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Pressured by the decreased price of oil: Post-2014 adjustment policies in the Arab Gulf and beyond

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Introduction

The downhill slide in the global price of crude oil, which started mid-2014, has had major repercussions within all the countries of the Middle East, not only for the net oil exporters but also the net oil importers, like Egypt, Jordan, and Lebanon, which are more or less closely connected with the oil-producing countries from the Gulf. After the Arab uprisings of 2010 and 2011, the oil price decline represents a second major shock for the region in the early twenty-first century – one that has imposed constraints, but also constituted opportunities and will do so in the future.

Since the beginning of the latest oil price peak in the mid-2000s, major constraints have arisen due to the generally high share of oil income within state budgets – which is especially true for the Arab monarchies in the Gulf. State spending, which increased heavily after 2010, almost exclusively depends on earnings from the hydrocarbon sector. The decline in the price of oil and its subsequent oscillation on a much lower level have significantly contributed to a relative lack of financial resources (oil rents), which has consequently restricted states' room for manoeuvre with regard to both domestic (e.g. welfare state and economic diversification) and foreign policies (e.g. petrodollar diplomacy). These effects are relevant for Middle Eastern countries beyond the Gulf, too. One reason for this is that some of the non-Gulf Cooperation Council (non-GCC) countries, such as Egypt, also produce oil. Yet, even more important is that smaller oil producers and non-oil producers of the Middle East, in particular Lebanon and Jordan, are structurally dependent on payments from the Arab Gulf – such as loans, direct budget support, investment, and, not least, labour remittances.

At the same time, during periods of declining oil revenues and increasing budget deficits, opportunities emerge: lower government income results in less lavish spending schemes and can potentially strengthen reform-oriented segments within the regime. These groups might eventually start reforming

government bureaucracies, seriously tackle the issue of corruption, and even initiate the promotion of job-generating industries with the aim of overcoming prevailing distorted socio-economic structures, institutional deficits, and non-meritocratic habits.

Periods of fiscal crisis are especially exciting for students of comparative political economies. They not only ‘provide excellent opportunities to see what really matters in a country’s politics’ (Moore, 2004: 10), but also condition ‘policy outcomes in unexpected ways’ (Chaudhry, 1989: 104). In the words of Gourevitch,

hard times expose strengths and weaknesses to scrutiny, allowing observers to see relationships that are often blurred in prosperous periods, when good times slake the propensity to contest and challenge. (Gourevitch, 1986: 9)

In this chapter we discuss both the empirical importance of policy adjustments after the 2014 oil price decline and academic approaches of political economy apt to analyse these responses. First, we explore the oil price decline of 2014 as a potential game changer for the political economy in the Middle East. We claim that structural changes in the global energy market make it unlikely that oil prices will climb above USD 100 per barrel again in the foreseeable future. We highlight some of the fiscal and budgetary consequences of this for the nine Middle Eastern cases that are investigated in this volume. Second, we outline the most prominent concept for analysing the political economy of the Middle East: rentierism. Third, we scrutinise two major repercussions of decreased oil prices for the political economy in the Middle East. We argue that the predominant context in which policy adjustments take place is, for the six Gulf countries, the change from oil-rent abundance to scarcity and, for the three net oil importers, the significantly reduced energy bill. Fourth, we outline a heuristic framework on how structural changes caused by the oil price decline in 2014 – and in principle also by the 2020 oil price decline induced by the COVID-19 pandemic – could hypothetically translate into policy change. We introduce four domains of adjustment policies: rent-seeking policies, austerity measures, policies of taxation, and structural reform measures. In the final section of this chapter, we highlight the key aspects that are addressed in the nine country studies.

A few remarks on the selection of country studies are expedient. We chose the six members of the GCC – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE) – because no other group of countries in the Middle East and even globally is as dependent on hydrocarbon revenues as they are. These countries are consequently most eligible for exploring the notion that the 2014 oil price decline has triggered a change at the nexus of oil and the political economy in the Middle East. Other regional oil exporters such as Iraq, Libya, and Yemen are omitted because

they did not have a functioning, centralised government in the time after the oil price drop of 2014. Algeria is, however, only to a very limited extent integrated into the hydrocarbon centre of the Middle East: the Gulf. We therefore refrained from including this North African country in the comparative exploration of this book. A similar argument can be made with regards to Iran. With Lebanon as the only exception, socio-economic ties between the nine countries selected for this book and the Islamic Republic are rather low. Moreover, as there is intense political and socio-economic interaction and interdependency between Middle Eastern countries, we identified Egypt, Jordan, and Lebanon as those three that are critically dependent on the Arab Gulf through linkages such as political aid, labour remittances, tourism, and private investment. We largely focus on the time after the fall in oil prices in the summer of 2014 until 2018 but also discuss major developments up to early 2020.

The oil price decline of 2014 as a potential game changer for the political economy in the Middle East

The year 2014 marks the beginning of the end of yet another period of high oil prices. The late 1970s were characterised by prices for one barrel of crude oil reaching levels above USD 100 (deflated in 2018 US consumer prices) for the first time. Yet, the 1980s and 1990s witnessed the most severe drop in oil prices in the last century. The year 1998 marked the lowest oil price since 1973. In deflated 2018 USD, the annual average oil price had fallen to less than USD 20. Then a long period of an upsurge in oil prices took its course. Between 1999 and 2011, annual average oil prices increased every year except 2001 and 2009. As a result, crude oil prices more than sextupled from 1999 to 2011, when the annual average price peaked at close to USD 125. From 2012 to mid-2014, it kept up at an outstanding average level of around USD 120 (see Figure 1.1).

For almost fifty years, the price of oil has been subject to repeated fluctuations. However, there is much to suggest that the price decline in 2014 is not cyclical but structural. A return to oil prices of over USD 100 thus remains highly unlikely in the foreseeable future. This is mainly due to technological innovations in hydraulic fracturing – or fracking for short. In this process, a chemically prepared mixture of water and sand is pressed into oil shale at high pressure to extract gas and oil. Fracking in shale oil, the world's largest reserves of which are located in the USA, has meant that the world market can be supplied with sufficient oil at a price of around USD 50 in the medium term. At this price level, exploration costs for new shale oil deposits are covered (Rosenberg, 2019). In addition, due to the

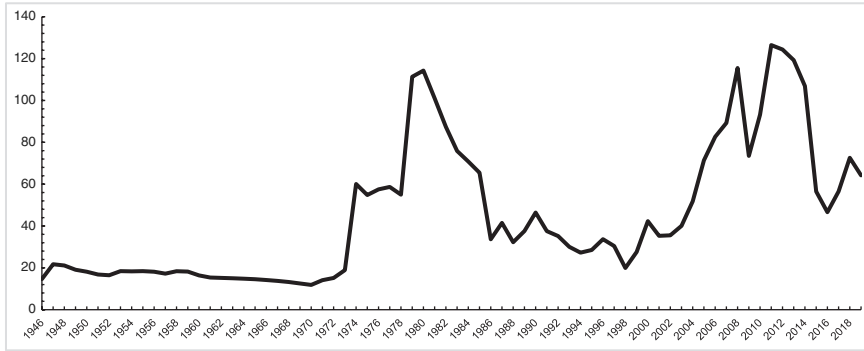


Figure 1.1 Crude oil price per barrel in USD 2019, 1946–2019 (deflated using the consumer price index for the USA). Source: BP (2020b). Note: Between 1945 and 1983, the price of Arabian Light posted at Ras Tanura, and between 1984 and 2018, the dated Brent price (refers to physical cargoes of crude oil in the North Sea).

fracking boom, the USA succeeded in becoming the world's largest oil producer in 2018. In the days of the classic oil price revolution in the 1970s, the price cap for oil was based on the substitution costs for conventional oil, with the largest deposits being in the Gulf region. For the time being, this role is played by shale oil (Beck, 2019).

This shift in production in favour of the USA is by no means sustainable, as they, due to their extremely high production volume in relation to their proved reserves, can produce at the 2019 level for hardly more than another decade. On the other hand, Saudi Arabia would still be able to do so for almost seventy years, and Kuwait even over ninety years (BP, 2020a: 14). However, a return to the dominance of conventional oil in the global energy market is not to be expected for two reasons: first, the deposits of other unconventional and heavy oils are also concentrated in the Americas; second, the demand for hydrocarbons is expected to decline in the medium to the long run due to the energy transition in the making (BP, 2020c).

As a consequence of this development, the oil-rich countries of the Gulf and also some of their net oil-importing Arab neighbours face the epochal challenge of managing economic, social, and political affairs under the condition of significantly reduced levels of oil income. The weight of the inflicted fiscal burden is illustrated in Table 1.1 by the oil-exporting countries' respective break-even oil prices – a notional price on which the national budget is virtually balanced.

Since 2015, the annual break-even oil prices for Bahrain, Oman, and Saudi Arabia have manifestly surpassed the actual annual average oil price

Table 1.1 Fiscal break-even oil prices in USD per barrel, and average oil price annually.

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Bahrain	110.7	119.4	130.4	103.3	118.7	105.7	112.6	118.4	106.3
Kuwait	42.5	49.0	42.5	54.5	47.4	43.4	45.7	53.6	52.6
Oman	77.9	79.8	98.3	94.0	101.7	96.6	96.9	96.7	92.8
Qatar	79.0	63.1	61.9	56.1	52.4	54.0	51.3	48.0	44.9
Saudi Arabia	78.1	77.9	89.0	105.7	94.2	96.4	83.7	88.6	82.6
UAE	93.3	69.9	69.4	91.0	64.7	51.1	62.0	64.1	67.1
Average oil price	107.46	109.45	105.87	96.29	49.49	40.76	52.43	69.78	64.04

Source: IMF (2016b, 2017, 2018, 2019, 2020); average oil price is the annual OPEC basket price (OPEC, 2020).

Note: Fiscal break-even oil prices in 2019 are IMF projections.

shown in the last line of Table 1.1. This indicates a large structural deficit in the state budget. For Oman and Saudi Arabia, this is a direct consequence of the 2014 oil price decline, while in Bahrain this break-even price was above the average annual oil price even before 2014 due to the country's virtual depletion of autonomous oil production. Despite the introduction of effective saving measures, the structural discrepancy between oil income and budgetary needs is still visible in all three countries. Even Qatar and the UAE, often characterised as among the '[t]he uber-rich [rentier] states' (Okruhlik, 2016: 24), felt impelled to take a series of policy measures to adjust their government spending. This was so because in Qatar in 2015 and 2016 and in the UAE from 2015 until 2017 and again in 2019 the respective break-even prices had climbed above the average oil price level. Due to its extraordinarily high production volume per capita, only in Kuwait was the break-even price below average oil price levels for the entire time period.

As presented in Table 1.2, the consequences thereof can be seen in the emerging differences across the Arab Gulf countries with regard to budget balance, debt ratio, and foreign exchange reserve figures as a percentage of gross domestic product (GDP). In Kuwait, Qatar, and the UAE, the discrepancy between state revenue and expenditure has remained at a relatively low, negative level. In fact, Kuwait has seen a small positive budget surplus since 2017, while the debt ratio has risen from 7.5 per cent in 2014 to 15.2 per cent in 2019. In Qatar, the budget turned into modest deficits in 2016 and 2017 only, and the debt ratio increased by about 20 per cent of GDP after 2014 till 2019. Surprisingly, the UAE was hit harder by the fall in oil prices. The federation of emirates has experienced negative budget deficits in all

Table 1.2 Budget balance, debt ratio, and foreign exchange reserves as a percentage of GDP.

	2014	2015	2016	2017	2018	2019
Bahrain						
Budget balance	-1.6	-18.4	-17.6	-14.2	-11.9	-8.0
Debt ratio	44.4	66.0	81.3	88.2	94.7	101.7
Foreign exchange reserves	17.26	10.01	6.75	6.63	4.96	8.57
Egypt						
Budget balance	-12.8	-11.4	-12.0	-10.6	-9.5	-7.6
Debt ratio	85.1	88.5	96.8	103.2	92.7	84.9
Foreign exchange reserves	4.80	4.89	8.62	18.45	16.59	14.38

Table 1.2 Budget balance, debt ratio, and foreign exchange reserves as a percentage of GDP. (Continued)

	2014	2015	2016	2017	2018	2019
Jordan						
Budget balance	-10.3	-5.3	-3.7	-3.7	-4.8	-3.4
Debt ratio	89.0	93.4	93.8	94.3	94.4	94.6
Foreign exchange reserves	44.10	43.49	39.59	38.22	34.47	34.33
Kuwait						
Budget balance	27.1	5.6	0.3	6.3	8.7	6.7
Debt ratio	7.5	4.7	10.0	20.7	14.7	15.2
Foreign exchange reserves	19.81	24.76	28.45	27.93	26.40	29.71
Lebanon						
Budget balance	-6.0	-7.5	-8.9	-8.6	-11.0	-9.8
Debt ratio	133.5	140.9	146.1	149.0	151.0	155.1
Foreign exchange reserves	105.57	97.26	105.47	103.79	92.39	71.10
Oman						
Budget balance	-1.1	-15.9	-21.3	-14.0	-7.9	-6.7
Debt ratio	4.9	15.5	32.7	46.4	53.4	59.9
Foreign exchange reserves	20.13	25.65	30.94	22.79	21.93	20.07
Qatar						
Budget balance	15.3	5.4	-5.2	-2.9	5.3	7.0
Debt ratio	32.3	35.5	46.7	49.8	48.6	53.2
Foreign exchange reserves	21.01	23.04	21.02	8.99	15.86	20.86
Saudi Arabia						
Budget balance	-3.4	-15.8	-17.2	-9.2	-5.9	-6.1
Debt ratio	1.6	5.8	13.1	17.2	19.0	23.2
Foreign exchange reserves	96.82	94.21	83.08	72.30	67.99	63.14
UAE						
Budget balance	5.0	-3.4	-2.0	-1.4	1.2	-1.6
Debt ratio	15.6	18.7	20.2	20.0	19.1	20.1
Foreign exchange reserves	19.46	26.23	23.92	25.26	24.03	25.29

Source: Budget balance and debt ratio: IMF (2017, 2018, 2019); foreign exchange reserves: EIU (2019a, 2019b, 2019c, 2019d, 2019e, 2019f, 2019g, 2019h, 2019i, 2020a, 2020b, 2020c, 2020d, 2020e, 2020f, 2020g, 2020h, 2020i).

Note: Figures for 2019 are IMF projections (budget balance and debt ratio) and Economist Intelligence Unit estimates (foreign exchange reserves).

years since 2014 with 2018 as the only exception when they had a small positive balance of 1.2 per cent. On the other hand, the debt ratio rose only modestly by 5 per cent and foreign exchange reserves slightly increased between 2014 and 2019.

In contrast, since 2015, the budgets of Bahrain, Oman, and Saudi Arabia have exhibited a high deficit of over 10 per cent of GDP; this development is proceeding most dramatically in Bahrain, though. Along with the country's perpetually high budget deficit, its debt ratio has also increased to over 80 per cent of GDP. At the same time, foreign exchange reserves have melted away since 2014. Based on current levels, Bahrain can no longer cover its budget deficit with available currency reserves. Although Oman has had a budget deficit similar to that of Bahrain since 2014, the structural conditions in the sultanate have proven to be more advantageous. There, the debt ratio is rather low at around 35 per cent while foreign exchange reserves account for about one-third of current GDP. Saudi Arabia represents a special case: even though its budget deficit was over 15 per cent in both 2015 and 2016, its debt ratio was registered as being the lowest of all GCC members. In addition, during the oil price boom of the early twenty-first century, Saudi Arabia stockpiled historically large foreign exchange reserves – which will enable it to offset its current budget deficit level over a number of years.

In contrast to the six Gulf countries, macroeconomic data do not signify an immediate impact of the oil price decline on Egypt, Jordan, and Lebanon. At first, looking at the indicators presented in Table 1.2, the three non-Gulf states, all of which are net oil-importing countries, can be said to have weathered the decline in oil prices since 2014 relatively well. Budget deficits have not additionally skyrocketed as in some of the oil countries, and foreign exchange reserves have remained relatively stable – even increased in the case of Egypt. Since 2014, government debt alone has risen further in all three countries from an already very high level since before the oil price drop even started. Only in Lebanon have there been some early warning signals of a looming macroeconomic crisis. The debt ratio has risen from 135.5 per cent of GDP in 2014 to 155.1 per cent in 2019, and foreign exchange reserves have declined by over 30 per cent of GDP despite the fact that Lebanon has benefitted from importing cheaper oil since 2014.

Rentierism and the political economy in the Middle East

Rentierism is a concept which points to the overall importance of income generated by natural resources, in particular hydrocarbon rents, for socio-economic development and politics (Jenkins *et al.*, 2011; Richter, 2019). This concept has developed as the outstanding political economy approach

to studying the oil-exporting Middle East and its fringes for decades (for a view departing from rentierism, see Hanieh, 2011). The main idea of economic rents as *unearned* income goes back to the nestors of economics, namely, Adam Smith, David Ricardo, and Karl Marx. Contemporary economics defines rents as a surplus higher than the minimum that the receiver would have otherwise accepted given the availability of alternative opportunities (Buchanan, 1980: 3). Rents typically do not originate from investment or labour – in the capitalist sense of the word – but are generated as the result of natural advantages and organisational skills. Thus, in contrast to entrepreneurs acting on markets, receivers of rents are not under immediate pressure to reinvest their revenues. Typically, rents are therefore at the free disposal of those actors who control access to it. In the Arab Gulf, these are the ruling families (Beck, 2012).

Distinct from classic rent theories in economics, rentierism as an academic concept gained prominence as a result of studying oil-dependent state-building processes in parts of Latin America, mainly Venezuela, which became the first ‘petro-state’ (Karl, 1997), and – with significance for a whole world region – the Middle East. Mahdavy (1970) pioneered studying the sociopolitical consequences of high oil income using the example of Iran’s transformation into an oil-rentier state. His analysis of the monopolisation of revenues from crude oil exports by state institutions, in particular the government, draws attention to two major structural consequences. First, due to the expansion of large public-spending programmes and above-average public-sector growth, the government becomes the dominant actor within the economy. Second, governments of rentier states acquire an unprecedented independence from society. This independence is a result of their ability to expand services and create employment without having to extract resources from the society through taxation. Oil income, as Mahdavy argues, empowers governments ‘to bribe pressure groups or to coerce dissidents’ (1970: 467). However, he also shows that rentier states tend to suffer from inefficient state bureaucracy and become highly vulnerable to oil price fluctuations, on whose price building they had hardly had any influence in the 1950s and 1960s. This proved to be particularly painful during periods of decreasing oil prices (Mahdavy, 1970: 467).

Ten years later, Delacroix (1980) argued that distributive states – states with large amounts of rents at their disposal – constitute a previously unnoticed outcome of peripheral state-building processes. He points out that in this context the state emerges as the engine of sociopolitical change, which implies that the relevance of class relations for socio-economic and political development diminishes. Thus, state building in distributive states is quite distinct from the European class-based experience. More than fifteen years after Mahdavy’s initial observations and in the same year in which

Anderson (1987: 9–10, 14) acknowledged the notion of the rentier state as a major contribution to political science, Beblawi and Luciani (1987) in a seminal edited volume sharpened the debate on rentierism by depicting the various dimensions of the rentier state. Based on the assumption that a rentier economy shapes a rentier mentality, which ‘embodies a break in the work-reward causation’ (Beblawi, 1987: 52), this kind of non-meritocratic system comes along with the political implication of low political mobilisation. As Luciani (1987) argues, due to the independence of the state from taxes, social groups in the Middle East lack the leverage of Western societies to tame and finally subordinate the state through pressures from below. However, other authors in Beblawi and Luciani (1987) also pinpoint the vulnerabilities of the rentier state. Najmabadi (1987), for instance, explains the downfall of the Shah regime in Iran 1979 by highlighting the alienation of the Iranian rentier state from its own society.

When analysing the 1970s ‘oil price revolution’ (Schneider, 1983: 101), scholars have highlighted that Middle Eastern rentierism is not confined to oil-exporting states. It eventually spread to the whole region based on petrolism, a system of transnational distribution of oil income across Arab states (Korany, 1986). Petrolism worked through two major channels linking the resource-rich, labour-poor (RRLP: the Gulf monarchies) and resource-poor, labour-abundant (RPLA: e.g. Egypt, Jordan, and Lebanon) countries (Cammatt *et al.*, 2015: 27): budget transfers and political aid from the Gulf paid out to the RPLA countries, and, in the opposite direction, labour force migration from the RPLA countries to the oil-producing states. Petrolism resulted in the emergence of so-called semi-rentier states (Beblawi, 1987), among them Egypt, Jordan, and also Lebanon. While these countries do not have oil-rent income in abundance, they receive a mixture of rent income derived from sources such as budget support and aid from the Gulf – often supplemented by financial transfers from the West – the exploitation of other natural resources such as phosphate, levies on the tourism sector, and location rents, which are based on fees for major transport routes such as the Suez Canal (originally Beblawi, 1987: 61; later also Richter and Steiner, 2008; Beck and Hüser, 2015).

Since the 1990s, the scholarly debate on rentierism and the rentier state has become more differentiated and sophisticated (see for recent examples Herb and Lynch, 2019; Yamada and Hertog, 2020). Three main areas of work that are highly relevant for the chapters in this edited volume shall be briefly discussed by way of example.

First, as originally mentioned by Mahdavy (1970: 467), rentier states may use oil income for coercion, too. Ross (2001: 335–6) then attempted to systematically revisit the relevance of repression for the survival of authoritarian rentier states. He argues that the authoritarian regimes of oil rentiers have more financial means available in order to oppress democratic

ambitions than authoritarian regimes in resource-poor countries (for a different perspective, see Smith, 2004). Historically, the use of coercive means can be best studied using the examples of the Shah regime in Iran and the rule of Saddam Hussein in Iraq. Yet, as shown by Crystal (2018), in the wake of the Arab uprisings and reinforced by the oil price decline in 2014, coercion also gained in relevance in the Arab Gulf peninsula states.

Second, scholars have attempted to specify the interaction between oil wealth, political institutions, and authoritarianism. As Beblawi highlights, in rentier states only a few control the externally derived rent and this 'would allow them to seize "political power"' (1987: 52). Yet, as Waldner notes, externally derived wealth like oil income does not dictate the establishment of authoritarian regimes (1999: 107). For instance, research from Latin America shows that oil rents crucially supported an elite-negotiated democratisation in Venezuela (Karl, 1997; Dunning, 2008). Thus, historical comparative research comes to the conclusion that the impact of oil wealth depends fundamentally on the quality of political institutions preceding oil and not primarily on whether oil rents represent the majority of government revenues for any given political regime (Smith, 2006: 59).

Third, an elaborated discussion on the developmental effects of oil wealth has emerged that mostly points to the negative consequences of oil rents as a curse rather than a blessing (for a pioneering perspective, see Auty, 1993). Among the many negative effects outlined in this context are Dutch disease and bureaucratic inefficiency. Dutch disease points to the overvaluation of local currencies in oil-exporting countries, which is the result of the inflow of rent income. As a result, the high productivity of oil as the only significant export product damages the productivity rates of all other economic sectors and eventually inhibits export-oriented industrialisation. Bureaucratic inefficiency, already emphasised by Mahdavy (1970: 467) as a negative side-effect of state building based on oil, is – in addition to weak fiscal and macroeconomic institutions – a key hindrance to reaching sufficient levels of economic development within rentier states (Malik, 2019). Yet, Hertog's (2010a, 2010b) contributions highlight that even within the bureaucratic structures of highly inefficient rentier states, profitable and well-managed state-owned enterprises can develop. Contrary to the expectations of mainstream economics, 'islands of efficiency' (Hertog, 2010b: 263) can emerge if market-oriented management is equipped with enough autonomy in its daily operations.

From oil-rent abundance to scarcity in the Gulf

All GCC member states greatly profited from the rise in oil prices in the early twenty-first century. As an outcome, high surpluses benefitted the national budget, and GDP growth figures were markedly good. Many

governments began to invest heavily in infrastructure and prestige projects. Gulf states were also able to build up their foreign exchange reserves and to engage in global investments (Hanieh, 2018; Gray, 2019).

Yet, as a consequence of the Arab Spring, the costs of subsidies and expenses in the public sector have increased ever since 2011. As the majority of citizens in the Gulf monarchies are employed in the public sector, their salaries were raised; new positions were created within the security sector and the state bureaucracy, too (Richter, 2017). The goal was to provide the younger generation of citizens with employment opportunities and decent wages. These policies helped the governments to avoid mass protests against their authoritarian rule such as those that occurred in Tunisia in December 2010 and passed through many Arab states in 2011 and beyond. Without the high revenue generated by the sale of hydrocarbon products, the authoritarian Gulf monarchies would not have survived the Arab uprisings so easily; with the exception of Bahrain, the Gulf monarchies faced only short-lived protests (such as in the cases of Kuwait, Oman, and Saudi Arabia) or were even spared from the upheavals in the Arab Middle East (as in the cases of Qatar and the UAE) (Lucas, 2014).

As becomes apparent in Figure 1.2, after flying high in the early 2010s, the basket price of the Organization of the Petroleum Exporting Countries (OPEC) has dropped significantly since summer 2014. The average daily OPEC basket price dropped to USD 41.50 on 13 January 2015 and after a short peak thereafter further to below USD 25 in early 2016. After the OPEC oil basket price partially recovered to above USD 60 per barrel in November 2017 and even reached a level above USD 80 per barrel for a few days in the autumn of 2018, it oscillated in subsequent years in a range between roughly USD 55 and 70. In 2020, however, when demand for hydrocarbons sharply declined as a result of the economic slowdown associated with the COVID-19 pandemic, the OPEC basket price fell below USD 15 in late April before it partially recovered in the next months. From June to September 2020, the oil price regained its footing, reaching a level of around USD 40. Yet, already in 2019, the Gulf states' income from hydrocarbons was almost halved in comparison to the early 2010s, with enormous consequences for the fiscal capacities of the countries.

In the literature on rentierism and the rentier state, different indicators are used to measure the potential impact of oil and hydrocarbon income on socio-economic development and politics. Among them are hydrocarbon production or export values as a percentage of total state revenues or GDP. Yet, none of these indicators measures the true number of rents controlled by governments (Lucas and Richter, 2016) nor do they indicate the financial means available to a government for patronage or coercion in order to manipulate citizens' preferences (Smith, 2017). It is rather the government's



Figure 1.2 OPEC basket price in USD, 2011–20, annual average value based on current prices. Source: OPEC (2020). Note: The OPEC basket price is a weighted average of prices for petroleum blends produced by OPEC members. It was introduced in 2005 and is, as of October 2020, composed of the following variants: Saharan Blend (Algeria), Girassol (Angola), Djeno (Congo), Zafiro (Equatorial Guinea), Rabi Light (Gabon), Iran Heavy (Islamic Republic of Iran), Basra Light (Iraq), Kuwait Export (Kuwait), Es Sider (Libya), Bonny Light (Nigeria), Arab Light (Saudi Arabia), Murban (United Arab Emirates), and Merey (Venezuela) (OPEC, 2020).

hydrocarbon income per capita that indicates best the power of the rentier state. Table 1.3 shows per capita data of natural resource rents for all Gulf countries both for total population and national population, the latter being the subgroup holding citizenship.

Until 2014, most of the authoritarian regimes in the Gulf still had oil revenues in abundance. This enabled them to distribute oil rents through generous subsidies and the provision of financially attractive jobs in the public sector. The figures on oil revenues per capita in Table 1.3 indicate that the era of abundance had come to an end for Bahrain, Oman, and Saudi Arabia, while it continued in the UAE, Kuwait, and Qatar. However, possible long-term effects of the COVID-19 pandemic with regards to a reduced global demand for oil and an accelerated energy transition might eventually terminate hydrocarbon income abundance for all members of the GCC.

A comparison between 2010 and 2015 – for which data on national population is available across all six GCC countries – shows the dramatic decline of rentier leverage per citizen. In 2015, the oil per citizen income in Qatar was only 51 per cent of the 2010 level, 59 per cent in the UAE,

Table 1.3 Natural resource rents per capita across all countries of the GCC (in constant 2010 USD).

	Oil rents (in USD) per total/national population	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
2004	total population	747	20,768	6,672	22,446	8,264	12,116
	national population	1,334	47,793	9,050	87,801	11,625	n/a
2005	total population	856	27,060	7,782	23,963	9,764	13,913
	national population	1,571	61,913	10,606	n/a	13,797	464,009
2010	total population	690	18,982	6,956	19,153	7,301	7,351
	national population	1,501	49,029	10,808	146,266	10,663	374,048
2014	total population	1,025	20,162	6,063	15,096	8,438	8,881
	national population	2,170	58,327	10,800	n/a	13,507	386,005
2015	total population	549	13,345	3,546	8,989	4,983	5,288
	national population	1,162	39,144	6,454	75,141	8,026	219,783
2016	total population	405	11,355	3,031	7,544	4,134	4,444
	national population	868	33,586	5,592	n/a	6,678	178,225
2017	total population	445	12,371	3,461	9,056	4,781	5,360
	national population	982	36,626	6,446	n/a	7,746	n/a
	in % of total/national population						
2015 at the level of 2010	total population	79.48	70.30	50.98	46.94	68.25	71.94
	national population	77.41	79.84	59.71	51.37	75.27	58.76

Source: GLMM (2020), World Bank (2020a, 2020b).

60 per cent in Oman, 75 per cent in Saudi Arabia, 77 per cent in Bahrain, and 80 per cent in Kuwait.

The end of the era of oil-rent abundance for at least three of the six member states of the GCC is also a consequence of the high annual growth of domestic labour in the labour markets of the more populous Gulf states; Saudi Arabia, but also the UAE and Oman, despite dramatic declines in fertility rates since the 1980s, still show high population growth into the twenty-first century.

Under other socio-economic conditions, this could favour dynamic economic development, but hardly in the Arab Gulf. One reason for this is that the private sector is unattractive for the local labour force due to much lower wages compared to the public sector. On the other hand, the state bureaucracy offers greater prestige and better working conditions; for example, in the form of shorter working hours. While the authoritarian regimes in the Gulf see the economic need to curtail the bloated public sector, they are at the same time under social pressure to make corrections in this regard. This is aggravated by the fact that the population's expectations of the state have risen from generation to generation since the 1970s: governments are forced to spend a large part of their oil revenues on education, which then generates a workforce that is largely directed towards the unproductive public sector (Cammett *et al.*, 2015: 145, 333–42).

Egypt, Jordan, and Lebanon: A significantly reduced energy bill

Egypt (which ceased to be a net energy exporter shortly before the oil price drop in 2014), Jordan, and Lebanon all have benefitted from the oil price decline due to significantly lowered energy bills. As there are hardly any economic transactions free of energy in modern economics, lower energy costs bear the potential to create a boost for the entire economy. At the same time, structures of rentierism are under pressure in the semi-rentier states of Egypt, Jordan, and Lebanon because both pillars of petrolism are diminishing. Due to the 2014 drop in oil prices, Saudi Arabia has fewer financial means available for its petrodollar diplomacy. Also, remittances from the Gulf to Egypt, Jordan, and Lebanon are potentially affected, as the Gulf states are pressurised to reduce their dependence on foreign labour.

Only two of Egypt's rent sources were not hit by the 2014 oil price decline. Due to its location between the Mediterranean and the Red Sea, as well as its historic sites, beaches, and attractive climate conditions, Egypt yields rents from tourism. Moreover, fees for passing the Suez Canal yield a location rent because they indicate a level of earning that highly outweighs the potential income derived from similar investments in an industrial

production process (Richter and Steiner, 2008). On the other hand, the drop in oil prices after 2014 constitutes a challenge to Egypt's receipt of two other crucial sources of rent income: political aid payments and workers' remittances, which are also to be considered rents because the recipients of these incomes have not put in labour or made investments for it (Schlumberger, 2010: 245; Abulof, 2017: 67). Since the 1970s, Egypt has heavily relied on budget-to-budget payments, cheap loans, and other forms of political rents from the Arab Gulf, in particular Saudi Arabia. The oil price revolution of the 1970s also enabled the Arab Gulf countries to expand labour immigration. Thus, Egypt became dependent on workers' remittances from the Gulf.

Jordan's only source of rent not affected by the oil price decline of 2014 is its income from phosphate production. Otherwise, Jordan's rentierism has been challenged by the oil price decline in a way similar to the Egyptian case. In the 1970s, Jordan, which was created by the United Kingdom in the 1920s as a state whose king needed to be financially supported in order to maintain his rule, has become dependent on remittances from the Gulf and political aid, particularly from Saudi Arabia but also from Kuwait, even though Amman managed to maintain relatively high political rents from the USA and the EU (Beck and Hüser, 2015).

Lebanon, which has been 'exporting' its labour force en masse in several migration waves since the nineteenth century, has been integrated into the networks of labour migration based on petrolism from the very beginning. Moreover, with the end of the Lebanese Civil War (1975–90), Lebanon became dependent on capital inflows and financial aid from the Arab Gulf, in particular Saudi Arabia, for its neoliberal reconstruction (Baumann, 2016). Lebanon (as well as Jordan) also used the high influx of Syrian refugees in the wake of the Syrian Civil War to acquire a refugee rent by attracting additional foreign aid payments (Tsourapas, 2019).

Rentierism and adjustment policies: A heuristic framework

As orthodox rentier state theory (RST) emphasises, in the first instance a decline in oil-rent income constrains the ruling regime because it disposes over less in rents to stabilise its rule. However, challenges do not only engender *constraints* but can also be taken by the political class as *opportunities* for structural reforms, thereby possibly even paving the way for overcoming rentierism. Initially, the Gulf countries responded to the oil price decline with visionary plans of tackling deficiencies, the Saudi Vision 2030 being just one among several. Yet, there is a long way to go from announcing plans to implement structural change. First, in the past governmental announcements in the Gulf on launching reforms by disseminating development plans and

Table 1.4 Rentierism and adjustment policies.

	Rentierism adjustment policies	Adjustment policies going beyond rentierism
Government revenues	<i>Rent-seeking policies</i> Producer cooperation: e.g. OPEC+ Developing the LNG sector	<i>Taxation policies</i> Introduction of VAT Introduction of income and corporate taxes
Government expenditures	<i>Austerity policies</i> Cutting subsidies Incurring debt Cancellation of investment	<i>Structural reform measures</i> Labour market reforms Development projects

Source: Authors' own compilation.

national visions often failed to translate into policy action (e.g. Hvidt, 2013; Ulrichsen, 2016). Similar examples can be found looking at past policy initiatives in Egypt (e.g. Adly, 2020), Jordan (e.g. Moore, 2004), and Lebanon (e.g. Baumann, 2019). Second, it is necessary to discern whether only ad hoc measures are executed, or actual structural change and deep reform are promoted. One example to illustrate the difference are the measures taken against corruption. Purges against corruption are often part of mere populist ad hoc policies or power-consolidating strategies, as seen in the case of Muhammad bin Salman's elimination of potential rivals in 2017 and the following years. Structural reforms, however, would require systematically discouraging rent-seeking opportunities (see Buchanan, 1980), for instance by developing institutions that guarantee an independently audited state budget, which are extremely under-developed in the Arab Gulf, with the exception of Kuwait (AlShehabi, 2017). Another example is that of reorganising the distribution of rents away from providing direct financial support for citizens towards genuinely activating their productive potentials. To frame these differences in a more systematic way, in Table 1.4 we propose an approach that distinguishes adjustment policies with regard to government revenues and expenditures, according to whether the adjustment policies abide by rentierism or go beyond it.

Rent-seeking policies

The Gulf states' most important rent-seeking policy response to the fall of oil prices in 2014 was to intensify cooperation between oil exporters. After an initial phase of inaction and failed attempts to stabilise the price of oil

through exporter cooperation, this was achieved under the leadership of Saudi Arabia in 2016 in a similar way to the early 1980s. The members of OPEC were aware that, in view of the greatly increased importance of oil exporters outside the organisation, effective cooperation would only be promising if Russia were involved. A first attempt to launch an OPEC+ in Doha failed in April 2016 due to the resistance of Saudi Arabia, which wanted to prevent Iran, its main competitor for regional power in the Middle East, from benefitting from higher oil prices (Beck, 2016). However, in November 2016, the Vienna Group (also commonly referred to as OPEC+) – consisting of OPEC members plus Russia and other non-members of OPEC such as Bahrain and Oman – reached an agreement on a production quota that would be later renewed in November 2017 and then again in December 2018 (Cohen, 2018). The remarkable upward trend in the OPEC basket price after 2016 – from USD 40.76 per barrel to USD 52.43 per barrel in 2017, and to USD 69.78 per barrel in 2018 (see Figure 1.2) – was certainly caused by different factors, among them socio-economic and political developments such as the ongoing demise of the states of Venezuela and Libya and the USA's decision to impose severe sanctions on Iran and Venezuela. However, there can be hardly any doubt that the resumption of the oil producers' cooperation was a decisive factor in stabilising the oil price. This is remarkable, as all parties involved are facing a prisoner's dilemma: although all members are better off if the cooperative agreement lasts, each and every member has at any time a systemic incentive to exceed its quota. As actors in a prisoner's dilemma have mixed motives over whether or not to cooperate, agreements on production quotas are in principle volatile (Alt *et al.*, 1988: 445–66).

OPEC's post-2014 cooperation has a historical predecessor. However, the production control system established in the early 1980s suffered from the fact that several OPEC members continuously and systematically exceeded their quotas. Since, in addition, oil-producing countries outside the organisation were acting as free riders, Saudi Arabia obtained a majority decision at the end of 1985, which suspended the quota system and forced a price war on producers outside OPEC (Alt *et al.*, 1988: 455–7). As a result, Saudi Arabia in particular has massively expanded its oil production.

However, it is noticeable that the major oil producers in the Middle East leave relatively high shares of their oil in the ground – and this despite the fact that production costs in the Gulf region are extraordinarily low. At the end of 2019, Saudi Arabia, the biggest oil producer in the Gulf and globally the second biggest, had a ratio of proved reserves to production (R/P) of 68.9, whereas the biggest and the third biggest producers in 2019 – the USA and Russia – had R/Ps of 11.1 and 25.5, respectively (BP, 2020a: 14–16). As the relatively high R/P ratios in the Gulf date back to the twentieth century, they indicate that even after the end of the formal quota

system in the mid-1980s, the Gulf states continued to ‘artificially’ depress production in order to prevent a further decline in prices. In doing so, they aimed at earning higher revenues from the sale of oil than they would have been able to do by acting in line with market conditions. Nevertheless, the failure of the cooperation and the flooding of the oil market by the Saudis in the years 1985–86 had serious consequences, as this contributed to a long-lasting decline in prices (see Figure 1.1).

This raises the question whether the production control established in 2016 is sustainable. Similar to OPEC in the 1980s, OPEC+ is in a precarious situation because of the systematic incentive to exceed individual quotas. In addition, Saudi Arabia could be tempted, as it was in Doha in 2016, to exacerbate Iran’s economic crisis by accepting the self-harm associated with a termination of production control in the form of a further decline in prices. This becomes all the more likely the more Riyadh perceives the regime in Tehran not only as an adversary but as an enemy that needs to be weakened (Beck, 2020). Yet, there is also a factor that could prevent OPEC+ from failing. In 1985, in order to absorb the failures of other OPEC members as well as the increasing production of oil exporters outside OPEC, Saudi Arabia had briefly reduced its oil production to barely more than 2 million barrels per day. In 2018, on the other hand, according to OPEC (2019: 57), Saudi Arabia was producing over 10 million barrels of oil per day. Thus, in the twenty-first century, Riyadh has much greater scope for production cuts than before.

The coronavirus pandemic in 2019–20 caused a sudden extreme drop in demand for oil. Saudi Arabia responded to this crisis in March 2020 by proposing a further reduction in the production quota, but Russia refused. Then, even before the expiry date of the OPEC+ production agreement on 31 March 2020, Riyadh launched a price war in order to bring Russia back to the negotiation table. The immediate result, however, was a price collapse to a level of USD 30 per barrel (Worland, 2020). Yet, on 13 April 2020, pressured and backed by the USA, OPEC+ reached an agreement to cut production, starting in May 2020 (*The Economist*, 2020). The record high reduction of 9.7 million barrels per day from May to July was eased to a still highly significant cut of 7.7 million barrels per day from August 2020 on. In the first three months of the renewed quota system, voluntary additional cuts by Saudi Arabia, the UAE, and Kuwait balanced overproduction committed mainly by Iraq and Nigeria (El Gamal *et al.*, 2020). At the same time, Saudi Minister of Energy Prince Abdulaziz bin Salman publicly announced that he expects all members of OPEC+ to comply to their quota (JPT, 2020).

The Gulf states have quite a number of options for diversifying their rent-seeking activities beyond oil. Qatar is clearly the most important producer

of natural gas in the GCC, second in the entire Middle East only to Iran. Qatar's global share of proved reserves is 12.4 per cent, but the 3 per cent that both Saudi Arabia and the UAE held at the end of 2019 are also significant (BP, 2020a: 32). There are also options beyond hydrocarbons to seek additional rent income. For instance, Saudi Arabia launched a programme to attract non-religious tourists.

In contrast to the Arab Gulf states, the two semi-rentier states have never enjoyed rent abundance. Therefore, they were early in exploring ways to increase their rent income and thus look back to a long history of rent-seeking activities. This implies that their room for manoeuvre in terms of unfolding further rent-seeking activities is rather limited. Lebanon is a different case because it possesses potential offshore oil and natural gas deposits. After a long period of inactivity, in February 2020 Lebanon started to explore for hydrocarbons.

Austerity policies

Within all nine countries under scrutiny in this volume, strong influence from government expenditures, mainly for subsidies and social welfare distribution, exists. From the outset, Middle Eastern regimes launched social contracts that included heavily subsidised basic goods such as gasoline, cooking gas, and bread. They also established free public education and health care systems (Loewe and Jawad, 2018). Neoclassical economists have consistently described these state activities as inefficient and harmful (e.g. World Bank, 2003; El-Katiri and Fattouh, 2017). At the same time, social scientists have traced 'Middle Eastern exceptionalism' with regard to the lack of democratisation and low economic performance back to factors that include the historical development of government spending on goods and services, particularly on subsidies and welfare provision funded by oil wealth (e.g. Farsoun, 1988; Ross, 2001).

As for Middle East welfare systems, two major structural differences exist between the three semi-rentier states of Egypt, Jordan, and Lebanon, on the one hand, and the six Gulf rentiers on the other. First, it was only within the former that imperial powers left their footprints, by initialising social welfare systems during the era of colonial penetration. Since British colonial rule on the Arabian Peninsula was mainly meant to safeguard the trade routes with India and British-controlled territory in Iraq and Persia, in comparison to Egypt, Jordan, and Lebanon less colonial social policy legacy exists in the Gulf monarchies. Second, based on the multiplication of rents in the oil-rich Gulf states in the early 1970s, a tremendous difference with regard to the scope and intensity of social welfare and state subsidies emerged. From this high oil income, the GCC states created some of the

most lavish subsidy and social welfare systems anywhere in the world (Krane, 2019). Mainly due to limited available financial resources, subsidy and welfare in Egypt, Jordan, and Lebanon remained far more exclusive and mainly confined to only politically relevant social groups (Eibl, 2017). The oil price drop in 2014 put enormous pressure on the expansive welfare and subsidy schemes of the Gulf monarchies. Thus, they have actually been quick to announce the reduction of fuel, energy, and water subsidies. Some actually took their first steps in walking the talk: having some of the lowest petrol prices worldwide, Kuwait and Saudi Arabia raised the price of petrol in 2015 and 2016 by over 100 and 200 per cent, respectively (Krane and Hung, 2016).

An alternative strategy for offsetting a rising budget deficit is to incur debt. As indicated in Table 1.1, the debt-to-GDP ratio has risen since 2014 in most of the countries discussed in this volume. Net oil importers in the Middle East are more experienced with public debt management because they start from a much higher level of debt-to-GDP ratio as a result of accumulating high debt levels in the past. In contrast, with the exception of Bahrain, the only Gulf country with a high debt-to-GDP ratio of 44.4 per cent in 2014, the Arab Gulf states entered the international capital market as newcomers.

With regard to public investment policies, a fundamental structural trap exists during periods of oil price decline. In oil-exporting countries with their dominant public sectors, falling oil prices almost immediately led to the cancellation of previously planned public investments in order to avoid excessive budget deficits because these fiscal measures usually do not spark immediate public opposition (Richter, 2017). This kind of adjustment policy is similar to the austerity policies implemented by oil-producing countries after oil prices dropped in the 1980s (see e.g. Hunter, 1986; Looney, 1994). Often the reduced public investments swiftly cause payment problems within the private sector, which may trigger a more widespread economic recession (Hunter, 1986). Similar effects could be observed in some of the non-oil countries like Egypt, Jordan, and Lebanon during periods of austerity policies, with negative long-term effects for infrastructure and social and economic well-being (Brand, 1992; Hinnebusch, 1993; Baumann, 2019).

Taxation policies

Apart from the payment of zakat – the mandatory contribution in Islam to those in need – there is no taxation on personal income, assets, or corporate gains in the Gulf monarchies. Outside of the hydrocarbon sector, only foreign-owned businesses are levied with a 10 to 20 per cent tax on profits made. Moreover, with the exception of Oman (which uses more general

corporate taxation), uniform corporate taxation – which does not distinguish between domestic and foreign owners – is in place only for oil and gas companies. Save for imports (which are subject to a GCC uniform duty rate of 5 per cent) and for parts of the tourism sector, as a general rule no form of goods movement or goods production is taxed (IMF, 2016a).

As a result, the Gulf monarchies have to date served as tax havens, whose benefits for their citizens are possibly under threat due to the drop in the oil price. A first indicator for change, coming with possible far-reaching implications, is the attempt to introduce a value-added tax (VAT) of initially 5 per cent, which was implemented by Saudi Arabia and the UAE in 2018 and by Bahrain one year later. Saudi Arabia increased its VAT to 15 per cent, effective July 2020. Effective VAT collection necessitates documentation of each step of the procurement and the selling process by companies. As for ensuring appropriate payment, implementing VAT collection requires government surveillance of business transactions. The implementation of VAT therefore creates incentives for regimes in the Gulf to deepen their state structures.

In comparison to the GCC countries, in Egypt, Jordan, and Lebanon more complex taxation systems exist. They consist of both direct taxation (of the income and profits of individuals and legal entities) and indirect taxation (mainly VAT and sales tax). In all three countries, the tax system is skewed in favour of capital owners and big business at the expense of the lower income segments of society and the urban poor. This is so for two reasons: first, direct taxation is not progressive, and, second, indirect taxation – which is income insensitive – contributes to the government's total revenues to a much higher degree than direct taxation (Mansour *et al.*, 2015). Moreover, country-specific tax exemptions exist in favour of strategic social groups, for instance the military in Egypt (Momani, 2018) and large enterprises in Jordan (Guscina and Nandwa, 2018; Sidło, 2018). Last but not least, due to the large informal sectors and the limited capacities of tax administrations, tax evasion is a major unmet challenge.

Post-2014 developments in Jordan show how difficult it can be to change the basis and level of taxation. When the government in Amman attempted to alter the taxation system in order to gain support from international organisations like the International Monetary Fund (IMF), it faced massive social resistance (Ali, 2018). With regard to the Gulf, there are two reasons why it does not seem realistic to expect that taxation would lead to the establishment or empowerment of representative institutions (such as parliaments) – thereby constraining the power of ruling dynasties. First, none of the existing regimes and groups within these governments are seriously interested in sharing power, not to mention relinquishing it. Second, no

powerful formation of social groups demanding better political representation or even democratisation is in sight.

Structural reform measures

From a labour market perspective, the countries dealt with in this edited volume belong to two different categories: resource-rich, labour-poor (RRLP: the Gulf monarchies) and resource-poor, labour-abundant (RPLA: Egypt, Jordan, and Lebanon) (Cammett *et al.*, 2015: 27). A major traditional pillar of the social contract in the Gulf monarchies is that the state provides its male citizens with jobs in the public sector, including lifetime tenure and far-above-average salaries. This, however, has led to a number of dysfunctions. The public sector in the Gulf is bloated, whereas the private sector is unattractive for citizens. Rather than joining the private sector, young graduates prefer a long wait for job openings in the public sector (Cammett *et al.*, 2015: 145). Some of the semi-*rentier* states suffer from similar disparities. The regime that toppled the Egyptian monarchy in 1952 established a highly complex and inefficient state apparatus. However, downsizing the state bureaucracy is extremely unpopular, as for many the public sector is still the preferred employer (Barsoum, 2018: 775). Another component of labour market dysfunctionality is that high rent income weakens labour-intensive, export-oriented segments of the private sector, which in turn keeps female labour force participation among citizens low (Ross, 2008). The Dutch disease also causes extremely low female labour participation rates in semi-*rentier* states: Egypt at 23 per cent and Lebanon at 24 per cent reach only about half of the global average, which is at 48 per cent. Jordan at 14 per cent is even further away from this level (World Bank, 2019). Thus, the question arises of whether and how governments have taken the oil price decline in 2014 as an opportunity to curtail the employment of citizens in the public sector, to establish incentives to direct particularly young professionals towards the private sector, and to increase female labour force participation.

In the Arab Gulf, high rent income has facilitated a political economy with a relatively stark influx of foreign labourers in almost all economic segments, because citizens themselves are tied to generous wages and lifetime employment in the state sector – making them less inclined to become engaged in meritocratic work (in the private sector). Labour immigration is a state domain that many Arab countries have filled by advancing the *kafāla* (sponsorship) system, which originated in British attempts to regulate the migrant labour influx to the pearl-diving sector in Bahrain and spread from there to the whole Arab Gulf (AlShehabi, 2019). In Jordan and Lebanon, it

only applies to certain segments of the economy – such as care for the elderly and domestic labour – whereas in the GCC countries it is a comprehensive system of employment (Khan and Harroff-Tavel, 2011). A special case is Egypt, where domestic workers from abroad – predominantly from the Horn of Africa and Sudan – are irregular and thus do not even enjoy the minimum protection provided by the *kafāla* system (Thomas, 2010: 999).

The *kafāla* system is tailored to serve the political and socio-economic interests of the citizens at the expense of the migrant workers. This is of utmost importance to the socio-economic systems, particularly of the Arab Gulf, where more than half of the labour force is composed of migrants. The influx of migrant workers is bureaucratically controlled in a way that ensures the recruitment of non-Arabs who lack any means of becoming engaged in politics during their temporary stay there (Khan and Harroff-Tavel, 2011: 302; Hvidt, 2019). To make up for the lack of well-rooted state structures, monitoring and sanctioning costs are shifted to individual employers. Last but not least, the *kafāla* system constitutes a highly asymmetric relationship between employer and employee – and the states often fail to implement what are already low-standard labour law provisions (Khan and Harroff-Tavel, 2011: 298). In other words, the *kafāla* system puts few restrictions on overexploiting the migrant worker labour force.

There are, however, also socio-economic and political dysfunctions beyond the overexploitation of the migrant workers concerned. It has been argued that the Gulf states fail to efficiently utilise particularly highly skilled migrant workers recruited by the *kafāla* system; as they are prohibited from changing employer or seeking permanent residency, they lack the incentive to fully engage with their work (Hvidt, 2019). In the past, some reform efforts by the state bureaucracies to improve the system were blocked by lobby groups (Khan and Harroff-Tavel, 2011: 303). Indeed, increases in productivity are discouraged due to the abundance of cheap labour (Hertog, 2017). However, the most pertinent incentive for the states of the Middle East to reform their respective systems is a political one: at the latest since Qatar won the bid in 2010 to host the 2022 FIFA (Fédération Internationale de Football Association) World Cup, the *kafāla* system has come under scrutiny from global civil society actors and human rights organisations (Khan and Harroff-Tavel, 2011; Pattison, 2013). Some of them make a pronounced critical analysis of the *kafāla* system, applying the notion of ‘contract slavery’ to it (cf. Bales, 1999; Jureidini and Moukarbel, 2004). Thus, the Gulf states are under severe pressure to launch reforms of the *kafāla* system. *Kafāla* causes inefficiencies well beyond the Gulf. In Lebanon, for instance, the local low-skilled labour force is prevented from accessing an important segment of the labour market because migrant labour from Asian and African countries takes most of the positions in domestic work, which

includes housekeeping but also care-taking of children and the elderly. Thus, the *kafāla* system sets disincentives to establish modern care systems in Lebanon (Beck, 2018).

In addition, the privatisation of state-owned enterprises is becoming a relevant field of policymaking during periods of decreased income levels. Privatisation is often to be considered a more mid-term strategy during such times. However, the successful implementation of large-scale privatisation depends on many factors. Among them are whether domestic or foreign investors are ready to take the risk of investing and the will and the ability of the government to implement privatisation in the face of social and political resistance to it. Last but not least, the assessment of privatisation policies should critically check whether it truly eliminates rent dependency. A historic example of launching a private business sector that rather than reducing rent dependency deepened it is Saudi Arabia's attempt to introduce 'sowing oil rents' in wheat production in the 1980s (Richards and Waterbury, 2008: 163). The protection rate of a policy that, despite all comparative disadvantages, temporarily transferred Saudi Arabia into the world's sixth largest wheat exporter was far above 1,000 per cent. Also, the most spectacular privatisation policy following the oil price decline of 2014, the initial public offering (IPO) of the Saudi Arabian Oil Company (Aramco), barely reduces Saudi's dependency on rent income. As 85 per cent of Aramco is still owned by the Saudi state (Woertz, 2019), the IPO of Aramco is little more than cashing in on future rent generation.

A long-term strategy for governments reacting to the oil price decline consists of the design and implementation of economic or industrial diversification policies. Oil-rentier states as well as net oil importers lack globally competitive economic structures because their economies depend upon very few sectors – in the case of the Gulf monarchies, even upon only one – that are able to hold their own in the world market. Economic diversification therefore aims at addressing this prevailing economic flaw by creating incentives for economic actors to develop technologically advanced exporting industries (Cherif *et al.*, 2016). Economic diversification has been on the agenda of policymakers in all of the countries under scrutiny for decades now (Luciani, 2012; Cammett *et al.*, 2015). However, especially in the course of fiscal crises, the need for diversification becomes more urgent. Yet, such policies will only succeed if a long-term government strategy is applied. This, in turn, requires the political class to be united in its willingness to overcome existing structural obstacles. Last but not least, national entrepreneurs and workers must have the capabilities and motivation to join forces with them.

The decrease in the oil price since 2014 has contributed to an enhanced relevance of foreign direct investment (FDI) in the Arab Gulf states for two

reasons: FDI shows promise as a way to make up for the decline of rent income in the balance of payments and may also contribute to the development of new prospering industries. With the exception of Bahrain, whose inward FDI stock reached 90 per cent of its GDP in 2016, FDI inflows in the Arab world in general and among GCC members in particular are rather low in comparison to many other regions of the Global South (Hussein, 2009: 370–1; Al-Tamimi, 2017). Yet, there are significant differences, too: Saudi Arabia and the UAE had inward FDI stocks of above 30 per cent of their GDP in 2016, Oman and Qatar above 20 per cent, whereas Kuwait's level was below 15 per cent (PWC, 2018).

Since 2014, a general trend observable in the Gulf has been the attempt to reverse the downward trend of inward FDI flows, which, after they peaked in 2008 at more than USD 5 billion, did not even reach the level of USD 2 billion in 2015 or 2016. A strategy taken by all GCC countries, albeit in different forms and with varying degrees of intensity, has been to ease restrictions on foreign ownership allowed within each country in order to attract additional FDI (PWC, 2018).

FDI inflow is sensitive to political repercussions, as became conspicuous when, in the wake of Saudi Crown prince and de facto sole ruler Muhammad bin Salman's involvement in the assassination of Jamal Khashoggi, many international companies distanced themselves from the investment conference held in Riyadh in October 2018. In general, the regional political ambitions of some Gulf countries are at odds with their economic and development interests and policies (Young, 2016).

Egypt made many efforts to attract additional FDI, but it frequently had to take setbacks (MEMO, 2019a). Jordan, which had the highest ratio of FDI to GDP in the Arab world in the years prior to the 2014 oil price decline (Méon and Sekkat, 2013: 3), experienced a drop of almost half of its FDI inflow in 2018 compared to the previous year in the wake of social protests against the government's austerity policy (MEMO, 2019b). The change in FDI inflows to Lebanon, which was second to Jordan in terms of the ratio of FDI to GDP before the oil price drop, was highly negative in 2015; yet, this could be more than offset by positive developments in 2016 and 2018 (Nakhoul, 2019).

Country studies

The contributions in this volume aim to shed light on the constraints and opportunities the 2014 oil price drop entailed for nine Middle Eastern countries between 2014 and 2018. The structure of the following chapters complements the logic of case selection as discussed above. We start with

the six GCC member states in alphabetical order and proceed with the three oil-importing Arab countries in the Mashriq.

Sumaya AlJazeera's (2021) analysis highlights the persistence of rentier structures in Bahrain during fiscal crises with the aim of maintaining socio-political stability. By pointing to a neoclassical upgrade of rentierism, she stresses that even though the post-2014 government discourse attempted to present the removal of decades-old customary privileges as structural change, all traditional government structures have largely prevailed. Despite some face-lifting, Bahrain therefore remains a rentier state.

In his analysis on the repercussions of the 2014 oil price drop in Kuwait, Gertjan Hoetjes (2021) highlights how citizens' resistance has effectively frustrated reform initiatives by the ruling regime. Austerity measures such as the imposition of government fees have therefore been effective mainly for migrant workers. In contrast to Kuwaiti citizens who managed to get their voice heard through the most powerful parliament in the Arab Gulf, migrant workers had no political leverage. Due to the country's large fiscal reserves, immediate reform pressure was mitigated and helped the regime to avoid a confrontation with its well-accommodated constituencies.

Crystal Ennis and Said Al-Saqri (2021) highlight that the fiscal adjustment of government spending in Oman does not coalesce steeply during contractions in the oil market. The authors point to the specific difficulty of saving government expenses in a country where economic, social, and political life is deeply linked to oil-dependent and government-initiated development. Effective social pressure has discouraged government attempts to cut subsidies and reform the labour market after the 2014 oil price decline, which indicates that during fiscal crises rentier states are less autonomous vis-à-vis their societies than presented in orthodox rentierism.

Matthew Gray (2021) argues that Qatar has responded to the 2014 oil price drop emphatically, thereby bolstering the nation well by showing how robust the economy is in absorbing shocks. This also helped the regime to be well prepared by coping with the blockade that, among others, Saudi Arabia, the UAE, Bahrain, Egypt, and Jordan imposed on Qatar in June 2017. Backed by huge hydrocarbon reserves, the state's deep reach into society leaves the country rather well equipped for the challenges of rentierism. Yet, there remains the need for structural reforms.

Robert Mason (2021) highlights the intersections and novelties the oil price decline of 2014 has brought forward for Saudi Arabia during a period of transition within the ruling Al Saud family. He portrays Saudi Arabia as being challenged by increasing fiscal constraints caused by a widening budget deficit, on the one hand, and large cohorts of the younger generation entering the job market with the expectation of becoming employed in the highly paid public sector, on the other. As he argues, pure state-led investment

programmes could fail to secure lasting growth prospects for Saudi Arabia, which in turn could result in authoritarian upgrading.

In the chapter discussing policy adjustments post-2014 in the UAE, Karen Young (2021) highlights three major policy areas in which promising adjustment initiatives have been launched: fiscal policy, social development policy, and diversification policies. As she points out, the emirates have been more successful at mastering the crisis because domestic affairs in the UAE are deeply shaped by its federal structure – in contrast to the realm of foreign policy, which underwent a centralisation process. Thus, the government promoted policy differentiation, learning, and competition between the seven emirates and set incentives to new policy formulation and experimentation across them.

Amr Adly (2021) highlights Egypt's twisted hydrocarbon dependency. In the light of the overall expectation that Egypt's economy should have benefitted from the oil price drop in 2014, he identifies two elements as being responsible for this not happening. Regulatory and extractive state institutions, which are a prerequisite for coordinating economic diversification and industrial upgrading, are weak. Thus, allocative institutional capacities prevail. In addition to that, continuous petrodollar recycling from the Gulf has offset the positive fiscal impact of declining oil prices.

Riad al Khouri and Emily Silcock (2021) argue that, also for Jordan, yet another net oil importer in the Middle East for which the positive effects of an oil price decline were to be expected, little if any evidence exists that the country has departed from rentierism since 2014. While the benefits of cheap oil post-2014 are dispersed, the Jordanian government has failed to contain the sharp increase in current spending, which mainly represents expenses for subsidies, pensions, social assistance, and wages in the public sector, through which key constituencies are tied to the Hashimite regime.

Mohamad Karaki (2021) analyses the impact of the oil price decline on key macroeconomic variables in Lebanon. He identifies several short-term beneficial impacts, among them an increase in the share of manufacturing in total output and the reduction of the budget deficit as a result of a decline in government allocation towards electricity production. He also discusses the relevance of lower oil prices for the prospects of Lebanon becoming a hydrocarbon producer. He suggests putting in place an upgraded national development strategy that, for instance, promotes the improvement of the current Lebanese system of education in order to avoid the Dutch disease during potentially upcoming periods of exporting natural resources.

In the concluding chapter on oil and the political economy in the Middle East, Martin Beck and Thomas Richter (2021) pose the question of whether rentierism is about to be overcome in the Middle East following the 2014 oil price decline. This question is first addressed by discussing some of the

pertinent empirical findings of the book. Second, three theoretical aspects are highlighted: the dominant role of state classes for the evolution of rentier and semi-rentier states, the influence of social and political institutions for adjustment policies, and the specification of rentier state autonomy. Finally, the authors infer that rentierism still prevails.

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