonneman (London: Hurst, 2005), 150-151; 157-159.

[33] Hanna Batatu, *The Old Social Classes and the Revolutionary Movements of Iraq: A Study of Iraq's Old Landed and Commercial Classes and of its Communists, Ba'thists, and Free Officers* (Princeton: Princeton University Press, 1978), 244-258274-281.

[34] Foley, *The Arab Gulf States*, 23-24.

[35] Madawi Al-Rasheed, *A History of Saudi Arabia*, 2nd ed. (Cambridge: Cambridge University Press, 2010), 83-86.

endorses a revised RST, he notes that greater political pluralism in the Kingdom over the latter-2000s coincided with the 2004-2008 oil boom. This coincidence had, however, the opposite outcome that the typical first phase RST proponent would expect to see.[36]

Other authors pointed to a different dynamic but with the same impact, incorporating international relations theories into RST explanations of the Gulf in recent decades. This type of argument proposed that external influences, and especially external threats and the inter-state conflict and instability of the region, also created variations in different rentier states' exact roles and behaviors. While issues such as social origins, business-government comparisons, the centralization or dispersal of economic power, and external imperatives do not make RST obsolete, they do require of it greater finesse and complexity. Important in such views were three factors. The first was the blurring of economic and military aspects of security,[37] including the ways in which the threat of conflict over or involving resources varied between states, and especially the differences in political impact between intra-state and inter-state conflict. Second, and related to this approach, is the fact that rentier states themselves have been directly involved in military conflict,[38] whether as perpetrators or victims of it, even where this seemingly would disadvantage the rentier ruler. The 1980-1988 Iran-Iraq War is one such example, as is Iraq's 1990 invasion of Kuwait. An argument has even been made that Iraq's invasion of Kuwait was driven by Saddam's concerns with domestic actors, whether the post-Iran-Iraq War Iraqi military or other institutional actors,[39] or the social forces impacted by economic liberalization.[40] This said, it could also be argued that Saddam's invasion of Kuwait was motivated by the country's oil resources and the additional OPEC quota, and thus the income he would have enjoyed, had the international community accepted or acquiesced to it being incorporated into Iraq. The point remains that, even as rents have made states wealthier, they have not made them more internally stable, nor made regions with multiple rentiers such as the Gulf more secure. It is in assessing this that international relations theory and RST have, in some second phase RST sources, been brought together.

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36 Foley, *The Arab Gulf States*, 2.

37 This is noted in Moore, "Late Development and Rents in the Arab World," 11, who cites as an example, among others: F. Gregory Gause III, *Oil Monarchies: Domestic and Security Challenges in the Arab Gulf States* (New York: Council on Foreign Relations Press, 1994).

38 See the case studies on Syria and Iraq in: *War, Institutions, and Social Change in the Middle East*, ed. Steven Heydemann (Berkeley: University of California Press, 2000).

39 See the excellent outline of the various arguments along this line, including the RST arguments as well, in Hamdi A. Hassan, *The Iraqi Invasion of Kuwait: Religion, Identity and Otherness in the Analysis of War and Conflict* (Sterling: Pluto Press, 1999), 77-89.

40 Kiren Aziz Chaudhry, "On the Way to the Market: Economic Liberalization and the Iraqi Invasion of Kuwait," *Middle East Report* 21 no. 3 (May/June 1991): 14-23.

The Iraq-Kuwait dynamic is a reminder also of the line of thinking which sees Kuwait's position as a vulnerable state, thus demonstrating some particular features within and beyond its rentier ones. Living under the shadow of an Iraqi invasion, which not only occurred in 1990 but had threatened to in 1961, on top of the various occasions where Iraq has intimidated the small emirate or moved troops to their shared border, is a specificity of Kuwaiti politics. This is one explanation for Kuwait's activist parliament; a leadership that faced destruction in 1990, and continually confronts the threat of invasion, must be more responsive to social forces than would otherwise be the case if Kuwait were a "typical" rentier state either not facing such a threat or with a regime more able to militarily defend its society.

The third and final factor is the influence of external major powers in the strategic and security environment of the region.[41] The argument here is that whatever the validity of RST in explaining *domestic* politics, the involvement of external major powers in the region has caused specific instability or change regardless of the state's oil wealth. Indeed, it has been argued that oil reserves, and international competition for energy and for geo-strategic influence over energy-exporting regions, caused such interventionism during the Cold War and, for that matter, will continue to do so as the US and new powers such as China and India become increasingly focused on energy security.

Conditional RST

The second type of "second phase RST"—what here is termed "conditional RST" —sought to refine RST to account for the structural weaknesses or explanatory generalizations that hampered the early literature. The most obvious issue is that of state autonomy and the fact that the state is never truly or completely autonomous from society. There is always the threat of revolution or violent opposition constraining the autonomy of the state, and therefore the state must do more than simply buy off or repress society. A common example cited is Saudi Arabia, where the state arguably has enjoyed a comparative amount of freedom from specific interest groups in proceeding with its economic and development policies, it has still done so in

[41] Among many works relevant to this line of argument see Giacomo Luciani, "Oil and Political Economy in the International Relations of the Middle East," in *International Relations of the Middle East*, ed. Louise Fawcett (Oxford: Oxford University Press, 1995), 79-104; Yahya Sadowski, *Scuds or Butter? The Political Economy of Arms Control in the Middle East* (Washington: The Brookings Institution, 1993); and Peter Sluglett, "The Cold War in the Middle East," in *International Relations of the Middle East*, ed. Louise Fawcett (Oxford: Oxford University Press, 2005), 41-58.

the interests of state-building and to reinforce its legitimacy,[42] which is hardly the act of a state free of interests. Saudi Arabia is also an archetypal example of a state that still faces influence from actors within the state and elite structures, i.e. princes, senior officials, and clerics, among others.[43] Moreover, its reform efforts in the early 2000s do not seem to fit well into first phase RST ideas, although this was more a problem of the lack of sophistication of the theory. Second phase literature better addressed issues that related to the state's autonomy from society, such as fluctuations in rent; a financial crisis due to a sustained period of low-rent income (Chart 4); the new influence enjoyed by the private sector; and the political instability, unrest, and discontent over socio-economic conditions in the 1990s.[44] Later political reforms similarly stemmed from international reputational issues and the domestic stresses faced from extremism after 2001.[45] The regime would have ignored such a wide combination of political hazards at its peril, yet early RST allowed little possibility of such change.

The other evidence of interest here is from the smaller Arab Gulf states—Dubai since the early 1990s, then Abu Dhabi, Qatar, and others in the 2000s and 2010s—where regimes have instituted deliberate, meticulous strategies of economic diversification and development that have included partial opening to globalized trade and other globalization influences; the liberalization of investment and trade laws and regulations; new educational and business opportunities for citizens and expatriates; and social changes associated with these economic reforms. These states have not had the fiscal pressures faced by Saudi Arabia (excepting Dubai's 2008-2010 financial crisis), and yet—while the political sustainability of such reforms remained core to the state's thinking—the depth and impact of such reforms were startling, and far more responsive, considered, and forward-looking than early RST would have allowed or predicted. The reason is that the state is *not* autonomous, but is embedded in the political economy. First phase RST advocates were correct in thinking that the state can avoid democratization and usually even direct accountability to the population, but it must still be *responsive* to society if—as it has done in the past couple of decades—it wants to ensure its long-term survival. The state can also be much more active economically as the dominant player in state capitalism. There is a clear contrast here between small late rentiers and larger

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[42] This is the argument in, for example, Toby Craig Jones, *Desert Kingdom: How Oil and Water Forged Modern Saudi Arabia* (Harvard: Harvard University Press, 2010); the most pertinent introductory pages that summarize this line of argument are 5-6, 10-13, and 15-17. A similar set of arguments about the politics of the developmental oil state are to be found in Marc Valeri, *Oman: Politics and Society in the Qaboos State* (New York: Columbia University Press, 2009), 81-89.

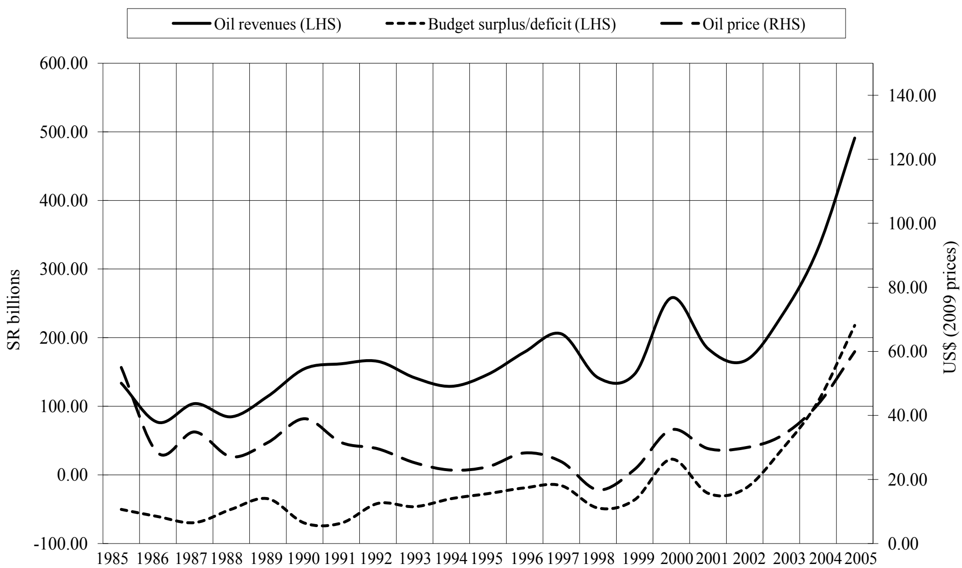
[43] Niblock with Malik, *The Political Economy of Saudi Arabia*, 19.

[44] Ibid., 173-177.

[45] Al-Rasheed, *A History of Saudi Arabia*, 242-250.

rentier states such as Iran and Iraq, where regimes with large populations are unable to financially induce all of the population, and so must instead build legitimacy through other means. Thus, Iranian leaders' use of Iranian nationalism, economic populism, and religious guardianship in both pre- and post-revolutionary Iran, and various Iraqis' use of pan-Arabist and socialist/re-allocative justifications particularly over the 1958-2003 period.

Chart 4: The Financial Strains on Saudi Arabia, 1985-2005



Source: Budget data from Niblock with Malik, *The Political Economy of Saudi Arabia*, Tables 4.2 (p. 101), 4.7 (p. 114), and 6.2 (p. 179) and from *Saudi Arabia Budget 2009* (Kuwait City, Global Investment House, n.d.), http://www.gulfinthemedia.com/files/article_en/449557.pdf?PHPSESSID=8. Oil price data extracted from *BP Statistical Review of World Energy 2010*, http://www.bp.com/productlanding.do?categoryId=6929&contentId=7044622

Finally, there are a number of second phase RST works that accept rentier ideas as a core theoretical aspect of the work, but only as one aspect of a conglomeration of explanatory tenets, and with RST treated as a dynamic of politics rather than as a comprehensive explanation of the political structure in totality. This is laudable, and is a key argument here for late rentierism as well. Once RST is relieved of the burden of having to be a comprehensive explanation for the totality of a system, and instead is used simply to partially explain how politics operates, it gains much greater utility. One of the best recent books on Saudi Arabia by Steffen Hertog is along such lines.[46] The study develops and refines RST in much greater detail than previous works on the Saudi political economy. While RST remains central to Hertog's explanations of the state in Saudi Arabia, it adds nuance to the RST premises by considering state institutions and rentierism at multiple levels and by accepting and addressing, rather than ignoring, how rentier dynamics can vary markedly across the institutions and dynamics of a "fragmented state apparatus."[47]

The other approach which is especially worth noting—and is closest of all to what is proposed here as a late rentier approach—is that developed by Valeri on Oman and Jones on Saudi Arabia.[48] These authors treat rentierism as a characteristic of politics rather than a model for the entire political structure. Works such as that by Fox et al. are similar, insofar as they accept RST principles but place them into more specific, and changing, social and cultural contexts.[49] To a large extent, Herb does this as well by accepting the power that wealth allocation bestows on rulers and their elite networks, but insists that rents be considered an "intervening variable"[50] in politics, which requires an analysis of monarchism, political institutions, and other dynamics for it to have theoretical validity. This approach risks understating the political importance of rents, but the principle is an insightful one and the approach flexible enough that such a risk can be defused.

The upshot of this debate—of both phases of RST and of the debate as it stands now—is that the term "rentierism" and the basic components of RST remain in wide currency among scholars of the Gulf[51] and many of its basic principles are widely accepted. However, there is also a need for a review and revision of how the RST as a theoretical concept is understood. There is a need to bring the various RST literature together while at the same time account for the variety of rentier states and the exceptions posed by the wealthier Arab states of the Gulf. Chart 5 shows that these Gulf states are still very "rentier" in terms of the centrality of oil to their

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46 Steffen Hertog, *Princes, Brokers, and Bureaucrats: Oil and the State in Saudi Arabia* (Ithaca: Cornell University Press, 2010).

47 Ibid., 11.

48 Valeri, *Oman*; and Jones, *Desert Kingdom*.

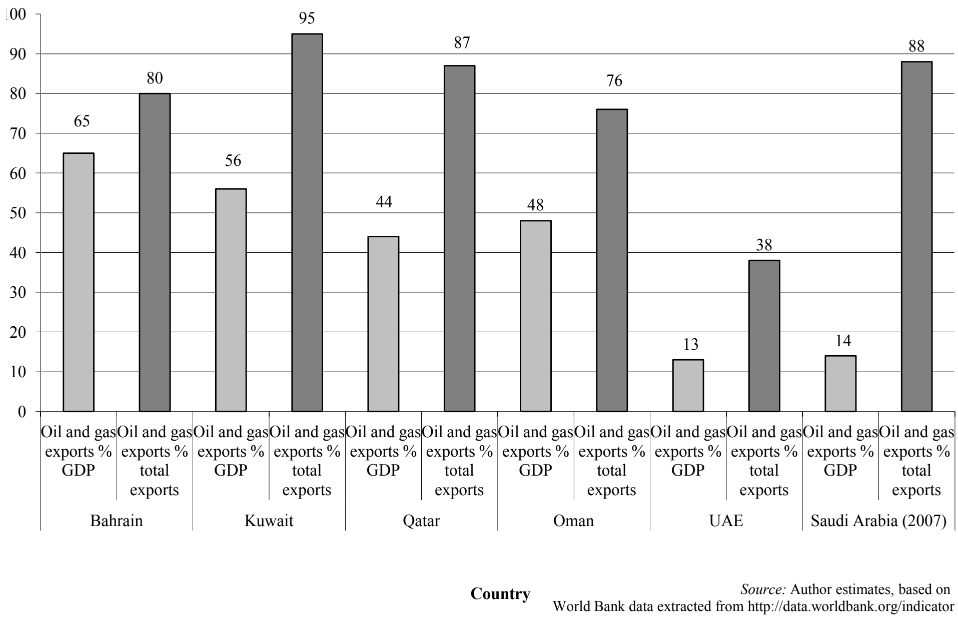
49 John W. Fox, Nada Mourtada-Sabbah, and Mohammed al-Mutawa, "The Arab Gulf region: Traditionalism Globalized or Globalization Traditionalized?" in *Globalization and the Gulf*, eds. John W. Fox, Nada Mourtada-Sabbah, and Mohammed al-Mutawa (London: Routledge, 2006), 3-59.

50 Michael Herb, *All in the Family: Absolutism, Revolution, and Democracy in the Middle Eastern Monarchies* (Albany: State University of New York Press, 1999), 241.

51 Paul Aarts and Gerd Nonneman, "A Triple Nexus: Ideology, Economy, Foreign Policy and the Outlook for the Saudi Polity," in *Saudi Arabia in the Balance: Political Economy, Society, Foreign Affairs*, eds. Paul Aarts and Gerd Nonneman (London: Hurst, 2005), 437-440.

economies and highlights their political economic reliance on hydrocarbon income. Yet, it is also the case that the political characteristics of these states have changed and must be accounted for. They are not the same rentier states that they were a generation ago. Moore uses the term "revised"[52] rentier state theory in suggesting something similar to this approach. However, this study argues for a specific "late-stage" or "late" rentier model applicable to the Arab states of the Gulf in which the fundamentals of RST remain core to understanding the Gulf states' politics, but only in terms of a feature of their political dynamics, and not as an explanation for their overall political orders and structures.

Chart 5: Rentierism in the Arab Gulf States, 2008



A Third Phase: Towards a Theory of "Late Rentierism"

The many revisionist authors that have implied retaining the principles of RST but amending the specifics, are essentially correct in arguing such. Non-rent factors such

[52] Moore, "Late Development and Rents in the Arab World," 14.

as pre-rent historical dynamics and impacts, the types of rents earned by the state, and regional security problems or conflicts are all important. However, while these may allow for specifics within a certain state or variations between states, they do not invalidate the basic applicability of a rent-focused explanation. The late rentierism idea is proposed here as a way of characterizing the politics of the Arab Gulf states. These states are rentier by virtue of a centralized state earning a large proportion of its income from unproductive external sources, but have also incorporated some quasi-rentier or non-rentier aspects into their foreign relations, economic policies, and relationships with society and with intermediary actors such as civil society groups. Therefore, while some rentier characteristics from the classical stage of RST remain, rentierism has become more sophisticated as the state has matured and new threats have emerged. Specifically, the late rentier model allows for and explains the confluence, since 1990 or so but especially in the 2000s, of a maturing of the state and its view of rents; the impacts of globalization and the need to respond to it; new state economic and development imperatives and policies that are often at times of high, not low, rents; and population growth and employment pressures. These, when faced by allocative regimes that still have large rents at their disposal and which do not wish to cede real power to society or to specific opposition, account for late rentierism.

The implications of these factors—state maturity, globalization, development policies, population and employment pressures, and the like—are that both the context of rentierism and its characteristics have changed. It is unfortunate that many scholars assume that the Middle East sits largely outside of the globalization process, because this suggests a removal of agency and responsibility from the Arab state. In fact, the Arab state—not least of all the rentiers—has been quite responsive to globalization and certainly has been affected by it. Globalization has both required and encouraged economic responses by states, and has impacted the external strategic environment. To these states, globalization has brought greater trade liberalization; a greater flow of private investment and capital; other financial reforms; and the prospects of easier communication and transport across nation-state borders.[53] More opaquely, but no less importantly, globalization has changed the place of the state in the international economic order and of the state within the nation-state. The convergence of previously separate or disparate peoples; the de-territorialization of place and space; and the new reaches of marketization and forces associated with

[53] Clement M. Henry, "The Clash of Globalisations in the Middle East," in *International Relations of the Middle East*, ed. Louise Fawcett (Oxford: Oxford University Press, 2005), 105-129.

commerce all increasingly challenge and impact the state's power.[54] In particular, all have implications for and impacts on the Gulf,[55] including on the state and thus on rentier dynamics. The reach of globalization extends to the strategic and security realms too, as regimes face new pressures for political reform and liberalization,[56] as identities at individual, group, and nation-state levels are challenged,[57] and as the explanatory concepts of "security" shift and are re-evaluated.[58]

Concomitant with globalization has been new pressures from population growth and, in turn, from the need to create long-term employment opportunities for Gulf nationals in prestigious, well-paying areas. Saudi Arabia's oil boom and bust over the 1960s to 1990s, and their impact on state finances, has already been discussed. From 1980 to the present, Saudi Arabia's population has roughly doubled—rising in the 1980s and 1990s by about 4 percent per annum.[59] Oil income per capita, therefore, despite improving during the 2004-2008 oil boom, no longer matches what it was in the 1970s and the 1980s. This has placed the traditional rentier bargain under strain, but not to the extent that it has affected Iran, Iraq, and other very populous rentier states where the state's cooptive means has been reduced to an allocative form of welfarism. Still, in Saudi Arabia, many people have become disenchanted by the relative austerity now, under second-generation rentier leaders, compared with a generation ago. There is considerable political pressure on the regime from youth unemployment. In mid-2005, overall unemployment officially sat at around eleven percent but, in reality, was probably fifteen percent or more[60] and higher still among youth. The Saudi regime needs to not only create employment, but also to ensure the availability of well-paying and prestigious jobs that the population will embrace given the *mudīr* ("manager") syndrome that many claim is a problem with efficiency

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[54] Toby Dodge and Richard Higgott, "Globalization and its Discontents: The Theory and Practice of Change in the Middle East," in *Globalization and the Middle East: Islam, Economy, Society and Politics*, eds. Toby Dodge and Richard Higgott (London: Royal Institute of International Affairs, 2002), 17-21.

[55] John W. Fox et al., "The Arab Gulf region;" Clement M. Henry and Robert Springborg, *Globalization and the Politics of Development in the Middle East* (Cambridge: Cambridge University Press, 2001), especially 178-193; and Ali Sadik, "The Economic Implications of Globalization for the GCC Countries," in *Globalization and the Middle East: Islam, Economy, Society and Politics*, eds. Toby Dodge and Richard Higgott (London: Royal Institute of International Affairs, 2002), 83-112.

[56] Khaldoun Al Naqeeb, "How Likely is Democracy in the Gulf?" in *Globalization and the Gulf*, eds. John W. Fox, Nada Mourtada-Sabbah, and Mohammed al-Mutawa (London: Routledge, 2006), 127-140; Henry, "The Clash of Globalisations in the Middle East," 122-126; Henry and Springborg, *Globalization and the Politics of Development in the Middle East*, 58-61.

[57] Foley, *The Arab Gulf States,* especially 103-123.

[58] Steve Smith, "The Concept of Security in a Globalizing World," *Globalization and the Gulf*, eds. John W. Fox, Nada Mourtada-Sabbah, and Mohammed al-Mutawa (London: Routledge, 2006), 63-77.

[59] Monica Malik and Tim Niblock, "Saudi Arabia's Economy: the Challenge of Reform," in *Saudi Arabia in the Balance: Political Economy, Society, Foreign Affairs*, eds. Paul Aarts and Gerd Nonneman (London: Hurst, 2005), 103.

[60] Ibid.

and innovation there[61] and in other wealthy Gulf states.[62] At the same time, there is broad dissatisfaction with government services,[63] which adds further pressure to a regime struggling to maintain social and socio-economic spending.

Further, the rise of conservative Islamism poses increased threats to regimes and is linked to population and employment pressures. To some Islamists, globalization itself is a threat to their values.[64] They see the state as being in concert with globalizing forces and its external powers rather than serving the interests of the people. The late rentier state needs to counter such problems that leaders a generation ago did not. There is a link, too, between rents and corruption, which, as an antithesis of Islamic values,[65] is something that Islamists often take up as an issue. States increasingly have to address this growing area of concern. The prospect of an Islamist regime threatening the legitimacy of the state or the ruling family has been enough to prompt some states to become more responsive to societal concerns and more active in pursuing economic diversification and development.

Finally, late-stage rentierism reflects a change in the perspective of the state and its approach to both rents and its own long-term survival. The oil wealth of the earlier oil periods—from the expansion of the sector in the 1950s, but especially in the oil booms of the 1970s and 1980s—was disproportionately wasted or mismanaged.[66] Defining the new rentier state of the 1990s and 2000s are the experiences of the 1970s-1980s oil booms and the shock of the low oil prices of the late-1980s and the 1990s;[67] a recognition that more active and entrepreneurial state capitalism can assist in providing state longevity, both through the derivation of new forms of wealth and as an alternative to politically-risky neoliberal economic liberalization;[68] and perhaps even a realization that oil is a finite resource with an ultimate, if unknown, expiration date. This notion of state "maturity," therefore, recognizes that regimes

[61] The "*mudīr* syndrome" refers to the characteristic, which some argue is common in Saudi Arabia and other wealthy oil and gas states, where everyone wants a professional or managerial job, not a menial, semi-skilled, or technical one, despite the need for those in the economy to create employment. The concept is noted in Daryl Champion, *The Paradoxical Kingdom: Saudi Arabia and the Momentum of Reform* (New York: Columbia University Press, 2003), 200-202; and in effect but not name – "[Rentierism] embodies a disconnect in the work-reward relationship" – in Hazem Beblawi, "Gulf Industrialization in Perspective," in *Industrialization in the Gulf: A Socioeconomic Revolution*, eds. Jean-François Seznec and Mimi Kirk (London: Routledge, 2011), 188.

[62] For example in Christopher M. Davidson, *Dubai: The Vulnerability of Success* (London: Hurst, 2008), 178-180.

[63] Al-Rasheed, *A History of Saudi Arabia*, 242-248.

[64] Fred Halliday, "The Middle East and the Politics of Differential Integration," in *Globalization and the Middle East: Islam, Economy, Society and Politics*, eds. Toby Dodge and Richard Higgott (London: Royal Institute of International Affairs, 2002), 45-56.

[65] Ziad Hafez, "The Culture of Rent, Factionalism, and Corruption: A Political Economy of Rent in the Arab World," *Contemporary Arab Affairs* 2, no. 3 (2009): 473-477.

[66] Maloney, "The Gulf's Renewed Oil Wealth" 133.

[67] Ibid.

[68] Bremmer, *The End of the Free Market*, especially 51-81.

are taking a more considered and strategic look at their longer-term roles as well as their weaknesses and survival strategies. Thus, late rentier rulers are not simply letting rents flow to society and hoping in earnest that this will sustain their rule.

These regimes are, of course, to some extent nervous. While they vary in popularity, none are truly free of the threat of popular uprising, as the 2011 Arab protests showed. The Bahraini protests[69] were especially critical in demonstrating that the Arab Gulf states were not immune from the protests that had, by summer 2011, swept the Egyptian, Tunisian, and Libyan leaders from power and were threatening several others. While there are specific socioeconomic problems bedeviling Bahrain—especially in the disparities in wealth and opportunity between the Sunni minority from which the ruling family and elite is mostly drawn and the Shi'i majority—sectarianism, along with issues like the lack of democratic reform in the 2000s, despite promises of change, are fairly common to the region. The Saudi regime seemed especially spooked by the events in Bahrain and the risk of protests spreading to the Saudi Shi'i population or even the wider Sunni society. Telling in this regard is the speed with which traditional rentier-style *largesse* was dispensed by Saudi King Abdullah. Almost immediately upon his return from medical treatment abroad, on February 23, 2011, he offered two packages of spending to quell popular unrest, totaling about US$129 billion in overall costs, with spending covering housing support, study overseas funds, and social security initiatives, among others.[70] Other states were also unsettled by popular demonstrations, with small protests in Oman, mostly against corruption, and the possibility of public unrest in Kuwait. Spending such as that by the Saudi monarch, even where it introduces long-term budgetary pressure, and similarly by the Kuwaiti emir and other regional leaders,[71] signals the nervousness with which many Arab regimes, not least of all the Saudis, view societal pressure for reform and the risk of social unrest.

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[69] See on the Bahrain protests, for example: "Popular Protests in North Africa and the Middle East (III): The Bahrain Revolt," *International Crisis Group MENA Report No. 105* (Brussels, International Crisis Group, April 6, 2011), accessed April 7, 2011, http://www.crisisgroup.org/en/regions/middle-east-north-africa/iran-gulf/bahrain/105-popular-protests-in-north-africa-and-the-middle-east-iii-the-bahrain-revolt.aspx.

[70] Michael Peel and Javier Blas, "Saudi Spending Could Require High Oil Price," *Financial Times*, March 31, 2011, accessed April 21, 2011, http://www.ft.com/cms/s/0/87d60044-5bbb-11e0-b8e7-00144feab49a.html#axzz1K6WbamI0 ; and "Saudi King Offers Benefits As He Returns from Treatment," *BBC News*, February 23, 2011, accessed April 21, 2011, http://www.bbc.co.uk/news/world-middle-east-12550326.

[71] Michael Peel and Robin Wigglesworth, "Arab Rulers Use Handouts to Ward Off Unrest," *Financial Times*, January 19, 2011, accessed April 21, 2011, http://www.ft.com/cms/s/0/938dbe0c-23e1-11e0-8bb1-00144feab49a.html#axzz1K6WbamI0; and Robin Wigglesworth, "Gulf States Set Up Regional Aid Plan," *Financial Times*, March 10, 2011, accessed April 21, 2011, http://www.ft.com/cms/s/0/03367292-4b35-11e0-b2c2-00144feab49a.html#axzz1K6WbamI0.

The Features of a "Late Rentier" State

The Arab states of the Gulf have all, if to varying degrees, transitioned from a simpler, more classical or "first phase" rentier model into a "late rentier" model (as seen in Table 1), where the state is more entrepreneurial, supportive of development, and responsive than it was previously. However, the fundamental characteristics of rentierism remain: in none of these states has there been a dramatic transition to pluralistic or Western-style democracy, for example, nor has the allocative nature of the state's spending shifted very much, as the Saudi payments in February 2011 demonstrated. RST has always had a basic validity in terms of explaining how wealthy oil states act, but it is no longer adequate to the task of explaining the precise political economy dynamics of such states. Further, there are variations in the precise behaviors and sub-features of the late-stage rentier state—more than the early RST literature would argue. What follows are seven characteristics of the late-stage rentier state, which together illustrate the late rentier argument, and in the process explain how various states have, since the 1990s and the 2000s, come to possess the political economies they do today.

Feature 1: A Responsive but Undemocratic State

First phase RST held that, through both the repressive and cooptive means at the state's disposal, the rentier state was completely non-democratic and its control of rents gave it complete autonomy from society as well as freedom from any pressure to reform. However, the threats to the state that have emerged despite the rents at its command—unemployment pressures, Islamist challenges, the possibility of globalization's technologies undermining traditional authority and legitimacy—suggest that while the late-stage rentier can avoid actual democratization as its earlier rentier predecessors could, it must still be *responsive* to basic societal needs. In most of the Gulf states, there has been some pluralization of politics,[72] but at a level that does not threaten the state's elite. The creation of relatively weak legislatures in some states or modest expansions of their commission or authority are examples,[73] as is the Saudi regime's introduction of municipal electoral politics and the National Dialogue Forum with society.[74] It is worth noting the exception of Kuwait, which has a more activist parliament with real political powers. Kuwait has a particular parliamentary history and a shared social origin among key elites that

[72] Foley, *The Arab Gulf States*, 103-109; 137-139.

[73] Herb, *All in the Family*, 259-266; Foley, *The Arab Gulf States*, 103-109. Foley puts the expansion of legislatures in the 1990s down to the impacts of the 1990-1991 Gulf War on state-society relations; in fact, other factors (the collapse of Eastern European communist regimes, growing popular and elite interest in democratization and globalization in the West and the Middle East at the time, and the rise of new technologies in that decade) are at least as important.

[74] Al-Rasheed, *A History of Saudi Arabia*, 242-250.

Table 1: A Summary of the Three Phases of RST in the Arab Gulf States

Phase	*Characteristics*	*Relevant authors*	*Countries & periods covered*
First Phase (*Classical RST*)	• A systemic explanation of the state and state-society relationship • The state earns a large majority of its income from external rents • The state is highly allocative, with high social spending and little or no taxation applied to nationals • The state is autonomous from society (i.e. free to act and spend rent as it wishes once it has spent sufficient funds on society) • The state does little/no economic or development policymaking • The state is typically corrupt and wasteful, but this has few political implications because of its autonomy • Elite political relations are managed through neopatrimonialism (but a neopatrimonial system need not necessarily be rentier)	• Mahdavy (1970) • Beblawi (1987; 1990) • Luciani (1990)	• Iran 1960s-1970s • Arab states of the Gulf 1950s-1980s • Also applied to Iraq 1960s-1980s and after; and other industrial economies such as Algeria 1960s-1990s, Egypt 1960s-1980s, and Jordan 1970s-1980s
Second Phase (*Specialized RST and Conditional RST*)	*Specialized RST:* • In effect, a more nuanced and sophisticated version of RST – e.g. the state is allocative but applies some taxation; the state is only partly autonomous; the state *does* have an economic policy; the state's exact role varies within or across the macro-, meso-, and micro- economic levels – A reply to the criticism that early RST was overly simplistic – Still a systemic explanation of the state-society relationship *Conditional RST:* • Argues that RST needed to be employed in conjunction with (an)other approach(es) – RST was combined with: other political economy theories (e.g. business-government relations); international relations theories; history – Also a reply to criticisms of the simplicity of early RST – Less a systemic explanation of state-society relations	*Specialized RST* • Crystal (1990) • Chaudhry (1997) • Hertog (2010) • Davidson (2008; 2009) *Conditional RST* • Herb (1999) • Al-Rasheed (2010) • Jones(2010) • Foley(2010) • Schwarz(2008)	• Various; case studies were usually one or several Arab Gulf states • Usually covering a period in the 1980s, 1990s or 2000s; sometimes earlier, e.g. Chaudhry (1997) covers Saudi Arabia and Yemen up to the 1980s • Wider studies may include other monarchies, e.g. Jordan or Morocco (Herb 1999) or occasionally others (Chaudhry 1997)
Third Phase (*Late Rentierism*)	• Argues that late rentierism creates a particular type of state that is more responsive, globalized, and strategic in its thinking. – Late rentierism stems from forces such as state maturity, experience with impacts of the 'oil curse', globalization, the need for a state role in development and/or state capitalist tendencies among the ruling elite, and new social pressures for reform and development – It also acts as a reply to criticisms of the simplicity of early RST, and brings together multiple Second Phase RST arguments Argues that rentierism is a dynamic of state-society relations, not a structural characteristic of the state, and that earlier RST, especially classic works, are overambitious	• This work The concept is implied or implicit in Moore (2004); Hertog (2010); Davidson (2008; 2009); Hvidt (2009; 2011); et al.	• The Arab states of the Gulf: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, 1990-present

Source: Compiled by the author.

may account for its parliamentary activism.[75] Some other states have allowed further reform through tolerating and even embracing transnational television and online technologies as new tools of political and societal communication.[76] These measures would, however, be implemented with strict limits on their ultimate potential for profound political impact.

Crucially, a more substantial democratization has not occurred, certainly not political reform to the point where electoral results can change national leaderships or amend the system itself, and such change remains unlikely for the foreseeable future. Moreover, actors that might introduce or support such political liberalization are co-opted or controlled, including civil society actors, the mass media, the religious elite, and the private sector. Similarly, in terms of elite relations, the late rentier state of the Gulf is as neo-patrimonial as any rentier state ever was, with power closely held at the core by a royal clique, and with elite relationships carefully managed for the sake of regime maintenance and elite enrichment. However, the fact that a pluralization of politics has occurred at all suggests that the late-stage rentier state acknowledges the need to *appear* open to change, and in a more concrete sense, to actually *be* somewhat responsive to the views or ambitions of the population and of particular societal units. This duality serves both the practical aim of maintaining the political status quo, and the simultaneous appearance of being consultative with society about the more important decisions that the state and the elite take. Whatever the degree of political pluralization that is allowed, it appears that the state responds to society on the occasions when the latter's most important concerns are impacted by policy. Indeed, the late rentier state has no alternative but to do so, given the new technological and communications means at the disposal of social actors, and the implied risk of popular uprising that stems from these. This was an explanatory failing of the classical RST model.

Feature 2: Opening up to Globalization, but with Some Protectionism Remaining

Classical RST theorists typically considered the rentier state introverted and isolationist, especially in how it responded to uncontrollable externalities such as the forces of globalization. The Arab world's response to globalization was slow and, in many ways, at first inadequate to addressing the region's social and development needs. Currently, however, the late rentiers of the Gulf feature among the leaders within the Arab world as they open up to globalization, however cautiously. This

75 For various arguments (with roughly similar assessments) see Foley, *The Arab Gulf States*, 106-107; Al Naqeeb, "How Likely is Democracy in the Gulf?" 134-137; Herb, "A Nation of Bureaucrats," 375-395; and Herb, *All in the Family*, 72-75 on Kuwait's 1938 parliamentary experience and 158-168 on more recent dynamics.

76 N. Janardhan, "New Media: In Search of Equilibrium," in *Political Change in the Arab Gulf States: Stuck in Transition*, eds. Mary Ann Tétreault, Gwenn Okruhlik, and Andrzej Kapiszewski (Boulder: Lynne Rienner, 2011), 225-245.

is very much in contrast to earlier rentier states—consider the caution towards globalization exhibited by the pre-2003 Iraqi regime or the post-revolutionary Iranian regime to this day. In contrast, Saudi Arabia and the UAE are illustrative of the globalizing late rentier.

In Saudi Arabia, the state was at one time an "open economy but closed society,"[77] but it has, since the 1990s, managed a process of reform that includes changes at the economic and social levels. Part of this was economic reform in the process of attaining World Trade Organization membership, which it did in 2005. But dynamics such as closer integration with its neighbors, a nascent opening to Western-style tourism, and a cautious set of other reforms in education and new media suggest a gradual movement towards some of the new aspects inherent in globalization. These changes, however, are undertaken at the regime's very conservative and gradual pace. Whatever the fractures within the ruling elite or within the wider state, Saudi Arabia is deliberately not allowing reforms which could undermine the state's ultimate authority or its relationship with the *'ulema* ("religious elite"). Reforms with a strong social danger in the eyes of more conservative elements, such as Western-style tourism,[78] have been cautiously implemented. The state is also careful to preserve Saudi Arabia's central position in the Muslim world and so is extremely conservative in any reforms that might impact the holy cities of Mecca and Medina or the state's religious reputation.[79]

The emirates that make up the UAE have different rentier approaches. As a federation of individual territories with ultimate political power residing in Abu Dhabi—as was seen with Abu Dhabi's financial assistance to Dubai with its debt problems during the global financial crisis—each emirate has pursued different responses to globalization. Dubai became a key regional trade and transport hub as of the early 1990s, and quickly developed a diversified economy that, under certain conditions, was very open to international trade, selected foreign investment,

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77 Rodney Wilson, "Saudi Arabia's role in the global economy," in *Globalization and the Gulf*, eds. John W. Fox, Nada Mourtada-Sabbah, and Mohammed al-Mutawa (London: Routledge, 2006), 165.

78 See the interesting description of an early, somewhat "Western-style" tour in Gwenn Okruhlik, "Struggles Over History and Identity: 'Opening the Gates' of the Kingdom to Tourism," in *Counter-Narratives: History, Contemporary Society, and Politics in Saudi Arabia and Yemen*, eds. Madawi Al-Rasheed and Robert Vitalis (New York: Palgrave Macmillan, 2004), 201-228.

79 For example, the Saudi government has made enormous strides in liberalizing and simplifying foreign investment rules, and the business regulations and processes required of both the domestic and foreign private sector: see *Doing Business 2011: Making a Difference for Entrepreneurs* (Washington: World Bank and International Finance Corporation, 2010), 4, 6, 141, 191; and the *Doing Business 2011* data for Saudi Arabia also published by the World Bank, accessed April 21, 2011, http://www.doingbusiness.org/data/exploreeconomies/saudi-arabia. However, Saudi Arabia also maintains a "Negative List" of sectors and areas in which foreign investment is not permitted, which includes real estate in Mecca and Medina, travel and tourism related to the Hajj and 'Umrah pilgrimages, and some socially-sensitive industries; see the document "List of businesses prohibited for foreign investments" issued by the Saudi Arabian General Investment Authority, accessed April 21, 2011, http://www.sagia.gov.sa/Documents/Investor_pack/Business_not_permitted.pdf.

transport, tourism, and cultural exchanges and linkages.[80] What the regime was trying to achieve was a diversification into rent-like income. It placated its middle classes as well as its wealthy ones through new opportunities in stocks, property, trade, and work as senior government officials, business intermediaries, and investors. This is why its focus has been on tertiary economic sectors or intermediary roles in international trade, investment and finance, and not in manufacturing or the like. In effect, Dubai's rulers have sought to develop rentier-like characteristics in a non-oil economy. As such, Dubai is in the process of becoming increasingly late rentier, or even neo-rentier, as oil revenues decline. This is a redesigning of the rentier arrangement, but it is not fundamentally at variance with earlier oil and gas-based rentier dynamics. Proponents of the "Dubai model,"[81] who see it as something that replaces rentierism, miss the very rentier characteristics that are inherent in, and indeed central to, the model. Only the type of rent and how it flows have changed; the rentier bargain beneath remains in place. The "Dubai model" is important in what it says about the attempt by Gulf rulers to diversify and underwrite their rentier bargains with society. Although states such as Abu Dhabi,[82] Qatar,[83] and, less-successfully, Kuwait are seeking to emulate aspects of the "Dubai model"—specific[84] or problematic[85] as that tag might be—their economic bases and histories are different enough that this "model" cannot be very easily applied beyond Dubai. This shows the political appeal for regimes of a selected globalized economic opening such as Dubai's, especially when managed in such a way that it delivers rentier-like outcomes to incumbent elites.

Globalization is important as a dynamic impacting late-rentierism. The late rentier idea eschews the assumption that the small Arab states of the Gulf are transitioning in the same ways as other late-developers. While many late-developing states claim to be emulating the strategy or pathway of others—Dubai's leaders have said they are mirroring Singapore's transition over the past four or five decades, for example—they are not all following the same path of globalization and changing political economy. While many states have had their political economies in the 1990s and 2000s characterized by economic liberalization, and influenced by the forces of globalization, they also have specific structural, political, and cultural

[80] See the examples in Davidson, *Dubai*.

[81] An example is Martin Hvidt, "Economic and Institutional Reforms in the Arab Gulf Countries," *The Middle East Journal* 65, no. 1 (Winter 2011): 85-102, however to be fair, most scholarly work on Dubai and the "Dubai model" makes this mistake.

[82] Christopher M. Davidson, *Abu Dhabi: Oil and Beyond* (New York: Columbia University Press, 2009).

[83] Moin Siddiqi, "Special Report: Qatar," *The Middle East* 412 (June 2010): 35-39.

[84] Martin Hvidt, "The Dubai Model: An Outline of Key Development-Process Elements in Dubai," *International Journal of Middle East Studies* 41, no. 3, (2009): 397-418.

[85] Foley, *The Arab Gulf States,* 144-153.

contexts. In that respect, the changes occurring in the Gulf are much too specific for such trans-regional generalizations to be sustained regardless of the similarities shared across the Arab Gulf states in terms of their reliance on rents and the energy-driven structure of their economies.

Feature 3: An Active Economic and Development Policy

First phase RST theorists argued that the state was so autonomous that it did not need to take economic actions or engage in economic strategy beyond the simple work of distributing external rents within society. To this effect, Luciani argued early on that it did not even need an "economic policy" or anything like it.[86] Luciani was arguably misguided in this assertion, however, as Saudi Arabia has had a detailed five-year development plan since its first one was created for the period 1970-1975.[87] The late rentier state most certainly has an economic policy, including an active approach to fiscal and monetary policy, trade policies, post-industrial sectoral strategies, labor market goals and policies, and the like. Thus, all Arab states of the Gulf are active economic managers, and usually competent ones.

Moreover, the late rentier state also has a development policy: it seeks not simply to manage or administer the economy on a routine basis, but to create certain predetermined economic and social outcomes and improvements. In so doing, it must develop a comprehensive and sophisticated set of economic, business, trade, and related policies. All the Arab Gulf states have such plans, often very grand and ambitious ones, either for specific sectors or for a city-wide or national economy.[88] Examples include *The Qatar National Vision 2030*[89] and the various Abu Dhabi urban plans under the *Vision 2030* rubric.[90] Oman has a 25-year *Oman Vision 2020* plan as well.[91] The reason that such plans exist is not just because of regime magnanimity, although these states are often benevolent or benign in that they seek to co-opt rather than repress populations, and leaders may have a

[86] Luciani "Allocation vs. Production States," 76.

[87] On this see Niblock with Malik, *The Political Economy of Saudi Arabia*, especially 52-82.

[88] For details, see Davidson, *Dubai*; Davidson, *Abu Dhabi*; Foley, *The Arab Gulf States*, 144-147; Luciani, "From Private Sector to National Bourgeoisie;" Malik and Niblock, "Saudi Arabia's Economy;" and various chapters in *The Gulf Region: A New Hub of Global Financial Power*, eds. John Nugée and Paola Subacchi (London: Royal Institute of International Affairs, 2008).

[89] Qatar National Vision 2030 (Doha, General Secretariat for Development Planning, July 2008), accessed April 21, 2011, http://www.gsdp.gov.qa/portal/page/portal/GSDP_Vision_Root/GSDP_EN/GSDP_News/GSDP%20News%20Files/QNV2030_English_v2.pdf.

[90] For details, see the various pages published by the Abu Dhabi Urban Planning Council, marked *Abu Dhabi 2030* or *Abu Dhabi Capital 2030*, accessed April 2011, http://www.upc.gov.ae/abu-dhabi-2030.aspx?lang=en-US.

[91] "Oman – Future Vision 2020 to shape up economy," *Times of Oman*, October 6, 2008, accessed April 21, 2011, http://www.menafn.com/qn_news_story_s.asp?storyid=1093214706. Oman (like Saudi Arabia, Kuwait, and Qatar) uses five-year development plans as well; Oman's *Eighth Five Year Development Plan* is the current one, covering the period 2011-15.

genuine interest in national development for more than just reasons of personal enrichment. The plans, as with the strategies behind the "Dubai model" and its duplications, signal that a neo-rentierism is occurring in which the late rentier state seeks out development opportunities because of the rentier-like political outcomes that may accompany economic development and diversification. Whether or not socioeconomic development per se is driving such plans, politics still underlie them, including rewritten varieties of older rentier bargains.

However, while the late-stage rentier state has development policies as well as overarching development goals or strategies, it does not have a single development *model* behind it. The criticisms already implied about the difficulties in transmitting the "Dubai model" are worth elucidating here: at best, only some aspects of the "Dubai model" are transferable to other Gulf states, as proponents of the term accept.[92] Dubai has a business-government relationship that is not shared with all Gulf states, and, in fact, in terms of the deliberate internationalization and liberalization of the trading merchant class in the early twentieth century, is quite unique.[93] Although Bahrain's limited hydrocarbon reserves and production is similar to Dubai's, it has a different trading and diplomatic history to Dubai. For Dubai, the lack of oil reserves has been both a blessing and a curse; it forced the city-state to look beyond simple mineral rents for economic development, which made it an early reformer and diversifier when it began its first moves towards opening to investment and globalization in the 1980s and early 1990s.[94]

Other development "models" are no better suited as a template for the region. Despite having undertaken some marketization reforms, the Gulf is not economically neoliberal in orientation or inclination, and, in fact, regimes generally see neoliberal economics as fraught with political risks.[95] Neoliberalism enjoyed something of a status of orthodoxy in the period when the Gulf most overtly and rapidly opened and reformed, and, yet, that tag does not fit well the transformations of the Gulf economies. In many cases, the reforms they undertook were more about removing restrictions or "red tape" on business, rather than about conforming to macroeconomic or microeconomic liberalization in the more profound economic sense. Where such liberalization was undertaken, it was typically done in a controlled fashion, not as an unbridled neoliberal revolution.

Similar to how the "Dubai model" does not fit the other Gulf states, comparisons

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[92] Hvidt, "The Dubai Model," 412.

[93] For more detail, see Fatma Al-Sayegh, "Merchants' Role in a Changing Society: The Case of Dubai, 1900-90," *Middle Eastern Studies* 34, no. 1 (January 1998): 87-102.

[94] Davidson, *Dubai*, 103-135; and Al-Sayegh, "Merchants' Role in a Changing Society," 99-101.

[95] This point is widely made, but see Tim Niblock, "Globalization as Economic Phenomenon: A Critical Interpretation," in *Globalization and the Gulf*, eds. John W. Fox, Nada Mourtada-Sabbah, and Mohammed al-Mutawa (London: Routledge, 2006), 96-102.

with a model like the "Beijing consensus"[96] is explanatorily weak in the case of the Gulf.[97] Further, "Islamic" models have not been adopted to any great extent. While *sharīʿa*-compliant finance is routine in the region, as is adherence to the *zakā* ("alms") tenet of Islam in some states and among some groups, the Gulf states otherwise are not Islamic in their economic policies.

In fact, it should be stressed that part of being late-rentier is being hybridist in adopting development models. The Gulf exhibits some socially-cautious neoliberalism strains consistent with the post-Washington consensus, and allows and even encourages some Islamic/*sharīʿa*-compliant economics into the mix. It also possesses certain elements of the Beijing consensus, including an investment-friendly and entrepreneurial form of state capitalism, or what Bremmer calls a "new" state capitalism.[98] A simple model eludes the region, however, but in light of the political utility, adaptability, and flexibility of a hybridist approach to development strategies, suits the leaderships of the region well.

Feature 4: An "Energy-Driven" vs. an "Energy-Centric" Economy

The rentier states of the 1960s, 1970s, and 1980s were overwhelmed by oil and gas as the regime's lifeblood. Superficially, little seems to have changed as energy is still a large percentage of GDP and export income in most states; foreign laborers constitute a majority of the population in Kuwait, Qatar, and the UAE;[99] and ruling and elite families continue to dominate politics and business. Where attempts were made to diversify the economy, this was through energy income being used

[96] The "Beijing consensus" is a vague term, but broadly is a development model that, in contrast to the orthodox neoliberal "Washington consensus" and later the "Post-Washington consensus," is based on: a strong pro-market state and state support of economic development; innovation and entrepreneurialism in both the public and private sectors; an authoritarian political system (including an implied rejection of a relationship between economic and political liberalization); and political self-determination and independence in foreign policy. It has been challenged, however, as an overgeneralization of China's model; a system that is not easily transferable elsewhere; and not surprisingly, as something that does not represent a "consensus" anyway. For more, see for example, Stefan Halper, *The Beijing Consensus: How China's Authoritarian Model will Dominate the Twenty-First Century* (New York: Basic Books, 2010).

[97] This point is made in several of the contributions to the edited volume on development models in the region, *Development Models in Muslim Contexts: Chinese, 'Islamic' and Neo-Liberal Alternatives*, ed. Robert Springborg (Edinburgh: Edinburgh University Press, 2009).

[98] As noted; see Bremmer, *The End of the Free Market.*

[99] For both the figures on foreign labor in the Gulf and a good analysis of some of the issues, see Gwenn Okruhlik, "Dependence, Disdain, and Distance: State, Labor, and Citizenship in the Arab Gulf States," in *Industrialization in the Gulf: A Socioeconomic Revolution*, eds. Jean-François Seznec and Mimi Kirk (London: Routledge, 2011), 125-142, but especially Table 7.1 on p. 127.

to subsidize other sectors and initiatives.[100] It would be fair to describe the period between the 1960s to the 1980s as a time of "energy-centric" economic management as oil, and, to some extent gas, dominated economies and economic outcomes.

Oil remains crucial, of course, but a fairer tag for the economies of late rentiers would be "energy-driven"[101] or "energy-underwritten." While oil and gas revenues still dominate the economy, they are being used for more thoughtful or considered policies that promote economic diversification. "Energy-driven" policies encourage sectors that feed into or relate to the oil or gas sector, and focus on sectors of comparative advantage, rather than subsidizing others that might create jobs or self-sufficiency in some area. State-owned enterprises now are likely to be run efficiently[102] to maximize their performance and the incomes they provide the state, and most states have proper industrialization[103] or post-industrialization[104] strategies in place. Thus, reforms—and indeed some subsidies or protection—may target education and training, airlines, ports, or the development of the finance and business services sectors, but are aimed at catching more opportunities deriving from the oil and gas sector. To the extent that energy underwrites such policies, it is usually only temporarily or because the state-owned or state-controlled energy sector provides a critical mass of business to such firms. Additionally, but no longer alternatively since the subsidization of the past is rapidly disappearing, oil and gas may provide the funds for state investment in these sectors, and thus are funding and endorsing a state-led but efficiency-conscious diversification that is very different from the previous one of a generation ago.

The cities or states that are not as energy-intensive as others—Dubai in particular, but also Bahrain and Oman—still are underwritten to some extent by oil

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[100] The case of Saudi Arabia is illustrative, where enormous amounts of oil wealth were spent on diversification in agriculture, water, social infrastructure, and other areas, on top of the large amounts spent on defence, and the sums that went unaccounted to the royal family. See Niblock with Malik, *The Political Economy of Saudi Arabia*, Ch. 3 (pp. 52-93); the point about oil income cross-subsidizing non-oil sectors over 1970-1985—the period when it most occurred, though some such subsidies continued well into the 2000s—is made specifically and several times over pp. 72-79.

[101] This term was provided to the author by an Arab expatriate in Qatar, in reference to its political economy, in a meeting in Doha on January 10, 2011. However it is argued here that the tag has equal validity in several other GCC states.

[102] This point is made by, among others: Steffen Hertog, "Lean and Mean: The New Breed of State-Owned Enterprises in the Gulf monarchies," in *Industrialization in the Gulf: A Socioeconomic Revolution*, eds. Jean-François Seznec and Mimi Kirk (London: Routledge, 2011), 17-29; Steffen Hertog, "Defying the Resource Curse: Explaining Successful State-Owned Enterprises in Rentier States," *World Politics* 62, no. 2 (April 2010): 261-301; and the discussion and cases in Valérie Marcel with John V. Mitchell, *Oil Titans: National Oil Companies in the Middle East* (London: Royal Institute of International Affairs, 2006).

[103] For examples of this, including financial reform, corporate governance initiatives, and some other reforms, see the chapters in *Industrialization in the Gulf: A Socioeconomic Revolution*, eds. Jean-François Seznec and Mimi Kirk (London: Routledge, 2011).

[104] A post-industrial economic policy is a core element of the "Dubai model," and an aspect of it that several states are seeking to copy. On the "Dubai model" see Hvidt, "The Dubai Model."

and gas. Bahrain is now in effect a "post-oil economy,"[105] important though energy-revenue and related income still is. Dubai relied on Abu Dhabi to guarantee debt roll-overs during the global financial crisis,[106] making Dubai still reliant on rent to guarantee its economic survival. Other initiatives—state investment funds, private investment attraction, integration of the oil and gas sectors, and trade *entrepôt* strategies[107]—have all been used towards this transition from energy-centricity to energy-linked or energy-driven diversification and development.

Feature 5: An "Entrepreneurial State Capitalist" Structure

Regardless of the development approaches or economic policies that the late rentier state sets, it is always chiefly state capitalist. Since the state is the most powerful actor in the economy and owner of the means of production, it allows market-price mechanisms to operate and allows the private sector to play an important, but regulated, role in the economy. In the Gulf of recent decades, however, state capitalism has been of a specific type, leaning towards an "entrepreneurial" and "new" state capitalism[108] in which the state has been an activist and ambitious actor keen to engage economically with the outside world. This sets it very much apart from the older state capitalism of the post-independence Arab republics, for example, in which the state sought to dominate the planning process, ensure heavy industrial development, and underwrite import substitution policies. The new state capitalism, in almost direct contrast, sees most of these states set strategic goals and visions rather than seek to centrally plan or manage the economy; favor tertiary economic sectors and late-late-development concepts above heavy industrialization; and set in place the mechanisms for investment attraction and export-led economic growth, rather than pursue import-substitution policies.

There are several features of this type of state capitalism as is manifest in the Gulf. First, its oil and gas companies and assets are state-owned but, because they are run for the political purpose of regime maintenance, they are operated professionally and efficiently unlike the politicized state-owned firms of the past.[109] Second, all Gulf states are resource-nationalist in treating hydrocarbons as strategic assets and using the derived income for political, not just economic, goals.[110] In other words, these states are still rentier and not inherently neoliberal or *laissez-faire*. Third, and

[105] The term is from J. E. Peterson, "Life after Oil: Economic Alternatives for the Arab Gulf States," *Mediterranean Quarterly* 20, no. 3 (Summer 2009): 4; on Bahrain's economy see 12-14.

[106] For details, see the collections of articles by the *Financial Times* (London) tagged as "Dubai financial crisis," archived and collected, accessed April 27, 2011, http://www.ft.com/indepth/dubai-financial-crisis.

[107] See the list in Peterson, "Life after Oil," 4-11.

[108] In Bremmer, *The End of the Free Market*, as noted earlier.

[109] Steffen Hertog, "Defying the Resource Curse," 261-301.

[110] Bremmer, *The End of the Free Market*, 63-65.

in the same vein, other key sectors of the economy beyond hydrocarbons are state-owned. A large percentage of Dubai's major firms are state-owned businesses that fall under either the Dubai World or Dubai Holding groups[111] for example, and in Saudi Arabia, firms such as Saudi Basic Industries Corporation (SABIC) and the National Commercial Bank look like private sector actors and have the managerial autonomy of such, but are state-controlled or their shares majority state-owned.[112] Other businesses across the Gulf—the airlines, telecommunications firms, large banks, and defense industries—are even more tightly state-controlled and typically state-owned. Fourth, they favor particular key private sector actors: what Bremmer calls "national champions"[113] are, in the Gulf, the major private sector firms owned and operated by royals, merchant families, other well-connected individuals, and sometimes some foreign businesspeople.[114] The aim is to sustain business actors that are supportive of the state and its state capitalist structure. While there have been business challenges to state authority from time to time, generally the cozy relationship that political elites have with business has served the political interests of the former well. Such state-owned corporate dynamics are, again, in stark contrast with other states that are rentier but not late rentier. For example, compare the GCC's national oil companies with Iran's or Venezuela's, or their major utilities firms, airlines, and the like.

The above does not mean that genuine private sector operations are not routine. The Gulf states are competing to create free trade and investment zones, to carve business sector niches, and to reform their business rules and practices to make business processes simpler and cheaper. The crucial point is that such initiatives do not challenge the ultimate political authority, centrality, or stability of the state. Such zones and reforms do not reach into the hydrocarbon sector, or into other "strategic" economic sectors such as telecommunications, air transport, and security/policing. These reforms are also not applied to sensitive geographical or social areas, or into the granting of permission for business investment that might compete with established business elites or the extended royal family's commercial interests. In other words, there is a business-friendly policy orientation among the new or entrepreneurial state capitalist leadership, but this remains subservient to the state. The state controls all or most of the key large firms and the most valuable or sensitive sectors of the economy, and therefore, if albeit informally, the state remains in command at the upper levels of the private sector.

111 Hvidt, "The Dubai Model," 410.

112 Luciani, "From Private Sector to National Bourgeoisie," 146.

113 Bremmer, *The End of the Free Market*, 67-69.

114 Luciani, "From Private Sector to National Bourgeoisie."

Feature 6: A State that is Long-Term in its Thinking

As discussed, the Gulf states experienced considerable stress during the period of low oil prices from the mid-1980s through to around 2000. A lesson taken from this for the late rentiers is that they need to account for such events when planning for the long-term survival and political prosperity of the regime. This can be done in a couple of key ways. One is the strategy already mentioned above, which is that through a managed diversification and partial-marketization of some economic sectors, it is possible to create a wider employment base and a relatively low-risk source of taxation income and other revenue from the state beyond rents. This is of immediate benefit in ironing out the often dramatic fluctuations in rent income, but also in moving the economy towards a better footing for the decline and eventual exhaustion of hydrocarbon exports and the rents they deliver. Not coincidentally, it also helps to provide employment to people, especially youth, who otherwise might be idle, lose their sense of self-worth, and thus become politically aggrieved or oppositionist.

Another characteristic of the new state capitalism—the development of large sovereign wealth funds (SWFs)—could be seen in a similar light. Although much of the literature and public commentary on states that receive SWF investment focuses on the political threats perceived to lurk behind SWFs,[115] they are more likely to be a regime response to long-term political imperatives and a recognition that rents will only last for a finite period of time. SWFs are state-held investment portfolio finances, funded by foreign exchange assets, that buy and hold domestic or international investments and which seek through these investments to earn a risk-based return on the investment.[116] SWFs everywhere, not least of all in the Gulf, serve several aims.[117] First, they give the appearance to society of a careful and benevolent government and of a state elite that thinks about preserving energy wealth for the future; in other words, of a magnanimous and thoughtful regime. Second, some funds are designed to ease, or play the role of easing, some problems of the "resource curse" such as sharp variations in income, inflated exchange rates, and large foreign currency reserves. Finally, SWFs give the state a long-term fund from which to manage politics, especially for when hydrocarbon reserves and the

[115] Xu Yi-chong, "The Political Economy of Sovereign Wealth Funds," in *The Political Economy of Sovereign Wealth Funds*, eds. Xu Yi-chong and Gawdat Bahgat (Basingstoke: Palgrave Macmillan, 2010), 7-16.

[116] Ibid., 3-7.

[117] This set of points is also made in Matthew Gray, "The Politics of the 'New State Capitalism': The Origins and Aims of Gulf Sovereign Wealth Funds," *Australian Political Studies Association Annual Conference 2009 Refereed Paper*: 16-21, accessed July 8, 2010, http://www.pol.mq.edu.au/apsa/papers/Refereed%20papers/Gray%20-%20 Sovereign%20Wealth%20Funds%20etc.pdf.

allocative power of the regime both decline.[118] It would be crude to describe SWFs as state retirement funds, but they do at least in some measure act as such. The late rentier state has adopted SWFs, in part, to ensure a source of income after the basic rents that currently sustain it are exhausted, as well as to serve other purposes. SWFs are key elements of late rentierism and enable the state to look beyond the immediacy of rental wealth, to longer-term economic and political needs.

Feature 7: An Active and Innovative Foreign Policy

There is an assumption in early RST literature that, along with a limited economic policy, rentier states had little need for a sustained foreign policy. Early RST claimed that rentier states were able to operate in a financial world that did not require soft power, or foreign policy engagement at political or cultural levels, or other actions on the part of the rentier state to ensure an ability to protect itself through alliances or bloc politics. However, this claim is not sustainable as rentiers, not to mention late-rentiers, need a foreign policy, and must actively engage with a range of state and multilateral actors if they are to maximize their position and protect the interests and wealth of the state.

In the case of late-rentier states in the Gulf, there is both continuity and innovation to their foreign policy initiatives. The continuity comes from the fact that the Gulf states have long sought strategic relationships with major powers—first the United Kingdom, and later the United States—and the demand for these relationships, even where they are not popular domestically, remains strong among the ruling elites. This is partly because of the size and vulnerability of Gulf states, and, of course, because rulers seek the advantages of a closer relationship with world powers, including access to arms imports and training as well as other benefits that would be of use both regionally and at times in a domestic context. Small state relationships with major powers were further promoted by the strategic rivalry between the larger states of the Gulf in the latter-half of the twentieth century; specifically, among Iran, Iraq, and Saudi Arabia in the 1960s, 1970s, and 1980s, and between Saudi Arabia and Iran in the two decades after the 1990-1991 Gulf War. By seeking either a qualitative or quantitative military capability for regional competition, these large states have automatically presented a potential military threat to the smaller Gulf states.

The innovation in the late rentier phase, however, creates a new set of dynamics in the foreign policies of the Arab Gulf states, as valid as the older dynamics may still be. First, many of these states are beginning to appreciate the benefits of soft power,

118 This and other ideas are explored in Richard Shediac and Hatem Samman, *The Vital Role of Sovereign Wealth Funds in the GCC's Future* (Dubai and Abu Dhabi: Booz & Company, 2009).

especially the potential for stronger trade and investment ties to bind other states to the fate of the late rentier. An important, if albeit secondary, goal behind high levels of foreign investment from multiple key states is that it gives these investing states a reason to seek stability and continuity in the late rentier phase and not to destabilize or threaten the region if tensions or hostilities emerge. Similarly, soft power plays a role in raising global awareness of these small states outside of foreign policy and elite business circles; hence one of the roles of transnational television stations—most famously Qatar's Al Jazeera—is to raise "brand" awareness of the state that sponsors or owns the channel.[119] Qatar has also been successful at building an international reputation as a host of sporting and leisure events, most recently by winning the bid for the 2022 FIFA World Cup. In the same way, Dubai in the 2000s grew into a household name in the West when it became a fashionable tourism destination—the result of exceptionally clever marketing and branding.[120] Dubai's Emirates airline became famous for its quality and value for money, and other regional carriers, including Etihad and Qatar Airways, subsequently emulated the example set by Emirates in the 1990s and 2000s.[121]

These types of initiatives may originally have seemed unnecessary to RST proponents, but have become core strategic elements of the late rentier state's development and diplomatic postures. Most of the Gulf's late rentier states are small or micro-states, and so a sense of vulnerability guides much of their economic and political planning, which adds impetus and importance to foreign relations. Whatever the benefits of rents, rent capacity is not sufficient to purchase security, and states have come to realize that a more complex and proactive approach to foreign policy and external linkages is important to the longer-term viability and protection of the state and its rentier wealth.

Conclusion

There is more to Gulf politics than rents. Social change and reform, technology, globalization, and other factors are important and are impacting the states in the region regardless of their rentier status. However, rents and rentierism are central to an understanding of the nature of Gulf regimes, their durability, their behavior, and the nature of their relationship with society. Yet although these other non-rent characteristics affect the political dynamics of the region, the explanatory primacy of rentierism should not be under any serious challenge.

[119] The idea that Qatar is seeking to construct a "brand" around itself has been made in J. E. Peterson, "Qatar and the World: Branding for a Micro-State," *The Middle East Journal* 60, no. 4 (Autumn 2006): 732-748.

[120] Hongju Lee and Dipak Jain, "Dubai's Brand Assessment Success and Failure in Brand Management – Part 1," *Place Branding and Public Diplomacy* 5, no. 3 (August 2009): 234-246.

[121] "Middle East Takes to the Air!" *Foreign Affairs* 88, no. 5 (September/October 2009): 1-4.

The argument here has been that rentierism remains the theory with the most utility and cogency in explaining the political dynamics, but not the economic structures, of the Gulf states, but that the RST of early decades is no longer sufficiently detailed, sophisticated, or adaptable enough for the task of understanding the rentier bargains that have underpinned state power in the Gulf since the 2000s. Too many variables—population change, globalization, business pressure, new international imperatives—complicate the state and its role, requiring that the political elite develop a more nuanced, engaged and complex approach to society and to policy-making, even if its fundamental reliance on rents to underwrite these changes remain. The idea of a late rentier state has, at its core, a set of explanatory principles and shared characteristics of the rentier state of the present day. These explain in a full and cohesive way the seeming paradox that these states and their policies are changing and evolving, but with a fundamental continuity to political dynamics and a durability to the political order, and yet separately from other globalizing late-developers. Late rentierism provides a framework through which to understand the Gulf's regimes, and their dynamics and policies, given the circumstances in which they have found themselves at the different stages of their development.

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