



The Political Economy of Saudi Arabia

Author: Tim Niblock with Monica Malik

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Reviewed by Dr. Samir Ranjan Pradhan
Senior Researcher, GCC Economies and Gulf-Asia Program, GRC

With the oil-fuelled economic boom sweeping across the Gulf region, academic inquiry into the growth dynamics has received considerable interest in the last few years. The scope of recent academic works has been confined to assessing the impact of the post 2002 oil boom on Arab political economies. One such pioneering contribution is the book under review, *The Political Economy of Saudi Arabia*, written by veteran political economist Tim Niblock with Monica Malik. The book is a comprehensive survey of the substantial progress of the Saudi political economy through its transition from rentierism to developmentalism. More specifically, the book analyzes how political and social factors have shaped policy, and how the Saudi state is coping with the dynamics of a rapidly changing economic and political situation.

The study of political economy entails complexities from the point of view of maintaining a judicious balance between the researcher's objectivity and the politico-economic imperatives that he/she wants to investigate. In this book, there-

fore, the author has clearly depicted the theoretical background of analyzing the contours of Saudi political economy at the very outset. The seven chapters cover topics such as: theoretical approach to Saudi political economy covering the depth, quality and character of state involvement and the overall impact of oil revenues; development plan experiences through four periods (1962-70, 1970-85, 1985-2000 and 2000 to present); the Saudi private sector and survey of business perception in the 1990s; and assessment of reforms initiated in 2000 as well as the capability of the Saudi political economy to transform into a vibrant industrial economy in the next decade. The analytical horizon of the book is gathered around four rubrics: whether the Saudi state has been able to create the social and physical infrastructure which economies need if they are to operate effectively in the competitive global market; whether



the sectors in which Saudi Arabia has the most significant comparative advantage are being developed effectively; whether the economy is providing employment opportunities to the population of a kind which are both competitive with international labor rates and appropriate to the levels of qualifications and training available in Saudi Arabia; whether the private sector is sufficiently strong and effective to compete in the global market without significant dependence on state support in terms of tariff protection, special packages and subsidies; and finally, whether a reasonable proportion of oil revenue is being put aside as a fund for future generations. The fundamental parameter that the book tries to assess is the ability of Saudi economy to survive and prosper without overwhelming dependence on oil revenues and the emerging dynamics which underlie the pattern of development.

As depicted by the author, the Saudi political economy transformed from a minimalist state model in the pre-oil era to state-led developmental model after 1948 with the beginning of oil exports. The centralization of power in the hands of King Faisal over the period 1962-70 facilitated the development of administrative, planning and legal structures necessary for development, the raising of state revenues from oil exports and use of resources more effectively for the development of physical infrastructure and nascent oil-based industrialization. This period was basically transitional in that the economy was being taken in a new direction with a vision of substantive changes but constrained with unavailability of skilled personnel as well as infrastructure required for major social or economic transformation. In addition, the rentier economy base of the state ensured that the private sector was dependent on the state rather than the other way round. The paradox was that while the oil rentier dynamics weakened the position and influence of the private sector, it also underpinned its prosperity and survival. Also the Saudi state had no intention of disposing its role and assets, as was happening in other Arab states. The next period 1970-85 was

truly remarkable in terms of rapid expansion of the Saudi economy. The author describes this as Saudi's 'first boom' spurred by the high oil prices in 1973-74. This period witnessed massive development with high government expenditures exceeding allocations in all the three plans. The key components of development included the rapid development of the oil industry and the gaining of control over the full benefits of oil production, building up of a substantial industrial base in petrochemical and downstream operations, promoting agriculture and attaining a measure of agricultural self-sufficiency through the spread of irrigation, and creating the social and physical infrastructure of a modern state. While the state was instrumental in shaping and implementing the vision, the private sector catered to the consumption needs of the population particularly through service provisioning in agriculture and other petty manufacturing. With increasing oil revenues, the coherence and feasibility of the vision were easy to accept. However, towards the very end of the period, confidence in the state's ability to solve the country's problems began to weaken. This was primarily due to falling oil revenues and the government's reactionary policies that constrained the state's involvement. This led to the need for a renewed approach towards economic development in the next period.

The period 1985-2000 in the authors' view was a phase of constrained development. The most critical factor shaping Saudi political economy was the level of oil prices and consequent oil revenues which were not only below the level in the previous period but also falling continuously. The government's reaction in terms of avoiding a substantial cut in expenditure resulted in huge deficits. The government financed the deficit by selling foreign assets and raising loans in the international financial markets. Moreover, the government manipulated the deficits by delaying payments for services rendered and contracts fulfilled by the private sector. The government's approach became increasingly unsustainable as time passed. Oil revenues and

government spending remained central to the Saudi economic performance over this period, despite the government's efforts to diversify the economy. The oil rentier basis accounted for the government's ability to maintain economic policies and practices without substantive changes. While the linkages between government personnel and individual businessmen were a prominent characteristic of the political economy, the underlying reality was that the ruling establishment had no inclination to undertake radical reform. Even with the fall in oil revenue there were still sufficient funds to keep the existing bureaucratically restrictive economic policies in place. It is also true that lifting of restrictions would not have solved the looming social dilemmas like increasing social inequality, inadequate employment prospects for the new generations, increasing non-Saudi workforce, etc. The state needed to take on a new and different role, rather than simply abandoning any attempt to direct the developmental process. Moreover, the private sector continued to grow and a section of the private business class began to assert the collective interests of the business community. However, the attitude of business elite seemed to be pessimistic about their potential as a major contributor to economic growth. In Niblock's view, to conclude that the private sector was not capable of playing the leading role in the economy would be misleading. What was indeed revealing were the problems faced by the private sector and possible remedies thereof.

Since 2000, economic reform has taken practical effect in Saudi Arabia. The much avowed economic reforms envisioned during the previous plans are being implemented now. The initial impetus to the post-2000 economic reform was fuelled by the financial crisis, accompanied by associated economic and social problems. The guidelines for privatization were laid down; rules and regulatory practices for attracting both foreign and domestic investment were put in place. Importantly, the political context was more conducive to intensify positive changes; central to this was the

pragmatism and increasing influence of Crown Prince Abdullah. The rising size and strength of the private sector was also crucial in moving the policies forward.

As argued by the authors, the Saudi state has matured rapidly since the onset of the present century, with the central government institutions, the state-owned enterprises and the state-led companies becoming effective and well-organized and the other institutions responsible for managing the globalizing economy becoming "islands of excellence." In other words, the Saudi state has matured in terms of its own capacities and the self-conceptualization of its role vis-à-vis the private sector. It is now well placed to lead the transition from a rentier to a developmental state. As evident, contemporary Saudi Arabia is undergoing a transformation similar to what Taiwan and South Korea underwent as their states rapidly evolved from inward looking, authoritarian ones into globalized, developmental states. In the authors' view, the energy based economy of Saudi Arabia is serving as the motor force of globalization and as surrogate for the export-oriented manufacturing sectors of the Asian developmental states. The Saudi state has come to appreciate the need for partnerships with entrepreneurs to implement planned growth targets, an approach similar to the strategic guidance of manufacturing industries by the Asian Tigers. The resulting boom of the Saudi private sector is stimulating the growing size, economic competence and importance of an entrepreneurial class, which can be anticipated over time to intensify demands for reform of the political economy.

Above all, the factual analysis in the book enables one to understand the intricacies of the push-and-pull factors underlying the contemporary political economy of Saudi Arabia. The lucid exposition of extensive inside knowledge combined with rigorous policy implications is another testament to the reputation of Tim Niblock being a highly acclaimed authority in Middle East studies. The authors are successful in making sense

of the Saudi economy in the recent past and the present, weighing its potential and problems and pointing to future direction. However, the authors could have dealt with the likely future direction of the Saudi political economy in a more detailed manner. In this regard, they could have provided insights into whether the oil-fuelled rapid growth will continue in case the boom ends; whether the growth of private sector and the embedded autonomy of the Saudi developmental state are due to the boom or the private sector in reality consists of rent-seeking crony capitalists leveraging their paternalistic ties with the political elite; whether the emerging middle class striving for status will

press for further reforms and thereby pose a challenge to the ruling elite; and finally, whether current policies of higher outlays on education and skill improvement will lead to the emergence of a knowledge economy that successfully synergizes education and technology. These are aspects of Saudi political economy that are worth examining in a future exercise of similar nature. In the end, while it is tempting to conclude that the book portrays a highly optimistic picture about Saudi Arabia, it is certain that this attempt will be considered thought provoking, given the prevalent knowledge deficit and somehow parochial perception about the Kingdom's political economy.