

BTI 2014 | Saudi Arabia Country Report

Status Index	1-10	4.31	# 101 of 129	
Political Transformation	1-10	2.73	# 124 of 129	➔
Economic Transformation	1-10	5.89	# 53 of 129	➔
Management Index	1-10	3.93	# 103 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	28.3	HDI	0.782	GDP p.c.	\$ 31729.1
Pop. growth ¹	% p.a.	1.9	HDI rank of 187	57	Gini Index	-
Life expectancy	years	75.3	UN Education Index	0.703	Poverty ³	% -
Urban population	%	82.5	Gender inequality ²	0.682	Aid per capita	\$ -

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The most recent phase of political reform in Saudi Arabia ended in the mid-2000s; accordingly, little took place on this front in 2011 and 2012. Municipal elections in 2011 were widely considered a non-event, with very rates of low participation. Although political dissidence has increased in parallel with the Arab uprisings, and political awareness has grown with the spread of social media, there remains limited organized political opposition to the al-Saud.

Yet if radical transformation in Saudi Arabia akin to what happened in other nations in the region appears unlikely in the short term, the effect of the Arab Spring on the country's internal and regional politics should not be underestimated. The ruling al-Saud family is acutely aware of the potential for dissent, and has paid close attention to uprisings in other countries in the region. Political leaders remain quite sensitive to any hint of similar popular movements spreading to Saudi Arabia. Many demographic factors that have contributed to Arab uprisings elsewhere are present in Saudi Arabia too, including a young population (60% of Saudis are 20 years of age or younger), persistent un- or underemployment (with a labor force participation ratio of only 36% in 2011), widespread dissatisfaction with inequality, uneven access to state resources, and severe limitations on freedom of expression.

Since the beginning of the Arab Spring, King Abdullah has reportedly spent over \$100 billion trying to defuse opposition through social spending, new public projects and stipends. Continuing Shi'ite unrest in the eastern provinces is a strong source of concern for the ruling family. The Arab Spring has also had a strong impact on Saudi Arabian regional politics. The Saudi invitation to Jordan to join the Gulf Cooperation Council (GCC), the continuing Saudi troop presence in the Kingdom of Bahrain and the strong support provided to the Syrian opposition are a few of the actions that must be seen in the context of the Arab Spring.

Recent years have not seen major new economic reforms, although some loose ends have been tied up with respect to existing reform initiatives, such as providing more licenses to private

investors in the utilities sector and giving more teeth to the government's campaign to "Saudisize" private employment. The most visible new economic initiatives have taken the form of large projects and new, project-oriented enclave institutions such as the King Abdullah City for Atomic and Renewable Energy, created in 2010 and built up since.

The kingdom achieved reasonable economic growth rates during the period under review, but only by means of a significant fiscal expansion that could lead to budget deficits in the long run. The country has attracted considerable amounts of foreign direct investment (FDI), but most of this was limited to large, often state-supported projects in a small number of fields such as refining and heavy industry.

The most significant reform efforts during the last two years have arguably focused on educational and judicial issues. In both areas, King Abdullah has continued ambitious modernization programs that started in the late 2000s. It is too early to judge results, however, as the reforms will require the revamping of complex and slow-moving bureaucratic apparatuses, a task which even under the best of circumstances is generational in nature. The Saudi government has also increased its efforts to create private sector jobs for Saudi women, against the opposition of religious establishment and conservative activists. The creation of the King Abdullah University of Science and Technology, which draws on foreign faculty and students and allows gender mixing on its campus, is emblematic of the king's ambition to engage in sociocultural modernization through a limited number of flagship projects. However, this agenda of social opening has been counteracted by an increasingly aggressive anti-Shi'ite atmosphere in the Saudi media and public.

History and Characteristics of Transformation

The Kingdom of Saudi Arabia was formally declared by King Abd al-Aziz of the Central Arabian al-Saud clan in 1932, after a nearly three-decade campaign of conquest covering most of the Arabian Peninsula. Formally, the state is an absolute monarchy ruled by the sons of Abd al-Aziz, who died in 1953. The first Council of Ministers was created in 1953, at a time when oil income had started to play an increasingly vital role in the Saudi process of state formation. Subsequently, the national administration expanded rapidly, state services and the population's standard of living were augmented substantially, and the state began playing an increasingly strong, direct role in people's lives.

Over the same period, remnants of national and local consultative councils – mostly carryovers from the politically more developed Western Hijaz region – withered away and eventually disappeared, leaving a massive bureaucracy as the main formal instrument of rule. Informally, the system was stressed by networks of personal patronage, distribution and favoritism controlled by the sprawling al-Saud family. The clergy, traditionally the al-Saud's main coalition partner, became increasingly bureaucratized and dependent on the ruling family's patronage, while remaining an essential legitimating prop of al-Saud rule.

The country's large-scale oil-fueled rentier economy – which developed gradually over time – led to the creation of a new business class of merchant and contractor families close to the royals. The kingdom experienced some political and labor unrest in the 1950s and 1960s at the heyday of Arab nationalism. However, the al-Sauds managed both to suppress strikes in the (oil-rich) Eastern province and to avert a number of military coup attempts. Official announcement of timid reforms – appointment of a consultative council, drafting of a basic law – usually came to nothing. One of the persistent advantages associated with the al-Saud's political survival has been their ability to embed themselves deeply in significant parts of the administration, especially in the security services, where hundreds of princes hold offices. Their presence in the country's business sector is also considerable, even if many of them act only as facilitators and commission-takers.

The last time the regime was challenged by a mass oppositional movement was in the 1990s, when the Islamic Awakening (al-Sahwa al-Islamiyya), initially a sociocultural reform movement formed in the 1970s, became a political movement as a result of the 1980s economic crisis and the presence of U.S. troops on Saudi soil following the Iraqi invasion of Kuwait. Although its mobilization stopped with the imprisonment of its leaders, and it has since rescinded many of its political demands, it still has a broad following. A subsequent militant challenge to the regime by al-Qaeda on the Arabian Peninsula from 2003 to 2006 was successfully brought under control and never won wide popular support.

The kingdom achieved its highest real GDP per capita to date in the early 1980s. Since that time, the overall economy has for prolonged periods been unable to keep pace with demographic growth, which for many years was above 4%. The post-2003 economic expansion has allowed for increased public employment and an improvement in public services, but given a national population of nearly 20 million, resources remain nonetheless stretched more thinly than they were in the early 1980s.

Despite an inconsistent regulatory framework, the Saudi private sector has matured considerably in recent decades, and has more sophisticated managerial structures than most of its peers in the Middle East and North Africa (MENA) region. It has recovered from the international financial crisis, and the government still counts on it for long-term job creation and diversification.

After the seizure of the Grand Mosque in Mecca in 1979, the regime put special emphasis on the enforcement of conservative social mores, yielding more influence to religious conservatives in education, domestic and international cultural policies and in the enforcement of public order. Nonetheless, after the 1990 – 1991 Gulf War, Islamists and liberals alike were disenchanted with the al-Saud, their apparent inability to protect the realm without U.S. aid, and their generally authoritarian and non-transparent governance. A number of political petitions from liberal and Islamist sources were sent to the royals, and in 1992 King Fahd was forced into a number of symbolic concessions. These included:

- A “basic law.” This set out basic features of the political system and endowed some basic rights with a legal foundation, although without properly articulated recourse mechanisms.

- The creation of a Majlis al-Shura. This is an appointed consultative body tasked with the review of draft legislation, and has been enlarged three times since (from 60 to 150 members). Although the majlis is not representative and has a certain technocratic bias, it has acquired increasing importance in comparatively technical fields of legislation.
- A law of regions, setting out basic structures of governance for the kingdom's 13 regions.

Following these changes, the political situation calmed somewhat, not least due to the fundamental splits within the opposition groups. While liberals had been socially isolated all along, popular Islamist dissidents were either co-opted or oppressed by the regime. Two prominent oppositionist preachers were detained from 1995 to 1999, but both have since moved much closer to the regime.

Crown Prince Abdullah became the effective head of government when a stroke incapacitated King Fahd in 1995. Abdullah gained a higher political profile after 1998, initiating a number of economic reforms beginning in 1999, with somewhat mixed results. In August 2005, he became king following Fahd's death. Abdullah is popular and is generally seen as a driver of both socioeconomic and political reforms, although he has largely ceased activities on the latter front.

The recent economic boom has relieved the pressure to enact political reform; even the Arab uprisings did not galvanize any mass protests outside the Shi'ite-dominated Eastern Province and especially the region around Qatif. Wide strata of Saudi society remain conservative in social and political terms, and despite increasing social differentiation and political awareness, the level of political mobilization is rather low.

There has however been an increase in political awareness among young Saudis. This could raise the bar for the regime in the medium term, as social media users are engaging in more open debate about regime politics and its public service failures, potentially generating a higher capacity to organize small-scale protests and petitions. Combined with a potentially complex royal succession from the current generation of princes to the next, this development could lead to a crisis situation in the medium term.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

Saudi Arabia has not witnessed significant violent conflict within its borders since the 1930s. Nearly all regions and tribes nowadays recognize the sovereignty of the al-Saud state, and there is rather broad consensus over the role of the al-Saud as lynchpin of the polity. The domestic terror problem, which peaked between 2003 and 2005, has been largely overcome, although al-Qaeda retains a residual capacity to disrupt, and future transnational security threats from Yemen, Iraq or Syria cannot be excluded. Following the uprisings in Tunisia, Egypt and other Arab countries, Saudi Arabia too faced an increase in violent clashes and demonstrations, centered in and around the city of Awamiya in the Qatif region. However, the state's monopoly on the use of force was never seriously challenged.

Monopoly on the
use of force

7

Saudi citizens are Muslim by definition; no indigenous non-Muslim groups live in today's kingdom. The Shi'ite minority – Twelver Shi'ites in the east and Ismailis in the south – is denied certain cultural rights. They also suffer from socioeconomic deprivation, and King Abdullah's attempts to focus more government attention on underdeveloped regions have been offset by an increase in social and administrative discrimination against Twelver Shi'ites, particularly in recent years. There is an implicit ethnic hierarchy in Saudi Arabia, with Najids from the central province on top, followed by Hijazis and Eastern Province Sunnis, and the rest below. Najd is associated with the Hanbali Islamic school of law and its Wahhabi interpretation. Non-Hanbali religious practices have become more tolerated under Abdullah, but the public and collective organization of non-Sunni Islam still functions under fairly strict constraints (and occasionally meets with violence from vigilantes and the religious police).

State identity

6

Some Shi'ite oppositionists in exile critique the al-Saud state as it is organized today, but secession is openly advocated only by a small number of radical actors. Some

members of the jihadi political fringe do not accept the al-Saud state as a legitimate entity, but they do not have a clear alternative vision.

The Saudi state is officially defined as Islamic, with the Quran as its constitution. Senior Wahhabi ‘ulama, or Islamic legal scholars, are part of the state apparatus and wield considerable influence on issues of public morals, personal status law, education and culture – although during the last four to five years they have come under increasing pressure from the royal court to scale back their puritanical rhetoric. There is no freedom of worship for non-Muslims (although tolerance of actual practice varies by nationality of the practitioners).

No interference of religious dogmas
2

Secularism continues to be beyond the pale of Saudi discourse, both officially and to a large degree within the broader society.

Officially, all legislation is to be based on Shari’ah. In practice, however, significant parts of the administration are run according to secular principles (including the regulation of Saudi banks). Inopportune fatwas have been repeatedly ignored by the regime, while in some cases the clergy have been forced to issue new verdicts acquiescing to new facts. On economic matters, Shari’ah courts are often circumvented through administrative tribunals; specialized commercial courts are currently being established in a slow and haphazard process, giving the religiously trained judges more influence but also forcing them to apply positive law.

The Saudi state is large, and the administration reaches out even to remote villages, as do increasingly the state’s basic services thanks to a rapid expansion of infrastructure in the wake of the recent oil boom. However, the bureaucracy is very bloated, with its size (informally) estimated at almost 3 million state employees.

Basic administration
7

The “infrastructural power” of the state is unevenly developed, as it has difficulties in enforcing certain economic rules, applying regulations consistently and gathering information about its constituents. For example, residency registrations and the introduction of residential addresses have begun only in recent years, and have proceeded haltingly. As a rentier state, Saudi Arabia has no comprehensive tax system, and the government’s information about economic activities can be deficient.

2 | Political Participation

There are no democratic elections at the national level. Municipal elections were held on a nationwide scale for the first time in spring 2005, and then again after a two-year postponement on 29 September 2011. The governors of the 13 administrative regions are appointed by the royal family and preside over 285 rather toothless municipal councils of which only half the members are popularly elected. In the last elections, 5,324 candidates competed for more than 1,056 seats. Though these were only the second elections to be held in the history of the country, the media reported

Free and fair elections
1

extremely low voter turnout rates, with no more than 300,000 people voting out of a total Saudi population of around 18 million. Women were excluded from voting; after protests by women's organizations that were massive by Saudi standards, including an (ultimately rejected) legal complaint, the king promised that women would be able to participate in the 2015 municipal polls. While the polling itself appears to have been free from manipulation, the broader constraints under which it was conducted made the elections far from free.

The prospect of national elections has been mooted, but these are unlikely to take place any time soon. This is in part because the economic boom has taken political pressure off the leadership, and in part because the Arab uprisings have led to a retrenchment of authoritarianism within the kingdom. Only serious unrest would push the regime to organize (controlled) national elections.

As there are no political officials elected on the national level, there is no influence which could be wielded through this channel. Currently, the only elected persons with some influence in society are the heads of chambers of commerce, but they tend to represent large families engaged in business and their interests are often in conflict with those of the citizenry at large.

Effective power to govern

1

Parties and unions are not allowed, and formal associations require royal fiat in order to obtain a license. The regime has allowed some "civil society" activities to take place during the last decade or so. In the voluntary sector, some bottom-up initiatives have been created, but although some of these have addressed socially difficult topics, none has ventured into open political advocacy. Some political interest groups – professional associations and a human rights group – have been licensed in recent years, but these are state-controlled, and the drive to license new associations outside of the welfare sector has slowed in the last three to four years. Dissidents trying to set up independent human rights groups have repeatedly been prosecuted and jailed. There is more freedom of speech in informal gatherings ("majlis" or "salon"), but these are inherently limited in scale and participation is often limited to social elites.

Association / assembly rights

2

Saudi citizens today have much more space for discussing cultural and social issues than was the case before King Abdullah came to power in 2005. This is significant, as these issues are to some extent tied up with the political identity of the state. Little public debate about substantial political issues occurs, however; while the outcome and relevance of municipal elections can be criticized, for example, no journalist has openly dared to demand national elections. Similarly, criticizing princes in the media remains a red line no one dares to cross.

Freedom of expression

2

Newspapers are controlled through the Ministry of Information, over which the Ministry of Interior has considerable control. Editors-in-chief must be approved by the state. The press has few statutory guarantees against encroachments when they occur (Art. 39 of the 1992 basic law makes what is essentially an open case for

editorial control). A minimal pluralism of opinions is guaranteed by the fact that different newspapers are controlled by different factions of the royal family, which tend to have different ideological orientations.

Mobilization and civic participation through the social media is a relatively new phenomenon in Saudi Arabia but has already had an impact on Saudi society, notably through campaigns for women's employment and women's right to suffrage. Social media might have a strong influence on Saudi society in the future, as state control over the distribution of information has already been somewhat eroded – hundreds of political and societal web sites have emerged, some of which are highly critical of the regime.

The ruling Saudis are struggling to keep the wave of social media at bay, but Twitter is widely used. In late 2010, the government moved to increase its control over independent blogs and websites, demanding that these too obtain official licenses. The rule could not be effectively implemented, but several Twitter users and bloggers have been arrested in recent years for alleged religious deviance.

3 | Rule of Law

The king is the highest judicial, executive and legislative authority, and senior princes can avoid the judiciary's reach more or less at will. The official clergy – although appointed by the king – has been given some limited autonomy to run the judicial system through the Supreme Judicial Council and the new Supreme Court, a situation that has elicited some displeasure on the part of non-royal Saudi elites. The clergy also exerts some control over social and political questions referred to them by the king through the Council of Senior 'Ulama. This relative autonomy seems to have been gradually eroded by recent judicial reforms, however.

Separation of
powers
1

Large parts of the functional bureaucracy are staffed by commoners, and commoners dominate technical posts. Intervention by the royal family in day-to-day matters is limited as long as no immediate political or economic interests are at stake.

Insofar as a judiciary run by the religious establishment can be considered to be independent, Saudi Arabia's judiciary has considerable day-to-day autonomy. The regular administration has very little leeway to control (or predict) judicial goings-on. In the course of a judicial reform and a functional differentiation of courts, however, the system has gradually been subjected to the expanding influence of positive law, a process overseen by the Council of Ministers under the king's control.

Independent
judiciary
4

Judicial professionalism is often limited, especially when it comes to comparatively technical areas such as commercial law, although gradual improvements are to be expected in the course of current training initiatives.

Judicial corruption does occur, especially with regard to land registration and land disputes. In the case of political questions or decisions in which royal family interests are involved, the judiciary traditionally yields to royal pressure. Administrative tribunals function reasonably well, though often quite slowly.

Intrastate accountability and investigation mechanisms exist in principle, but are not used often. However, they have been called into play somewhat more frequently during the last four to five years, however, as several major scandals related to suspect land deals have emerged. A new National Anticorruption Commission, established in May 2011, is focused primarily on mid-level bureaucratic abuses and issues of administrative efficiency, and has yet to hold any senior figure directly accountable for abuse of position. The Control and Investigation Board, established in 1971, is responsible for investigating financial and administrative corruption.

Princes are very rarely removed from offices – it usually takes a major, publicly visible offense for this to happen. Commoners are fired (and sometimes tried) more frequently, but corrupt officials with solid patronage links to the royal family can cling to office for decades without fear of retribution. Defense and security procurement is seen as particularly unaccountable and prone to corruption.

Public naming of corrupt officials remains fairly rare, but has taken place in the course of major crises such as the catastrophic floods in Jeddah in late November 2009, which were caused by deficient infrastructure linked to corruption in the local administration. Reporting on abuses by local judges and municipal administrators has been extensive.

Upon taking office, new ministers occasionally try to discover and remove compromised staffers within state organizations, but the range of such reviews is usually restricted.

The Saudi state rarely resorts to mass violations of existing civil rights, as other Arab authoritarian states have been wont to do. Aside from the detention of terrorism suspects, unlawful arrests are comparatively rare. However, legal rights are very limited: For example, the law does not offer rights of assembly, of freedom of opinion, of organization or of religion, among other gaps. A few rights are enshrined in the 1992 basic law, including privacy of residence and mail correspondence, and the concept of *nulla poena sine lege*, or no penalty without a law. This does not include a grant of basic political rights, however.

Discrimination, both *de facto* and *de jure*, still is rampant in the kingdom. Women are strongly disadvantaged in public life and in the judicial system. The ultra-conservative Wahhabi version of Sunni Islam in Saudi Arabia requires strict segregation of the sexes, including in government offices, workplaces and public spaces. Women also face disadvantages relating to the requirement for male guardianship, limitations on freedom of movement, a lack of laws defining a

Prosecution of
office abuse
4

Civil rights
3

minimum age for marriage, and inequalities in family law. Saudi Shi'ites too face significant discrimination, resulting practically in a glass ceiling in public and even private employment, as well as a general second-class-citizen treatment by the administration and judiciary.

Effective access to judicial redress is limited; the state-sponsored human rights association has taken up numerous individual cases of rights violations, but this has mostly been limited to administrative rather than political rights.

4 | Stability of Democratic Institutions

Saudi Arabia possesses no democratic national institutions in the Western sense. There are clientelist mechanisms of informal accountability, however, insofar as princes are keen to react to public sentiment and to be perceived as benevolent patriarchs. On a practical level, the various groups in society have different degrees of access to these mechanisms. The municipal councils, the only elected public bodies, have done little thus far and have found only limited resonance in society. The appointed national consultative council, the Majlis al-Shura, has at times exposed ministerial inefficiencies, but has never held the government or senior royals accountable as a whole.

Performance of
democratic
institutions
1

Social and political links between the citizens and the government are articulated through patron-client relationships or through informal 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, an 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 in theory also be directly approached at any majlis, although senior-level majlises are in practice tightly controlled affairs.

Commitment to
democratic
institutions
1

5 | Political and Social Integration

There is no party system in Saudi Arabia. Attempts to set up parties in the past have been suppressed. Not even party-like entities, such as an independent human rights association initiated in 2004, or the Saudi Civil and Political Rights Association created in 2009, have been tolerated. That said, there is no historical tradition of party politics in the country and societal demand for such an innovation thus far seems limited. The only (highly imperfect) substitute for parties are the societal clienteles attached to various centers of power, such as tribal groups in the National Guard or the advisors, hangers-on and clients attached to the various senior princes.

Party system
1

Associational life is controlled by the state; a long-promised set of NGO laws remains stalled. There is a lively voluntary sector that attends to various social problems, although its socioeconomic base lies primarily in the upper and educated middle class. Many of the larger charities have a strong Islamist influence, involving both Salafi and Muslim Brotherhood-inspired networks. Above a certain size, associations informally require a royal patron to be able to function.

Interest groups
3

More modern functional-corporatist interest groups (e.g., professional associations, women's and youth associations, consumer rights groups) are state-controlled, relatively bloodless and do not reach out sufficiently to their ostensible target groups.

That said, many interests are represented within the state through various functional agencies, or through princes' informal clientelist networks. Such agencies and networks in part play a role similar to that played by associations elsewhere, though they are subject to stronger political restraints. Ad hoc mobilization on specific social or consumer rights issues through social media has somewhat improved the capacity of larger numbers of Saudis to make their views heard.

There is no recent survey data on Saudi support for democracy that encompasses all of Saudi society. The 2011 Arab Opinion Index, conducted by the Doha-based Arab Center for Research and Policy Studies, indicates high support rates for the statement that "despite having its problems, a democratic system is better than other systems": 28% of respondents said they "strongly agree" with the statement, and another 36% "agree." In a poll of young Arabs between 18 and 25 years of age conducted in late 2012 by Burson-Marsteller, 68% of Saudi respondents reported that living in a democratic country was very important to them, a share only exceeded in Egypt. It is not clear how strong a commitment to democratic institutions this represents in practice, as there is no clear institutional reference point, and young Saudis also scored highest (55%) in their fear of regional unrest, possibly indicating that they do not seek rapid and potentially destabilizing change.

Approval of
democracy
n/a

Interest in the existing democratic mechanisms is limited: According to some reports, turnout for the municipal elections in 2011 was limited to just 300,000 of about 5 million eligible males of voting age. Recent petitions calling for constitutional democracy have found broader support than before the Arab uprisings, but this remains far below the level witnessed in poorer Arab monarchies.

While formal associational life remains strictly state-controlled, informal help networks can be extensive. Usually based on friendship, kinship, tribe, or locale, they remain functionally undifferentiated. Levels of trust between strangers are rather low in the kingdom, and society remains fragmented into regional and (intra-Islamic) denominational sub-groups. There is little tradition of formal association, and social bonds, even if powerful, are often vertical. Society has been demobilized by an omnipresent provider state.

Social capital
4

Since the Arab uprisings, there has been some grassroots activism on local social and cultural issues, but this is often limited to small groups of educated, urban Saudis.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

No Gini coefficient for Saudi Arabia is available, but from a historical perspective, inequality seems to have become somewhat worse after the 1980s oil boom, due both to population growth and the state's limited provision for employment. King Abdullah's regime has taken steps to alleviate poverty, based on a national poverty strategy that was announced in rather general terms in mid-2005 and ratified in October 2006. These steps have included an augmented focus on rural development in subsequent budgets, increased social security expenditure, a national housing program and a one-year unemployment assistance grant activated in late 2011. Effects thus far have been modest, in part because they were counteracted by significant inflation related to the recent oil boom, especially within the housing market.

Socioeconomic
barriers

4

Unlike other MENA states outside the Gulf region, public services (utilities, education, health care, housing credit) remain in many cases free or subsidized. Job market opportunities have improved somewhat due both to oil-financed public-sector job generation and governmental pressure on private business to employ nationals. Private-sector employment generation remains insufficient to lower the country's very high dependency ratio (an estimated six persons per wage earner), however. Recent poverty rankings as well as household income distribution data are not available.

The Gender-related Development Index ranks the country at 135th worldwide in 2011 (with a score of 0.65) with respect to treatment of women, a decline from 128th in 2008. This reflects good access to education and health, but also an exclusion from large parts of the job market and public life. Poorer groups in the vast kingdom's rural and peripheral areas, particularly in the Jizan region, still tend to be excluded from development, as are some Shi'ite groups in the Eastern province. Similarly, the vast majority of expatriate workers earn subsistence wages at best. Average salaries earned by expatriates are less than a third of the level of Saudi salaries.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	429097.9	526811.5	669506.7	711049.6
GDP growth	%	1.8	7.4	8.6	5.1
Inflation (CPI)	%	5.1	5.3	5.8	2.9
Unemployment	%	5.4	-	-	-
Foreign direct investment	% of GDP	8.5	5.5	2.4	1.7
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	20954.6	66751.0	158545.2	164763.7
Public debt	% of GDP	14.0	8.5	5.4	3.6
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	22.2	20.3	19.4	20.4
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.7	2.6	2.5	-
R&D expenditure	% of GDP	0.08	-	-	-
Military expenditure	% of GDP	9.6	8.6	7.2	8.0

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Prices are largely unregulated in Saudi Arabia, and the Saudi riyal has been convertible for many decades. Saudi Arabia is less statist than are most of its MENA peers. Nonetheless, despite all reform attempts of recent years, parts of the Saudi bureaucracy can be stifling. Setting up a business can be relatively cumbersome: Saudi Arabia's good position in the World Bank's 2013 Doing Business survey, at rank 22, is in part associated with administrative streamlining, but relies more on a targeted manipulation of specific regulations related to the formal indicators measured by the World Bank (in terms of enforcing contracts and resolving insolvency, both issues that are related to judicial performance, Saudi Arabia still

Market-based
competition

6

ranks quite low). In the Heritage Foundation's Index of Economic Freedom, Saudi Arabia has in fact dropped in rank: Traditionally falling somewhere near rank 60, it ranked 82nd in 2012.

Numerous smaller initiatives have been taken by state agencies and chambers of commerce to further the development of small and medium-sized enterprises. It remains difficult for smaller entrepreneurs to operate, as personal connections are still an important facilitator in dealing with the state (and other businesses) and in obtaining credit. In such an environment, larger and more powerful players naturally have advantages. This also explains why few new large companies have come into being in recent decades; de facto barriers to entry are fairly high.

Because there are no taxes beyond the religious zakat, which is itself not thoroughly collected, the informal sector in Saudi Arabia is not significant. However, many companies circumvent formal regulations by registering as a type of business that is different from their actual operation, failing to share data with authorities, employing foreigners informally, and by registering under a national's name while being financed and operated by a non-national. The bureaucracy's regulatory powers remain limited.

A national competition authority has existed since 2004, but has been largely inactive. Sectoral regulators for banks, utilities and telecoms are in place, but only the telecoms regulator has a clear competition policy.

Anti-monopoly
policy
4

After a round of licensing in the mid-2000s, new banking licenses are no longer being issued, severely limiting market contestability.

De facto commercial oligopolies remain in place through the commercial agency system, which channels the distribution and retail of international goods through local agents. This system can be circumvented under new WTO-related rules, but in fact remains strong.

Saudi foreign trade has traditionally been rather free, although trade does on occasion encounter costly non-tariff obstacles. Further steps toward liberalization were taken in the course of WTO accession in 2005, and through the Gulf Cooperation Council (GCC) tariff integration, which remains incomplete. Tariffs, already at a low weighted average of 7.3% in 2004, were reduced further to below 4% by 2009; remaining exceptions (on dates, for example) are rather minor.

Liberalization of
foreign trade
9

Some support measures aimed at local producers, such as the provision of inexpensive gasoline or natural gas, could be construed as export subsidies. As Saudi gas is not exported, however, there is no clear basis on which to argue for the existence of price discrimination.

Cumbersome shelf-life rules, inspection and documentation requirements, and product standards have been formally streamlined, although the full implementation of liberalizing measures by the government agencies involved may still take some time. With WTO accession, reform pressure has been somewhat reduced, and the Ministry of Commerce in charge of reforms is a fairly weak actor.

The Saudi financial system is well developed and generally very well capitalized. Foreign banks own minority shares in some of the big players, and banks with full foreign ownership have been licensed over the last decade, although their operations have remained relatively limited, not involving retail activities. The Saudi Arabian Monetary Agency (SAMA), the central bank, is a qualified and well-respected regulator which cooperates rather well with the banks. In the course of the international and regional financial crisis, several large business families defaulted on their loans, strongly reducing the availability of private sector credit and trust within the banking system. However, this did not endanger the existence of any of the banks, most of which have managed to remain profitable despite repeated write-offs of non-performing loans, and growth in lending to the private sector resumed in 2011.

SAMA has consistently enforced capital requirements far above the Basel II and III levels, as well as a loan-to-deposit ratio below 80%.

The Capital Markets Authority, created in July 2004, has struggled to control the more powerful actors “playing” the stock market. It has increasingly named and prosecuted market manipulators, including at least one member of the ruling family, but speculative trading continues, while financial disclosure is often limited to the legally required minimum.

International institutional investors that could improve the availability of information still tend to avoid the Saudi market, as direct investment in Saudi stocks remains impossible for foreigners. That said, the market could open up in the near future and prove fairly attractive, as it offers an array of solid blue chip stocks.

8 | Currency and Price Stability

Saudi Arabia has historically been quite successful in containing inflation. After a spike in inflation to above 10% during the 2008 boom year, annual price growth has dropped to around 5% again despite rapid economic expansion in 2011 and 2012. Due to the peg of the Saudi riyal to the dollar, the central bank’s only tools for managing inflation are the manipulation of reserve requirements and open market operations of limited scope due to a lack of interest-rate flexibility. Despite much speculation over the years, the riyal-dollar peg is unlikely to change any time soon.

Banking system

8

Anti-inflation /
forex policy

8

The central bank, SAMA, is operationally independent and well respected, although politically dependent on the Ministry of Finance. SAMA's foreign assets have sharply increased in recent years, to more than \$600 billion in late 2012.

Saudi fiscal discipline has slipped somewhat in recent years: While spending increases were moderate and considerable reserves were accumulated during the early phase of the boom, spending increases have been more dramatic in the years since 2005. Public expenditure growth has particularly vigorous since the outbreak of the Arab Spring. In the intervening years, the government has spent over \$100 billion on social spending, new public projects and stipends, partly as a reaction to the effects of public discontent elsewhere in the region.

Thanks to very high oil prices, a significant amount of foreign assets have been accumulated despite this expenditure, and government debt has decreased from more than 100% of GDP in 1999 to about 7.5% of GDP in 2012.

Nonetheless, fast spending growth (nominal spending has more than tripled within the last decade) has contributed to bouts of inflation, and has locked in government spending at a high level that will require ever-higher oil prices in order to break even. Spending growth on public employment and welfare benefits has accelerated in the wake of the Arab uprisings.

The state remains very fiscally dependent on oil, as it levies no taxes on income, sales or value added by nationals or local companies. This means that long-term fiscal problems cannot be ruled out. There is no formal budget stabilization mechanism.

9 | Private Property

Property rights are generally respected, but asserting them through the court system can be time-consuming and uncertain. In some important areas such as land ownership, regulation of property rights is deficient, as there is no generally accepted public registry, and powerful players can muscle their way in to obtain land deeds. Recent years have seen a number of large real estate scandals, several of which involved corrupt judges and the notary public.

Similarly, hundreds of thousands of small enterprises are de facto owned by foreigners, while the official Saudi owners collect no more than a monthly fee from them. Ownership rights in these "cover-up businesses" are accordingly precarious. There can also be marginal infringements on property rights by bureaucrats or princes who take commissions or demand silent shares in successful operations.

Two strategic sectors in the kingdom – oil and petrochemicals – are wholly state controlled. The state has shares in several large and important banks, including a majority share in the important National Commercial Bank. The government has a

Macrostability

6

Property rights

7

Private enterprise

7

majority stake in the largest telecommunications operator and controls the (small, but rapidly expanding) national railway, a national bus company, the national airline that dominates domestic air transport, important parts of the mining sector and the majority of the utilities sector.

Most other sectors (retail and wholesale, most industries, services, etc.) are largely privately controlled. Privatization in general – including further sale of government shares in Saudi Arabian Basic Industries (SABIC), water and electricity services, Saudi Arabian Airlines, etc. – is moving ahead only slowly or not at all. A number of large independent water and power projects with foreign participation represent the most important new area of private involvement.

10 | Welfare Regime

In what is clearly an overstatement, Saudi Arabia is often described as a state with “cradle to grave” welfare. More precisely, it is a state which offers many public services for free or at great discount, and employs a disproportionate share of nationals in the public sector, but does not offer social security guarantees of the quality encountered in advanced European societies. Water and electricity are strongly subsidized for those within lower income brackets, while public education and health services are free, although sometimes of questionable quality.

There is a system of social security payments, but it is patchy and administered on a case-to-case basis, and despite considerable budget increases in recent years has proven insufficient in alleviating the kingdom’s considerable poverty problem. State pension payments are financially secured for many decades to come, but can be insufficient.

There is no unemployment insurance program (although one is under consideration); the last five years have witnessed considerable numbers of oil-financed additions to the government payroll, and King Abdullah decreed temporary payments to unemployed Saudis in February 2011. Public employment is not provided to all nationals, however, leading to an uneven and discretionary distribution system.

As family networks remain tight, many individuals are prevented from sliding into poverty thanks to assistance from wealthier relatives, but these networks are getting increasingly stretched as the population continues to grow and labor market participation remains at a low 36% among the national working age population.

Benefits of the recent oil boom have not yet trickled down to the majority of the population. Millions of expatriate workers continue to live in poverty, with average wages below \$300 per month. They are politically disenfranchised and are by and large excluded from the state’s welfare systems. Attempts to replace them with Saudis

Social safety nets

7

in the private sector (“Saudization”) have foundered over the latter group’s higher salary expectations and unwillingness to work as many hours as do the foreigners.

The degree of success of the Saudization process, known as “nitaqat,” is thus unclear – some reports claim it has resulted in upward of 400,000 Saudi citizens obtaining jobs in the private sector, while others deem it relatively ineffective. Among other means, the initiative encourages companies to employ nationals by denying government contracts to those companies which cannot or do not comply. Saudization is a contributing factor to the strong discrimination against foreign workers in Saudi Arabia.

In principle, the Saudi Arabian state makes public services available on a relatively broad basis, including the provision of access for women and regional and sectarian minorities. Personal relationships with government institutions can play an important role in the administration of public services, however, which can make for de facto inequality in access. Being from a peripheral region or a Shi’ite follower in particular can be a disadvantage.

Equal opportunity
3

King Abdullah has made a special effort to cater to peripheral regions and to women’s needs, but much remains to be done. Saudi women’s particular problem is that – despite formal changes to the contrary – they often still need a male intermediary to deal with the state on their behalf, which can expose them to fraud and make interaction with the rather opaque bureaucracy especially cumbersome. Although they have good access to (segregated) higher education, increasingly even to subjects once reserved for males, women’s job opportunities are largely restricted to sectors such as health and education. The government has recently pushed with some success for women’s employment in the retail sector, though conservative forces have lashed out against such measures.

In 2011, Saudi Arabia ranked 135th (out of 146 countries) on the UNDP’s Gender Inequality Index (value: 0.65).

Foreigners continue to be discriminated against in the labor market and – at least in the case of poorer expatriate workers – within the judicial system. They have practically no chance of acquiring citizenship, even if born and raised in Saudi Arabia.

11 | Economic Performance

The Saudi economy has weathered the international financial crisis relatively well, achieving real annual growth rates of 4.8% in 2010, 8.5% in 2011 and an expected 6.8% in 2012, with the private sector respectively achieving 5.6%, 8.7% and 6.2% growth. Most of this has been driven by strong increases in state spending, however,

Output strength
7

and the private sector's long-term capacity to drive growth independently of state spending remains in doubt.

While state debt has been heavily reduced, inflation remains at an annual rate of around 5% after a temporary spike to 10% in 2008. The trade balance is strongly positive, largely due to oil. Foreign investment inflows have continued at fairly high levels throughout the last decade, reaching \$14.7 billion in 2011.

Although the recent boom has been better managed than the previous such period during the 1970s and early 1980s, potential threats remain on the horizon. The economy remains precarious in the long run, as a significant reduction in oil prices would severely undermine business confidence and the state's fiscal leeway. Overseas reserves could be depleted within a decade or so. The country still lacks a viable tax system.

Private employment generation for Saudis is still insufficient to accommodate the estimated 300,000 new entrants to the labor market per year, in part because wage levels are strongly differentiated between "cheap" expatriates and more expensive Saudis in most sectors. The "nitaqat" system of quota-based Saudization in private employment has produced some initial successes, but it is not clear what proportion of the Saudis now in formal jobs are in fact productively employed.

12 | Sustainability

Environmental concerns have received significant media coverage in recent years, and in the face of local gas shortages and rapidly increasing domestic oil consumption, renewable energy has become a particular focus of national debate.

Environmental
policy
4

State oil giant Saudi Aramco, as well as the new King Abdullah City for Atomic and Renewable Energy, created in spring 2010, are the leading players in this field.

Environmental awareness is not deeply anchored in the public or bureaucratic consciousness, however, and the formal obligation to perform environmental impact assessments for new projects is usually treated cavalierly. Powerful follow-up mechanisms are lacking. For the time being, the Saudi economy remains very energy intensive and energy inefficient due to low electricity and fuel prices.

All major cities suffer from sewage problems, and industrial spills are not uncommon. The average Saudi household produces large amounts of garbage and consumes as much energy as a U.S. household, considerably more than the European average. The government's solar energy agenda is ambitious, but activity on the ground has to date been thin, with domestic oil and gas consumption growing at an annual rate of 10%.

Education expenditure has risen sharply in the course of the recent oil boom, accounting for a quarter of the national budget in recent years, and reaching close to 10% of GDP. The quality of public education has not necessarily increased at the same rate, however. Teaching still is oriented toward rote learning, and Arabic and Islamic studies still hold an extremely dominant position in the curricula. Under the leadership of a new minister of education, Faisal Bin Abdullah Bin Muhammad Al-Saud, son-in-law of King Abdullah, an ambitious project to retrain teachers and reform curricula has been started, but this has met considerable resistance and will not show results on the ground for quite some time.

The number of private schools has grown, and more than a dozen private universities have recently been licensed, with student numbers growing from almost nothing to about 26,000 in 2008 – 2009. Access for the less affluent remains a problem, however.

As in most other Arab countries, R&D spending in Saudi Arabia remains very low, reaching only 0.1% of GDP in 2009 according to UNESCO. Aramco and state heavy-industry giant SABIC are the only corporate entities engaging in significant and increasing amounts of research, sometimes in cooperation with the (state-run) King Abd al-Aziz City for Science and Technology. With the exception of the small University of Petroleum and Minerals, public universities are of low quality. The newly founded King Abdullah University of Science and Technology is likely to change this, however, as it has been furnished with a \$10 billion endowment and has managed to attract international faculty members, although it has also recently lost some faculty. In the higher education system more broadly, quantitative expansion has in recent years received more attention than qualitative upgrades.

Education policy /
R&D

5

Transformation Management

I. Level of Difficulty

Structural constraints on governance in Saudi Arabia are moderate, as the state has considerable resources, has not seen major epidemics or wars for many decades, and is in an advantageous geo-economic position. Saudi Arabia remains thinly populated relative to its size, however. This increases infrastructure costs, and makes it difficult to develop peripheral regions or to avoid an overcentralization of population and economic activity in its three main city clusters. Moreover, the Saudi state suffers from capacity deficiencies due to its comparatively recent emergence, the rentier mentality of many of its bureaucrats, its limited penetration of society from a regulatory perspective, and its own penetration by clientelist networks in significant parts. This can make consistent implementation of policies difficult.

Structural
constraints
4

Regional civil society traditions did exist in Saudi Arabia before the onset of large-scale oil income in the 1950s. Since that time, the state has taken over many welfare functions and has generally prevented independent organization. Although there are numerous welfare societies with considerable resources, these exist in the shadow of the state and – at least above a certain size – are tightly controlled by it. In the aftermath of the terror attacks of the mid-2000s, religious organizations have also come under increasing control by the state. There are no powerful independent unions, syndicates or issue-oriented groups in the kingdom, leaving Saudi society deeply fragmented. The only social structures most Saudis can rely on are small-scale informal networks of kinship and friendship. Recent government attempts to set up formal interest groups in a top-down fashion have not really caught on; less political welfare associations and charities have seen considerable expansion, however. In the wake of the Arab uprising, younger urban Saudis have engaged in sporadic grassroots activism on a variety of social issues, but without drawing on firm organizational structures.

Civil society
traditions
9

Regional, tribal – and in some regions, sectarian – identities in Saudi Arabia remain strong. The Saudi state and its patronage networks have to date been strong enough to prevent the emergence of significant organized challenges by sub-state identity groups or other communities. Although there is informal discrimination, violent incidents are mostly limited to the Shi'ite minority in the Eastern Province, where the overall level of sociocultural integration remains rather low. For example, the town

Conflict intensity
4

of Awamiya in the Qatif region experienced violent clashes in 2012, with police forces opening fire and killing or wounding many demonstrators. Protesters taking part in the January 2012 unrest numbered in the hundreds, hurling stones and petrol bombs at security forces. The protestors called for political reform and an end to sectarian discrimination. Saudi security forces have since killed up to 13 protesters, wounded up to 29, and detained at least 20. The Ministry of the Interior has categorically denied that any confrontational activity has taken place in this region.

II. Management Performance

14 | Steering Capability

Question
Score

The political leadership under King Abdullah is committed to gradual economic and sociocultural reform; his accession to the throne represented a clear improvement over the situation of paralysis in place under King Fahd until 2005. Abdullah's opening of debate on sociocultural issues reflects a clear commitment to reforming some of the rigidities of the patriarchal Saudi society. He remains committed to careful economic opening, state-driven diversification and educational modernization.

Prioritization
4

At the same time, Abdullah's understanding of technical issues remains limited, and he is dependent on his senior advisors, some of whom pursue their own interests. Consistent follow-up on long-term reforms has been deficient, and policy initiatives sometimes have a knee-jerk quality. Moreover, being in his late 80s, Abdullah could exit the stage at any moment, making for a possible rupture in policymaking. He has had considerable health problems in recent years, while his putative successor, Crown Prince Salman, is also in his mid-70s and might be suffering from mild dementia. The next apparent claimant to the throne, second Deputy Prime Minister Prince Mugrin, is perceived as a weak figure. The ascendancy of both Salman and Mugrin could make for a phase of extended political paralysis and short-term policymaking. The division of the leadership into different camps and institutional fiefdoms has slowed modernization of the system. A future struggle over succession to the next generation of princes remains a possibility and could further fragment government.

More fundamentally, no one within the Saudi elite seems committed to substantial political change; Abdullah's very careful agenda of political opening was abandoned after 2005 and reversed after the Arab uprisings, when the regime cracked down on dissidents. Enabling serious popular participation in the form of national elections, public fiscal accountability on the part of the government, or the freedom of

organization is not a topic given credence within the national strategic debate. Among the senior princes, styling oneself as “reformist” or “conservative” is as often a tactical move as it is a reflection of genuine ideological conviction. The primary consideration remains regime survival.

Saudi Arabia does not have a serious political reform program, and the few steps that have been taken – such as municipal elections or the licensing of specific interest groups – have been inconsistently implemented, with little follow-up particularly during the last five years. The oil boom has reduced pressure for political reform, while the Arab uprisings have led to instinctive rejection of constitutionalist demands.

On the economic reform front, considerable modernization took place within the context of WTO accession in 2005. Since that time, economic reform initiatives have been largely limited to individual infrastructure and investment projects and the creation of a commercial court system, a venture which is still in progress. Change in general is easier to effect on the formal-legal level than on the level of bureaucratic implementation, where the atmosphere has not changed substantially since Abdullah’s accession.

Although some reforms are effectively seen through – such as the involvement of private investors in the water and power sectors – others have been badly hampered by bureaucratic infighting and sluggishness.

King Abdullah is clearly a more consultative ruler than his predecessors, and is more willing to recognize new challenges and discuss change. At the same time, his age, limited education and reliance on advisors prevent him from envisaging any radical change, certainly on the political level. Recent Saudi policy on the Arab uprisings was essentially reactive rather than proactive.

In other areas, there has been somewhat increased political flexibility. The handling of the current oil revenues indicates that some learning has taken place since the last oil boom, when more money was squandered more rapidly. Similarly, willingness to engage in some limited cultural opening indicates that the leadership has recognized the political problems caused by Wahhabi cultural rigidities. However, the large and immovable state apparatus, and the complex structure of political clienteles attached to it and to the al-Saud family, limits the pace of any large-scale change, and the prospect of future reform programs remains contingent on whoever accedes to the throne.

Implementation
4

Policy learning
5

15 | Resource Efficiency

Resource efficiency in Saudi Arabia has by and large improved since the last oil boom, as both administrative capacity and fiscal management experience have expanded. The fiscal balance has improved tremendously during the last decade, although this is as much due to higher oil prices as to good fiscal management. The balance of current and capital spending has much improved since the mid-2000s, allowing for considerable infrastructure investment. National budget targets are regularly exceeded by more than 10%, which as an informal rule in fact tends to guarantee reasonably predictable macro-policies. However, when it comes to specific allocations, budgets remain nontransparent and closing accounts are not published. The Majlis al-Shura (a consultative assembly with all 150 members appointed by the king) lacks budgetary powers.

Efficient use of
assets

4

Moreover, many inefficiencies are deeply embedded in the state apparatus. King Abdullah has reined in princely corruption to some extent, but large institutions such as the ministries of Interior and Defense are still unaccountable, as they are run by senior princes who are contenders to succeed Abdullah. Many agencies remain overstaffed – even more so after the recent boom – and dismissal of surplus personnel is practically impossible. There are perhaps three times more Saudis employed by the state than by the private sector.

New appointments are based on reasonably competitive examinations in a considerable number of government institutions, but due to wage stagnation and low upward mobility, most of the public sector has ceased to be a competitive employer for the most talented Saudis.

Good governance principles have not pervaded the bureaucracy; it remains opaque, overcentralized and unaccountable. Interministerial administrative reform committees have not produced any significant administrative reform policy proposals for the last 20 years. Still, compared to many other oil states the Saudi state is reasonably efficient, and it includes several “pockets of efficiency” that are tasked with high-priority functions and are relatively autonomous from the rest of the state apparatus.

Policy coordination at the top of the system has improved since King Abdullah’s accession. The strong centralization of authority within the Saudi system contributes to this. By the same token, however, redundancies and overlapping responsibilities in implementation still exist at the ministerial level and below. Interministerial coordination is strongly deficient, as communication tends to be vertical rather than horizontal, while on the level of the most senior agencies (the royal court, the ministries of defense and interior) it can be hampered by the personalization of power.

Policy
coordination

6

Policies and procedures which involve more than one institution often suffer from inconsistencies. Policy areas such as education and health remain fragmented, as large institutions such as the ministries of defense and interior have their own educational and health establishments, and the ministry of interior still involves itself in numerous issues of economic regulation that should be the domain of other agencies. In some cases (e.g., labor and water issues), responsibilities have been consolidated, but in others this has not been technically or politically feasible. Coordination could be further undermined by the ascendancy of a weak king and future succession struggles.

Corruption in Saudi Arabia has always been worst on the most senior levels of the government, but long-term observers generally agree that there has been a gradual trickle-down during the last 30 years due to slowly rising costs of living and stagnating wages. This said, administrative corruption is still less widespread than in poorer Arab countries such as Egypt or Syria. Certain government institutions have traditionally been rather free of corruption, including the state oil company Saudi Aramco, the central bank (SAMA) and the Royal Commission for the Industrial Cities of Jubail and Yanbu.

However, the lack of disclosure requirements means there is no real public accountability for bureaucrats, the Majlis al-Shura is reluctant to deal with specific cases of misdemeanor, and the press is with some notable exceptions generally tame. Several intrabureaucratic integrity mechanisms such as an administrative supervision agency and a disciplinary board for bureaucrats have gained some visibility in the last few years, but these do not report systematically on their activities, and cannot touch large fiefdoms such as the ministries of Defense or Interior. The new National Anticorruption Commission set up in May 2011 has mostly concentrated on public service quality issues and low-level corruption. There have been successful trials of several senior municipal administrators involved in real estate corruption that exacerbated the consequences of the Jeddah flood in 2009, and several judges involved in corrupt land deals are being prosecuted.

The personality of different ministers can have a significant impact on the level of corruption in various institutions. King Abdullah has curbed menial princely corruption. However, he is unable to effectively supervise what other senior princes are doing in their respective ministries.

16 | Consensus-Building

The most fundamental political consensus in Saudi Arabia currently seems to pertain to the broadly Islamic nature of the state and the al-Saud's status as ruling family (even if there is disagreement about the extent of their involvement in day-to-day

Anti-corruption
policy

5

Consensus on goals

4

politics). This is currently questioned only by marginal dissidents who lack an organizational base, as well as some radical Shi'ite oppositionists.

Conversely, there is no consensus on democratization, a concept that remains alien to important parts of Saudi society and is generally poorly understood, although the current regional ferment seems to be changing this at least among younger Saudis. Nor is there general agreement within the elite with respect to steps toward political liberalization. King Abdullah has been willing to concede some token aspects of political opening, but this petered out around 2005, and no strong follow-up demands have been made.

Consensus on the importance of the market economy and on the need for gradual economic reform is broader-based among senior princes, technocrats and merchant families. However, details remain disputed and vested interests in both the bureaucracy and the business sector can be powerful.

Senior princes such as Minister of Defense Prince Salman can cast vetoes against specific reforms. The 'ulama, rich merchant families and government agencies (on specific policies) also have some veto power, but their opposition can be overruled by powerful princes – although the princes' policymaking caution often prevents them from taking this step.

Anti-democratic
actors

2

The consensual Saudi decision-making process implies that specific reforms can become stalled for considerable periods. Another major obstacle to reform is represented by hardline Wahhabis, who can muster considerable popular support against certain measures such as allowing women to drive, although they have been on the defensive regarding educational, judicial and women's labor reforms.

Generally, even forward-looking reforms lack a democratic framework, and are not the product of democratic forces.

King Abdullah is generally perceived as a reconciler, and previously marginal groups – be it due to geography, religion or gender – generally perceive him as the best hope they have among the senior princes. He has repeatedly received Shi'ite and women's delegations, and in his own paternalistic way is genuinely concerned about making the Saudi system inclusive, pushing the religious establishment toward a discourse of tolerance, and instituting a (limited) sociocultural pluralism.

Cleavage /
conflict
management

3

This does not mean that deep social cleavages have disappeared overnight, however. The al-Saud monarchy is still historically and ideologically tied to a Wahhabi Islam that is exclusivist, patriarchal and extremely conservative, and has been identified with the supremacy of elites from the central province of Najd. Senior royal advisors as well as leaders of the religious establishment still stem predominantly from this area, and the inclusion of other groups does not automatically imply equality. Anti-Shi'ite prejudice among governing elites and the Sunni population at large has

worsened with the heightened conflict with Iran and the Syrian civil war, in the latter of which Saudi Arabia is supporting the opposition fighters, among them jihadi groups. King Abdullah's "National Dialogue," which was supposed to bring together different regions and sects within Saudi Islam, has stalled and become an apolitical affair.

Generally, Saudi society is so strongly demobilized and dependent on the al-Saud's patronage that large-scale clashes between sectional interests remain unlikely.

There is little "formal" civil society with which the regime can engage in the course of policy deliberation, with the notable exception of the private sector, which is relatively well organized through chambers of commerce and industry. Other formal interest groups created in the course of the mid-2000s wave of reforms are still largely excluded from policy deliberation within the bureaucracy. Social interests can however be informally represented through religious, tribal and community leaders who engage with princes, or more indirectly, through the information-gathering services provided by the princes' various hangers-on. The capacity of these channels to represent the interests of an increasingly complex society is limited, however.

Civil society
participation
3

King Abdullah is willing to consult with others, but organized partners with whom to consult are not always available in society. The disjointed process of policymaking in the Saudi bureaucracy can also mean that social interests might be taken on board at a certain point of deliberation, but are later ignored by different institutional actors.

Saudi Arabia has not seen major atrocities or acts of mass violence within living memory, although violence has been used against Shi'ite uprisings in the Eastern Province and militant Sunni groups during the last three decades.

Reconciliation
4

Due to the hegemony of Wahhabi ideology emerging from the central province, the main perceived injustice is that the country has socially and culturally been a very exclusive system. King Abdullah has taken significant symbolic steps toward bringing previously excluded groups (women, Shi'ites, non-Hanbali Sunnis (especially Sufis), tribes based in poor regions, etc.) back into the fold. Higher oil income has allowed the government to attend to neglected communities, and the general period of soul-searching following the 2003 – 2004 terror attacks has created space for previously marginalized voices and for the criticism of Wahhabi ideology.

This does not amount to an official apology, but still means significant decompression of the Saudi public space, now increasingly institutionalized through stronger checks on the religious police, a centralization of the issuance of fatwas in order to avoid extremist statements, and a modernization of the education system. Advances made by Saudi Shi'ites in this context have been reversed during the last two years, however.

Thousands of political prisoners who were arrested in the wake of the al-Qaeda campaign from 2003 to 2006 remain in detention without trial, which has created grievances and some political mobilization among their families.

17 | International Cooperation

The Saudi government has always been relatively good at taking on board technocratic or consultant-driven advice from international organizations, both private and public. This has been demonstrated in the course of WTO accession, the management of independent water and power projects, the upgrading of capital-market regulation, and the creation of the King Abdullah University of Science and Technology.

Effective use of support

5

That said, as the kingdom pays for its consultants, international actors have limited leverage over the implementation of policies, and it is in this phase that special interests in the bureaucracy can often stall or alter the course of reform.

On political issues, the rather prickly Saudi elite almost uniformly rejects international involvement. This does not mean that pressure behind the scenes never works – it did to some extent when the United States pressured the kingdom on educational and certain social reforms between 2003 and 2005. In general, however, there is a strong sense of Saudi exceptionalism, and attempts to counsel Saudis publicly on political change tend to backfire. The increasing participation of officially licensed NGOs in international conferences and intergovernmental forums on social and human rights should be seen as a defensive move rather than as a step toward true opening.

Saudi Arabia has always pursued a very conservative foreign policy and is considered a reliable partner. However, this pertains to international diplomacy and economic cooperation, not to partnership in democratic reform. Even in matters of economic change, Saudi Arabia is very conscious of its sovereignty and has been criticized for not fully implementing international obligations (recently under the WTO), and is very reluctant to subject itself to non-Saudi judicial mechanisms. There is little cooperation with political international non-governmental organizations (INGOs); cooperation with development-focused bodies such as the World Bank, UNDP or the IMF has been closer. Although the country is not always an easy environment in which to operate for foreign investors, Saudi institutions are generally perceived as stable, and detrimental changes in basic economic rules do not occur.

Credibility

5

The country has historically played a major role in the defense of the Islamic (usually Sunni) community in various international theatres of conflict, including through support of militant groups. It scaled back these activities substantially after 9/11, but is now getting involved again in the Syrian conflict. There as well as in Bahrain, it

has forcefully sided with anti-Shi'ite and anti-Iranian interests. Saudi troops also provided support for Yemen's embattled President Ali Abdullah Salih until his resignation on 22 January 2012. These military operations have reduced Saudi Arabia's international credibility.

Saudi Arabia has a vested interest in a calm regional environment, as this allows it to flex its economic muscle. It has thus taken a leadership role in the Arab League and the GCC to work toward economic cooperation and a nuclear-weapon-free zone in the Gulf. While its relationship with Iran significantly improved after 1997, the relationship has again deteriorated dramatically under Ahmadinejad – although the same is true of some of Iran's other neighbors. The Saudi royal elite itself is split over how to deal with Iran, some supporting aggressive military action by the United States or Israel and others opposing any violent escalation.

While the Saudi government does not formally recognize Israel, it has been ready to strike informal, pragmatic deals if they benefit the Palestinian cause – and, possibly, if they work to the detriment of Iran. Relations have remained stable over time, and in late 2011, Saudi Arabia along with other GCC countries officially accepted Jordan's (as well as Morocco's) bid for GCC membership.

Historically, some Saudi institutions have a track record of supporting extremist ideologies and movements in the Islamic worlds, but these have been reined in substantially in recent years. The historically anti-Shi'ite bias of important parts of the Saudi establishment makes its role as neutral arbiter suspect in areas such as Lebanon or Iraq, one of the reasons why the kingdom has withdrawn as mediator from the Lebanese scene.

Saudi Arabia has a strong interest in preventing political upheaval on the Arabian Peninsula. In Bahrain, the continuing presence of Saudi troops is designed not only to have external results (i.e., saving the ruling family of Bahrain), but also internal results in terms of sending a strong signal to all groups which may be tempted to challenge Saudi rule, especially the Shi'ites within the Saudi Kingdom. The Saudi royal family has therefore been involved in limiting Yemen's democratic movements, albeit in a manner more discrete than was the case for its involvement in Bahrain. The Saudi kingdom has long relied on an economic relationship with Yemen that is very lopsided. The de facto autonomy of the Huthi tribe in Yemen on the southern Saudi border is a major concern to the Saudis and might lead to open or disguised military involvement.

Strategic Outlook

Possibilities for substantive political reform in Saudi Arabia remain very limited in the short term, and might be even more limited once King Abdullah exits the scene, in particular if there is a quick sequence of aged or weak leaders. The kingdom does not at present have the social infrastructure to sustain a peaceful democratic transition or an open contestation of political interests, and the interest in any such development within the elite is very muted. The most serious advocates of political participation are to be found among Islamists, who in the medium-term could emerge as the main partner in a transition toward meaningful participation. This has started among groups affiliated with the Muslim Brotherhood, but has now also spread among some of the groups identifying themselves as “Salafi,” which were originally opposed to modern democratic governance. How the members of a younger generation of “post-ideological” political activists – which has come to the fore in the wake of the Arab uprisings – will position themselves vis-à-vis Islamist forces remains yet to be seen.

If moves toward a more inclusive and equitable political process are to be prepared, meaningful civil society institutions will first have to be built. This means allowing public space for the independent organization of social interests grounded in regional, professional, religious and other identities. The organizational field today is only open – and only to a limited extent – on issues of welfare, while more political associations are tightly controlled by the regime. If the reins are loosened, civil society groups might at first be dominated by Islamists. But this does not per se prevent pluralism, as the Islamist spectrum is fairly wide in Saudi Arabia and encompasses quite different points of view. What is needed is a national interest-aggregating infrastructure that is not based on kinship, sect or patron-client relations, which almost by definition are exclusive and unequal.

The last decade’s comparatively more open debate over sociocultural issues represents a first, modest step toward the acceptance of political differences. Electoral politics can be rehearsed through the actions of civil society groups, and their gradual inclusion in policymaking processes could make for a more public style of politics. To overcome its cleavages, Saudi society needs to become used to the public interplay of different opinions and interests.

Some of this has been taking place through the relaxation of media censorship and the emergence of social media, but society remains polarized, and significant parts of the conservative spectrum remain uninterested in any kind of pluralism. However, a young and increasingly educated generation of social-media users has an ever-growing presence on platforms such as Facebook and Twitter (Saudi Arabia had over 3 million Twitter users as of January 2013, making it the fastest growing Twitter nation in the world). Saudi society is increasingly less isolated from regional and global developments. However, it remains to be seen how these virtual forms of collective organization may influence debates over political reform in the future.

Much of the Saudi political opening will have to be negotiated domestically, and it has to be made clear to the al-Saud that relinquishing some of their control over day-to-day policy matters need not mean the end of the family's rule. Indeed, disengagement from daily politics could help them focus on their role as arbiter in crisis situations and as reconciler in fundamental disputes. Disengaging from micro-issues would allow them to keep their distance from mundane problems of administrative corruption and mismanagement, which could in fact improve their legitimacy.

Reducing the role of the numerous princes in government, however, will require some tough bargaining within the royal family. The transition to a new generation of leaders after the exit of the current set of senior princes offers a chance for such a new bargain – although the transition process could backfire and lead to a process of horse-trading, creating even more princely fiefdoms and a less centralized ruling elite.

External actors can be helpful by publicly accepting that Saudi Arabia has to find its own way toward participatory politics, while remaining firmly behind the basic vision of introducing participatory elements. States, international governmental organizations (IGOs) and INGOs can help assist with the development of Saudi civil society, but should do so carefully and in reaction to local demands, not on the basis of external ideas of what Saudi society should look like. Sociocultural reform moves have also opened more opportunities for cultural and educational cooperation, for which there is great interest in Saudi society.

International institutions and media organizations should highlight the importance of reformist voices in the kingdom, and give them international platforms. There is great interest among the often highly educated and internationally oriented Saudi intellectuals in communicating with international peers and civil society institutions, but there are as yet too few connections. The Saudi setting, although ossified, is relatively pluralist, and has many access points for discussion, research and exchange. Foundations run by liberal princes can be used to increase international communication. Fledgling interest groups, even if controlled by the state, can be given technical assistance and integrated into international structures.

The scope for international cooperation on the economic level is much wider, as Saudi Arabia has a long track record of cooperation with bilateral committees, international agencies and consultancies. International players can draw on a broad stratum of sophisticated technocrats with Western education, and they should play on the strong Saudi interest in international benchmarking and “best practices” to support further economic reform.

While reforms have been implemented fairly successfully in areas of economic governance such as trade regulations, stock market oversight and foreign investment rules, the kingdom still struggles with severe underemployment among its citizens. This will represent the main socioeconomic challenge in the decades to come. It is here that international players can provide useful policy input on labor market, immigration and civil-service reform with a view to orienting Saudis toward and preparing them for private sector employment.