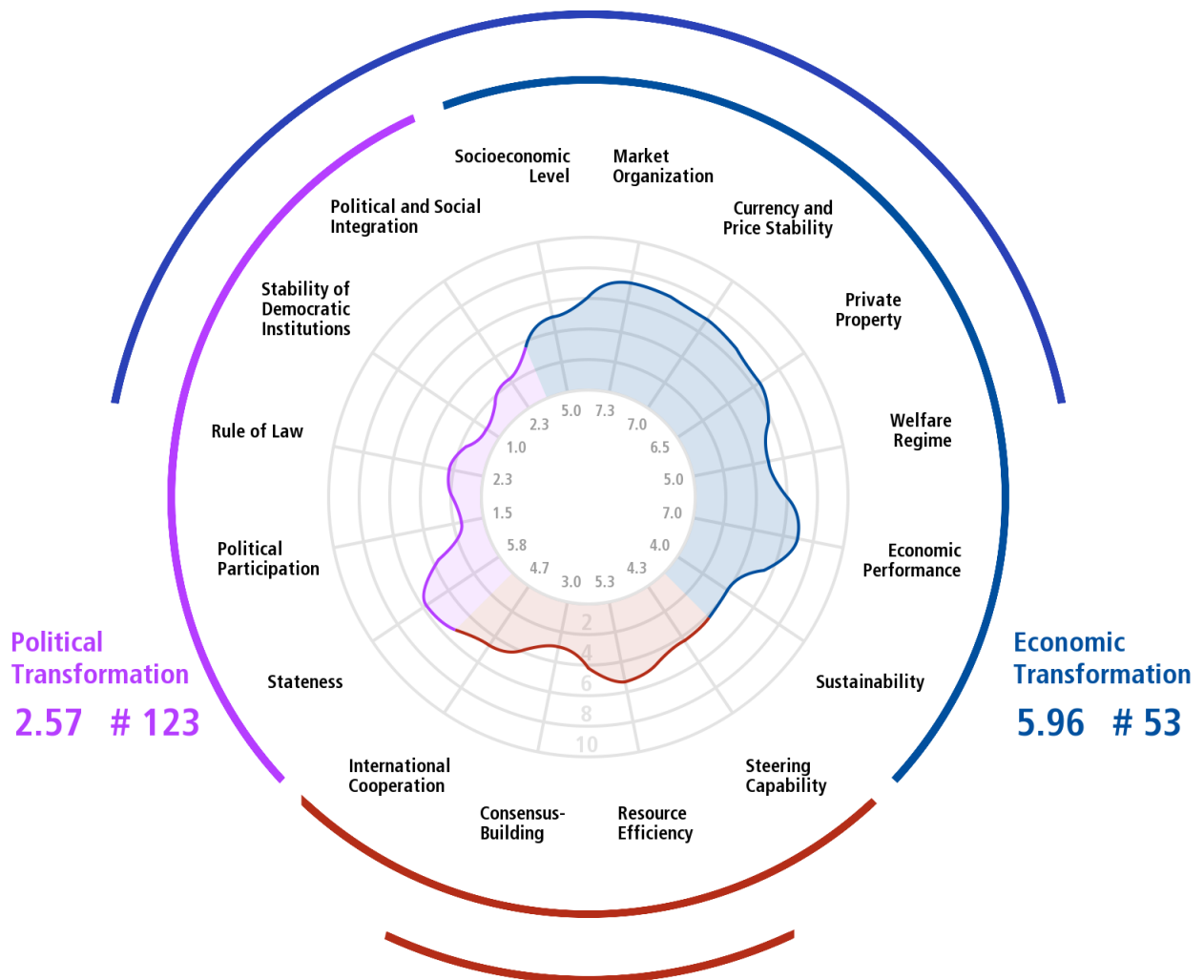


# Saudi Arabia

## Status Index

**4.27 # 97**

on 1-10 scale out of 129



## Governance Index

**3.80 # 98**

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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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## Contact

Bertelsmann Stiftung  
Carl-Bertelsmann-Strasse 256  
33111 Gütersloh  
Germany

### **Sabine Donner**

Phone +49 5241 81 81501  
[sabine.donner@bertelsmann-stiftung.de](mailto:sabine.donner@bertelsmann-stiftung.de)

### **Hauke Hartmann**

Phone +49 5241 81 81389  
[hauke.hartmann@bertelsmann-stiftung.de](mailto:hauke.hartmann@bertelsmann-stiftung.de)

### **Robert Schwarz**

Phone +49 5241 81 81402  
[robert.schwarz@bertelsmann-stiftung.de](mailto:robert.schwarz@bertelsmann-stiftung.de)

### **Sabine Steinkamp**

Phone +49 5241 81 81507  
[sabine.steinkamp@bertelsmann-stiftung.de](mailto:sabine.steinkamp@bertelsmann-stiftung.de)

## Key Indicators

Population	M	32.3	HDI	0.847	GDP p.c., PPP \$	54431
Pop. growth <sup>1</sup>	% p.a.	2.3	HDI rank of 188	38	Gini Index	-
Life expectancy	years	74.6	UN Education Index	0.805	Poverty <sup>3</sup>	% -
Urban population	%	83.3	Gender inequality <sup>2</sup>	0.257	Aid per capita	\$ -

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

Several important developments took place in Saudi Arabia during the current review period (February 2015 to January 2017), affecting the kingdom's political and economic transformation. The ascension of King Salman bin Abd al-Aziz Al Saud to the throne in January 2015 has dimmed the prospects of political reforms beyond those initiated by the late King Abdullah bin Abd al-Aziz Al Saud. The new king has consolidated his conservative power base by appointing his nephew Mohammad bin Naif as Crown Prince and Minister of the Interior and his son Mohammad bin Salman as Deputy Crown Prince and Minister of Defense. In the face of this assertive conservatism, political dissidence that had increased in parallel with the 2011 Arab uprisings died down in the last two years, a casualty of both regime patronage and repression. Political awareness, however, continues to grow with the spread of social media, though organized political opposition to the Al Saud family remains limited.

Even if radical transformation in Saudi Arabia, akin to what has been seen in other nations in the region, appears unlikely in the short term, the effect of regional uprisings on the country's domestic 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 the uprisings in other countries in the region. The government remains quite sensitive to any hint of similar popular movements spreading to Saudi Arabia. Many of the demographic factors that contributed to Arab uprisings elsewhere are also present in Saudi Arabia, including a young population (60% of Saudis are under the age of 21), high unemployment (11.2% in 2016), uneven access to state resources and severe limitations on free speech. Continuing Shi'ite unrest in the Eastern Province also remains a strong source of concern for the ruling family.

Internationally, King Salman is pursuing a muscular foreign policy approach, evident in his decision to launch airstrikes on Yemen in March 2015 and subsequently invaded that country. This military campaign is supported by a nine Arab-nation coalition and designed to deny regional rival Iran a foothold on the southern edge of the Arabian Peninsula. King Salman also doubled down

on his support of anti-government rebels (excluding the Islamic State and the al-Qaeda-affiliated Jabhat Fateh al-Sham Front) in Syria to check Iran's growing influence in the Levant. Prince Mohammad bin Salman appears to exert enormous influence, particularly in the regional and defense policies of the kingdom. However, increasing military spending, coupled with declining oil prices, has forced the Saudi government into deficit spending the last two years (13.6% of GDP in 2016). Some radical measures, such as salary cuts for ministers and Majlis al-Shura members as well as the cancellation of bonuses for public sector employees were implemented in late 2016 to make up fiscal deficits.

At the same time, the government initiated a number of far-reaching economic reforms. The Saudi stock market was opened to foreign investors in June 2015 to boost economic growth. The government also launched an ambitious development plan, codenamed "Saudi Vision 2030," to diversify the economy and initiate a shift to private sector-led economic growth. The government has also tied up loose ends 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 "Saudiize" private employment. It is, however, too early to say how the "Saudi Vision 2030" will progress and how it will influence the economic and political transformation processes of the kingdom.

Saudi women made notable political progress in 2015. For the first time in history, they are allowed the right to vote and contest municipal council elections. Economically, Saudi women are also seeing progress: receiving job training from government-approved centers and institutes and getting (limited) access to employment. On the whole, the highly conservative Saudi society is slowly opening up to women's rights and empowerment.

## History and Characteristics of Transformation

The Kingdom of Saudi Arabia, formally declared by King Abd al-Aziz of the Central Arabian Al Saud (House of Saud) clan in 1932, is the richest Arab state. It is located in the Arabian Peninsula and flanked by the Persian Gulf in the east and the Red Sea in the west. Politically, the state is an absolute monarchy ruled by the sons of Abd al-Aziz, who died in 1953. Islamic religion and teachings provide the basic guidelines for the political, social and cultural foundations of the kingdom. 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 rapidly expanded, state services and the population's standard of living were substantially augmented, 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, depends on the ruling family's patronage, while remaining an essential legitimating buttress of Al Saud rule. At the same time, the religious establishment constitutes a serious obstacle to reform.

The country's extensive 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 Saud rulers managed both to suppress strikes in the (oil rich) Eastern Province and to avert several military coup attempts. Official announcements 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 deeply embed themselves into significant parts of the administration, especially the security services, where hundreds of princes hold office. 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 formidable opposition 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. The Islamic Awakening movement gradually petered out. A subsequent militant challenge to the regime by al-Qaeda on the Arabian Peninsula (AQAP) from 2003 to 2006 was successfully brought under control and never won wide public support. Currently, the Islamic State (IS) remains a threat to the Al Saud rule.

The kingdom achieved its highest real GDP per capita in the early 1980s. Since that time, the overall economy has expanded, despite upticks and downticks in global oil prices. The post-2003 economic expansion has allowed for increased public employment and an improvement in public services, but given a national population of over 32 million (2016 estimate, with 30% foreign workers), resources remain stretched more thinly than they were in the early 1980s. The post-2014 gradual decline in oil prices and the kingdom's war on Yemen, launched in March 2015, have yielded a budget deficit (13.6% of GDP in 2016).

The Saudi economy is dominated by the public sector, though the private sector is growing fast. Despite an inconsistent regulatory framework, the private sector has matured considerably in recent decades and developed more sophisticated managerial structures than most of its peers in the Middle East and North Africa (MENA) region. The economy has recovered from the global financial crisis and the government continues to count 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, granting more influence to religious conservatives in education, domestic and international cultural policies, and in the enforcement of public order. Nonetheless, after the 1990 to 1991 Gulf War, Islamists and liberals alike were disenchanted with the Al Saud, their apparent inability to protect the kingdom without U.S. aid, and their generally authoritarian and nontransparent governance. A number of political petitions from liberals and

Islamists were sent to the royals. King Fahd was forced into a number of symbolic concessions, most notably the 1992 Basic Law that outlines the basic features of the Saudi political system. This Basic Law included the creation of a Majlis al-Shura, an appointed consultative body that enjoys no substantial powers but advises the king on national issues.

King Abdullah, who inherited power after the death of King Fahd in 2005 (Abdullah was the de facto head of government since 1995 when a stroke incapacitated King Fahd) initiated a number of economic and political reforms that produced somewhat mixed results. Abdullah was seen as a driver of both socioeconomic and political reforms, although he largely ceased activities on the latter front after the mid-2000s – the definite end of the “Saudi Spring.” His death in early 2015 led to the ascension of King Salman. King Salman is a well-known conservative with less interest in the reforms initiated by his predecessor.

There is an absence of strong public pressure for reform. Even the Arab uprisings did not galvanize mass protests outside the Shi’ite-dominated Eastern Province (particularly the region around Qatif). Wide strata of Saudi society remain socially and politically conservative. Despite increasing social differentiation and political awareness, the level of political mobilization remains rather low. Young Saudis, however, are becoming increasingly politically aware, thanks to the rapid growth of social media. This could raise the bar for the regime in the medium term, as social media users engage in open debates about regime policies as well as organize small-scale protests and petitions.

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

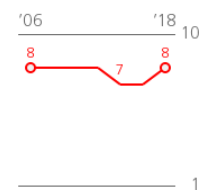
Created in 1932, Saudi Arabia continues as a confederation of powerful tribes backed by the Wahhabi clerics. The Al Saud rulers control the state with relative ease and state authorities have not experienced serious internal or external challenges. In the post-9/11 context, domestic terror, which peaked between 2003 and 2005, was a major challenge. The Saudi government successfully quelled such violence through the use of force as well as social rehabilitation programs. Notwithstanding, al-Qaeda retains residual capacity to disrupt the kingdom. There are significant transnational security threats from Yemen, Iraq and Syria, as evidenced by a cross-border attack by IS group militants in January 2015 that killed a Saudi border security general and two guards. Such incidents continue to occasionally occur. An increase in violent clashes and demonstrations, centered in and around the Shi'ite city of Awamiya in the Qatif region, has been witnessed since 2011. A December 2014 raid by Saudi security forces resulted in the death of four reported Shi'ite militants. The situation turned significantly more violent following the execution of prominent Shi'ite leader Sheikh Nimr al-Nimr in early January 2016. However, the state's broader monopoly on the use of force was never seriously challenged.

Saudi citizens are Muslims (or Arab Muslims) by definition; no indigenous non-Muslim groups live in today's Saudi Arabia. The kingdom does host some ten million foreigners belonging to various religious denominations. Most Saudis see themselves at the center of the Arab universe and believe that their culture is vastly superior to that of the West. The Shi'ite minority – Twelver Shi'ites in the east and Ismaili Shi'ites in the south – is denied certain cultural rights. They also suffer from socioeconomic deprivation, which often creates political tensions. Late King Abdullah's attempts to focus more government attention on underdeveloped regions did not result in much change for the Shi'ites. There is an implicit ethnic hierarchy in Saudi Arabia, with powerful tribes from the central province of Najd 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

Question  
Score

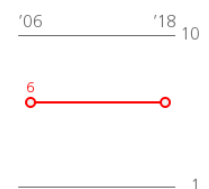
Monopoly on the  
use of force

8



State identity

6



religious practices were tolerated under King 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).

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. Late Shi'ite cleric Nimr al-Nimr, who publicly mooted secession, had built a popular following among radicalized younger Shi'ites. Some members of the jihadi political fringe do not accept the Al Saud state as a legitimate entity, but despite the presence of the IS in Iraq and Syria they do not have a clear alternative vision beyond conquering Saudi Arabia and making it part of a broader caliphate – a vision most Saudis reject.

Saudi Arabia is officially an Islamic state. The Qur'an and the Hadiths (sayings and deeds of Prophet Muhammad) define its constitution and overall legal system. While the Al Saud rulers control the political and economic systems of the state, senior Wahhabi ulama (Islamic legal scholars) interpret the legal system and the administration of justice through their control of the judiciary. The Council of Senior Ulama advises the government on all religious matters. They wield considerable influence on issues of public morals, personal status law, education and culture, although under King Abdullah, they had come under increasing pressure from the royal court to scale back their puritanical rhetoric. Many royal initiatives to modernize are constraint by the conservative religious establishment. There is little freedom of worship for non-Muslims, although tolerance of actual practice depends on the nationality of the practitioner.

Non-Islamic and secular thinking have no place in Saudi society. In early 2015, blogger Raif al-Badawi was sentenced to 1,000 lashes for writings perceived critical toward Islam and, in early 2014, sweeping new terror laws declared atheists terrorists.

Officially, all legislation is to be based on Shariah (the Quran and Hadiths). 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 and in some cases the clergy swiftly came forward to defend the Al Saud rule. For example, after the Arab Spring broke out, the Grand Mufti of Saudi Arabia warned the protesters of God's wrath if they participated in anti-government rage. On economic matters, Shariah 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. In August 2014, the kingdom also opened specialized family courts, to be staffed by judges with special training in matters like divorce and child custody. This institutionalization could reduce the discretion judges have historically exerted in such matters.

No interference of religious dogmas





Traditionally, the Saudi state administration has reached out to remote villages with provisions of basic services, thanks to a rapid expansion of infrastructure in the wake of the recent oil boom. This expansion has been somewhat disrupted by the war on Yemen, as the border areas (villages and towns) with Yemen have become increasingly insecure, with most citizens fleeing and abandoning them. Access to sanitation (100%) and water (97%, World Bank 2012) is assured all over the country. However, the bureaucracy is very bloated, with its size estimated at three million state employees.

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 only begun in recent years, and are proceeding only haltingly. As a rentier state, Saudi Arabia has no comprehensive tax system and the government’s information about economic activities can be deficient. While generally overstaffed, there are shortages in important parts of the Saudi state, such as the judicial system (where, by some estimates, 2,000 additional judges are needed).

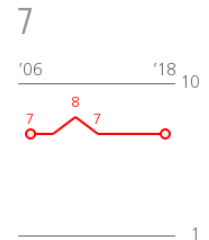
## 2 | Political Participation

Saudi Arabia, by definition, is a non-democratic and authoritarian state. There are no national democratic elections to choose rulers or representatives. Local municipal elections were first held in the spring of 2005, again in late September 2011 and most recently in December 2015. 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 were popularly elected until the 2015 elections. In the 2015 elections, voters had the opportunity to choose two-thirds of the council members. Voter turnout, however, was rather disappointing: only 47% of eligible voters showed up on election day. Likewise, in the 2011 elections, the media reported extremely low voter turnout, with no more than 300,000 of the approximately 5 million eligible men voting (out of a total Saudi population of about 28 million). 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.

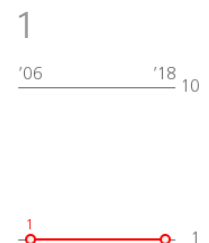
Women were allowed to vote and contest for the first time in the 2015 election. They had been excluded from voting in the 2005 and 2011 elections, which many women’s organizations in the country strongly protested, including through a (ultimately rejected) legal complaint. King Abdullah promised that women would be allowed to vote and stand in the 2015 municipal elections, a pledge that was confirmed in 2014.

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 (which ended in 2014) had taken political pressure off the leadership and in part because the Arab

Basic  
administration



Free and fair  
elections



uprisings led to a retrenchment of authoritarianism within the kingdom. Additionally, Saudi citizens are little aware of Western democratic systems of governance and there is little broad-based social demand for democracy.

Saudi national politics is royal family politics. The king is the chief and unchallenged decision-maker. The only challenges that may arise are those from other members or factions within the royal family. There are no elected political officials at the national level; high-level government officials, including ministers and Majlis al-Shura (consultative assembly) members are appointed by the king. Currently, the only elected persons with some influence in Saudi society are the heads of the 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. The elected members on the municipal councils look after local issues and enjoy no substantial powers.

Parties and unions are not allowed, independent efforts to form such associations are ruthlessly suppressed. Formal associations require royal fiat in order to obtain a license. Most civil society groups are registered as “charities” under the ministry of social affairs, which closely supervises them. An NGO law under consideration since at least 2006 was approved on 30 November 2015 by the Saudi cabinet, chaired by King Salman bin Abd al-Aziz, but in an amended version. The law allows Saudi citizens to operate NGOs under a state legislative framework – a significant step toward the development of a Saudi civil society.

The regime has allowed some “civil society” activities to take place since the early 2000s. 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, a human rights group and some cultural associations – have been licensed in recent years, but these are state-controlled and the drive to license new associations outside of the welfare sector slowed since the mid-2000s.

Dissidents trying to set up independent human rights groups have repeatedly been prosecuted and jailed. Waleed Abu al-Khair, a lawyer and founder of watchdog group Monitor of Human Rights in Saudi Arabia is a prominent example, having been sentenced to a total of 15 years in prison in 2014 and 2015 for supposed disloyalty to the king and creating an unauthorized organization. A February 2014 anti-terrorism law imposes broad restrictions on freedom of speech which could impinge any political activity in civil society. There is more freedom of speech in informal gatherings (“majlis,” a salon), but these are inherently limited in scale and participation is often limited to social elites.

Effective power to govern



Association / assembly rights



Saudi citizens today have 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.

The 1992 Basic Law of Saudi Arabia does not guarantee press freedom. Until the outbreak of the Arab Spring in December 2010, the 2003 Printing and Publication Law regulated the establishment and operation of media outlets. A royal decree in 2011 amended the 2003 media law and imposed strict conditions on reporting, including lifetime professional bans on journalists and a massive penalty of up to 500,000 riyals (\$133,000) for reporting on national security interests, promotion of foreign interests or slandering religious leaders. Newspapers are regulated through the ministry of culture and information under the 2003 Press Law. In practice, the ministry of interior has considerable control over the culture and information ministry. 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). At the same time, a minimal pluralism of opinions is guaranteed by the fact that different newspapers are controlled by different factions of the royal family, which can have somewhat different ideological orientations.

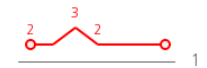
Mobilization and civic participation through social media is a relatively new phenomenon in Saudi Arabia but has already had an impact on Saudi society, notably through campaigns for women's employment and women's right to suffrage and – briefly – in the wake of the 2011 Arab uprisings, when they were used for organizing local political petitions (attempts to organize demonstrations failed outside of Shi'ite cities in the Eastern Province). Social media might have a strong influence on Saudi society in the future, as state control over the distribution of information is eroding – 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 and Twitter is widely used. Saudi Arabia had 2.4 million active Twitter users in 2014; by 2016 the number had shot to 4.99 million, making it the fastest growing Twitter nation in the world. In late 2010, the government moved to increase its control over independent blogs and web sites, 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. The government closely monitors social media and has its own operatives engage in targeted counter-propaganda.

Freedom of  
expression

2

'06 \_\_\_\_\_ '18 10



### 3 | Rule of Law

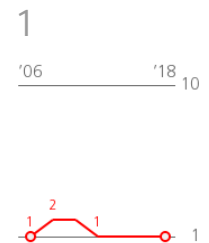
The king is the head of government and state. He appoints judges to the higher courts, including the Supreme Court (established in 2007). Laws are expected to apply equally to all citizens, though senior princes can avoid the judiciary's reach more or less at will. The official Wahhabi clergy – although 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. In August 2014, for example, the government opened specialized courts allowing judges to use their understandings and interpretations of religious texts (the Qur'an and Hadiths) to rule on complex cases ranging from commercial disputes to murder cases.

Large portions of the bureaucracy are staffed by commoners who dominate technical posts. Senior princes control various government departments and agencies. Intervention by the royal family in day-to-day matters is limited as long as no immediate political or economic interests are at stake.

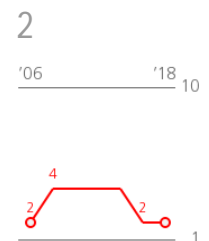
The Saudi judicial system is based on the Islamic legal system – Shariah, which rejects secular laws. Insofar as a judiciary run by the religious establishment can be considered independent, Saudi Arabia's judiciary has historically enjoyed considerable day-to-day autonomy. The regular administration has very little leeway to control (or predict) judicial goings-on. In the course of a judicial reform and a functional differentiation of courts initiated in 2007, 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. Still, judges are free to hand down verdicts on issues and cases they deal with. 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. Given their huge responsibilities, judges are seen as underpaid, at least relative to salaries available to senior personnel in the private sector. The government has removed a number of judges in recent years for corruption and for sympathy with extremist religious groups – a new development or at least one which previously went unreported.

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.

Separation of powers



Independent judiciary



Intrastate accountability and investigation mechanisms exist in principle, but are not used often. However, they have been called into play somewhat more frequently since the mid-2000s, as several major scandals related to suspect land deals have been investigated. A new National Anti-Corruption Commission, established in May 2011, is focused primarily on mid-level bureaucratic abuses and issues of administrative efficiency, regularly complains about non-cooperation from other agencies, 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. In April 2013, the kingdom ratified the United Nations Convention against Corruption, which it had signed in 2004. In early January 2016, the National Anti-Corruption Commission alleged that a notary in the al-Muzahmiyya Governorate, west of Riyadh, took bribes and issued 800 land deeds illegally. The Ministry of Justice denied the allegation.

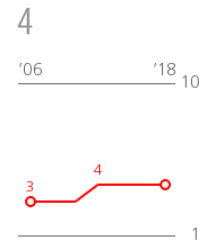
Princes are very rarely removed from offices – it usually takes a major, publicly visible offense for this to happen. Commoners are fired (and sometimes tried) more frequently, but corrupt officials with solid patronage links to the royal family can cling to office for decades without fear of retribution. There is no law to deal with conflicts of interest or facilitation payments, though gifts are regulated. Defense and security procurement is seen as particularly unaccountable and non-transparent.

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, notaries and municipal administrators has been extensive. In November 2014, it was reported that prosecutors at the Bureau of Investigation and Public Prosecution had filed a total of 485 embezzlement-related corruption cases, but it was not made clear over which time period and which share of the cases pertained to government as opposed to private-sector corruption.

Upon taking office, new ministers occasionally try to discover and remove compromised staffers within state organizations, most recently the new minister of health appointed by King Abdullah in December 2014. The range of such reviews, however, is usually restricted (the new minister of health was in turn replaced in January 2015 as part of a comprehensive government reshuffle under new King Salman).

The Saudi state rarely resorts to mass violations of existing civil rights, as other Arab authoritarian states often do. Aside from the detention of thousands 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.

Prosecution of  
office abuse



Civil rights

2

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* (no penalty without a law). This does not include a grant of basic political rights, however. Moreover, there are reports that the government is using spyware to access citizens' emails and other digital communication. The judicial system also continues to apply corporal punishment according to its interpretation of Shariah. While amputations are rare, flogging is more common. Executions, including beheadings, are carried out in public.

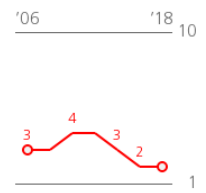
Effective access to judicial redress is limited; the state-sponsored National Society for Human Rights has taken up numerous individual cases of rights violations, but this has mostly been limited to administrative rather than political rights.

Discrimination, both *de facto* and *de jure*, still is rampant in the kingdom. Despite efforts under former King Abdullah to improve the civil status of women, they remain strongly disadvantaged in public life and in the judicial system. The ultraconservative Wahhabi version of Sunni Islam in Saudi Arabia requires strict segregation of the sexes, including in government offices, workplaces and public spaces. Women are not permitted to drive and while the issue is repeatedly discussed in the media, no concrete steps have been taken to allow women to drive.

Women also face disadvantages relating to the requirement for male guardianship, limitations on freedom of movement, a lack of laws defining a minimum age for marriage and inequalities in family law. In early June 2016, however, the government granted women without male guardians the legal right to travel alone within Saudi Arabia.

Saudi Shi'ites also face significant discrimination, resulting practically in a glass ceiling in public and even private employment as well as second-class treatment by the administration and judiciary. This has worsened in recent years due to regional tensions with Shi'ite-led regimes and movements in Iran, Iraq and Lebanon as well as the more recent Houthi uprising and advance in Yemen.

In contrast to Saudi nationals, guest workers, particularly those under the *kafala* (sponsorship) system, can hardly trust that their basic rights are respected. They live and work often under slave-like conditions, with many of them stripped of their passports by their "kafeels" (employers). As Human Rights Watch documented in 2015, hundreds of thousands of such "undocumented foreigners" have been deported by Saudi authorities in a far-reaching campaign that started on November 4, 2013, including to countries where their life and health cannot be guaranteed. Deportation procedures included mistreatment and abuse by Saudi officials. Hundreds of foreign guest workers remained unpaid for many months throughout 2016, due to a sharp decline in oil revenues and war expenses in Yemen. As Saudi Arabia has not signed a refugee treaty, guest workers that are threatened by deportation have no possibility to challenge their removal legally or to apply for asylum in Saudi Arabia.



#### 4 | Stability of Democratic Institutions

Saudi Arabia is neither a democratic state nor does it possess democratic national institutions. There are clientelistic 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.

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. Ministers and governors can in theory also be directly approached at any majlis, although senior-level majlises are in practice tightly controlled affairs. None of the powerful princes have any substantial interest in democratization. “Gadfly” members of the ruling family such as Prince Talal bin Abd al-Aziz, who has called for national elections in the past and recently emphasized the need for meaningful political reforms, are sidelined in the decision-making process. The government has allowed NGOs to operate, but the legal framework requires them to stay out of politics.

#### 5 | Political and Social Integration

Political parties are illegal in Saudi Arabia. Attempts to set up parties in the past have been suppressed, most recently in early 2011, when five activists sought official recognition for their “The Islamic Ummah Party” and were subsequently arrested. 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 or a party system 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 adviser, hangers-on and clients attached to the various senior princes.

Performance of democratic institutions



Commitment to democratic institutions



Party system



Interest groups do exist in Saudi Arabia, but they are controlled by the state. 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, which has led, however, to tighter political controls over them in the wake of the Arab uprisings. The Muslim Brotherhood in particular was declared a terrorist organization in early March 2014. Above a certain size, associations informally require a royal patron to be able to function.

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.

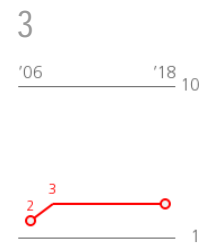
That said, many interests are represented within the state through various functional agencies, or through princes' informal clientelistic networks. Such agencies and networks in part play a role similar to that played by associations elsewhere, though they are subject to stronger political restraints. They also compete mainly for economic resources, which are largely state-controlled. 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. Political mobilization, however, remains repressed, as was recently most visible when the government heavily cracked down on attempts to organize a "day of rage" in March 2011.

Support for a democratic system exists in Saudi Arabia. The 2014 Arab Opinion Index, conducted by the Doha-based Arab Center for Research and Policy Studies, indicated high rates of support for the statement "despite having its problems, a democratic system is better than other systems": 34% of Saudi respondents said they "strongly agree" and another 25% said they "agree," the fourth strongest level of agreement among the 15 Arab countries surveyed. The 2011 Arab Barometer poll similarly shows 54% of Saudi respondents agreeing to the same statement (while only 22% opposed it) and 44% disagreeing with the statement that democracy leads to instability (while 30% agreed).

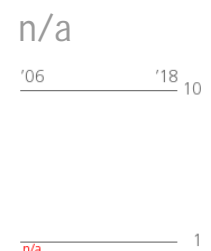
In a poll of young Arabs between 18 and 25 years of age conducted in late 2012 by Burson-Marsteller, 68% of Saudi respondents reported that living in a democratic country was very important to them, a share only exceeded at that time in Egypt. It is not clear how strong a commitment to democratic institutions 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.

Interest in the existing electoral mechanisms is limited: voter turnout is usually low; in the 2015 municipal elections it did not exceed 47%. Petitions in the wake of the 2011 Arab uprisings calling for a constitutional democracy have found broader

Interest groups



Approval of democracy



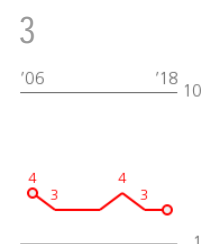


support than before, but this remains far below the level witnessed in poorer Arab monarchies and pro-democratic activity quickly ebbed again after a 2011 to 2012 security crackdown. There has been no upsurge in pro-democracy activities since then.

In the absence of actual democratic experiences, it is hard to gauge what Saudis' general positive view of democracy means – what we can say, however, is that they are, for the most part, in favor of democracy, at least in principle.

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. Extended family remains the most basic social institution, while tribal life is characterized by strong feelings of unity and solidarity. There is little tradition of formal association, and social bonds, even if powerful, are often vertical. Society has been politically demobilized by an omnipresent provider state. 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. A case in point relating to women's rights is the campaign "women to drive."

Social capital



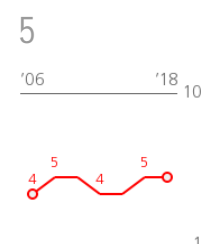
## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Saudi Arabia is the world's 15th largest economy, given purchasing power parity. Vital statistics on income inequality (e.g., the Gini coefficient) and poverty are, however, unavailable. Low-income Saudi citizens are provided a variety of social welfare benefits, including monthly payments for food and utility bills. The government also spends billions of dollars each year to provide all Saudi citizens free education and health-care services. To improve the socioeconomic conditions of the poor, late King Abdullah took steps to alleviate poverty by means of a national poverty strategy that was announced in rather general terms in mid-2005 and ratified in October 2006. These steps included an augmented focus on rural development in subsequent budgets and increased social security expenditure as well as a national housing program and an unemployment assistance grant available to individuals for a maximum of one year, both of which were activated in 2011 after the regional uprisings. 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. The government's effort to increase the share of Saudis in private employment has led to a doubling of private jobs for Saudis from 2011 to 2014 (to about 1.5 million), but many of these jobs pay only a minimum wage of 3,000 riyal

Question  
Score

Socioeconomic  
barriers



per month (\$800) and general labor market participation remains below 40%. The unemployment rate declined somewhat from 11.4% in 2015 to 11.2% in 2016.

Unlike other MENA states outside the Gulf region, public services (e.g., utilities, education, health care and housing credit) remain in most 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, however, remains insufficient to lower the country's very high dependency ratio (an estimated 4 to 5 persons per wage earner). So far, it is difficult to predict how low oil prices will affect growth rates and employment.

The Human Development Index score for Saudi Arabia was 0.837 in 2014 (39th rank worldwide). The Gender-related Development Index ranked the country 112th worldwide in 2013 (with a female human development index value of 0.773), an improvement from 135th in 2011. This reflects good access to education and health, but also an exclusion from large portions 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		2013	2014	2015	2016
GDP	\$ M	746647.1	756350.3	654269.9	<b>646438.4</b>
GDP growth	%	2.7	3.7	4.1	<b>1.7</b>
Inflation (CPI)	%	3.5	2.7	2.2	<b>3.5</b>
Unemployment	%	5.6	5.7	5.6	<b>5.5</b>
Foreign direct investment	% of GDP	1.2	1.1	1.2	<b>1.2</b>
Export growth	%	0.2	-1.9	0.7	<b>1.4</b>
Import growth	%	3.7	6.6	1.5	<b>-22.9</b>
Current account balance	\$ M	135442.4	73758.2	-56723.8	<b>-24913.6</b>
Public debt	% of GDP	2.1	1.6	5.8	<b>13.1</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-

Economic indicators		2013	2014	2015	2016
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	22.4	26.1	30.0	<b>25.8</b>
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	3.1	3.5	-	-
R&D expenditure	% of GDP	0.8	-	-	-
Military expenditure	% of GDP	9.0	10.7	13.3	<b>9.8</b>

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

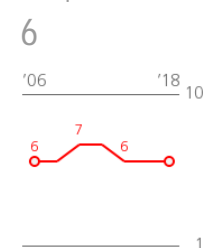
## 7 | Organization of the Market and Competition

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 since the late 1990s, parts of the Saudi bureaucracy can be stifling. Setting up and operating a business can be relatively cumbersome. Saudi Arabia has fallen in the World Bank's Doing Business survey from rank 22 in 2013 to rank 49 in 2015. This, however, does not reflect a real decline in performance, but rather a refinement of the World Bank's methodology that now makes the survey more accurately reflect the kingdom's business environment. In the Heritage Foundation's 2015 Index of Economic Freedom, Saudi Arabia held rank 77, a slight improvement over rank 82 held in 2012 and probably a better reflection of the Saudi environment than even the updated World Bank ranking. In 2016, this rank worsened to 81, probably due to the austerity programs of the government in response to falling oil prices.

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

Market-based competition



foreigners informally, and by registering under a national's name while being financed and operated by a non-national. While a campaign against the latter practice was conducted in 2013 and 2014, it remains widespread. The bureaucracy's regulatory powers remain limited.

A national competition authority has existed since 2004, but appears to have become active only after a restructuring in 2013, after which it approved a number of private-sector acquisitions. It is not clear whether it has any power over critical, partially state-controlled sectors like petrochemicals, aviation or telecoms. Sectoral regulators for banks, utilities and telecoms are in place, but only the telecoms regulator has a clear competition policy.

After a round of licensing in the mid-2000s, new banking licenses for Saudi nationals are no longer being issued, severely limiting market contestability. In December 2005, the government issued licenses to ten foreign banks to operate in the country, including BNP Paribas, JPMorgan and Deutsche Bank.

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 practice remains strong.

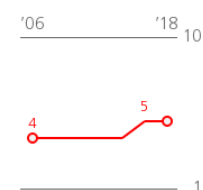
Saudi foreign trade has traditionally been rather free, although trade does on occasion encounter costly non-tariff obstacles. Further steps toward liberalization were taken in the course of WTO accession in 2005, and through the Gulf Cooperation Council (GCC) tariff integration, which remains incomplete. Tariffs, already at a low weighted average of 7.3% in 2004, were reduced further in subsequent years, reaching 4.3% in 2012 according to World Bank data; the exceptions which remain (e.g., on dates) are rather minor. The average duty rates currently stand at 4.58%.

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. In December 2015, the government launched an energy subsidy reform plan to reduce government expenditure. Prices for petrol increased from \$0.16 to \$0.24 per liter and that of natural gas from \$0.75 to \$1.25 per million British thermal units.

Cumbersome shelf-life rules, inspection and documentation requirements, and product standards have been formally streamlined, although the implementation of such simplification measures sometimes is deficient. With WTO accession, reform pressure has been somewhat reduced and the ministry of commerce, which is in charge of reforms, remains a fairly weak actor.

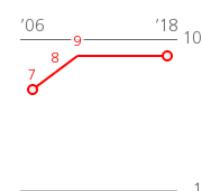
#### Anti-monopoly policy

5



#### Liberalization of foreign trade

9



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. Over the course of the international and regional financial crisis from 2009 onwards, several large business families defaulted on their loans, 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 during the following five to six years the situation much improved. In 2015, the figure for non-performing loans was 1.2% and the capital to assets ratio was 13.7%. SAMA has consistently enforced capital requirements far above the Basel II and III levels, as well as a loan-to-deposit ratio at or below 80%.

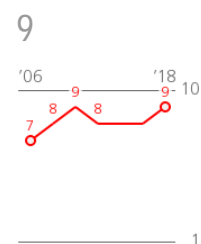
The Capital Market Authority, created in July 2004, has struggled to control the more powerful actors “playing” the stock market. It has increasingly named and prosecuted market manipulators, including at least one member of the ruling family, but speculative trading continues, while financial disclosure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

Until 2015, international institutional investors that could improve the availability of information tended to avoid the Saudi market, as direct investment in Saudi stocks remained impossible for foreigners. The market, however, was set to open for large, pre-selected foreign investors in mid-2015, which could lead to substantial capital inflows and pressure for better governance. In August 2016, the Capital Market Authority decided to allow foreign investors to buy initial public offerings in the kingdom, effective from 1 January 2017. This is a major step in opening up the Gulf’s largest stock market to the outside world.

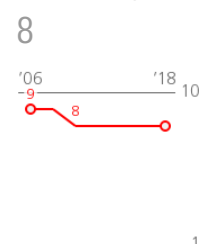
## 8 | Currency and Price Stability

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 up to 2015. By December 2016, it further dropped to approximately 3.5%. Due to the peg of the Saudi riyal to the U.S. 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. By mid-2016 there were rumors that the government might change the exchange rate of the riyal, but

### Banking system



### Anti-inflation / forex policy



SAMA announced in May of the same year that the government remained committed to the current exchange rate policy (1 USD = 3.75 SR).

The central bank, SAMA, is operationally independent and well respected, although politically dependent on the ministry of finance. SAMA's foreign assets sharply increased to \$737 billion in late 2014, but fell to \$554 billion by August 2016. The kingdom, however, is set to draw down these assets in the coming years as oil prices are likely to remain below or around \$50 per barrel.

Saudi fiscal discipline has slipped 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 been particularly vigorous since the outbreak of the "Arab Spring." During the Arab Spring years, the government spent \$130 billion on social spending, new public projects and stipends, partly as a reaction to the effects of public discontent elsewhere in the region.

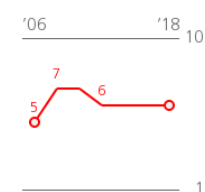
Thanks to very high oil prices from 2009 to 2014, a significant amount of foreign assets have been accumulated despite this expenditure and government debt has decreased from more than 100% of GDP in 1999 to about 1.6% of GDP in late 2014. The debt-to-GDP rate again increased to 5.9% by the end of 2015.

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. The recent collapse in oil prices will lead to a substantial deficit in 2015. Even if spending plateaus from 2015 on, significant deficits are likely and foreign reserves could be depleted in less than a decade. In 2015, the budget deficit stood at a record 366 billion riyals, but shrank to 297 billion riyals in 2016, primarily due to spending cuts, which slowed economic growth. The 2017 budget is estimated to have a deficit of 198 billion riyals. The government raised \$17.5 billion in October 2016 by selling bonds in the international markets to fund the budgetary deficits.

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 are likely.

Macrostability

6



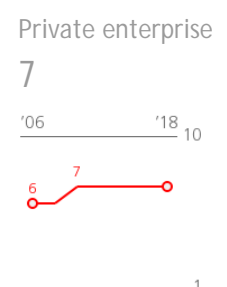
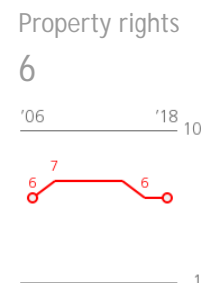
## 9 | Private Property

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, appropriating both state lands and private lands in the possession of less powerful owners. Recent years have seen a number of large real estate scandals, several of which involved corrupt judges and the notary public. Policies to create a central land registry are only slowly advancing; as of the end of 2016, no land registry agency has been formally launched.

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. Repeated crackdowns on them have not eradicated the phenomenon. 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, though the government is in a process of finalizing proposals for partial privatization of state-owned oil-giant Saudi Aramco to diversify the economy away from oil. Saudi Aramco expects to deliver initial public offerings (IPOs) by 2018. The state has shares in several large and important banks, including a majority share in the important National Commercial Bank. The government has a 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. Apart from the public listing of 25% of the shares of National Commercial Bank in late 2014, a number of large independent water and power projects with foreign participation represent the most important new area of private involvement.



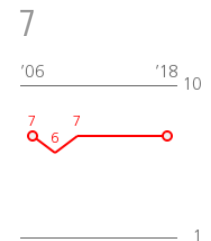
## 10 | Welfare Regime

Saudi Arabia is often described as a state with “cradle to grave” welfare services for its citizens. It 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 other social security guarantees of the quality encountered in advanced European societies. Water and electricity are strongly subsidized for those within lower consumption 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-by-case basis by the ministry of social affairs. This system has proven insufficient in alleviating the kingdom’s poverty problem, despite considerable budget increases in recent years. State pension payments are financially secured for many decades to come, but can be insufficient. An unemployment insurance program was introduced only in 2014; an unemployment assistance program introduced in 2011 offers payments only for a maximum of 12 months. The last five years (2011-2015) have witnessed considerable numbers of oil-financed additions to the government payroll. The recent oil slump, however, has forced the government to introduce a series of austerity measures, including a 20% cut in salaries of ministers and Majlis al-Shura members. In addition, public sector employees will receive no annual pay increases until the end of 2017. In general, austerity measures will make the provision of free services and benefits for Saudi citizens more difficult in the coming years.

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 being increasingly stretched as the population continues to grow and labor market participation remains below 40% among the national working age population. Millions of expatriate workers continue to live in poverty, with average wages below \$300 per month. These individuals are politically disenfranchised and by and large excluded from the state’s welfare systems. Attempts to replace them with Saudis in the private sector (“Saudization”) have met resistance due to the latter group’s higher salary expectations and unwillingness to work as many hours as foreigners do under the “kafala” system.

A particularly forceful Saudization campaign has been conducted since 2011. Known as “nitaqat,” it has doubled the number of formally employed Saudis in the private sector to about 1.5 million. Almost half of these Saudis, however, receive a minimum wage of only 3,000 Saudi riyal (\$800), and it is not clear how many of them do actual productive work and how many are merely paid a stipend for the sake of boosting companies’ Saudization levels.

Social safety nets





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, in particular, a Shi'ite follower can be a disadvantage. This is due to the tense situation with the regional Shi'ite power Iran and increasing anti-Shi'ite sentiment within the kingdom.

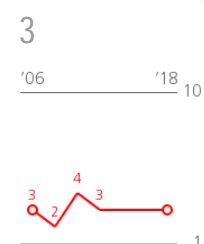
Late King Abdullah made a special effort to cater to peripheral regions and to women's needs, but much remains to be done by the new King Salman. Saudi women's particular problem is that – despite formal changes to the contrary – they often still need a male intermediary to deal with the state on their 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 and the practical obstacles to providing separate facilities for female retail workers remain considerable.

In 2014, Saudi Arabia was ranked 39th (out of 188 countries) on the UNDP's Gender Inequality Index (value: 0.284), an improvement from rank 56 in 2013. Saudi women's labor market participation has greatly increased in the wake of the government's labor market "Saudization" campaign. In international comparison, however, female workforce participation still remains very low, at about 18% (about 80% of Saudi Arabia's labor force is non-national, 2016 estimate).

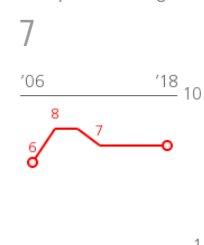
## 11 | Economic Performance

The Saudi economy has continued to grow at a relatively fast pace, achieving real annual growth rates of 5.4% in 2012, 2.7% in 2013, 3.6% in 2014, 3.5% in 2015 and 1.2% in 2016. The private sector respectively achieved 5.5%, 7.0% and 5.7% growth in 2013, 2014 and 2015. Most of this growth, however, has been driven by strong increases in state spending; the private sector's long-term capacity to drive growth independently of state spending remains in doubt. Private sector wage cuts slowed growth in 2016. The share of state spending in the total economy has trended upwards in recent years, except in 2016. While state debt has been heavily reduced in recent years, it increased from 15% of GDP in 2015 to 31% of GDP in 2016. Rates of inflation in 2015 and 2016 were respectively 2.2% and 4.4%. The trade balance has been traditionally strongly positive, largely due to oil revenues, but economic growth rates are likely to remain low for some time as downticks in oil prices continue.

### Equal opportunity



### Output strength



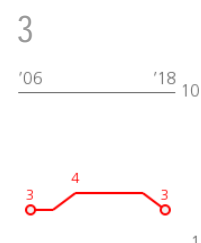
Although the recent boom has been better managed than previous such period during the 1970s and early 1980s, there are clear threats on the horizon. Over the long term, the economy remains precarious, with the recent strong reduction in oil prices likely to usher in a longer phase of reduced oil income, undermining the state's fiscal leeway and compromising business confidence. Overseas reserves could be depleted if oil prices are not stabilized (as of 31 December 2016, reserves of foreign currency and gold stood at \$553.7 billion, down from \$616.4 billion the previous year). The country still lacks a viable tax system to generate non-oil income; a tax on real estate holdings has been discussed but no decision has yet been taken on this. In the long term, private employment generation for Saudis is likely to be 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. Even if the "nitaqat" system of quota-based Saudization in private employment has produced some initial successes, it is not clear what proportion of the Saudis now in formal jobs are in fact productively employed and how many more the private sector can accommodate without a serious impact on its profitability and growth.

## 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. State oil giant Saudi Aramco, as well as the new King Abdullah City for Atomic and Renewable Energy (KACARE), created in spring 2010, are the leading players in this field. Environmental assessments for new projects is usually treated cavalierly. Powerful follow-up mechanisms are lacking and KACARE has struggled to build administrative capacity. A national target to build 41 GW of solar capacity by 2032 was pushed back to 2040 in early 2015 in the wake of low oil 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. There is little awareness of how to save energy or protect the natural environment for a healthy living. 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 up to 10%. Awareness is not deeply anchored in the public or bureaucratic consciousness and the formal obligation to perform environmental impact assessments is lacking.

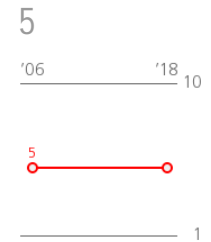
### Environmental policy



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. In 2015, for example, education received the largest share of the national budget at 25% of total government spending; in 2016, the figure increased to 23%, due to decreasing oil revenues. 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. An ambitious project to retrain teachers and reform curricula was initiated in the late 2000s, but has met considerable resistance. Saudi scores in the international math and science skills benchmarking exercises TIMSS (Trends in International Mathematics and Science Study) has improved somewhat from 2007 to 2011, but it remains among the worst-performing countries. According to TIMSS 2015, Saudi Arabia was one of the three countries with the lowest average achievements in eighth grade mathematics (the other two countries were Taiwan and Jordan).

The number of private schools has grown and more than a dozen private universities have recently been licensed. Access for the poor remains a problem, however. As in most other Arab countries, R&D spending in Saudi Arabia remains very low (the last published figure is 0.08% of GDP in 2009). Saudi 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 Abdullah City for Science and Technology. With the exception of the King Abdullah University of Science and Technology and the smaller University of Petroleum and Minerals, public universities are of low quality. In the higher education system more broadly, during the oil boom years, quantitative expansion received more attention than qualitative upgrades, with enrollment rates reaching 80%, creating large cohorts of graduates with questionable skills.

Education policy /  
R&D



## Governance

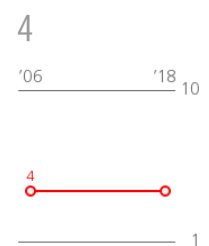
### I. Level of Difficulty

Structural constraints on governance in Saudi Arabia are moderate, as the state has considerable resources. This advantage, however, has been compromised by the kingdom's war on Yemen, declared in March 2015, which has created governance challenges in the region of Najran on the Yemeni border. 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 over-centralization 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 clientelistic networks in significant parts. This can make consistent implementation of policies difficult.

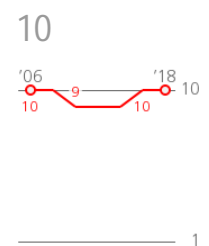
Western-style civil society associations do not exist in Saudi Arabia. However, regional civil society traditions did exist in the kingdom before the onset of large-scale oil income in the 1950s. Since that time, the state has taken over many welfare functions and has generally prevented independent 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. This is where social capital is traditionally high, as members from an extended family up to the tribal level enjoy stronger ties and solidarity.

Government attempts since the mid-2000s to set up formal interest groups in a top-down fashion have not really caught on and have stalled almost completely since 2011; less political welfare associations and charities have seen considerable expansion, however. In the wake of the Arab uprisings, younger urban Saudis have engaged in sporadic grassroots activism on a variety of social issues, but without drawing on firm organizational structures.

Structural constraints

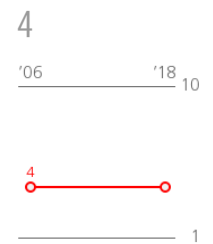


Civil society traditions



Regional, tribal – and in some regions, sectarian – identities in Saudi Arabia remain strong. The Saudi state and its patronage networks have been strong enough to prevent the emergence of significant organized challenges by sub-state identity groups or other communities, though such challenges may occur in the future. 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. The town of Awamiya in the Qatif region, for example, has experienced repeated violent clashes since 2011, with police forces regularly opening fire and killing or wounding demonstrators. Nonetheless, despite widespread frustration among Shi'ites, large-scale militant mobilization has not yet occurred. The monarchical system of rule is supported or accepted by most Sunni Saudi citizens. As a consequence, al-Qaeda did not succeed in creating a major base of support in the kingdom.

Conflict intensity



## II. Governance Performance

### 14 | Steering Capability

Late King Abdullah was 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.

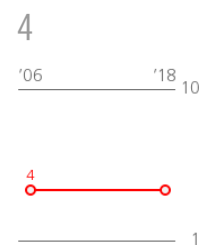
At the same time, Abdullah's understanding of technical issues remained limited and, particularly in his later years of fragile health, he was dependent on his senior adviser, some of whom pursued their own interests. Consistent follow-up on long-term reforms has been deficient and policy initiatives sometimes have a knee-jerk quality.

King Salman, 79 years old when he acceded to the throne in January 2015, is reported to suffer from mild dementia. His broader policy priorities are difficult to gauge, as he remains preoccupied with Saudi involvements in the region. The division of the leadership into different camps and institutional fiefdoms has slowed modernization of the system. The appointment of Minister of Interior Prince Mohammad bin Naif as deputy crown prince, however, has alleviated fears over future succession struggles when the kingship passes to the next generation of princes, of which he is the most prominent member. Mohammed bin Salman, the king's son and Deputy Crown Prince is ambitious and may be striving for the throne.

More fundamentally, no one within the Saudi elite seems committed to substantial political change; Abdullah's very careful agenda of political opening was abandoned

Question  
Score

Prioritization



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. The oil boom has reduced pressure for political reform for the time being, while the Arab uprisings have led to instinctive rejection of constitutionalist demands.

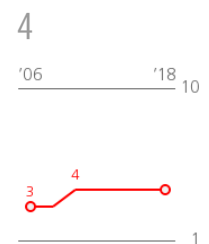
On the economic reform front, considerable modernization has taken place within the context of WTO accession in 2005. Since that time, there have been individual economic reform initiatives, including individual infrastructure and investment projects, “Saudization” of private employment, the gradual opening of the capital market, and the creation of a commercial court system (a venture still in progress). In early 2016, the kingdom adopted a massive modernization program “Saudi Vision 2030” to reduce dependence on oil revenues and initiate a shift to private sector-led development of the country. Increasing war spending in Yemen and Syria, however, may throttle the modernization drive. Change, in general, is easier to effect on the formal legal level than on the level of bureaucratic implementation. The atmosphere within the bureaucracy has not changed substantially over the last decades and issues of bureaucratic stalling and corruption remain.

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.

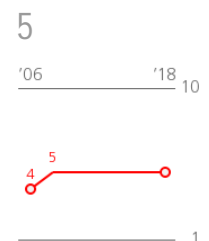
King Abdullah was clearly a more consultative ruler than his predecessors, and was more willing to recognize new challenges and discuss change. At the same time, his age and reliance on adviser prevented him from envisaging any radical change, certainly on the political level. Recent Saudi policy on the Arab uprisings as well as other socioeconomic challenges was essentially reactive rather than proactive. King Salman is more conservative in outlook and actions. He has vast administrative experience, is of advanced age and potentially closer to conservative interests than King Abdullah was.

In some policy areas, recent years have shown somewhat increased political flexibility. The handling of the recent oil revenue inflow indicated that some learning has taken place since the 1970s oil boom, when more money was squandered more rapidly. Labor market reform and Saudization have been tackled in a more systematic fashion since 2011 than before (though much of this is owed to the personality of

Implementation



Policy learning



Minister of Labor Adel Faqieh). Similarly, willingness to engage in some limited cultural and societal opening indicated that King Abdullah recognized the political problems caused by Wahhabi cultural rigidities.

In any case, 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.

## 15 | Resource Efficiency

Resource efficiency in Saudi Arabia has by and large improved since the 1970s 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 and is likely to reverse in coming years as oil prices continue to slump.

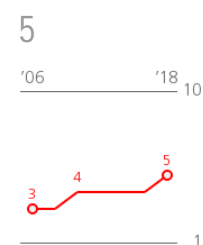
The balance of current and capital spending has much improved since the mid-2000s, allowing for considerable infrastructure investment, but lower oil prices are again likely to lead to reduced capital spending in the medium term. National budget targets have regularly been exceeded by more than 10%. There is a sense among many technocrats and businessmen that project costs have been inflated in recent years (there was a sense of unlimited resources that allowed private contractors to seek exorbitant rents). 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.

Moreover, many inefficiencies are deeply embedded in the state apparatus. Late King Abdullah had reined in princely corruption to some extent, but large institutions such as the ministries of interior and defense remain unaccountable, as they are run by senior princes whose day-to-day activities were beyond his reach. Many agencies remain overstaffed; despite a decline in oil prices, dismissal of surplus personnel is practically impossible. There are about twice as many Saudis employed by the state as 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, over-centralized 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

Efficient use of assets



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. King Salman, soon after his ascension to the throne, abolished a number of ministerial committees and appointed several new ministers but has so far launched no longer-term public-sector reform agenda beyond pay cuts for government employees.

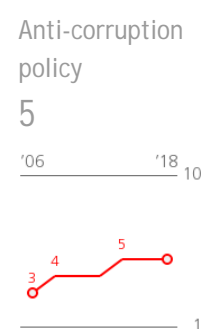
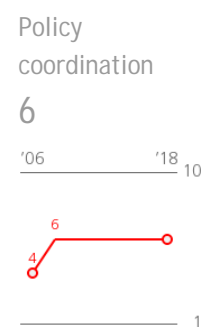
Policy coordination at the top of the system had improved under the late King Abdullah. The strong centralization of authority within the Saudi system contributed to this. By the same token, however, redundancies and overlapping responsibilities in implementation still exist at the ministerial level 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.

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.

King Salman created two new supreme councils in January 2015, one for political and security affairs, chaired by Minister of Interior and Crown Prince Mohammad bin Naif, and one for economic and development matters, chaired by Mohammad bin Salman, the Deputy Crown Prince and Salman’s son. The new councils may deliver results, as they have considerable administrative capacity for monitoring and follow-up.

Corruption in Saudi Arabia has always been worst on the most senior levels of the government, but many long-term observers argue 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, certain government institutions have traditionally been seen as largely corruption-free, 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 intra-bureaucratic 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 Anti-Corruption Commission set up in May 2011 has mostly concentrated on public service quality issues and low-level corruption and has repeatedly complained about non-cooperation from other ministries. 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 have been prosecuted. In November 2013, four judges were dismissed for corruption. In late January 2017, the Anti-Corruption Commission accused some officials working at Saudi Electricity Company of misappropriating public funds.

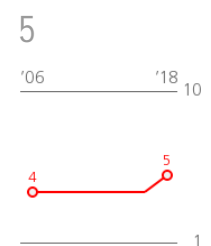
The personality of different ministers can have a significant impact on the level of corruption in various institutions. King Abdullah has curbed menial princely corruption. However, he was unable to effectively supervise what other senior princes are doing in their respective ministries. King Salman might be somewhat better positioned to do so due to his more central standing in the family.

## 16 | Consensus-Building

The most fundamental political consensus in Saudi Arabia currently seems to pertain to the broadly Islamic nature of the state. The Al Saud rulers are generally supported by the people, though there are disagreements about the extent of their involvement in day-to-day politics. Opposition to the royal family comes from three different factions – the al-Qaeda jihadists, Shi'ites in the Eastern Province and moderate Sunni Saudis (e.g., the Islamic Ummah Party). 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. Late King Abdullah was 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. Such a consensus well conforms to the Islamic political and economic system, as private ownership and individual entrepreneurship are well recognized in the Islamic religious system. The recently launched “Saudi Vision 2030” modernization program testifies to this. However, the exclusion of women from certain economic activities sets clear limits to the realization of a free market economy with equal access for all citizens.

Consensus on goals



On the top levels of government, there are no reformers advocating for democratization. When it comes to other types of reform, senior princes have been able to cast vetoes against specific policies in the past. King Salman remains committed to this tradition. Similarly, his son Mohammad bin Salman, the Deputy Crown Prince, is open to economic but not political reforms. The Crown Prince Mohammad bin Naif is also known for his lack of interests in political reforms and democratization. As a consequence, any demand for democratic reforms will likely be resisted.

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’ caution for policymaking often prevents them from taking this step.

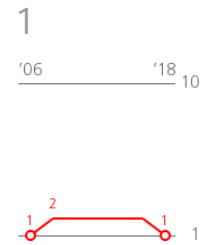
The consensual Saudi decision-making process implies that specific reforms can become stalled for considerable periods. Another major obstacle to reform is represented by hardline Wahhabis, who can muster considerable popular support against certain measures such as allowing women to drive. Generally, even forward-looking reforms lack a democratic framework and are not the product of democratic forces.

Late King Abdullah was generally known as a reformer and reconciler. Various marginalized groups – be it due to geography, religion or gender – generally perceived him as the best hope they had among the senior princes. He repeatedly received Shi’ite and women’s delegations, and in his own paternalistic way was genuinely concerned about making the Saudi system inclusive, pushing the religious establishment toward a discourse of tolerance, and instituting a (limited) sociocultural pluralism. King Salman is a more conservative leader. He has, on the one hand, stronger links to the traditional central Arabian forces of conservatism and, on the other hand, he pursues hardline policies (e.g., the execution of Sheikh Nimr al-Nimr, despite questions about the process of his trial). This has escalated tensions in the Eastern Province and along the border with Iran. The Crown Prince is equally known for his hardline approach toward the Sunni extremist al-Qaeda group as well as rebellious Shi’ites in the Eastern Province.

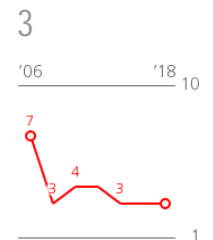
Late King Abdullah’s relatively open approach was helpful to reduce, though not eliminate, the deep social cleavages in Saudi Arabia. The Al Saud monarchy remains historically and ideologically tied to a Wahhabi brand of Islam that is exclusivist, patriarchal and extremely conservative, and has been identified with the supremacy of elites from the central province of Najd. Senior royal adviser 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 over the conflicts in Syria, Iraq and

Anti-democratic actors



Cleavage / conflict management



Yemen, where Saudi Arabia is supporting factions of the Sunni opposition. Late King Abdullah's "National Dialogue," which was supposed to bring together different regions and sects within the national mainstream, has stalled and become an apolitical affair under King Salman. Nonetheless, 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 (e.g., various professional organizations, a pensioners' association, a human rights group and a consumer rights society) 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.

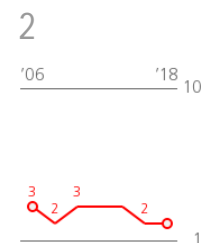
Late King Abdullah was willing to consult with societal interests, but this did not produce an organized or formal process. King Salman's approach is as yet unclear. The disjointed process of policymaking in the Saudi bureaucracy can also mean that social interests might be taken on board at a certain 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, though violence has been used against Shi'ite uprisings in the Eastern Province and militant Sunni groups in the past. Although al-Qaeda militancy has been successfully checked, the government has not developed a workable framework to effectively address the socioeconomic grievances of the Shi'ites.

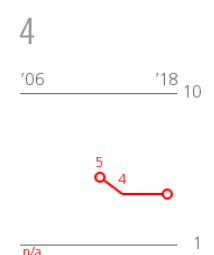
Due to the hegemony of Wahhabi ideology emerging from the central province, the main perceived injustice is that the country has been a very exclusive system socially and culturally. Former King Abdullah took significant symbolic steps toward bringing previously excluded groups (women, Shi'ites, non-Hanbali 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.

There has been no national commission to investigate perceived/real social and cultural injustices. Late King Abdullah's efforts, however, significantly opened up the Saudi public space, through stronger checks on the religious police, a centralization of the issuance of fatwas (to avoid extremist statements) and a modernization of the education system. Advances made by Saudi Shi'ites in this context, however, have been reversed since 2011. King Salman has thus far not

#### Civil society participation



#### Reconciliation



pursued a policy of social dialogue between the Wahhabi Sunnis and other social and religious groups.

## 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, the creation of the King Abdullah University of Science and Technology and recent discussions about creating a domestic renewable energy sector.

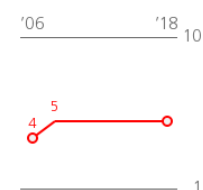
That said, as the kingdom pays for its consultants, international actors have limited leverage over the implementation of policies, and it is in this phase that special interests in the bureaucracy can often stall or alter the course of reform. The kingdom is currently executing its tenth five-year development plan (2015-2019) and has designed the framework for “Saudi Vision 2030” to integrated development planning and goals.

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 generally pursued a very conservative foreign policy (the current muscular foreign policy approach under King Salman is an exception) 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 –

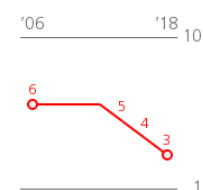
Effective use of support

5



Credibility

3



although in the mid-term, fiscal strains could lead to the renegotiating of large international projects and, potentially, delayed payments.

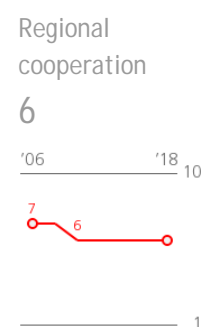
The country has historically played a major role in the defense of the Islamic (usually Sunni) community in various international zones of conflicts, including through support of militant groups. It scaled back these activities substantially after 9/11, but is now heavily involved again in the Syrian conflict and is waging a war on Yemen. In Bahrain, it has forcefully sided with anti-Shi'ite and anti-Iranian interests. While this has boosted the country's standing among Sunni partners, such operations have reduced Saudi Arabia's credibility among other parts of the international community. The export of weapons to Saudi Arabia, for instance, has become an issue of heated debate in several Western countries. At the regional level, several states and groups see Saudi Arabia as the least reliable partner for peace and cooperation. On a more populist level, the ban on women driving has triggered international attention and criticism through concerted online campaigns.

Historically, the kingdom has played an important role in regional political and economic cooperation. It took a leadership role in creating the League of Arab States (LAS) and the Gulf Cooperation Council (GCC) to work toward political and economic cooperation among the Arab states. At the regional level, it has also consistently supported a nuclear-weapon-free zone in the Middle East. In the wake of the Arab uprisings and regional civil wars, however, it has become a more aggressive player and sides more openly against regimes and movements perceived as hostile, be they Sunni Islamists like the Muslim Brotherhood or Shi'ite-led governments and movements which, among other things, led to very tense relations with the pro-Brotherhood regime in Qatar.

King Salman has been pursuing a confrontational policy toward Iran. Relations with Iran remain tense even under the more moderate President Rouhani. The two countries stand poles apart on the war in Yemen and Iran's involvements in Iraq and Syria. Relations with Iraq have improved somewhat under the new Prime Minister Haider al-Abadi but remain characterized by mistrust. In Egypt, Saudi Arabia has clearly sided with the military against the Muslim Brotherhood, though new tensions have recently emerged over Egypt's approach toward Russia on the civil war in Syria and the transfer of two Egypt-controlled Red Sea islands to Saudi Arabia.

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.

In a similar vein, the Saudi royal family has militarily intervened in Yemen to prevent the Shi'ite Houthis from dominating Yemeni politics. Since the exit of Ali Abdullah Saleh from the Yemeni presidency in 2012, Saudi Arabia has had no functioning



partnership with any major force in its unstable southern neighbor. The kingdom has had a lopsided economic relationship with Yemen for years and historically tried to influence it through strategic aid and the control of migrant workers.

While the Saudi government does not formally recognize Israel, there were some Saudi overtures toward Israel aimed at circumventing nuclear negotiations between the United States and Iran. The kingdom actively competes against Iran in the Gulf, Iraq and the Levant for regional dominance and influence. The rise of the Islamic State, a common threat, in the summer of 2014, did not result in any discernible change in its anti-Iran stance.

## Strategic Outlook

Saudi Arabia continues as an Islamic state with little democratic opening. Possibilities for substantive political reform appear particularly limited now that conservative King Salman has ascended to the throne. The most serious advocates of political participation are found among Islamists, who in the medium term may emerge as the main champion of a transition toward meaningful democratic participation. However, this push for participation began among groups affiliated with the Muslim Brotherhood, an organization the Saudi government branded a terrorist organization in March 2014. Hopes for democratic reforms were further neutralized by a massive package of financial and social benefits. The wave of modest political advocacy seen in 2011 has died down and, in the short term, the pull of Islamic radicalism in the region could stall political moderation among Saudi Islamists.

If moves toward a more inclusive and equitable political process are to be made, meaningful civil society institutions will first have to be built. This requires public spaces for the independent organization of social interests grounded in regional, professional, religious and other identities. Today, this public space is open only – and to a limited extent – to issues of welfare; more political associations are tightly controlled by the regime. If the reins are loosened, civil society may at first be dominated by Islamists who, though under increasing pressure from the regime, continue to constitute the best-organized ideological group in Saudi society. This does not prevent pluralism, as the Islamist spectrum is fairly wide in Saudi Arabia, encompassing quite different points of view. What is needed is a national interest-aggregating infrastructure not based on kinship, sect or patron-client relations, which are almost by definition exclusive and unequal.

The last decade's comparatively open debate over sociocultural issues represents a first, but modest, step toward the acceptance of political differences. Electoral politics can be rehearsed through the actions of civil society groups. Their gradual inclusion in policymaking processes could yield a more open politics. To overcome its cleavages, Saudi society must adapt to the public interplay of different opinions and interests. At present, a young and increasingly educated generation has an ever-growing presence on social media platforms (e.g., Facebook and Twitter), connecting Saudi society to regional and global developments. This increasing access to social media may influence debates over political reform in the future. At the same time, these platforms also open the gates for further polarization and radicalization as extremist communities extend their online networks. This could harden the mindsets of the ruling family, particularly the highly conservative princes, to further tighten control over the Saudi society.

External actors can help by publicly accepting that Saudi Arabia must find its own way toward participatory politics, while remaining firmly committed to the introduction of participatory elements. States, intergovernmental organizations (IGOs) and international NGOs can help assist with the development of Saudi civil society, but should do so carefully and in response to local demands, rather than on the basis of external ideas of what Saudi society should look like.

Sociocultural reforms have 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 Saudi intellectuals, who are often highly educated and internationally oriented, in communicating with international peers and civil society institutions, but there are as yet too few connections. Saudi society, 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; they should utilize the strong Saudi interest in international benchmarking and “best practices” to promote further economic reform. The scope for international cooperation has recently increased further, with the kingdom planning to drive modernization through its “Saudi Vision 2030” development plan. It is here that international players can provide useful policy inputs on labor market, immigration, and civil service reforms, orienting Saudis toward private sector-led development and increased civil society participation.