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Saudi Arabia, More Than Just Oil Rents: Reassessing the Rentier State Label

Yahya Abdullah Alshamy

Masarat

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Abstract

Traditionally, Saudi Arabia has been characterized as a quintessential rentier state, reliant on natural resource rents to sustain its economy, fund its welfare system, and maintain political stability. Previous rentier state literature studying the Gulf has emphasized Saudi Arabia's dependence on oil income, which allowed it to function with minimal taxation and limited economic diversification. However, since the launch of *Vision 2030* in 2016, Saudi Arabia has embarked on a large-scale governmental program of reform aimed at diversifying its economy, reducing dependence on oil, promoting private sector growth and foreign investment, and restructuring the labor force, among other things. This paper seeks to reassess the classification of Saudi Arabia as a rentier state in light of the substantial socio-economic transformations initiated under Vision 2030. It reviews the foundational concepts of rentier state theory, examines key studies that have applied this framework to Saudi Arabia, and evaluates recent developments within the country. By analyzing the ongoing reforms, the paper explores whether these shifts signify a departure from the rentier state model and, if so, to what extent.

Keywords: Vision 2030, Economic diversification, Rentier States, dependency, Labor economics, subsidies, taxation

Introduction: Saudi Arabia and Rentier State Theory

Traditionally, Saudi Arabia has been characterized as a quintessential rentier state, because it was reliant on natural resource rents to sustain its economy, fund its welfare system, and maintain political stability. Previous rentier state literature studying the Gulf has emphasized Saudi Arabia's dependence on oil income, which allowed it to function with minimal taxation, high subsidization of consumer goods, and limited economic diversification. However, since the launch of *Vision 2030* in 2016, Saudi Arabia has embarked on a large-scale governmental program of reform aimed at diversifying its economy, reducing dependence on oil, promoting private sector growth and foreign investment, and restructuring the labor force, among other things. The reforms planned for Vision 2030 introduce a debate on the relevance of Rentier State Theory (RST) for an era where many Gulf States, particularly Saudi Arabia, are engaging in structural socio-economic changes.

In order to assess whether Saudi Arabia remains a rentier state or is moving toward a post-rentier model, we need a clear definition of rentier states. Hazem Beblawi (1987, 384-386) offers a focal definition of rentier states as having the following core characteristics:

1. An economy where rents play a predominant role in the economy.
2. An economy relies on an external rent, whose value is determined mainly by foreign markets, as opposed to an internal rent (because if it is purely internal, it will be sustained by domestic labor).
3. A small proportion of the labor force is involved in producing economic wealth, while most of the population is only involved in its distribution and consumption.
4. The state is the largest recipient of the rent.

Social scientists used RST to explain the difficulty in economic diversification, the inefficiencies of bureaucracies and state institutions, excess spending on welfare, the ability to avoid taxing the population, and low female labor force participation, among other things (POMEPS 2019). RST reveals critical vulnerabilities of rentier states: as citizen and resident populations continue to grow, subsidizing goods and services becomes a greater expense. Simultaneously, as oil reserves fall, prices fluctuate, and technological innovations reduce the demand for external rents (in the Saudi context, oil exports), the revenue streams may fall and become less predictable. Unable to restructure their economy due to reliance on consumer and producer subsidies for legitimacy, rentier states rely on deficit spending when rent prices fall, instead of reforming their economy. Thus, rentier states may find themselves stuck in an undesirable self-undermining equilibrium.

Since the launch of the 2030 Vision in Saudi Arabia, some social scientists have expressed uncertainty about the capacity of Saudi Arabia to overcome the challenges of RST stated above. For example, Krane (2019) claims that the reductions in subsidies should be seen as a mechanism to preserve rents for a more extended period, instead of a transition to a post-rentier economy, presumably due to insufficient growth in the non-oil sector. Hertog (2019) is not optimistic that Saudi Arabia can make the transition into a post-rentier economy because it would require largely unprecedented growth in the private sector, and because taxation would have to increase. Diwan (2019) claims that there is insufficient focus on the creation of jobs for Saudi nationals and excessive reliance on low-skilled foreign workers. Ennis (2019) states that including women in the labor force puts additional pressure to generate even more jobs for citizens.

This chapter offers brief responses to this literature and attempts to answer whether Saudi Arabia is still operating as a rentier state. Within the confines and limits of a "Special Report", it argues that Saudi Arabia, since the launch of the 2030 Vision, has been slowly but directionally departing from the core economic characteristics and operations of rentier states. A common problem in this literature is that it only offers a partial analysis of the Vision 2030 reforms, focusing on the non-oil sector, labor market reforms, or female participation, typically singularly as opposed to together. In what follows, I present the empirical evidence of changes in Saudi Arabia on (1) the growth of the non-oil sector and reduced dependence on oil rents, (2) reductions in subsidies and increases in taxation, and forecasts of deficit financing, (3) Growth of the private sector and high-skilled labor, and (4) growth in female labor participation. When all the changes are assessed together, the claim that Saudi Arabia is engaging in reforms to preserve rents for longer, or to work around its rentier economy appears to be poorly founded. The directional departure from the core characteristics of rentier states is better understood as a slow movement towards post-rentierism, instead of a form of late rentierism.(1)

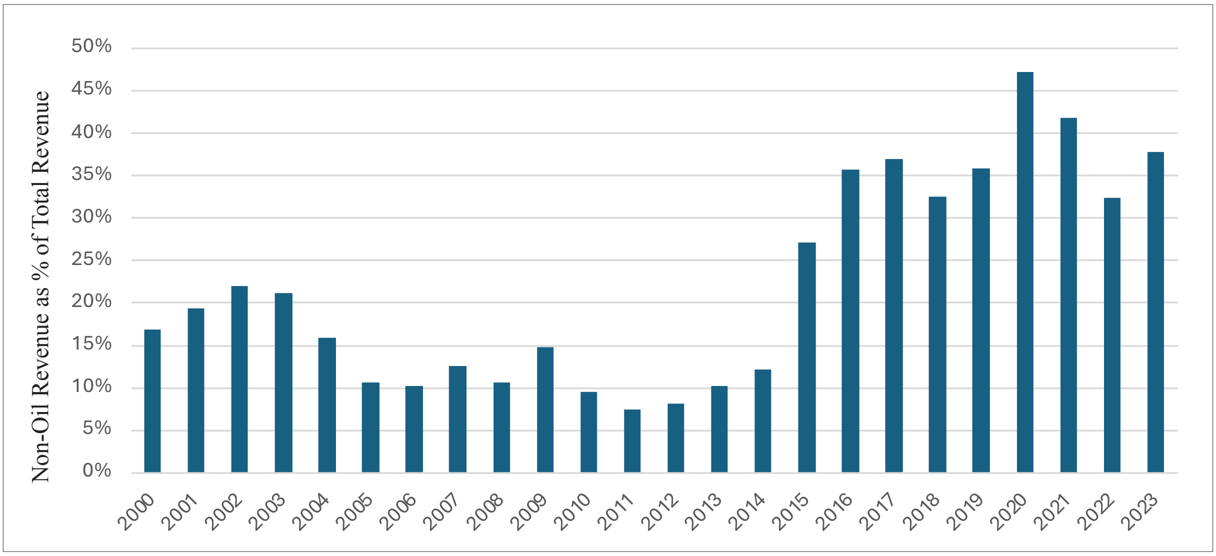
(1) Scott Walker (2023) outlines "late rentierism" as an evolution within the framework of RST. Late rentierism describes a phase in which traditional rentier states, particularly those in the Gulf, shift toward economic policies that attract foreign investment and promote economic diversification so that the rents last longer. Late rentier states retain the core feature of using external rents, like oil revenue, to maintain domestic stability and legitimacy, but they adapt to a globalized economic environment by appearing more consultative and accommodating external capital.

Growth of the Non-Oil Sector

The quintessential characteristic of a rentier state is the predominance and reliance on external rents in the economy. In Saudi Arabia, that rent is oil (exports). The perception that the reduction of subsidies and increase in taxation is not a departure from the RST framework, rather an attempt to extend the duration of relying on oil, is founded on the mistaken image that the growth of the non-oil sector is negligible. Thus, all other reforms are merely slowing down what is an eventually dire fate of rentier states. However, Saudi Arabia is slowly moving away from rent dependence. The Saudi government has repeatedly expressed commitment to improving non-oil revenues and growth of private economic activities to "achieve a stable and sustainable non-oil revenues over the medium and long term" (Ministry of Finance 2024).

Growth has been observable in several sectors. Among the fastest-growing sectors, wholesale and retail trade (representing 21% of non-oil GDP) has surpassed non-oil manufacturing (Jadwa Investments 2024). The transport, storage, and communication sector also experienced healthy growth around 5% year-on-year. Comparatively, construction has experienced modest growth since 2021(Ibid.). As a result, the ratio of non-oil revenues to total expenditures grew from 17% in 2015 to around 35% in 2023. Simultaneously, the ratio of non-oil revenues to non-oil GDP grew from 9% in 2015 to 18% in 2023. Non-oil activities from 2018 to 2023 grew an average of 3.47% annually, with 4.4% in 2023 and 4.5% expected by the end of 2024 (Jadwa Investments 2024). On aggregate, non-oil revenues grew from 185.7 billion SAR in 2016 to 457.7 billion SAR in 2023, more than doubling since the launch of Vision 2030 (SAMA 2024). For a full appreciation of the growth of non-oil revenue as a share of total revenue, see Figure 1.

Figure 1: Non-Oil Revenue/Total Revenue



Source: SAMA

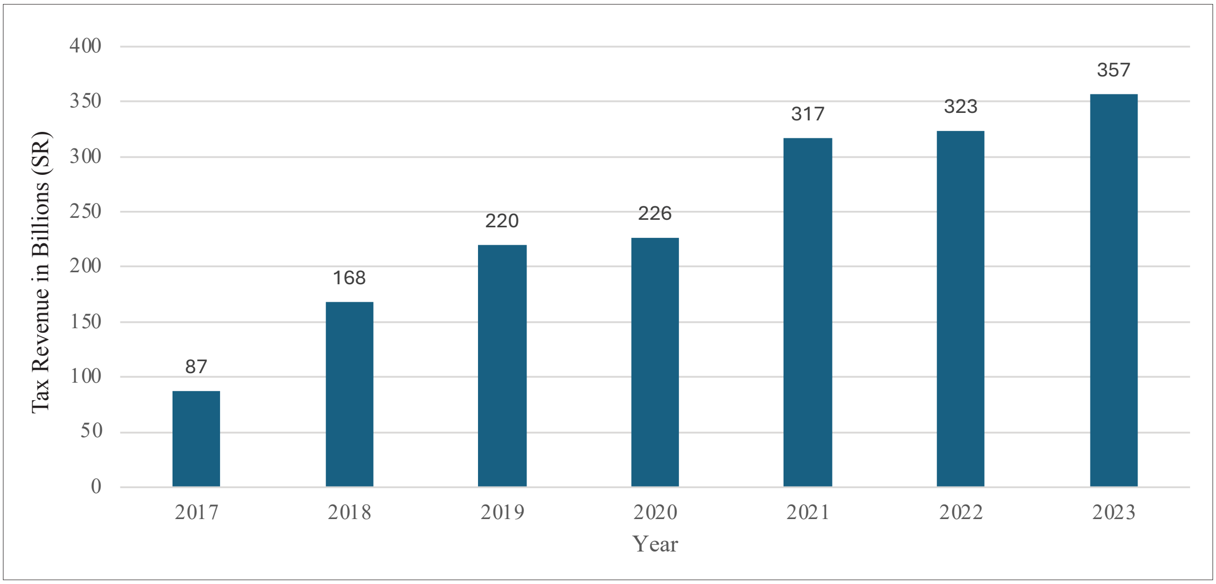
It is worth considering that the 2030 Vision, with its economic diversification and subsidy reforms modeled, appears to increase resilience against oil shocks. Almutairi et al. (2024) point out that "[o]verall, with Vision 2030, the economy's resilience to oil price shocks increases by 10 to 60 percent, depending on how labor market rigidities and the recycling of fiscal revenues are accounted for." Overall, while oil rents still play a large part in the Saudi economy, existing data trends show a directional move away from reliance on oil rents. Coupled with explicit political decision-makers' commitments to continuing diversification and privatization, these political changes can be perceived as slow transitions to a post-rentier economy.

Taxation and Subsidies

One of the conditions of a post-rentier state is that tax revenue, or at least revenue sources not based on external rents, constitute most of the government revenue. Tax revenue was negligible until the launch of Vision 2030, which first implemented a value-added tax (VAT) of 5% for most goods and services in January 2018. The standard VAT was then increased to 15% in July 2020. A variety of smaller taxes were also introduced.

While domestic taxation has not grown large enough to constitute the majority of government revenue, as is typical for a post-rentier or non-rentier state, tax revenues have skyrocketed since 2017. In 2017, tax revenues were 87 billion SR. By 2023, the annual tax revenues were 357 billion SR, representing a growth of 310.3% since 2017. The average annual growth rate from 2017 to 2023 was 30%. See the growth of tax revenue in Figure 2.

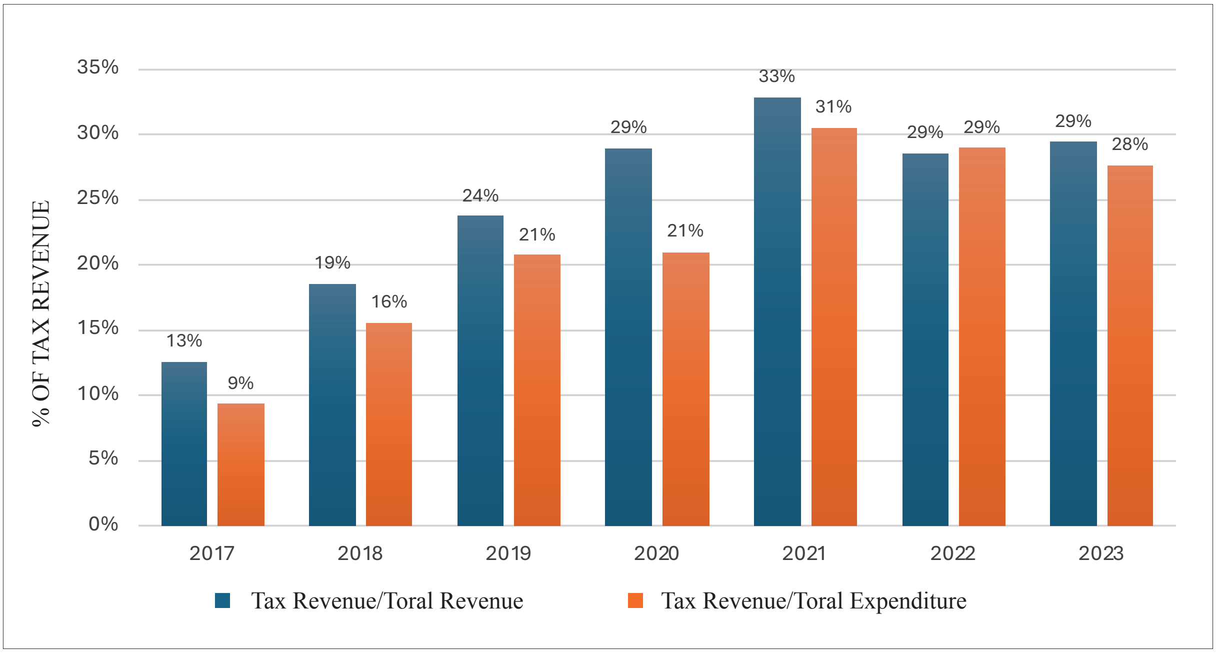
Figure 2: Annual Saudi Arabian Tax Revenue



Source: Ministry of Finance (MoF) Budget Reports (2018 - 2024)

As a proportion of total revenue, tax revenue is 13% in 2017, and increases to 33% in 2021, and 29% in 2022 and 2023. Similar trends are observed in increases in tax revenue as a proportion of total expenditure, as shown in Figure 3. Additionally the tax revenue-to-nonoil GDP (NOGDP) ratio increased, averaging 12.8 percent over the last three years, which is "more than double its average of less than 6 percent over the previous decade" (IMF 2024a). These trends present a rapid increase in tax revenues in relation to total revenues and expenditures that fits an economy transitioning to a post-rentier economy, more than one that is trying to maintain its rentier economy in light of falling resources and changing sociopolitical contexts, as late rentierism suggests.

Figure 3: Tax Revenue as Proportion of Total Revenue and Expenditure

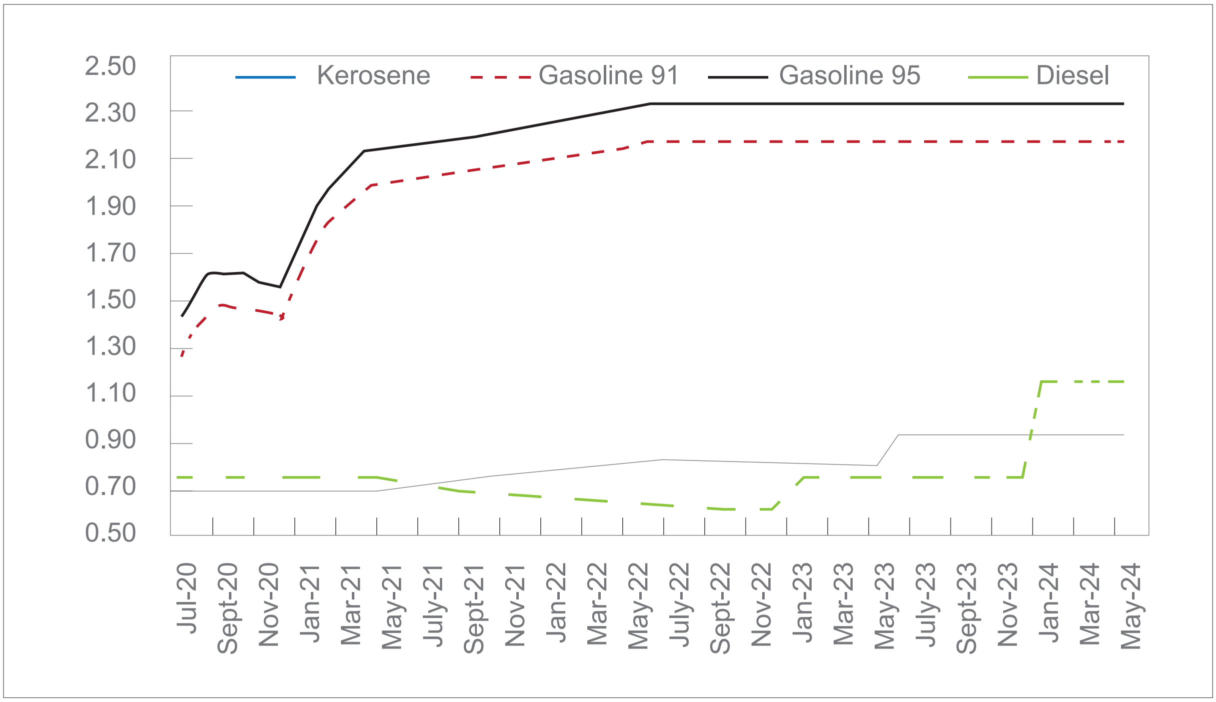


Source: Ministry of Finance (MoF) Budget Reports

Simultaneously, since Vision 2030, Saudi Arabia has cut many of its subsidies that have been previously thought essential for the rentier economy. Subsidies in RST were believed to be an essential component of the rentier social contract, where states with low legitimacy would compensate by offering their people welfare benefits. Yet, as new taxes were applied and increased, energy subsides were reduced. Figure 4, below, presents the decreases in energy subsidies, which include the 53% increase in Deisel prices, the most subsidized energy product, in January 2024 (IMF 2024b).

Figure 4: IMF 2024b)

Fuel Retail Prices
(SAR per Litre)



Source: CEIC and IMF staff calculations.

Many studies find statistically significant results of energy subsidy reform effectively decreasing energy consumption. For the purposes of this paper, it is more relevant to emphasize that Saudi Arabia is simultaneously increasing taxes and decreasing subsidies. These twin policies significantly deviate from the "rentier state playbook," and more reasonably appear like directional steps towards post-rentierism.

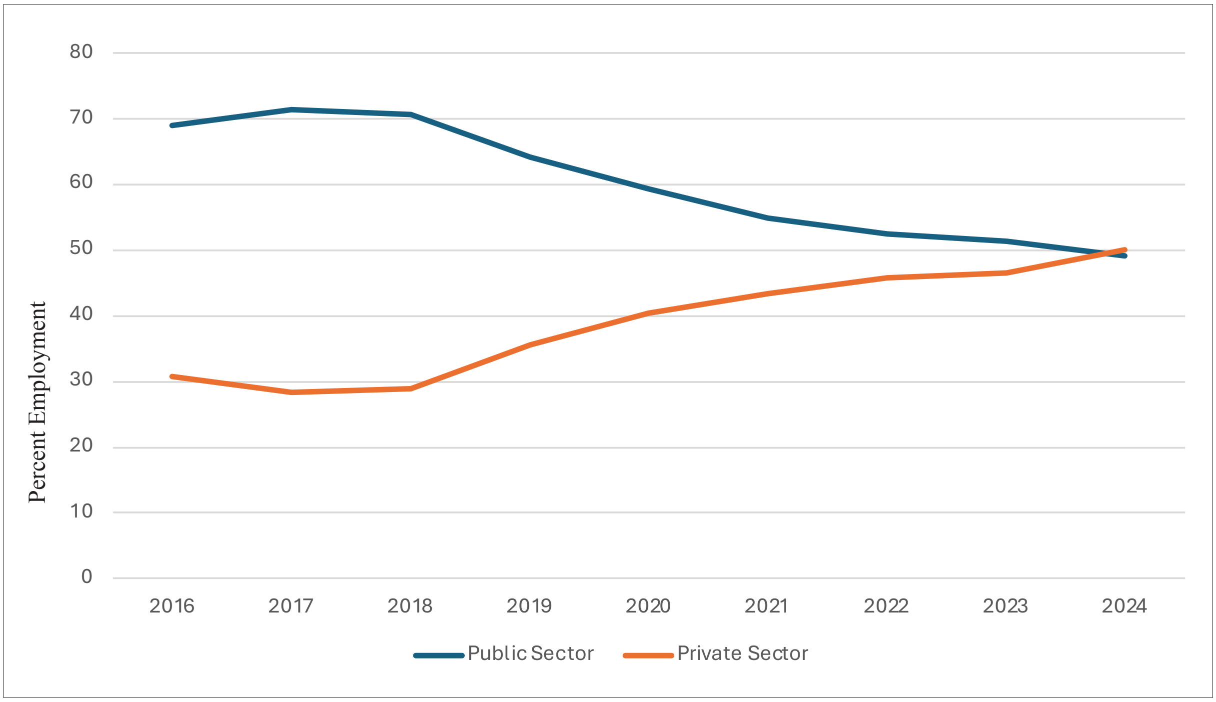
Private and Public Sector Participation

Rentier states have high unemployment and low labor force participation (LFP) rates. With an uncompetitive economic environment, few private sector jobs emerge, and the public sector is the major employer of citizens. RST's characteristics accurately describe the old Saudi economy, but many changes have occurred in the Saudi labor force since the launch of Vision 2030. The unemployment rate has reached historic lows, with a Saudi citizen unemployment rate of 7.7% in 2023 and an expected unemployment rate of 7.6% in 2024, slowly closing into the Vision's target of 7% (IMF 2024a). This shows significant progress compared to 12.7% in 2018 (Jadwa Investments 2024). Meanwhile, GASTAT's Labor Market Statistics Q2/2024 Report shows an overall unemployment rate (for Saudis and non-Saudis) down to 3.3% (GASTAT). The same report shows an LFP rate (for Saudis and non-Saudis) of 66.2%, with 50.8% and 80.3% for Saudis and non-Saudis, respectively. Compare this to a LFP rate of 40.2% for Saudis in 2016/Q2 (GASTAT). It is worth noting that the same report describes an even lower unemployment rate than Jadwa Investments, of 7.1% for Saudis. Though the LFP rate has not quite hit the target yet, both LFP and unemployment rates are more comparable to OECD states than what RST would describe.

As far as expanding the private sector, The Privatization Program was launched in 2018 to enhance the role of the private sector and foster economic growth and diversification in the Saudi economy. It has led efforts to privatize government assets, services, and resources. Since its launch, it has signed 52 partnerships with private firms to offer their services in several governmental sectors. It has generated a total value of 9.25 billion SAR from asset sales and partnerships with the private sector, reducing operational inefficiency of the public sector and government burden (MoF 2024).

On Saudi employment in the public and private sector, GASTAT's survey-based statistics shows that in 2016 Q2, 69% of employed Saudis were in the public sector, 30.7% were in the private sector, and 0.3% were in non-profit organizations. By 2024 Q2, we see only 49.1% in public sector, 50% in private sector, with the remainder in non-profit organizations (Argaam 2024). Figure 5 below presents the trend with the years representing data exclusively from the second quarter from each year (Q2). This means that the latest Saudi employment data shows that private sector employment is greater than public sector employment, even for Saudis. As much of the privatization and diversification projects continue, we can expect the share of private sector employment will increase as 2030 looms closer.

Figure 5: Saudi Employment by Sector



Despite privatization, increase in the labor force participation rate, and employment rate, it still is true that employee compensation remains close to 50 percent of all Saudi government expenditure, compared to a typical ratio of 20-30 percent around the world. However, that, too, will likely fall because of a shrinking public sector and an expanding private sector. All in all, the Saudi Arabian economy *currently (and not just directionally)* defies a core characteristic of rentier states, which is that only a small portion of citizens contribute productively to the economy while the rest consume and distribute goods and services.

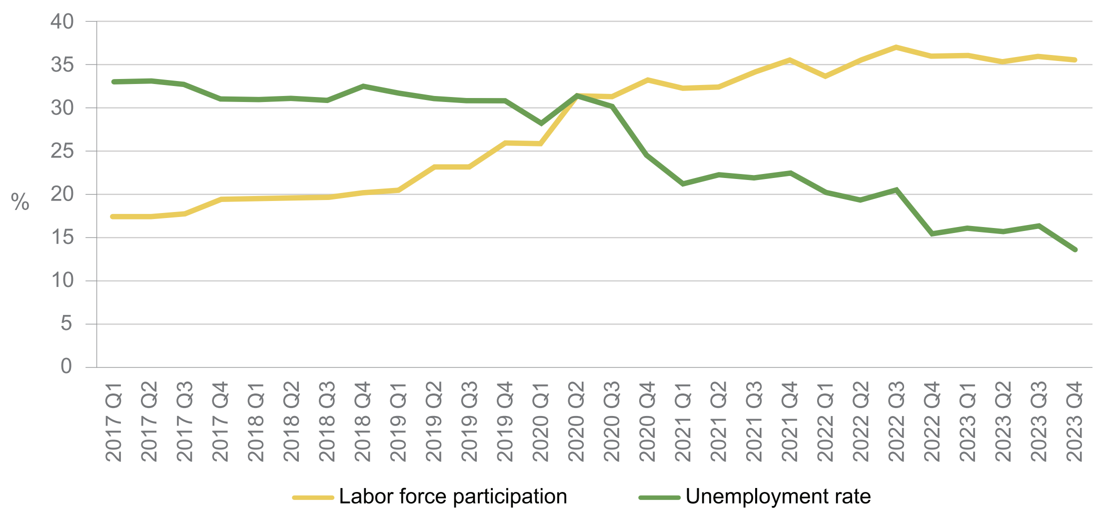
Women in the Labor Force

The presence of women in the labor force is an important characteristic of a post-rentier state. Rentier states do not face pressures to adopt economic institutions that are friendly to private firms, which entails that relatively few private jobs exist. Instead, a rentier state employs its citizens, and in a choice between men and women, it employs men, as they are typically the primary financial providers for their family (Ross 2008). These jobs operate as form of economic production as well as welfare for the citizens. Therefore, an increase of women in the labor force is a sign of graduating past job scarcity, which arises due to limited government budgets. In a post-rentier economy, those who offer their labor and accept market wages will more easily find jobs, as gender matters less for efficiency calculations.

Saudi Arabia has explicitly sought to transform its labor market and the Saudi female labor force participation. Vision 2030 sought a target of 30% Saudi female labor force participation by 2030. Nonetheless, Saudi female labor force participation increased from 18% in 2016 to over 35% in 2024, reaching the target several years early. The unemployment rate has also fallen from over 30% to below 15% in the same period (see Figure 6 below). One factor that facilitated such a quick transition is the eradication of the female driving ban in 2018, which was significant as private drivers for women could cost thousands of Saudi riyals monthly (De

(Figure 6: Mulligan 2024)

Saudi female employment indicators



Source: GaStat (2022).

Bel Air et al 2017). Another is that Saudi women already had comparable human capital in terms of educational achievement (though their majors and fields differ), as Saudi women had a higher university attendance rate than Saudi men.

Yet another factor that has helped are laws meant to increase female labor force participation and limit gender-based discrimination. Quotas on female members of corporate boards have been instituted to ensure that highly skilled women are placed in executive positions in the hope of encouraging more women to see their potential in the Saudi labor market. Additionally, Ministerial Resolution No. 39860 of 1440H (2019 AD) makes it unlawful to treat women differently from men in terms of pay for equal value of labor. It also makes employers directly responsible for creating a suitable working environment for women. Moreover, it requires them to designate areas in the workplace for women that prefer privacy without closed doors and with areas for praying and bathroom facilities. It also prohibits men from working in environments designated for women only, and vice versa. Thus, these laws have encouraged, *and will likely continue to encourage*, more women to enter the labor force, as they address the cultural concerns of the relatively more conservative.

It is worth noting that 62.8 percent of employed Saudi women are in private sector. and 36.4 in public sector. This is a significant increase from 20 and 79.3, respectively (GASTAT), presenting evidence that the increase in female labor force participation is more organic than previously thought. Deviating from the rentier state model, female participation has not reduced the number of jobs available for men. Instead, more jobs have emerged for both genders. Female participation, by enhancing efficiency and productivity, could create more jobs.

A caveat is that Saudi Arabia is rapidly and directionally moving towards the female labor participation rate in modern economies, but it has not yet reached OECD levels. However, the normative target of labor force participation is likely lower, compared to Western economies, due to different preferences and opportunity costs faced by individual female decision-makers, even in an ideal situation where they live in a post-rentier modern economy and face free choice. Saudi women typically have a higher reservation wage for work because many households still hold on to broadly modernized interpretations of traditional roles where the man is the primary financial provider. Thus, the reservation wage is not high simply because of side-payments and subsidies from the government, as is assumed. With all of this in mind, the growth is quite impressive.

Conclusion

This special report attempts to demonstrate that the Saudi Economy is beginning to deviate from core characteristics of rentier states and economies. RST is defined by an economy that predominantly relies on external rents, and thus becomes the primary job-provider. This chapter offers evidence that on the most relevant margins, Saudi Arabia is aggressively moving away from that standard. Additionally, RST attempts to explain failure to diversify, inefficiently large state institutions, and patriarchal economic structures. Meanwhile the Saudi economy has been (1) diversifying its economy, (2) shrinking its public sector and growing its private sector (such that the private sector is a greater employer of Saudis and non-Saudis), and (3) massively expanding social and economic capabilities of women. The economic trends observed in Saudi Arabia, when analyzed holistically, cannot justly be interpreted as a "late rentierism," or an attempt to adapt economic institutions to a changing environment so that rentierism is more sustainable. Saudi Arabia is in a *transition* towards post-rentierism as it is steering away from the rentier model on every relevant economic margin.

Some scholars present overly critical assessments. For example, Faudot (2019) claims that a transition to a productive economy is impossible without expanding the role of the private sector, and cutting subsidies. "increasing the role of the private sector in the economy and [creating] high value-added industries," as well as cutting subsidies and reducing consumption patterns." He claims that Gulf states have not been able to "create the economic conditions for diversification without endangering the political context" (ibid). But the change in economic conditions is happening right before our eyes, as I have attempted to demonstrate. Hertog (2019) claims that there are two minimal requirements for a post-rentier state: first, the ability to finance state operations through domestic taxes rather than external rents[(2)], and second, the private sector's capacity to be the main provider of citizen employment. Regarding the first, this chapter demonstrates healthy trends toward the attainment of that goal over time. And regarding the second, the goal has *been* achieved and appears to continue its advancement on that margin. Although the Saudi economy is far from its goalpost, as described by political and economic decision-makers, it is moving directionally toward it. Relevant decision-makers have already voiced plans for new goals for a Vision 2040 and beyond.

(2) Presumably primarily through taxes, as even the most developed economies, such as the United States', rely on debt financing regularly.

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About the Author

Yahya Abdullah Alshamy is an associate research fellow at the King Faisal Center for Research and Islamic Studies. He is also a Post-Doctoral Fellow at the Department of Economics at New York University.

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King Faisal Center for Research and Islamic Studies

P.O. Box 51049 Riyadh 11543 **Kingdom of Saudi Arabia**
Tel: (+966 11) 4555504 Fax: (+966 11) 4659993
E-mail: research@kfcris.com