

# BTI 2010 | Saudi Arabia Country Report

<b>Status Index</b>	1-10	<b>4.63</b>	# 88 of 128	
Democracy	1-10	2.87	# 121 of 128	➔
Market Economy	1-10	6.39	# 43 of 128	➔
<b>Management Index</b>	1-10	<b>3.94</b>	# 101 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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### Key Indicators

Population	mn.	24.2	HDI	0.84	GDP p.c.	\$	22933
Pop. growth	% p.a.	2.0	HDI rank of 182	59	Gini Index		-
Life expectancy	years	73	UN Education Index	0.83	Poverty <sup>2</sup>	%	-
Urban population	%	82.6	Gender equality <sup>1</sup>	0.30	Aid per capita	\$	-5.4

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

Saudi Arabia remains more stable than is commonly understood. The terror campaigns of 2003-2004 might have damaged the country's reputation abroad, but they have not led to any serious domestic upheavals. The attacks caused a great shock to the Saudi political system, but shocks by themselves do not cause instability, especially in a closed system like that of Saudi Arabia. Oil revenue remains the Saudi ruling family's the most important asset to ensure the loyalty and dependence of local leaders. However, the legitimacy of the Saudi monarchy still rests on the delicate balance between its rule and the country's Muslim clerics, who educate Saudi youth and preach their version of Islam in the mosques. The Muslim clerics have contributed to this power balance by accepting the House of Saud's rule. Modernization programs, which would further open up the country to the outside world, would threaten the sensitive balance between the regime and the Muslim clerics that has been negotiated over a period of many years. Whereas in Saudi Arabia development must emanate from the kingdom's traditions and Muslim faith, the Western world identifies such notions as political oppression and social suppression. Still, King Abdullah has laid out an ambitious reform agenda that includes the privatization of key industries, diversification of the economy, legal and social reforms (the latter targeting women in particular), as well as some degree of political liberalization. With regard to the economy, the centerpiece of the reforms is the 2009 budget, the largest Saudi budget in its history with \$126 billion. Politically, the substantial political reform within the royal family itself, namely the allegiance law of 2006 (the Allegiance Commission members, all sons and grandsons of the late King Abdulaziz Al Saud, were appointed in December 2007), has been followed by a sweeping cabinet reshuffle in mid-February 2009. Changes include the replacement of some major conservative figures and the appointment of the first-ever female deputy minister, evidence that the king is willing to tame his country's hard-line religious establishment. However, Saudi citizens remain cautious and do not expect to quickly experience the concrete effects of such political reforms. Indeed, the next round of the municipal elections, due to be held in 2009, has been postponed. Social and economic reform is clearly underway. The effect of the 14 February 2009 cabinet reshuffle on political reform, however, remains to be seen.

## History and Characteristics of Transformation

Saudi Arabia has always held a unique position in the history of the region, and probably even beyond the region, because it has never been a colonized country. Prior to the discovery of oil, few had any interest in controlling its desolate geography. Ottoman garrisons dotted the landscape in the 19th and early 20th century, but no single authority ever emerged to rule it before the Saudi royal family. Consequently, the country never experienced an anti-colonial movement, the development of a colonial bureaucracy or an educational system to staff the institutions of the colonial administration. Instead, Saudi Arabia had hundreds of clans and tribes in constant rivalry with each other without any central administration to arbitrate between them. The partnership that would eventually unify the Peninsula was formed in 1744, between Muhammad bin Saud, a local chieftain leader, and Muhammad bin Abdul Wahhab, an Islamic preacher. This alliance created a durable partnership over the centuries and lasts until today. At the beginning of the 20th century, Abdul Aziz bin Saud, known as Ibn Saud, began his conquest of the land known today as Saudi Arabia. The combination of Ibn Saud's military skills and the religious single-mindedness of his Wahhabi "Ikhwan" brotherhood allies established the kingdom of Saudi Arabia in 1932. Initially, networks of personal patronage and favoritism controlled by the Al Saud family ran the kingdom. The Islamic clergy, who were the staunch allies of Al Saud, grew more loyal as they became more materially dependent on the Saud family. At the same time, the clerics provided the royal family with much-needed legitimacy. Ibn Saud died in 1953, the same year that saw the formation of the first council of ministers. At this time, oil income started to play a structural role in Saudi Arabia's state-formation. Its national administration started expanding, state services and the standard of living were substantially augmented and the state became an essential actor in the life of people. Oil income progressively shaped the economy. A new business class formed around the oil industry. They were merchants as well as contractors and had close relations with the Saudi regime. Saudi Arabia experienced a phase of political instability during the Arab nationalist movement, which was led by President Nasser of Egypt in the 1950s and 1960s. The regime managed to mitigate the effects of Arab nationalism by spending more on the population and by increasing its social repression. Real and rapid economic expansion occurred in 1981, when GDP per capita reached the equivalent of \$18,000 (a figure somehow artificial, though, because it was mostly driven up by the oil price spike of the year, and because the money went to the government rather than to individual Saudis). In addition to the rise in per capita GDP, private sector investing in the economy increased and Saudi Arabia acquired sophisticated managerial structures. Two major shocks rocked the Saudi political system in the last few decades, the Al Utaibi movement's occupation of the Grand Mosque in Mecca in 1979 and the Gulf War in 1990-1991. These events produced two different consequences for the regime. In the first case, the results of the occupation led the Saudi government to yield more power to religious conservatives, to control education in order to foster conservative social norms and to increase its efforts in the domain of public order. The second shock produced different but more profound effects on the system. Both liberal thinkers as well as conservative clergy were disappointed that the regime could not defend the country

without being backed by the United States. Anger started being directed toward the non-transparent system of government and the increasingly repressive internal policies. This unrest forced King Fahd to make some concessions, albeit symbolic, like establishing the basic law in 1992. This was a series of laws promulgated by royal decree, which articulated the government's rights and responsibilities. This measure was followed by the creation of Majlis al-Shura (consultative council), composed of 60 members (now expanded to 150). The council has no political power and its members are recruited on the basis of their professional and technocratic skills. The law of provinces, which sets out the basics of governance in the country's 13 governorates, also had the positive effect of giving the country a feeling of decentralization, though it is a mere cosmetic change, as Saudi Arabia remains a highly centralized state. In 2005, King Abdullah came to the throne as a supporter of reform. However, because of his age and health, he must be seen as the sponsor rather than the architect of these changes. King Abdullah supports a group of close advisers in developing policies aiming at political and socioeconomic progress, even if by international standards the former remains limited in scope and pace.

## Transformation Status

### I. Democracy

#### 1 | Stateness

The Saudi royal family enjoys broad recognition of its sovereignty by all regions and tribes of Saudi Arabia. This is a matter of consensus, rather than that of free and fair elections. Though Saudi Arabia was shocked by Juhaiman Utaibi's occupation of the Holy Mosque in Mecca in 1979, and suffered acts of terror in 2003 and 2004, ultimately the regime remains in control of every aspect of security. However, just as Islam has provided the regime with legitimacy, it has created the potential ideological foundation for opposition to the House of Saud's rule. In the southeastern provinces, the Shi'ite population is always perceived as a possible threat to Saudi Arabia's stability (at least by the regime), and in the border regions with Oman and Yemen, al-Qaeda affiliated groups are said to move between the countries. With regard to external security (especially a possible conflict with Iran), Saudi Arabia still depends on the protection of U.S. troops stationed in Qatar and Bahrain.

Monopoly on the use of force

The Saudi state is officially defined as Islamic. The Quran acts as its constitution. The 'ulama (Muslim clergy) are part of the state apparatus and wield considerable influence on public morality, personal status law, education and culture. The Shari'ah courts are central to the judicial system. Saudis from Najd constitute something like an aristocracy of the country, because the House of Saud, which is heavily influenced by the Hanbali school of Shari'ah in Najd, emerged from that region. Saudis from the other regions such as 'Asir assume a second-class position. Shi'ites remain in third position and subject to Saudi government abuses. In mid-February 2009, however, the Grand Ulama Council was expanded to include representatives of all Sunni schools of law, taking monopoly power away from the Hanbali school. This reform may have repercussions on the state's relationship to Wahhabism.

State identity

In Saudi Arabia, like in the majority of Arab countries, both the official discourse and public opinion denounce secularism. In general, non-Muslims are not granted freedom of worship in the country. Nowadays, freedom of worship might be

No interference of religious dogmas

tolerated within the private sphere, depending on the nationality of the practitioner. Although all legislation is supposed to be based on the Shari'ah, many laws in the administration tend to be based on modern-day procedures, like the regulations governing Saudi banks. The judicial reforms of late 2007 led to the setting up of specialized courts. On economic matters, the administrative tribunals play a more active role than the Shari'ah courts. The fatwas of the Saudi 'ulama tend to be ignored when it is convenient for the regime and government. Western powers have forced some measures on Saudi authorities that aim at promoting greater freedom for religious practice and increased tolerance for religious groups. These measures include policies designed to halt the dissemination of intolerant literature and extremist ideology, both within Saudi Arabia and around the world, to protect the right to private worship, and to curb harassment of religious practice. For example, the Saudi Government is conducting a comprehensive revision of textbooks and educational curricula to weed out disparaging remarks about religious groups. The Saudi government is also retraining teachers and the religious police to ensure that the rights of Muslims and non-Muslims are protected and to promote tolerance and combat extremism. The king instituted an Inter-Faith Dialogue initiative in 2008 to encourage religious tolerance on a global level.

It is difficult to expand the state administration system in Saudi Arabia because of the state's rentier system and the fact that it lacks a comprehensive taxation system. In physical terms however, state services, including infrastructure, reach even the remotest of the villages in the 13 governorates of the country. The relatively large size of the country and its harsh geography, however, place burdens on state administration. The administration is likewise encumbered by a bureaucracy of more than one million employees. Overall, despite this large number of employees, the state is unable to successfully enforce economic rules or to consistently apply regulations. The delay in introducing residential addresses in the kingdom is a clear example of this bureaucratic inertia. Bureaucratic and procedural bottlenecks, due to outdated practices, rules and regulations, result in slow improvement of civil services and sluggish responses to citizens' complaints.

Basic  
administration

## 2 | Political Participation

The issue of political participation is still seen by the Saudi regime in the context of achieving modernity without surrendering heritage and faith. Observers regularly criticize Saudi Arabia's authorities for making a strong show of reform but doing very little. National elections do not take place in the kingdom; limited municipal elections were held in 2005, in which half of the municipal members were elected. Women were totally excluded. These elections, however, energized a political debate in the country about the future possibilities of extending elections to other bodies, such as the shura council. Moreover, the organization of full municipal

Free and fair  
elections

elections was scheduled for 2009. The participation of women was even discussed. In October 2008, however, the monarchy appeared prepared, with scant justification, to postpone the next round of municipal elections for at least two more years. The monarchy cited as its reasons logistical concerns as well as the need to strengthen the required educational qualifications of candidates beyond basic literacy. By early 2009, all preparations for the event were indeed halted.

Civil society institutions, like various human rights organizations and professional syndicates, are being legalized and expanded. Theoretically, these organizations, after having been granted license to operate by the Ministry of Interior, could hold internal elections.

Saudi Arabia is an absolute monarchy. The country's 1992 basic law states that the Quran and the Sunna (way of the Prophet) are the country's constitution. No political parties exist in the kingdom to challenge the supremacy of the royal family. The royal family, with its twenty or so senior princes, is one of the five key political actors. The others include the civil service, the merchant class, younger princes, and the religious establishment. The United States also takes on the role of a political actor in Saudi Arabia. The United States (and Europe to a much lesser extent) can tilt the balance of power in Saudi Arabia toward more reformist elements and marginalize the forces of religious reaction. The merchants are no opponents to the reform trend. Since 2000, the establishment of a family council has allowed for informal consultations among the senior princes of the Saudi royal family, in order to seek consensus in the decision-making process and take care of the internal management of the family. Dissent within the royal family itself can nevertheless occur. The differences between King Abdullah and his half-brother Prince Nayif represent one such tension with the ruling family. These differences tend to inhibit the formulation of a coherent outlook for Saudi Arabia. While the king is the main sponsor of modernization and reform, Prince Nayif tends to advocate a closer alliance with the Muslim clergy. However, the reformist trend led by King Abdullah seems to set the pace. It relies on a group of advisers surrounding the king, including Foreign Minister Prince Saud al-Faisal, Labor Minister al-Ghusaibi and Khalid al-Tuwaijri, the secretary-general of the allegiance council. Moreover, the last reforms announced on 14 February 2009 seem aimed at bypassing the hard-line, conservative establishment, which maintained control of the judicial and educational sectors. Ultimately, the monarchy tightly controls all aspects of public life in Saudi Arabia.

Effective power to govern

Apart from a few state-controlled professional and voluntary associations, Saudis do not enjoy freedom of association and assembly. Neither right is addressed in the basic law. The Ministry of Interior must license all associations. In turn, associations must comply with the ministry's rules and regulations. Requests for licensing from citizens have frequently gone unanswered. Although Saudi Arabia is a signatory of the Arab Human Rights Convention, the clauses of the convention are

Association / assembly rights

not applied in the kingdom. The establishment of the Saudi National Human Rights Association in March 2004 did not change the situation, because the association (of which ten members are women) lacks the power to act on the complaints it receives.

An unwritten yet clear media policy forbids the Saudi media to criticize the government and members of the royal family. The print media exercises self-censorship. Moreover, a 1982 government media policy statement still in effect urges journalists to uphold Islam, oppose atheism, promote Arab interests and preserve cultural heritage. Television remains the Saudi state's domain and mouthpiece, while the privately owned al-Arabia satellite station broadcasts to the world in Arabic. It carries mainly the Saudi view and is never critical of Saudi Arabia. Some newspapers have close ties to members of the royal family, including the widely circulated pan-Arab newspapers Ash-Sharq Al-Awsat and Al-Hayat, which members of the royal family own. The Ministry of Culture and Information (MCI) must approve the appointment of all senior editors and has the authority to remove them. The government provides guidelines to newspapers regarding controversial issues. The government-owned Saudi Press Agency (SPA) reports on official government news. The government licenses all newspapers in the country. Approximately 30 radio stations awaited operating licenses during 2008. Internet access is controlled. Several new independent newspapers, however, began operations during the period under review. Issues such as social reform, the role of religion, women and education are becoming increasingly discussed in public debate. For English speakers, Arab News and Saudi Gazette are full of such debates, reflecting what is also printed in the Arabic language press. In addition, although they were technically illegal, the government did not place restrictions on several million satellite dishes, which provide citizens with foreign television programming. In September 2008, the head of the Supreme Judicial Council, Sheikh Saleh al-Lihedan, stated during a radio program that it is permissible under Shari'ah to kill owners of satellite television channels that broadcast immoral content. However, a strong international as well as domestic reaction followed the statement.

Freedom of  
expression

### 3 | Rule of Law

The government-appointed clergy act as the nominal arbiters on constitutional matters, since the Quran and the Sunna are claimed to be the constitution of Saudi Arabia. The clergy arbitrate anything infringing on the sanctity of Islam. The king, however, retains absolute authority to determine the outcome of constitutional disputes. There are no constitutional checks on royal authority. The king is somewhat constrained by Islamic law, and does seek consensus among senior royal family members, but in practice there is no formal accountability, and the king has wide-ranging discretion. The king appoints the government, which he heads as the prime minister.

Separation of  
powers

Since Saudi Arabia is an Islamic state; its judicial system is based on Islamic law (Shari'ah) for both criminal and civil cases. The judiciary issues its rulings based on its interpretation of the Quran and the Sunna. The Saudi court system consists of three main parts. The largest is the Shari'ah courts, which hear most cases in the Saudi legal system. The Board of Grievances supplements the Shari'ah courts and hears cases that involve the government. The third part of the Saudi court system consists of various committees within government ministries that address specific disputes, such as labor issues. At the top of the legal system is the king, who acts as the final court of appeals and as a source of pardon. The judiciary is thus subject to the influence of the royal family. Moreover, judges under such a system have wide discretion in issuing rulings according to their own interpretation of Islamic law.

Independent  
judiciary

In April 2005, a royal order approved in principle a plan to reorganize the judicial system. On 1 October 2007, a royal order approved the new system. Changes include the establishment of a supreme court and special commercial, labor and administrative courts to replace the Supreme Judicial Council. This reform is meant to introduce safeguards for defendants, such as appeal courts that can overturn decisions by lower courts. The reforms are geared toward establishing internationally recognized processes of appeal and more firm control over the conservative clerics' decisions. In February 2009, the monarchy reestablished the Grand 'Ulama Council, the body intended to offer consensus opinion and advice on the religious aspects of law and regulation. This further decreased the power of individual clerics. The king continues to appoint the head of the Supreme Court.

The public overwhelmingly perceives the royal family as corrupt. Transparency in government accounts is virtually nonexistent. The public assumes that the royal family manipulates civil and criminal justice procedures, government funds, property rights, and contracts. The national budget, for example, does not include a precise breakdown of state revenue and expenditure. Royal allocations are not published. An auditing body exists for public expenditure, but it does not publish its reports. Though, in principle, mechanisms of accountability do exist, in reality they do not affect any member of the royal family and are mainly activated against the offences of so-called commoners.

Prosecution of  
office abuse

However, since the overhaul of the legal system in October 2007, the Board of Grievances, which handles administrative disputes involving government departments, is now positioned as independent body directly answerable to the king. In 2008, in contrast to previous years, the media publicized information concerning specific instances and allegations of corruption and the government's actions against them. The consultative council, for example, called ministers before it in order to answer questions about their exercise of oversight responsibility. In addition, the Prosecution and Investigation Commission, an independent body reporting to the council of ministers, investigated cases of corruption against public service officials. The commission considered 12,466 cases involving public service

officials and agencies during the first half of 2008. It identified instances of forgery, bribery and public mistreatment, among others. During that same period, the court of grievances delivered 2,695 verdicts on criminal (1,368) and disciplinary cases against public officials and agencies. On 14 August 2008, for example, the Saudi Gazette reported that Minister of Health Hamed al-Mane revealed an attempt by a private company to bribe a ministry employee. The employee reported the bribery attempt; authorities arrested the company representative and financially penalized the company.

The Quran and the Sunna constitute the effective constitution of Saudi Arabia. The basic law (nizam) serves as an informal constitution. It does not include explicit guarantees of basic rights, such as freedoms of belief, expression, assembly or political participation. It does, however, prohibit government agencies from arbitrarily arresting citizens or violating their privacy (privacy of residence and correspondence). Criticism of the government, Islam and the royal family is forbidden. Public expression of non-Islamic religious beliefs is illegal, though private worship is permitted. During 2008, however, there were fewer reports of government officials confiscating non-Muslim religious materials from border-crossers or foreigners inside the kingdom. The Shi'i community in Saudi Arabia (estimated at approx. 15% of the population) faces numerous restrictions on the practice of their faith. Shi'ites encounter discrimination in all areas of public sector employment and are targets of abuse by the security services. In spite of this, there were fewer reported police raids on religious gatherings in the Western Hijaz region and in the Eastern Province during 2008 than before. In contrast, in other areas with large Shi'i populations, such as al-Ahsa and Dammam, authorities continued to restrict Shi'i religious practices. More generally, disturbing reports by Human Rights Watch and issues raised by the National Society for Human Rights (NSHR) and the governmental Human Rights Committee (HRC) point at unfair trials, prisoners' abuse, labor abuses, restrictions on women's legal identity and the issue of their guardianship, forced child marriages, and cases of child detention and abuse. Foreign workers have no social, economic, cultural or political rights. Lastly, following increasing complaints from citizens regarding the harassment and invasion of privacy imposed on them by the religious police (the Commission for the Promotion of Virtue and the Prevention of Vice, mutawwa'), a more moderate person replaced the active head of the mutawwa' during the 14 February 2009 government reshuffle.

Civil rights

#### 4 | Stability of Democratic Institutions

Citizens in Saudi Arabia do not have the right to change their government. The country's basic law states that the government is established on the principle of Shura, or consultation. The basic law also states that all individuals have the right to

Performance of  
democratic  
institutions

communicate with public authorities on any issue. No democratic institutions, however, exist in the Western sense. Only a few senior members of the royal family have the power to advise the king. The king acts as the prime minister and the crown prince is his deputy. The king appoints the government, which in turn appoints the subordinate officials. Majlis al-Shura, the consultative council, reviews legislation and asks the cabinet to reconsider it in the case of opposition. The government usually accepts the amendments of the council, though the king has the final word on cabinet-majlis disputes. Majlis al-Shura is actually a member of the International Parliamentary Union (IPU).

Citizens seem disappointed by the performance of municipal councils since the 2005 municipal elections. Newspapers have reported on the slow improvement of civil services and the bureaucratic constraints plaguing the functioning of the municipal councils.

Connectivity between the citizens and the government is expressed habitually through client-patron relationships or through affinity groups such as tribes, families and professional hierarchies. Theoretically, any male citizen or foreign national may express an opinion or a grievance at a majlis, the open door meeting held by the king, a prince or any other important local or regional official. King Abdullah often holds meetings with the citizens throughout the country. Ministers and governors can also, theoretically rather than effectively, be directly approached at any majlis.

Commitment to democratic institutions

## 5 | Political and Social Integration

Political parties are illegal in Saudi Arabia. In 2006, the Paris-based Saudi Democratic Opposition Front (SDOF) was created. It calls for a peaceful overthrow of the monarchy. However, it has yet to take any action.

Party system

The state controls civil society in Saudi Arabia. This control operates through the licensing of interest groups and interest articulation mechanisms. Though interest groups may have autonomy on specific task areas, they remain organized along functional and corporatist lines. Since 2003, the government has also attempted to organize a number of politically sensitive professional groups, such as lawyers and journalists. The government has discussed the formation of teachers' and writers' associations, so far with no results. The licensing of the Human Rights First Association has stalled. Other efforts aim to create community centers and workers' councils within enterprises, but none of these entities escape the state's control.

Interest groups

The National Dialogue, a series of public meetings on social and political issues in Saudi Arabia, was an isolated event. The meetings were licensed by the state and given specific topics to discuss. Participants in the different sessions were chosen

Consent to democratic norms

according to specific criteria, such as clerics, intellectuals, women and youth. In the absence of other societal forms, the National Dialogue has a monopoly on debate in the country.

Due to the top-down nature of Saudi institutionalization, few formal groups exist that could be co-opted by the state. Even most modern elites do not have deep organizational traditions. While most associational life remains state controlled, there are various charities and aid groups patronized by members of the royal family. Various Islamic charities exist and draw support from non-royal elites. These, however, have fallen recently under the scrutiny of the state, especially after the 9/11 attacks.

Associational  
activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

Previous development plans all emphasized strengthening the growing private sector and increasing the efficiency of the industrial sector. The eighth Five-Year Development Plan (2005 – 2009) was devised with a focus on increasing foreign as well as national investment, diversifying the economy, and developing human resources. The kingdom's largest budget ever, \$126.7 billion for 2009, focuses on enhancing employment opportunities and job creation, infrastructure and social services (especially education, health, social affairs, municipal services, water and sewage, and roads), projects related to science and technology, and e-government capital expenditures to boost economic activities and enhance the prospects of economic growth. Public spending increased by 15.8% and the budget allocation for new projects in 2009 is 36% more than the allocations made in 2008. This expansionary budget will have to be made financially sustainable at a time of worldwide economic crisis and falling oil prices. Given Saudi Arabia's youthful demography (38% of Saudis are below the age of 15) and the lack of attempts to curb the country's high fertility rates, Saudi society faces a major housing and employment crisis. Despite current public investment in infrastructure through social security, housing and job creation programs, it will take several years before these efforts yield results.

Socioeconomic  
barriers

The Human Development Index for 2007/2008 gives Saudi Arabia 0.812 and ranks it on position 61 out of 179. Access to education and health is generally good. The Gender Empowerment Measure (GEM) was at low 0.254 for the same year (rank 92 out of 93). The accessibility to the labor market improves slowly for women.

Somewhat surprisingly, Saudi Arabia has the highest share of women in administrative positions (31%) among the Arab states and a good record in women heading businesses, according to the 2005 Arab Human Development Report. This seems a bit sugarcoated, however, as women still are clearly discriminated against in Saudi Arabia. Finally, a massive so-called Saudization of the labor market still requires changes in mentality, such as a wider social acceptance of female labor and a lifting of social taboos on performing certain low paid, low status tasks, which are left to the expatriate workers to perform. Throughout 2008, numerous debates emerged in the media about the necessity for Saudis to perform all kind of jobs, including working as maids in place of foreign domestic laborers.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	250338.9	315580	356630.4	<b>383586.7</b>
Growth of GDP	%	5.3	5.6	3.2	<b>3.4</b>
Inflation (CPI)	%	0.3	0.7	2.2	<b>4.2</b>
Unemployment	%	-	-	6.3	<b>5.6</b>
Foreign direct investment	% of GDP	-0.1	0.1	0.2	<b>-2.1</b>
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	51926.0	90060.2	99066.1	<b>95080.2</b>
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-
Total debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	23.6	22.2	23.3	<b>22.4</b>
Public expnd. on edu.	% of GDP	6.8	-	-	-
Public expnd. on health	% of GDP	2.6	2.6	2.5	-
R&D expenditure	% of GDP	0.1	-	-	-
Military expenditure	% of GDP	8.4	8.0	8.3	<b>9.2</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook:

Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

The Saudi economy is a free market economy. The country has open liberal policies, no constraints on capital movements and no exchange restrictions. It has a very liberal tax system, which means that individuals and companies pay few taxes at very low rates. Apart from the religious zakat, taxes are collected only on the personal income of self-employed expatriates and on business income. The effects of the often stifling bureaucracy on economic activity remain limited. Still, sector-specific authorities, for example in the fields of telecommunications, electricity, and banking, regulate competition.

Market-based  
competition

Saudi Arabia has a national competition authority to deal with monopolies, but its role remains nebulous. Deregulation and privatization remain the constant themes of the Saudi government in order to enhance the country's climate for investment and to diversify the economy away from the oil and gas sectors. If any safeguards exist in the domain of fighting monopoly, the closest would be the November 2005 WTO agreement. The capital market law of 2003 reduced barriers to foreign financial institutions, and the companies control law of the same year ended the government's monopoly over the insurance industry. However, the legacies of corporate secrecy and government interference in business remain stumbling blocks to wide participation in the securities market. The advent of mobile phones, satellite television and private air-carriers has ended the monopoly in those sectors.

Anti-monopoly  
policy

Saudi laws favor Saudi citizens, and the kingdom still has various sets of trade barriers, mainly regulatory and bureaucratic, which restrict the level of trade. For example, only Saudi nationals are permitted to register as commercial agents, but all industrial enterprises are open to non-Saudis, who are permitted to trade in the products they manufacture. Though Saudi Arabia has signed the New York Convention on Foreign Arbitral Awards, the enforcement of this decision has yet to be tested in practice. Government agencies are not allowed to agree to international arbitration without the agreement of the council of ministers, which rarely if ever grants its approval. With regard to tariffs, Saudi protection policy is generally moderate but has increased over the years. A number of Saudi infant industries enjoy almost 20% tariff protection, as opposed to the general rate of 5% or even less imposed by WTO agreement. Also, Saudi Arabia's preference for products from the Gulf Cooperation Council countries can be seen as a non-tariff barrier to goods from other countries. Saudi Arabia's joining of the WTO in 2005 did spark reform and market liberalization, giving foreign direct investment (FDI) inflow a huge boost. In 2006, Saudi Arabia was ranked number one in the Arab world in terms of FDI, according to a report by the United Nations Conference on Trade and Development (UNCTAD).

Liberalization of  
foreign trade

Saudi Arabia has a profitable and stable banking system, closely regulated by the Saudi Arabian Monetary Fund (SAMA). Saudi banks that conform to Islamic law (i.e., prohibiting interest payments) enjoy the benefit of not paying their depositors to hold their money. This, along with high oil revenues, has led to high profits for Saudi banks in recent years. The sector is composed of 13 Saudi-owned banks and eight branches of foreign banks. The government has also established five specialized credit institutions to provide loans to citizens for development projects in agriculture, industry and construction. These institutions are the Saudi Industrial Development Fund (SIDF), the Saudi Arabian Agricultural Bank (SAAB), the Real Estate Development Fund, the Public Investment Fund and the Saudi Credit Bank. Saudi Arabia only recently opened its doors to foreign banks. Development in this regard was especially significant after the capital market law was passed in 2003, which reduced barriers to foreign financial institutions. With a GDP of \$382 billion, Saudi Arabia is the largest economy in the GCC region and has the largest stock market in terms of market capitalization. As of 30 June 2008, the kingdom's stock market capitalization stood at \$480 billion. Within the context of larger emerging markets, however, Saudi Arabia's stock market is still in its infancy. The participation ratio of domestic institutional investors is below that of many emerging markets. Corporate governance, disclosure standards and lack of transparency are part of the reason.

Banking system

## 8 | Currency and Price Stability

In Saudi Arabia, monetary policy is tied to exchange rate policy. The policy objective is to maintain the dollar-riyal exchange rate as stable as possible. According to a report published by Saudi Arabia's largest bank, NCB, monetary policy in the country is constrained by the riyal's peg to the U.S. dollar, given open capital account movements. However, recent monetary policy easing in the United States has forced the Saudi Arabian Monetary Fund (SAMA) to lower interest rates, leading to increasingly negative real interest rates at a time when the economy is expanding. Saudi Arabia thus forced its banks to increase their deposits with its central bank by September 2008, as a measure to curb soaring inflation. Inflation in Saudi Arabia averaged 11-12% throughout 2008 and is expected to drop slightly to 10% in 2009. With the global economic slowdown, a decline in the rate of cash flowing into the GCC states has indeed occurred, which should reduce inflationary pressure.

Anti-inflation /  
forex policy

As a result of the global financial crisis, corporate finance costs have soared in the Gulf region, with the result that many projects have been put on hold or cancelled. Saudi Arabia has suffered much less than most, but private investment growth will be significantly lower in 2009. The slumping private investment, combined with an expected 12% reduction in crude oil production and little confidence among private

Macrostability

consumers, indicates that the Saudi economy is likely to shrink around 1.5% in real terms. The fiscal outlook has deteriorated with the softening of the oil prices, but that remains manageable. Public resources should comfortably cover financing. The main feature of the Saudi economy, thus, remains its resilience.

## 9 | Private Property

Private property largely is guaranteed in Saudi Arabia, but if the issue is put within the larger context of corruption (in some cases where members of the royal family are involved) property deeds can be obtained outside the application of the law. Similarly, foreigners de facto own hundreds of thousands of small enterprises, while the official Saudi owner collects a monthly fee from them. Ownership rights to these “cover-up businesses” are accordingly precarious, though foreign companies can in principle own their company property. Currently, residential development has been driven by a surging economy, increased personal incentives, as well as by population growth. Foreigners are permitted in theory to own homes but only for their own residential purposes. The Ministry of Interior, however, usually stalls on this. No legislation governs mortgages, and difficulties exist in areas governing property repossessions, enforced evictions and assets liquidation in case of default.

Property rights

Private corporations dominate most sectors of the Saudi economy. Excluding the oil sector, which remains under state’s control, one of the key economic reform strategies announced by the government upon WTO accession procedures is the privatization of nearly all its state-owned assets. The privatization of water and electricity, Saudi Arabian Airlines and Saudi Railways are in progress, while the government managed to sell 30% of the national telecommunications company in 2003 and 70% of the national insurance company in 2005. Serious problems remain in this domain. The private sector shows reluctance to take on some of what may well be considered as “white elephant projects,” in which it has limited flexibility in hiring and firing employees. The private sector in Saudi Arabia is also uncomfortable with the idea of buying the offered 30% of the state assets and ending up leaving decision-making powers to the state. What seems to be emerging in Saudi Arabia is a form of paternalistic private enterprise.

Private enterprise

## 10 | Welfare Regime

According to the Saudi government, every citizen has access to unlimited and free medical care. The government provides the bulk of the money for financing, building and operating hospitals. Since 2006, the Saudi Ministry of Health has been operating 62% of the country’s hospitals and 53% of its non-urgent care centers. The country continues to transform oil wealth into broader welfare programs. The country has a 9% tax on wages to fund social insurance. It pays old age pensions to

Social safety nets

workers, with men qualifying at the age 60 years and to women at age 55. Also, the Saudi Government initiated a massive low-income housing program to help deal with an enormous influx of rural and desert people into urban areas and the resultant proliferation of squatter settlements and unplanned houses. The program has two key aspects. First, the Free Land Plots Project provided land grants ranging from 400 to 900 square meters each. Secondly, the Real Estate Development Fund (REDF) extended easy-term and interest-free loans to Saudi citizens who owned land plots. Due to a high level of repayment defaults, however, the fund faces challenges in terms of providing enough residential units. In spite of these public assistance schemes, Saudi Arabia lacks a system of unemployment insurance. Social security payments are considered on a case-by-case basis. Tight family networks prevent many individuals from sliding into poverty, but these networks are becoming increasingly stretched. The recent oil boom has not yet trickled down to the majority of the population. Millions of expatriate workers also continue to live in poverty.

Within the context of the liberalization efforts, the Saudi government will need to seriously address issues concerning the country's disenfranchised Shi'i community (estimated at 15% of the population). The legal system serves the Shi'ites very poorly, as judges are allowed to dismiss testimony of non-Muslims, non-practicing Muslims or individuals who do not practice the official interpretation of Islam. Legal commentators have reported that testimony by a Shi'i witness is often ignored in courts or deemed to carry less weight than the testimony of a Sunni. Moreover, it is worth noting that though the expansion of the Grand 'Ulama Council (announced as one of the major reforms of February 2009) broke the monopoly of the Hanbali School, it does not include any of the schools of Shi'ism.

Equal opportunity

With regard to the issue of women, the World Economic Forum's Global Gender Gap Report measures the size of the gender gap in four critical areas of inequality between men and women: economic participation and opportunity, educational attainment, political empowerment, and health and survival. According to the 2006 report, Saudi Arabia ranked last in a group of 115 countries in terms of economic participation and opportunity, and political empowerment. Despite the fact that the number of Saudi women in employment has increased, out of a total of five million working age Saudi women, fewer than 10% are employed, even though half of them hold a college degree. The lack of government-approved gender segregated places of work has been a major obstacle to women's employment, as has the lack of convenient, affordable and safe transportation services for Saudi or foreign women. Nevertheless, the kingdom's eighth five-year development plan (2005 – 2009) claims it aims at increasing the percentage of women in the Saudi work force from 5.4% to 14.2%. After a cabinet decision expanded job opportunities for women beyond gender-segregated female education and nursing sectors (as stipulated in a 1985 law), Saudi women started working in the media, as health-care professionals,

administrators and social workers, all in gender-mixed environments. Moreover, the Saudi government is implementing a wealth of policies targeting gender segregation and promoting women's employment in every sector of the economy. In April 2007, Interior Minister Prince Nayif publicly urged citizens to stop segregation between men and women. In May 2007, Crown Prince Sultan announced plans to allocate one third of government jobs to Saudi women and to create additional job opportunities for them. In April 2008, the minister of labor officially allowed "mingling of sexes" in all government offices. King Abdul Aziz National Dialogue Center also launched in mid-2008 a national campaign to address the challenges impeding women's participation in government and managerial posts. In addition, the Saudi government has sponsored industrial programs that employ only women. In October, King Abdullah launched construction of the country's first women-only university. In higher education, women comprise 58% of university students. Reforms under way suggest that women should progressively be allowed to study in every academic specialty without having to resort to expatriation. During 2008, women were allowed to study law for the first time.

In August 2008, Saudi scholars even engaged in a heated debate about whether or not women can become muftis. In mid-February 2009, a woman was appointed deputy minister of education. Indeed, reform aimed at equal opportunity between men and women seems under way, even if, of course, more time and efforts are needed.

## 11 | Economic Performance

The kingdom's economy has been growing rapidly in recent years, doubling in nominal terms between 2002 and 2007, with GDP projected for the year 2009 (taking into consideration the effects of the financial crisis) to reach \$517.3 billion. The kingdom accounts for more than half of the total output of the GCC countries; its output is twice the size of the second largest GCC economy, the United Arab Emirates. Saudi Arabia is the country with the largest source of outward remittances after the United States. Real economic growth was put at 6% for 2008. The current account balance, due to oil revenues, stands at a healthy \$128.1 billion for 2008, with marked reduction of government debt from 55.6% in 2007 (as percentage of the GDP) to 14.6% in 2008. Nevertheless, there are serious problems in the employment market, as 38% of the population is under the age of 15. According to the Economist World Fact Book 2008, the country's unemployment rate is 13%. No proper system of taxation exists in the country, and inflation was above 10% in 2008.

Output strength

## 12 | Sustainability

Saudi Arabia faces numerous environmental challenges. The country has a very small area of arable land. Water scarcity and desertification are constant concerns. Creeping sands are also a serious problem, especially as they cause frequent dust and sand storms. In addition, coastal oil spills, though infrequent, add to the existing pollution. According to the 2007/2008 Human Development Report, with 0.4% of the world's population, Saudi Arabia accounted for 1.1% of global emissions in 2004, an average of 13.6 tones of CO<sub>2</sub> per person. These emission levels are above those of most other Arab States. The government has expanded the role of the Agency of Meteorology and Environmental Protection to perform tasks related to the protection of the environment, though the agency does not have relevant powers to enforce policies. Still, the government has recently expressed an interest in developing research on solar energy, investing in carbon capture and storage, and even in developing technology to sequester CO<sub>2</sub> from the atmosphere. These interests come on the heels of the 2007 Gulf OPEC Agreement to invest \$750 million to fight global warming and finance clean technology. Aramco, the oil giant, has been sponsoring lectures and conferences on climate change, but public awareness campaigns and awareness within the educational system about environmental issues do not exist.

Environmental  
policy

According to the results of the demographic survey conducted by the Department of Statistics and Information of the Ministry of Economy and Planning in 2007, the incidence of illiteracy among the Saudi population is 13.7%. The illiteracy rate stood at 1.4% for the age group 10 to 14 years old. The last census (2006) showed that 50% of Saudi male students and 60% of female students go to college after high school.

Education policy /  
R&D

Today, Saudi Arabia's public education system includes 19 universities (with more planned), some 25,000 schools and a large number of colleges and other institutions. The system is open to all citizens and provides students with free education, books and health services. National surveys indicate that female enrolment at the elementary level is 95% (a figure yet to be entered in the international database used to monitor enrolment). All in all, female students make up a little over half of the nearly 5 million students currently enrolled in Saudi schools and universities. In December 2007, the Ministry of Education's Department of Girls signed a 526 million Saudi riyal contract to build girls' schools and student accommodation across the kingdom and announced the setting up of 17 new colleges in various parts of Saudi Arabia.

The oil giant Aramco and the industrial giant SABIC, as well as the University of Petroleum and Minerals have been traditionally the leaders in the fields of R&D. The King Abdullah University of Science and Technology (KAUST), scheduled to

open in September 2009, is expected to join in the leadership of R&D. The university claims it will offer courses and research covering areas as diverse as energy and environment, water desalination, industrial biotechnology and scientific computing. All classes in its campus will be conducted in English and it will be opened to males and females from around the world. It is doubtful that the university will attract many students from non-Arabic speaking countries, with the exception of some from Africa and Asia.

Though female education has increased dramatically in recent years, classroom instruction remains strictly segregated, and the education sector is controlled by hard-line clerics, who resisted changes in the curricula. Education remains closely tied to Islamic teaching, and all curricula must conform to Islamic laws and the Quran. However, the government has signaled a strong impetus toward improving the educational system and enrolment rates by implementing marked changes in the ministry of education as part of the reforms passed in mid-February 2009. A new minister, a member of the royal family with experience in anti-extremist security operations, assumed control of the ministry. As such, he will likely have the means to progressively root out the ministry's conservative religious staff and open up educational curricula. The newly appointed deputy minister had previously led the king's program of National Dialogue.

# Transformation Management

## I. Level of Difficulty

Saudi Arabia's regime enjoys a traditional authority firmly rooted in the Islamic religion. This legitimacy has special attributes and special difficulties. The constraints on governance result from the government's balancing act between the, at times, contradictory demands of constituencies important for the state. Despite many shocks to the system, including terrorism and the 9/11 events, the regime continues to enjoy remarkable stability. Oil income is not just a matter of stability and wealth for the country; it is the main source of legitimacy for the Al Saud, who emphasize their role as providers for the nation. This role, however, remains challenged by the religious Salafi movement (the most fundamentalist Sunni Muslims), but cannot be considered a constraint on governance. The stance taken against the conservatives during the 14 February 2009 political reshuffle may spark reactions from the Salafis. On another hand, the regime anticipated the recent drop in oil prices, which means that its redistribution capacity should not be effected. The stability of the regime, overwhelmingly guaranteed by its capacity of redistribution to the population along clientele and patronage networks, is paradoxically its biggest structural constraint on implementing change, because protection of the system takes the upper hand over promoting capacities and skills.

Structural  
constraints

Saudi reformers form a loose network of individuals. In recent years, however, reformers have tried to move beyond kinship and interest networks to build civil society institutions. They have attempted this by attracting like-minded Saudi individuals and by petitioning the king for the gradual political transformation of the country within the framework of the monarchy and the state's Islamic character. The National Society for Human Rights (NSHR) and the governmental Human Rights Committee (HRC) conduct lively popular debates and issue a wealth of petitions urging comprehensive reform on societal issues such as child marriages, domestic violence, guardianship of women and women's basic civic freedoms. Reformers also advocate for guarantees of freedom of expression, freedom of association and of assembly, and the release or fair trials for political prisoners. Civil society actors also openly criticize the perceived abuses performed by the religious police, such as legal decisions (based on Shari'ah law) widely seen as inhumane, like the so-called Qatif Girl affair. The public has even started to discuss the sponsorship system and its damaging effect on the status of foreign workers.

Civil society  
traditions

Reformers often point to the slow pace of reform and the absence of popular participation in decision-making. Apart from the existence of tightly controlled few Islamic charities, no culture of participation exists in public life. However, the drive for social change is becoming more powerful, even if adverse positions are sometimes also expressed.

Noticeable political polarization in Saudi Arabia is developing along two axes. The first is defined as liberal reforms, and the second is a return to Wahhabi orthodoxy. It would be wrong to suggest that Saudi society has been passive throughout, because demonstrations and protests have occurred in the country, though only sporadically and with little violence. Essentially, the country remains a rentier state. Serious opposition to the government, given the material wellbeing of those who enjoy the privileges of citizenship, is therefore unlikely to emerge. This leaves the disenfranchised Shi'i community in a precarious position, especially in light of increased tensions with Iran. If violence were to break out, it would be directed toward the Shi'i community in proportion to the tensions with Iran. The Shi'ites are still viewed semi-officially (and unofficially) as Iran's fifth column in the country.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

Pressures about prioritization of reforms from within the kingdom differ from the highly publicized prescriptions of human rights groups and the governments of the European Union and the United States. It is such crosscurrents, rather than any one single type or agent of pressure, which constitute the enormous challenge of prioritization for the state. King Abdullah and his close advisors seem driven by an agenda consisting of education reforms, trade and economic policies, as well as the expansion of social and economic rights. Although to outside analysts these changes have at times seemed timid or partial, they are nevertheless discernable. Educational reform, for example, may eventually create a more secularized educational system for the country's youth, which will enable them to participate fully in the globalized economy. On trade, the king has allowed oil and finance to be managed outside the patronage system. Social reforms, like the opening of the press to public debates, seem to be advancing. Political reform, stalled until February 2009, could bear fruit. All of these steps toward reform, however, remain under the threat of reversal.

Prioritization

Saudi Arabia's joining the WTO was instrumental in modernizing the country's bureaucracy and a large number of its regulations. Some reforms, like the creation of the capital markets authority and the privatization of specific companies, have been implemented effectively. Despite this, the kingdom remains an unrepresentative and repressive political system. This is compounded by a potential demographic crisis. Due to high birth rates and the absence of family planning, Saudi Arabia's population has more than tripled since 1980. Young Saudis under the age of 15 constitute 38% of the population, and when they hit the job market, they are most likely to strain the existing socioeconomic conditions. The regime does not address this issue, at least publicly. This demographic growth is likely to create instability for the country.

Implementation

King Abdullah has been a quick learner from past mistakes and flexible in taking action to correct these errors. However, both experiences have been very limited in scope. The king has learned that from a political standpoint the old policies of co-optation of the opposition through oil largess and heavy-handed security policies could not be pursued any longer, especially against an extremist adversary, which cannot be co-opted or defeated by security measures alone. In light of this, the regime's attempt at reform by enhancing the role of the consultative council (albeit very limited in its powers) and its implementation of the succession council, limited to senior members of the royal family, are examples of the king's learning experience. The king's flexibility is also evident in the changes of the school curricula, where offending references to other faiths are being eliminated. Meanwhile, the WTO membership has settled the principle of opening of the economy. The process of completing the preparatory stages of joining the organization also pushed for the advancement of privatization, especially in communications and finance. With regard to the issue of women, which is a constant theme of criticism by the West, King Abdullah pushed a slate of reforms, the last one being the approval, in the budget of 2009, of the creation of the University of Women in order to improve the future prospects of women's employment.

Policy learning

## 15 | Resource Efficiency

The Saudi government is seeking to make efficient use of available economic and human resources. Yet, its actions and plans move slowly, and the improvement in its fiscal management is due to recent high income from oil exports, rather than to efficient management skills. Saudi Arabia has no records for budgets, and closing accounts have not been made available since 1989. However, the 2009 budget shows that the Saudi government intends to commit the financial means necessary to strengthen, and perhaps accelerate, the reform impetus. Despite this commitment, Saudi Arabia is still failing to attain economic growth rates at a level sufficient to keep pace with population growth. Saudi Arabia's population jumped from 7

Efficient use of assets

million in 1980 to 22 million in 2006. Lack of investment is not the issue, as private and public investment constituted 15% of the total GDP in 2008. The problem is rather that the weak linkages between private and public expenditures result in an inability to stimulate non-oil real output. Given this inability, the private sector takes on the added burden of expanded employment opportunities to a rising population. In effect, Saudi economy is heavily dependent on its foreign workforce, while the unemployment rate among Saudi men is estimated at 9.8% in 2008. More importantly, the labor ministry stated that 76% of unemployed Saudi women, who represent 41% of total unemployed Saudis, are university graduates. The educational qualifications of the majority of the unemployed, on the other hand, do not exceed that of a high school degree, because the majority of unemployed males have dropped out of school after obtaining their high school degrees. Despite the adoption of the Saudization program, the lack of adaptability of the Saudi male workers to economic demands hinders the state's capacity to provide the required 160,000 new jobs per year. The educational system fails to prepare the youth for jobs requiring technical expertise. Female human resources still remain underused.

Since the king is the prime minister, and the crown prince his deputy, Saudi Arabia has no discernible conflicts between the state and the government. Extreme centralization of authority provides for coordination. Essentially, the most marked friction exists between the state and the 'ulama. This friction, however, is mitigated by the habitual compromise between the two sides, whereby each stays within their well-defined territory. For example, the 'ulama decide on education and some other social issues, while the king makes decisions about everything else. In this sense, each side must coordinate to stay clear of the other's domain. In the end, the king still needs the 'ulama and their fatwas. On the procedural level, marked failures in coordination between policies result from overoptimistic projections clashing with constraining reality. Bureaucratic fiefdoms also play their role in disrupting coordination, as is the case with the joint stock companies, which are handled by the Ministry of Commerce as well as by the Capital Markets Authority.

Policy  
coordination

Saudi anti-corruption laws stipulate severe punishments against those who receive bribes, stating that employees who accept gifts or promises to perform any duty face ten years imprisonment or fines up to \$267,000. There is a high integrity performance in certain government departments, such as state oil giant Aramco, the Central Bank, and the Royal Commission for Industrial Cities, but in the absence of disclosure rules, bureaucrats face no real public accountability. Until now, the intra-bureaucratic integrity mechanisms (the supervision agency and a disciplinary board of bureaucrats) have not been effective. Similarly, the consultative council has not been forthcoming in its efforts to fight corruption. The kingdom appears as the most corrupt country in the GCC. While it is known that the king himself is exerting his influence to curb corruption within the royal family members, the extent of this influence is not clear. This was illustrated by the al-Yamama affair, which related to the Ministry of Defense procurement from Great Britain.

Anti-corruption  
policy

## 16 | Consensus-Building

Except for a small extremist minority, a general consensus supports the rule of the Saudi royal family over the kingdom. Public consensus also exists, to a certain extent, on the role of Shari'ah in governing Saudi affairs, though active popular debate continues about the extent of this role and the interpretation of texts, as was shown in the strong reaction to the judgment passed in the Qatif Girl affair. Alternatively, some extremists challenge the state under the argument that the royal family is not Muslim enough. With regard to democracy, Saudi Arabia has no political culture of democracy and no organized movement demanding the adoption of a full democratic process, save for a small minority of intellectuals. Similarly, the king is the sole engine of economic reform. Some members of the royal family oppose him either because they seek to protect their own vested interests or because they see the perpetuation of the rentier nature of the state and economy as a means to maintain stability. Such an opposition, however, is mostly silent and discussed only within the family. Indeed, members of the royal family who support economic reform also protect their vested interests.

Consensus on goals

Neither democratic nor undemocratic veto powers exist in Saudi Arabia. Although merchants within the business community or princes of the royal family at times express oppositionist sentiments regarding specific policies, the king always has the final say. The 'ulama can forcefully react on a religious basis, but because they, too, are appointed by the government, their opinions are considered no more than advisory.

Anti-democratic  
veto actors

The Al Saud dynasty, with King Abdullah as its modern representative, relies on the legitimacy of the right to rule and on its role as a provider of the nation's welfare. The royal family continuously appeals to these claims, bridging cleavages through mechanisms of distribution, coercion and penetration of all aspects of society. Although redistributive policies may well be subject to the fluctuations of oil income, they remain strong in the health care domain, education, subsidized food and energy, loans, grants for buying lands, and investment incentives. This is backed up by a strong security service, which constrains freedom of expression, assembly and mobility. The royal family is also known to practice strategic intermarriages with other Saudi families. However, no mechanism of conflict management is applied to manage Sunni-Shi'a sectarian cleavages.

Cleavage /  
conflict  
management

Civil society does not engage in the political process. The closest approximation of this is the Saudi Council of Chamber of Commerce and Industry, which often serves in a consultative role on policy issues specifically related to its domain. Channels exist for the representation of social and regional interests. These include consultations between tribal leaders and princes in the royal family and the public meetings randomly and sporadically held by the king throughout the country. Decisions reached in such informal meetings seldom result in actual policy.

Civil society  
participation

Since the establishment of the Al Saud dynasty, no cases of historical injustices have occurred that would require reconciliation between victims and perpetrators. The rule of King Abdullah is marked by his reconciliation efforts with the marginalized groups in the kingdom. He has held meetings with the Shi'i community representatives, women's representatives, religious authorities from the non-Hanbali school of jurisprudence and with the tribal leaders from the poorer regions of the kingdom. After the events of 9/11, the king permitted a limited form of questioning of the consequences of Wahhabi education to reach the public through newspaper articles and television talk shows.

Reconciliation

## 17 | International Cooperation

The Saudi government hires a wide array of foreign experts in various fields that require technical consultancy. Such cases include Saudi Arabia's accession to WTO in 2005, the management of water and power projects, and the privatization of telecommunications. Malfunctioning of Saudi institutions, which frequently occurs even after gaining foreign expertise, can be explained by the disruptive interference of government in the management of those institutions. The government's continuous purchase of hi-tech military hardware, along with the foreign training and education of the concerned personnel, often yield positive results in terms of strengthening the Saudi armed forces. The government's attempts at enhancing the status of women, improving human rights and at reforming the school curricula also illustrate a capacity to learn, at times through so-called silent diplomacy.

Effective use of support

The government's credibility must be considered within the framework of its long-term policy-making. An absence of transparency still exists in the enforcement of intellectual property rights. Companies continue to show a lack of respect for government requirements in hiring Saudi nationals. Slow payment of some government contracts persists, as does segregation based on gender. The Saudi government has not taken serious steps to address the lack of in the resolution of commercial disputes. As for democratization, the government still lags behind in efforts to promote a free market. The kingdom is yet to make tangible moves toward opening up political freedoms and dealing with human rights abuses. These steps are crucial for Saudi Arabia to gain international credibility.

Credibility

The recent events in the Gulf region in particular, and in the Middle East generally, have forced Saudi Arabia to claim an explicit leadership position beyond the traditional leadership it exerts within the Gulf Cooperation Council. After the American-led invasion of Iraq in 2003, Saudi Arabia found itself caught between a Shi'a-led government in Baghdad, and an increasingly belligerent Shi'i Iran. Saudi Arabia, thus, perceived the threat of the spread of Shi'ism under the leadership of Iran. This is a rather sensitive point for Saudi Arabia, first because it considers itself the religious leader of the Sunni world, and secondly because it has a large

Regional cooperation

domestic Shi'a minority. Saudi Arabia also fears being dominated by Iran. These factors are making cooperation in the Gulf region (including Iran and Iraq, beyond the GCC area) rather limited. Saudi Arabia, therefore, approaches the issue of regional cooperation with much circumspection. At the same time, however, Saudi Arabia does not intend to let the challenges to its leadership in the GCC pass unnoticed.

## Strategic Outlook

The Saudi leadership has repeatedly shown that it approaches important issues and problems by seeking balance between the claims and needs of domestic constituencies, foreign considerations and pressures, and the priorities defined by the regime itself.

The immediate focus of Saudi reform should be education rather than democratization, not because democracy lacks importance, but rather because facts indicate that Saudis are still poorly prepared for the governance challenges of the present century. A fast-track democratization process would likely drive them to retreat from the international community, rather than to engage it.

A growing and secure middle class with a stake in the economic development and political stability could facilitate Saudi society's transition toward modern governance and economy. The country's reformers must seriously address the problem of the shrinking of the middle class.

A transitional period of limited political reform and social change is necessary before Saudi reformers can build a more open and democratic Saudi Arabia. The international stakes are too high to let change follow a course dictated by either the most ambitious or by radical in Saudi society. Though Saudi Arabia is not ready for complete democratization, steps toward expanded participation of the Saudi people in their government cannot be indefinitely postponed. The king has already announced modest democratic reforms. Implementation of this program could empower Saudi reformers at all levels of society.

The Saudi government has already undertaken a series of economic reforms, especially those pertaining to the WTO membership. Nevertheless, if the Saudi government does not reduce the existing subsidies (which are, in truth, few in number), development of the private sector will remain stunted. A significant part of future growth will come from small and medium-sized businesses, which are currently constrained by the government's control over the economy. Such control inhibits the emergence of a middle class. In addition, if the royal family continues to throw millions of dollars into patronage systems, Saudi entrepreneurship will continue to suffer. In addition, if privatization of the state-owned sectors of the economy slows, job creation will decrease and the already existing disparities in Saudi wealth and access to capital will get worse.

Political and economic reforms reinforce each other. Only an elected council will give ordinary Saudis the necessary leverage to overcome the influence of entrenched business and social elites. The limited reforms undertaken to address the demands of the UNDP's Arab Human Development Report need to be expanded in order to provide some degree of public support. These reforms cannot continue to be imposed from above. Elections of local and, in the future, national representatives would create the popular basis for sustainable economic, political and social reform.

The long-term success of economic and political reform depends on the emergence of a citizenry capable of playing an informed role in Saudi society. Much public debate within the kingdom

has focused on the need to eliminate those aspects of the Saudi curriculum that promote intolerance, extremism and violence. This internal debate is more likely to produce positive results than condemnation by Western powers. But at the same time, foreign powers can influence such a debate because Saudi airwaves now are becoming increasingly open to the outside world.

Saudi Arabia is a stable society today precisely because it is a closed society. In the short term, actors who strive to formulate and implement political, economic and educational reforms would most likely produce instability. The Saudi royal family, with the support of the United States and the West, must set in motion a process that concentrates on long-term reform rather than on offering a few short-term rewards, which would threaten to open the gates of Saudi frustrations and fears. The beginnings of the transition toward a more transparent and competitive Saudi Arabia, however, can no longer be avoided.