
ECONOMIC DIVERSIFICATION AND INSTITUTIONAL ADAPTATION IN A RENT-BASED ECONOMY: THE CASE OF SAUDI ARABIA

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Abstract: This article analyzes the political-economic transformation of Saudi Arabia over the past decade, framing it as a unique case of authoritarian modernization, post-rentier economic reform, and global geostrategic adaptation. Based on an interdisciplinary approach integrating theories of the rentier state, institutional inertia, and visionary governance, the study traces the kingdom's main vectors of change: economic diversification through Vision 2030, human capital development and social policy transformation, attempts toward ecological sustainability and climate adaptation, and a redefined foreign policy role in a multipolar global order. The article argues that Saudi Arabia is not merely an example of authoritarian resilience but an emerging model of statehood where legitimacy is grounded in performance, global positioning, and control over transnational flows. At the same time, the article underscores the internal constraints of this transformation, particularly institutional rigidity, social fragmentation, and the absence of political inclusion. This research contributes to ongoing debates on hybrid configurations of economic development, state power, and non-liberal forms of modernity.

Key words: Saudi Arabia, political economy, authoritarian modernization, Vision 2030.

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Introduction

Analyzing Saudi Arabia through the lens of political economy The study of Saudi Arabia's economic and institutional transformation has acquired particular relevance in the context of the global energy transition, geopolitical restructuring, and the efforts of rentier states to build sustainable models of development. The kingdom represents a unique form of authoritarian neo-institutionalism, in which strategic modernization coexists with theocratic legitimacy, a rentier economy, and centralized dynastic rule, while through the Vision 2030 initiative it has become a kind of "laboratory" of authoritarian transformation, combining a postcolonial monarchy, an ultraconservative social order, and an ambitious project of economic reimagination. The aim of the present study is to analyze how Vision 2030 transforms the economic, social, and institutional foundations of Saudi Arabia and what limitations this process encounters. To achieve this aim, the following tasks are set: to trace the political and institutional evolution of the kingdom within the framework of a rent-based economy; to analyze the industrial strategy, social reforms, and human capital transformation; to assess the role of environmental policies and sustainable resource management; and to examine the country's geopolitical positioning in the context of a multipolar international system.

Exposition

Theoretically, this configuration necessitates the integration of several conceptual streams: rentier state theory, institutional economics, and the sociology of modernity. The classical rentier state framework, first introduced by Mahdavy (1970) and later elaborated by Beblawi and Luciani (1987), emphasizes how revenues from natural resources - primarily oil - undermine the need for taxation and hence democratic accountability, resulting in a social contract based on distribution rather than representation. In the Saudi case, this logic has been institutionalized into a model of "exchange-based legitimacy," where economic security, subsidies, public employment, and religious identity serve as substitutive mechanisms for legitimizing centralized rule in the absence of political participation. However, with a growing awareness of structural dependence on oil rents, the kingdom has embarked on deep reforms aimed at transforming its economic base - a process analytically resonant with the concept of the entrepreneurial state (Mazzucato, 2013), where the state is not merely a regulator but an active investor, visionary, and innovator. In this sense, Vision 2030 may be viewed as an attempt to construct a new model of statehood in which legitimacy is derived not from tradition or divine right, but from performance, global integration, and market rationality - a post-rentier

legitimacy grounded in efficacy. Yet, as Hertog (2010) notes, deeply entrenched institutional fragmentation and elite-based governance in the Saudi system raise doubts about the capacity of centralized reforms to deliver structural change without internal resistance. Sociologically, the transformation of Saudi Arabia must also be examined through the framework of authoritarian modernity - a concept suggesting that technological and economic advancement can coexist with limited political pluralism and centralized authority (Bellin, 2004). This contradicts the assumptions of classical modernization theory, such as those articulated by Lipset (1959), according to which economic growth and urbanization inevitably lead to political liberalization. Saudi Arabia destabilizes this axiom by demonstrating that authoritarian stability can be compatible with technological modernization, global economic integration, and the development of new industries. This paradox positions the kingdom at the heart of contemporary debates about viable alternatives to the liberal democratic model - not as an isolated exception, but as a potentially valid model of statehood for other Global South countries grappling with similar challenges of resource dependency, demographic pressure, and global volatility. Methodologically, this study adopts an interdisciplinary approach, combining quantitative analysis of secondary data from international sources - including the World Bank, IMF, FAO, and OPEC - with a critical reading of current academic literature. The analysis is structured along several key axes: the kingdom's political structure and dynastic governance; mechanisms of rent distribution and their transformation; the new industrial strategy and efforts toward economic diversification; social reforms and human capital transformation; ecological challenges and sustainable resource management; and the country's regional and global geopolitical role. The objective is to present Saudi Arabia not as an archaic autocracy, but as a strategically adaptive state which - despite its authoritarian form - displays institutional capacity for evolution, international connectivity, and innovation-driven ambition. This analysis aims to contribute to the understanding of emerging configurations between power, economy, and society in the post-liberal age - an era in which legitimacy stems not only from participation but also from the ability to manage uncertainty effectively.

The historical evolution of Saudi Arabia cannot be understood outside the context of the deep entanglement between religion and political authority that has defined the kingdom since its foundation in 1932, when Abdulaziz Ibn Saud unified the fragmented tribal territories of the Arabian Peninsula through a complex arrangement of dynastic control, religious legitimacy, and tribal co-optation - institutionalized through his alliance with the Wahhabi movement, a form of Islamic puritanism that has granted the House of Saud enduring spiritual authority. This interdependence between religious doctrine and political governance underpins what has been described as "religious authoritarianism" (Haykel, 2013), where the state is not a secular administrator but a moral

custodian of Islamic law. The kingdom's political structure is a classic example of dynastic autocracy, where governance is monopolized by a single family, yet internally differentiated across royal factions that share power informally, thus producing a type of elite pluralism without public participation. As noted by Herb (1999), this combination of autocracy and intra-familial consensus results in "stability through precedent," ensuring predictability without openness. Until the early 21st century, this model functioned effectively due to stable oil revenues that enabled high levels of subsidies, public employment, and welfare provision, without the need for taxation or representative accountability - a rentier state in its classical form. However, increasing demographic pressures, oil price volatility, and global demands for diversification and decarbonization have compelled the regime to initiate reforms that go beyond the economic realm and touch upon foundational mechanisms of power and legitimacy. It is within this context that the rise of Crown Prince Mohammed bin Salman (MbS) in 2015 and his subsequent consolidation of de facto authority signal a new phase in the kingdom's political evolution - one that combines power centralization, elite purges, and a personalized vision of national transformation, epitomized in the Vision 2030 program. Though externally framed as an economic development strategy, Vision 2030 has profound political implications: it has created new institutions (such as the Adaa performance monitoring center), reduced the autonomy of traditional elites, concentrated financial control within the Public Investment Fund (PIF), and restructured previously parallel power networks into a singular vertical led by MbS. Thus, the political structure has shifted from decentralized dynastic autocracy to centralized visionary autocracy, where legitimacy is claimed through narratives of national renewal, modernization, and global ambition. According to Jones and Lust (2008), such forms of personalist authoritarianism display high adaptive capacity but are institutionally brittle, as the absence of counterbalancing mechanisms renders the regime dependent on the charisma and immediate successes of a single leader. Consequently, the current political architecture of Saudi Arabia represents a dual transformation - from a traditional rentier monarchy to a technocratic authoritarian regime based on visionary governance, and from elite consensus politics to a centralized personalist system, in which the royal family functions more as symbolic capital than as a collective decision-making body. This transformation carries significant institutional and social consequences, which will be explored in subsequent sections of this study.

The economic transformation of Saudi Arabia under the Vision 2030 framework constitutes an attempt to overcome systemic dependency on oil revenues and to build a post-rentier economic model that combines global integration, innovation-driven industrialization, and state-led capitalism. Since the mid-20th century, the kingdom's economic structure has been shaped by the

exploitation of its vast petroleum reserves, resulting in the establishment of a classical rentier economy in which state-controlled natural resource revenues are redistributed centrally and serve as the primary mechanism for maintaining social stability and political loyalty. As a textbook rentier state, Saudi Arabia conforms to the model described by Beblawi and Luciani (1987), wherein the state acts as the principal accumulator and distributor of wealth, and economic actors are oriented not toward productive competition but toward securing access to rent channels. However, this reliance on an exogenous income source has produced structural distortions – including a weak private sector, limited industrial diversification, and chronic youth unemployment – which inhibit sustainable development in the long term. These issues are at the core of Vision 2030, launched in 2016 by Crown Prince Mohammed bin Salman, with the primary objective of transforming the economy through revenue diversification, privatization of state assets, development of new sectors (such as tourism, logistics, high technology, and entertainment), and the creation of a competitive private sector. The program merges elements of the "entrepreneurial state" theory articulated by Mazzucato (2013) with the institutional logic of the developmental state, wherein the government not only regulates but actively invests, plans, and intervenes in strategic industries. The kingdom's Public Investment Fund (PIF) serves as the main vehicle for realizing this vision – channeling investments into mega-projects such as NEOM, the Red Sea Project, and Qiddiya, as well as acquiring international assets to generate diversified revenue streams. Despite its ambitions, Vision 2030 faces a range of internal and external challenges – including institutional inertia, administrative inefficiency, a shortage of human capital with adequate competencies, and resistance from traditional power structures, especially religious and tribal elites. As Hertog (2020) notes, many of the program's initiatives are concentrated within the central government and the PIF but remain disconnected from the actual productive economy, creating a risk of technocratic isolation and uneven development. Another significant issue concerns the labor market – high unemployment among nationals and continued dependence on foreign labor undermine the goals of localization and workforce mobilization embedded in the Saudization policy. Furthermore, although Saudi Arabia is making efforts to develop innovation capacity – through the creation of tech hubs, university-based initiatives, and investment in artificial intelligence – such innovation is often reliant on imported technologies and expertise rather than generated endogenously. Critics also argue that macroeconomic stabilization and fiscal reforms are being implemented amid limited institutional transparency, suppressed civic engagement, and a concentration of power, raising questions about the sustainability of transformation in the absence of political reform. Nevertheless, Vision 2030 represents a significant paradigmatic shift in the regime's political-economic logic – from distributive to productive, from a

static rent-based model to a dynamic investment-driven capitalism that aims to position Saudi Arabia as a regional hub for innovation, logistics, and cultural influence. This transformation is not merely economic but deeply institutional and symbolic – it seeks to reconfigure the very meaning of national progress and to construct legitimacy on the basis of future orientation rather than historical legacy.

Social policy in Saudi Arabia serves as a crucial vector in the country's economic and institutional transformation, functioning simultaneously as a stabilizing tool amid reform-driven uncertainty and as a mechanism for constructing a new type of civic identity oriented toward productivity, innovation, and loyalty to the state's visionary framework. Historically, the kingdom's welfare system has been built upon a rent-based distributive model in which citizens receive free access to education, healthcare, housing, and subsidies without direct fiscal obligations or productivity requirements – a structure that, through the lens of Esping-Andersen's (1990) decommodification theory, could be seen as a form of welfare outside the capitalist market, albeit within a non-democratic, rentier-based regime. However, this social architecture proves incompatible with the goals of Vision 2030, which demand the creation of a labor-motivated society, an active private sector, and a mobile and competitive human capital base. In this context, education, employment, and welfare policies have undergone a phase shift – from universalism to selective efficiency, from passive distribution to active social investment. The education sector has been prioritized through the establishment of new institutions (such as King Abdullah University of Science and Technology), the introduction of STEM-oriented curricula, and incentives for foreign academic partnerships – a strategy aligned with Becker's (1993) concept of human capital as a long-term economic asset. Nonetheless, the contribution of the educational system to economic diversification remains limited due to a persistent mismatch between academic output and labor market needs, resulting in structural unemployment – especially among youth and women. To address this, the government has advanced labor localization policies known as Saudization, aimed at increasing the share of Saudi nationals in the private sector while reducing dependence on migrant labor. Yet the implementation of this policy faces resistance both from employers – due to perceived lower flexibility and higher cost of local workers – and from the workforce itself, accustomed to state employment and subsidized job security. In this regard, human capital policy is confronted with a core dilemma common to all post-rentier societies: how to shift an economic culture built on distribution toward one founded on productivity and competition. Significant transformation is also underway in gender policy – the lifting of male guardianship in various domains, the legalization of female driving, the expansion of women's employment opportunities in the private sector, and the appointment of women to institutions

such as the Shura Council. However, gender equality remains constrained by normative and cultural barriers, and genuine economic empowerment remains the exception rather than the norm. Another structural issue lies in the informal nature of much of the social infrastructure – including the reliance on tribal and regional networks for resource access – which results in uneven distribution and latent social tensions. The regime has attempted to mitigate this through digitization and centralization of social services, but the overall effect on social mobility remains ambiguous. From the standpoint of institutional theory, this situation reflects North's (1990) concept of path dependency, wherein formal reforms are often constrained by deeply embedded informal norms and expectations.

The issue of sustainable natural resource management and climate adaptation occupies an increasingly central place in the political-economic transformation of Saudi Arabia, particularly in the context of the global shift toward a decarbonized economy, mounting pressure from international regulatory bodies, and the country's vulnerability to environmental challenges such as water scarcity, desertification, and extreme temperatures. Unlike industrialized economies where the sustainability agenda is driven by reducing the carbon footprint of production, in the case of Saudi Arabia, sustainability is fundamentally linked to the transformation of the state's rentier structure, whose dependence on fossil fuels is not only economic but institutionally embedded. Within this context, Vision 2030 includes an environmental component articulated through initiatives such as the "Saudi Green Initiative" and the "Middle East Green Initiative," which aim to position the kingdom as a regional leader in sustainable development through afforestation programs, emissions reduction, and investment in renewable energy. Nonetheless, empirical data from the FAO (2022) and World Bank (2023) indicate that Saudi Arabia remains among the highest per capita water consumers globally, with a predominant reliance on non-renewable groundwater resources for agricultural use – a practice that exacerbates long-term hydrological instability and increases the risk of water insecurity. Although agriculture contributes only marginally to GDP, the sector holds strategic importance for food security and domestic market resilience. Over recent decades, Saudi Arabia has shifted from a policy of agricultural self-sufficiency to one of outsourced production – through large-scale land acquisitions in Africa and Asia intended to secure long-term imports of grains and fodder – a strategy aligned with what von Braun and Meinzen-Dick (2009) describe as "land grabbing" by resource-scarce yet capital-rich states. This approach raises ethical and geopolitical concerns regarding transboundary access to land, water, and food, often in contradiction with sustainability standards advocated by FAO and UNDP. Simultaneously, domestic agricultural policy is undergoing digital transformation, incorporating so-called "smart farming" technologies – including sensors, drones, AI, and

agro-informational systems – as part of the ecological modernization paradigm (Mol and Spaargaren, 2000), where environmental sustainability is not seen as antithetical to economic efficiency but rather as complementary to it. However, the success of these technological innovations remains ambiguous, frequently dependent on imported equipment, low local maintenance capacity, and limited institutional know-how among agricultural stakeholders. From a social standpoint, agricultural transformation is further constrained by demographic factors – including low youth interest in farming – and the absence of cooperative farming structures, which hinders collective sustainability and shared technological access. Saudi Arabia's climate policy remains predominantly declarative – despite its commitment to carbon neutrality by 2060, the kingdom continues to rely on oil revenues as its primary fiscal backbone, and investment in renewables (including the solar-powered city of NEOM) has yet to reach the scale required for structural transition. As Foster (2009) argues, such “sustainable promises” often serve to normalize the status quo through symbolic progress rather than substantive decarbonization. Institutionally, the environmental governance model in the kingdom is highly centralized, with minimal engagement from civil society or local communities, undermining broader social adaptation to climate challenges.

Saudi Arabia's geopolitical role is closely tied to its identity as a Sunni hegemon in the Middle East, a petro-power, and the custodian of the two holiest cities in Islam – Mecca and Medina – which grants it both symbolic and strategic capital within the international system. Over the past decades, the kingdom has positioned itself as a regional balancer, an Islamic mediator, and a strategic partner to Western powers – most notably the United States – through agreements centered on energy security, military cooperation, and shared geoeconomic interests. The classical model of “oil geopolitics,” as described by Gilpin (1981), is applicable to Saudi Arabia not only because of its central role in OPEC and global oil price stabilization, but also due to its capacity to convert energy resources into tools of foreign policy leverage. However, the emergence of a multipolar world, the global energy transition, and shifting regional alliances – especially the rise of Iran, Turkey, Israel, and Qatar – have compelled the kingdom to adopt a new foreign policy paradigm, one that blends hard power, soft power, and economic diplomacy. In this evolving context, Saudi Arabia has embraced elements of strategic hedging – a simultaneous engagement with competing global powers such as the US, China, and Russia, aimed at diversifying geopolitical risk (Lim and Cooper, 2015). Illustrative of this approach is the deepening of energy and trade partnerships with China, including joint ventures aligned with the Belt and Road Initiative, as well as investments in technology firms and digital infrastructure. At the same time, the kingdom remains a key security and defense ally of the United States, particularly in relation to the conflict in Yemen and the broader containment of

Iran. Another emerging vector of geopolitical activity is the normalization of relations with Israel – a process that, while unofficial, signals a shift in priorities from ideological alignment to pragmatic regional order. Concurrently, Saudi Arabia is investing heavily in international image-building and nation branding, by hosting global sports, cultural, and technology events – part of a broader soft power strategy (Nye, 2004) designed to associate the kingdom with modernization, stability, and global connectivity. This includes the introduction of tourist visas, the bid to host World Expositions, investment in international media, and the development of cultural diplomacy. Nevertheless, the authoritarian nature of the regime, restrictions on freedom of expression, and repression of dissent remain obstacles to building lasting legitimacy in the eyes of the international community. Consequently, the kingdom's foreign policy may be interpreted not only as a projection of strength but also as a compensatory mechanism for internal legitimacy through global integration – a reading consistent with Anholt's (2007) theory of competitive identity. Overall, Saudi Arabia's regional and global geopolitics are undergoing a process of redefinition – from its role as a bastion of tradition toward that of an adaptive actor in a fluid, unstable, and increasingly networked international order.

Conclusion

The political-economic transformation of Saudi Arabia over the past decade represents one of the most complex and ambivalent processes in contemporary statecraft – a process that both confirms and reinterprets key theories in political economy, including those related to the rentier state, institutional inertia, and authoritarian modernization. Through the Vision 2030 program, the regime has embarked not merely on a path of economic diversification, but on a broader redefinition of its legitimacy – shifting from a distributive rent-based model toward one grounded in performance, innovation, and global positioning. In doing so, Saudi Arabia exhibits a new type of authoritarian capacity – not repressive but productive; not ideological but technocratic; not isolated but deeply embedded in the networks of international economics and geopolitics. At the same time, North's (1990) argument remains highly relevant – institutional change is path-dependent, and formal reforms can be obstructed by entrenched informal structures, cultural norms, and social expectations that do not evolve at the same pace. It is precisely in this tension that the ambivalence of the Saudi model emerges – capable of generating impressive macroeconomic projects, technological visions, and global partnerships, yet vulnerable to internal institutional fragility, social fragmentation, and limited political inclusion. The analysis presented in this article has shown that in every major domain – from economic policy and social programs to

ecological governance and international projection – the kingdom pursues a transformational strategy that blends centralized authority, visionary rhetoric, and proactive integration into global networks. This synthesis enables the emergence of a novel form of authoritarian modernity, in which the state does not merely survive under global pressure but seeks to shape, channel, and leverage it as a source of legitimacy. In this sense, Saudi Arabia should not be understood solely as a deviation from a linear path toward democratization, but as an alternative model of statehood – one in which effectiveness, security, and strategic agility replace the classical dimensions of political participation. This does not imply that the model is sustainable or replicable, but it does raise a crucial epistemological question: can there be modernity without democracy, mobilization without pluralism, and development without political emancipation? While the answer remains unsettled, the case of Saudi Arabia demonstrates that in the 21st century, power, legitimacy, and development may be configured in new, hybrid, and unpredictable forms – forms that challenge the foundational paradigms of social theory and the practical art of governance alike.

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