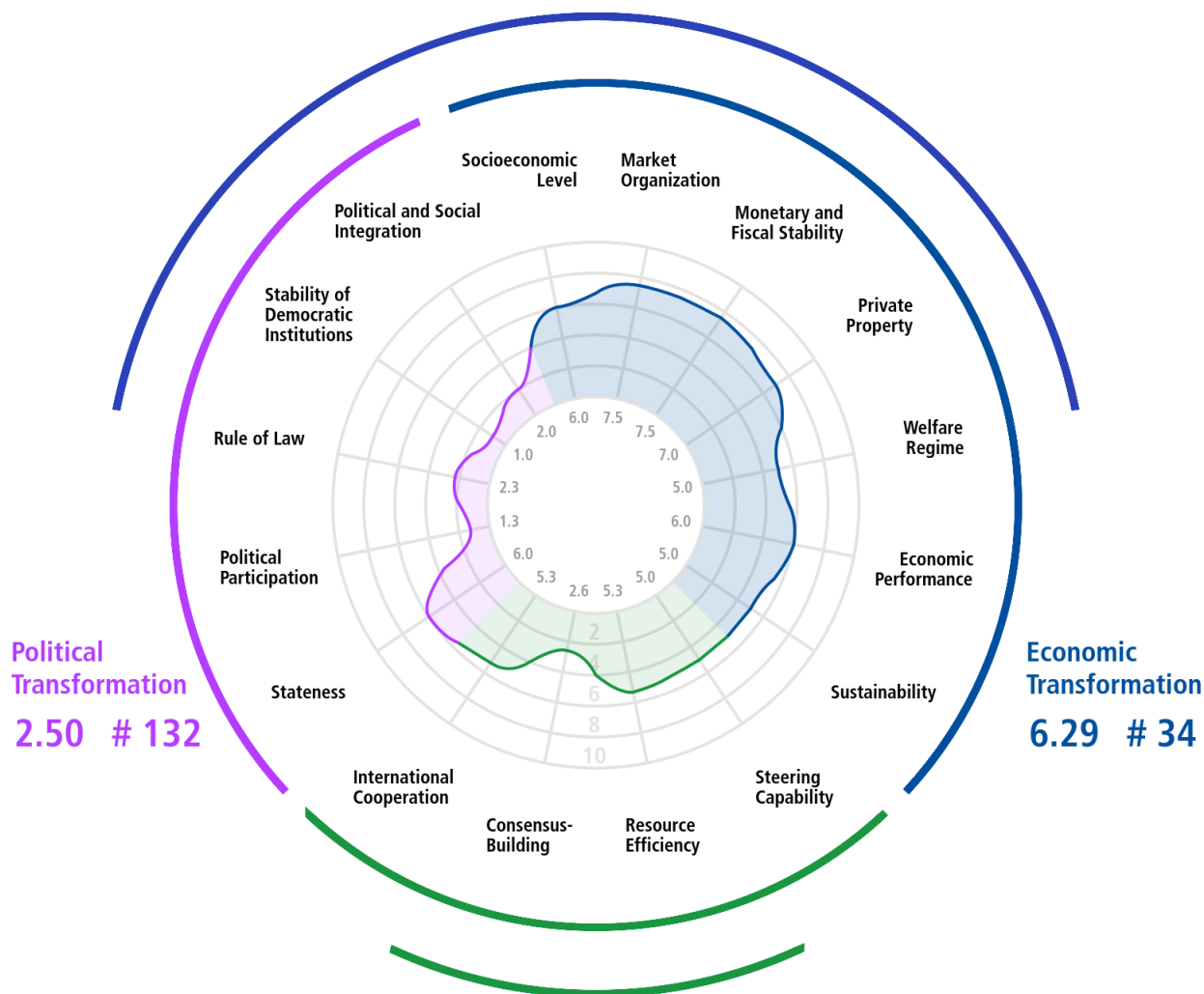


Saudi Arabia

Status Index

4.39 # 96

on 1-10 scale out of 137



Political Transformation
2.50 # 132

Economic Transformation
6.29 # 34

Governance Index

3.99 # 96

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	34.8	HDI	0.854	GDP p.c., PPP \$	46762
Pop. growth ¹	% p.a.	1.6	HDI rank of 189	40	Gini Index	-
Life expectancy	years	75.1	UN Education Index	0.789	Poverty ³	% -
Urban population	%	84.3	Gender inequality ²	0.252	Aid per capita	\$ -

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. 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

The collapse in global oil prices and the COVID-19 pandemic defined the major framework for the Kingdom of Saudi Arabia (KSA) during this report's assessment period, yielding both positive and negative impacts on Saudi Arabia's political and economic transformation.

The global oil price slump, a result of the Saudi-Russian oil price war, but subsequently worsened by the outbreak of coronavirus pandemic, has taken a toll on the Saudi economy. The pressures deriving from the emergency measures dealing with the pandemic depleted Saudi foreign exchange reserves from \$490 billion in January 2019 to \$456.9 billion in November 2020, and forced Saudi Arabia to cut and divert \$8 billion from its ambitious Vision 2030 budget. As of the time of writing, the government had successfully contained the pandemic through the imposition of draconian measures. A further notable development has been the high degree of policy coordination between different government departments and agencies in response to the COVID-19 crisis. Saudi Arabia had previously striven for such coordination, but in the past had failed to achieve it. The government also launched several substantial economic incentives packages designed to keep the economy afloat, particularly focusing on the private sector. This is part of the reason why the country has posted budgetary deficits for the last three consecutive years.

On the political front, the COVID-19 response has resulted in significant limitations for Saudi citizens. Restrictions on protests and street demonstrations were tightened, much as in the period during and following the Arab Spring.

Some progress was made with regard to the situation of Saudi women. After achieving the right to vote and run in municipal elections in 2015, and the right to obtain driving licenses in June 2018, they have also moved ahead economically. Women are now allowed to receive job training through government-approved centers and institutes, although this has been disrupted by the pandemic, and are winning limited access to employment. However, the government has continued to crack down on women's rights activists, arresting and detaining some under very difficult circumstances without any legal process.

King Salman bin Abdulaziz Al Saud has continued his muscular foreign policy approach, evident in his decision to launch airstrikes on Yemen in March 2015, and in the subsequent invasion of that country. Despite U.N. efforts to find a solution to the war in Yemen, neither the Saudi-led coalition (SLC) nor the Houthi rebels have made serious efforts to reach a negotiated settlement. The kingdom has also worked relentlessly to combat Iran's influence throughout the region. After fighting a protracted political, economic and diplomatic war for three years, King Salman finally reconciled with Qatar in January 2021.

Saudi Arabia's decision to support Bahrain's and the United Arab Emirates' normalization of relations with Israel has helped to thaw Arab-Israeli relations. Forced by the strategic need to contain Iran's regional influence, the kingdom itself moved closer to Israel by granting Israel's national carrier, El Al, the right to fly over Saudi airspace. Israeli Prime Minister Benjamin Netanyahu was reported to have visited Saudi Arabia secretly in November 2020. Internationally, Crown Prince Mohammed bin Salman's (MBS) apparent involvement in journalist Jamal Khashoggi's murder, which was further substantiated by a CIA assessment and a U.N. special rapporteur's report, remained a serious embarrassment for the kingdom.

History and Characteristics of Transformation

The Kingdom of Saudi Arabia, formally declared by King Abd al-Aziz of the Central Arabian Al Saud clan in 1932, is the dominant state on the Arabian Peninsula. Saudi Arabia is an absolute monarchy ruled by the sons of Abd al-Aziz, who died in 1953. The Wahhabi brand of Islam and its teachings provide the basic guidelines for the kingdom's political, social and cultural foundations. The first Council of Ministers was created in 1953, at a time when oil income began to play an increasingly vital role in the Saudi process of state formation. In the years following, the country's national administration expanded rapidly, state services and the population's standard of living grew substantially, and the state began playing an increasingly strong, direct role in people's lives.

The country's large-scale oil-fueled rentier economy – which developed gradually over time – led to the creation of a new business class of merchants and contractors belonging to families close to the royals. The kingdom experienced some political and labor unrest in the 1950s and 1960s, during the heyday of Arab nationalism. However, the Al Saud rulers, supported by the Wahhabi clergy, managed to suppress strikes in the (oil-rich) eastern al-Sharqiya province while increasing its control over the political system and averting several military coup attempts. Accounting in large part for the Al Saud's survival as rulers is the fact that they have successfully installed various family members in key positions throughout government institutions, including the security services, which feature a large number of princes.

Real challenges to the Al Saud regime have come from two main sources – al-Qaeda in the Arabian Peninsula (AQAP) (2003 – 2006), and the Shi'ite grievances in al-Sharqiya, both of which the state has successfully fought off. The Islamic State of Iraq and the Levant (ISIL) emerged as a major threat to the Al Saud rulers in the summer of 2014, but has been defeated as well.

The kingdom achieved its highest real GDP per capita in the early 1980s. Since then, the economy has expanded, despite fluctuating global oil prices. The post-2003 economic expansion allowed for increased public employment and an improvement in public services, but given the country's rapidly growing resident population, which now exceeds 34 million (30% of whom were expatriate workers as of 2020), resources are stretched more thinly than they were in the early 1980s. The gradual post-2014 decline in oil prices and the kingdom's war against Yemen, launched in March 2015, have together placed further pressure on the Saudi economy, resulting in a budget deficit. The COVID-19 pandemic has created extra economic constraints for the kingdom.

The Saudi economy is largely dominated by the public sector, but the private sector is expanding rapidly. It has matured considerably in recent decades as a result of considerable government support, and has more sophisticated managerial structures than most of its counterparts in the Middle East and North Africa (MENA) region. The development of the private sector is a significant component of Vision 2030, a major development project that aims to diversify the Saudi economy and reduce its reliance on the oil sector. It also seeks to transform Saudi society and culture but not the political system.

In Saudi history, King Abdullah (2005 – 2015) was the most notable reformist ruler, initiating a number of economic and political reforms that produced somewhat mixed results. Abdullah was seen as a driver of both socioeconomic and political reforms, while the incumbent King Salman is a well-known conservative who apparently has less interest in the process of reform initiated by King Abdullah. The de facto ruler, young Crown Prince Mohammed bin Salman (born in 1985), has broken from his conservative father in societal but not political terms. For example, he has pushed to expand some rights for women, allowing them to attend concerts or the cinema. However, political repression – even to the point of executions – has increased dramatically in recent years.

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. State authorities have not experienced any serious internal or external challenges. Other than weak political opposition, which erupts from time to time, the Al Saud rulers control the state with relative ease. In the post-9/11 context, domestic terror, which peaked between 2003 and 2005, was a significant problem, but the Saudi government was able to suppress such opposition through the use of force and social rehabilitation programs. The defeat of the Islamic State group (IS) in March 2019 (when the IS lost its territorial control of the village of Baghouz in Syria) and the weakening of al-Qaeda in the Arabian Peninsula (AQAP) has meant that the state now has a tighter grip on domestic security.

Violent clashes and demonstrations in and around the Shi'ite city of Awamiya in the Qatif region in eastern Saudi Arabia also decreased. Domestically, the state's broader monopoly on the use of force was never seriously challenged.

However, there are significant future security threats from Yemeni Houthi rebels, who occasionally carry out aerial attacks on Saudi military bases and oil installations. For example, the Houthis claimed responsibility for drone attacks targeting Saudi oil giant Aramco's oil facilities in eastern Saudi Arabia in September 2019. In the months beforehand, they had repeatedly attacked the civilian airports of Abha and Najran. Further attacks against oil facilities and military targets followed in 2020.

Question
Score

Monopoly on the
use of force

8

'06 '22 10

8 7 8

1

Saudi citizens are 100% Muslims (or Arab Muslims) by religious faith. Expatriates belonging to different religious denominations make up 38.3% of the total population of 34.2 million (2020 estimate). The Sunni Muslims are the dominant group, accounting for 85% – 90% of the total Saudi population. The Shi'ite minority (10% – 15%), made up largely of 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 promote religious tolerance and to focus more government attention on underdeveloped regions did not result in notable changes 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, which has little tolerance for non-Hanbali religious practices.

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. Islamic radicals of the jihadi political fringe, such as AQAP and the IS, do not accept the Al Saud state as a legitimate entity primarily because of its ties to the United States.

Saudi Arabia is officially an Islamic state. The Qur'an and the Hadiths (the sayings and deeds of the Prophet Muhammad) define its constitution and the 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. Its members wield considerable influence on issues of public morals, the personal status law, education and culture, although under King Abdullah, the body was pressured by the royal court to scale back its puritanical rhetoric. There is little freedom of worship for non-Muslims (although tolerance in practice varies by practitioners' nationality). The construction of Christian churches, Hindu temples and Buddhist pagodas is prohibited, but non-Muslims can privately perform religious rituals and practices at home.

Officially, all legislation must be based on Shariah, but in practice significant parts of the administration are run according to secular principles (including the regulation of Saudi banks). Inopportune fatwas have been repeatedly ignored by the regime, while in some cases the clergy swiftly came forward to defend the Al Saud rule (as during the Arab Spring protests). On economic matters, Shariah courts are often circumvented through administrative tribunals. In June 2020, the Saudi judicial system enacted Commercial Court Laws to resolve disputes between merchants relating to contracts or profit-sharing agreements. Crown Prince Mohammed bin Salman's (MBS) visionary development plan, dubbed Saudi Vision 2030, has also weakened the Wahhabi dogma by allowing women to attend sporting events, comedy shows and cinemas.

State identity

6

'06 '22 10



1

No interference of religious dogmas

3

'06 '22 10



1

Overall, MBS's cultural reforms have created tensions between the Wahhabi clerics and the government. The reopening of movie theaters, pop musical performances and the ongoing construction of an entertainment city just outside Riyadh have provoked a backlash from the religious establishment. MBS's reform program depends much on the ongoing support of millions of young Saudis who aspire to get rid of the Wahhabi religious dogma.

Traditionally, the reach of the Saudi state administration has extended to remote villages, where it has provided basic services. This function 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. Most Saudis have access to sanitation (100%) and water (97% in 2015), but social services like education and health have suffered due to the coronavirus pandemic, as in other countries. Saudi Arabia has mostly provided free health services for its citizens.

However, the bureaucracy is oversized, as most Saudis prefer employment in the government sector. While the administration is generally overstaffed, there are shortages in important parts of the Saudi state, such as the judicial system. Since early 2020, the Saudi courts have been quick to resolve commercial and non-commercial cases, but there are concerns about the quality of justice. Additionally, 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. Having had no comprehensive tax system until recently, the Saudi government introduced a value-added tax system in January 2018 that involved a 5% levy on the majority of goods and services, with the goal of making up the losses from lower oil prices. The VAT rate increased to 15% on July 1, 2020.

2 | Political Participation

Saudi Arabia is by definition an authoritarian monarchy. There are no national democratic elections to choose rulers or representatives, other than the local-level municipal elections that were first held in the spring of 2005, with a second round in late September 2011 and a third 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 as of the 2015 elections. The Saudi government has used the COVID-19 pandemic as an excuse not to hold elections for some time. Women were allowed to vote and be candidates for the first time in the 2015 municipal elections, in accordance with a promise by King Abdullah.

Basic administration

7

'06 '22 10



1

Free and fair elections

1

'06 '22 10



1

The prospect of national elections is a very remote if not unthinkable possibility, at least as long as the absolute monarchy survives. The Saudi monarchy, like other Gulf monarchies, survived the Arab Spring protests either by bribing their peoples or using coercive measures against the protesters. Additionally, Saudi citizens have little awareness of Western democratic systems of governance, and there is little broad-based social demand for democracy.

Saudi national politics is royal family politics par excellence. The king is the head of the state and the government and is not accountable to anyone. The incumbent Crown Prince Mohammed bin Salman functions as the de facto king, wielding considerable power through his control of key portfolios, including defense. He has curtailed the power of other members of the royal family, sometimes by arresting them, and has moved away from the traditional consensus-based politics within the house of Saud. There are no elected political officials at the national level; high 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 the society are the heads of chambers of commerce, but they tend to represent large families engaged in business, and their interests are often in conflict with those of the citizenry at large. The elected members on the municipal councils look after local issues and enjoy no substantive powers.

Saudi Arabia's strict authoritarian tradition allows no democratic parties or groups to operate. Even 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 approved by King Salman in 2015 allows Saudi citizens to operate NGOs under a state legislative framework. This in theory represents a significant step toward the development of a Saudi civil society, but it remains unclear how effective the framework has been. Political advocacy is not allowed at all. Some political interest groups – professional associations and a human rights group – have been licensed in recent years, but these are state controlled.

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. Informal gatherings are also restricted now due to the pandemic. The Saudi government imposed restrictions on social gatherings and suspended indoor entertainment for the first time in May 2020 as a way of containing the coronavirus threat. The pandemic-driven bans on social gatherings are ostensibly aiding MBS's efforts to solidify his personal authority in the kingdom.

Effective power to govern



Association / assembly rights



During King Abdullah's rule, Saudi citizens enjoyed some space for the discussion of cultural and social issues. However, little public debate about substantial political issues occurred; 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 that no one dares to cross. Prominent journalist Jamal Khashoggi crossed the red line and was murdered in early October 2018. In August 2020, a U.S. court lawsuit accused MBS of sending a hit squad to kill former intelligence official Saad al-Jabri, who now lives in Canada.

Press freedom is almost at a zero point in Saudi Arabia. Soon after the Arab Spring broke out, a 2011 royal decree amended the 2003 media law and imposed strict conditions on reporting, including lifetime professional bans on journalists and a penalty of up to 500,000 Saudi riyals (SAR, approx. \$133,000) for reporting on national security interests, promotion of foreign interests or the slander of religious leaders. This law is still in effect. Newspapers are regulated through the Ministry of Culture and Information under the 2003 Press Law. 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).

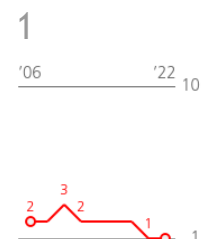
The COVID-19 pandemic has taken its own toll on the freedom of expression. The government arrested many social media activists and launched a crackdown on religious dissenters in mid-August 2020. A journalist reportedly died after being released from prison, but it is unclear whether he died of COVID-19 or from some other cause.

3 | Rule of Law

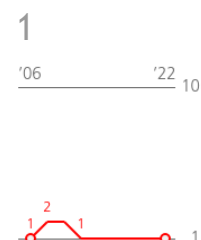
Minimal separation of powers, and a concentration of authority in the executive branch of the government characterize the Saudi governance system. The king appoints the judges of the higher courts, including the Supreme Court (established in 2007), and controls the Majlis al-Shura. However, laws are expected to apply equally to all citizens, though senior princes were long able to avoid the judiciary's reach more or less at will. Senior princes controlled different government departments and agencies. But the current crown prince is trying to limit their influence and eliminate potential rivals. He intervenes even in day-to-day matters when his political or economic interests are at stake, breaking with a long-standing practice.

Members of the official Wahhabi clergy – although appointed by the king – have been given some limited autonomy to run the judicial system through the Supreme Judicial Council and the new Supreme Court, a situation that has prompted 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

Freedom of expression



Separation of powers



Council of Senior ‘Ulama. Further changes in the judicial system were initiated by King Salman to facilitate the realization of goals set by the ambitious Saudi Vision 2030 program. In line with the goals of Vision 2030, the Saudi Ministry of Justice undertook a number of initiatives to improve the judicial system, such as speeding case disposition times, increasing the number of judges and seeking to enhance citizens’ trust in the administration of justice.

COVID-19 did not greatly affect the Saudi governance system. Unlike many countries, the monarchical regime declared no state of emergency, but did put very strict measures into effect. Citizens were warned not to violate COVID-19 countermeasures, and anyone violating or showing the intention to violate the curfew imposed by the government could be subject to a five-year prison term plus a penalty of SAR 800,000 (approx. \$213,000). Bans on social gatherings and public activities have been periodically lifted and reimposed. Majlis al-Shura plenary and committee meetings have been held online, enabling regular activities to continue.

The Saudi judicial system is based on the Shariah Islamic legal system, which repudiates “man-made” laws. It follows the Hanbali school of Sunni Islamic jurisprudence, which is the most conservative school of Islamic legal thinking. Judges are appointed by the king. 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. Judges are free to hand down verdicts on issues and cases they deal with, though only with regard to common people. MBS’s so-called crackdown on corruption and the detentions of senior princes took place outside the purview of the judiciary. Many important conflicts are settled in the majlises of senior princes or by the crown prince himself. Given their huge responsibilities, judges are seen as underpaid, at least relative to salaries available to senior personnel in the private sector. As of early 2021, the monthly base salary for entry level judges was SAR 11,990 (approx. \$3,200), and SAR 21,200 (approx. \$5,650) for senior-level judges.

Judicial corruption does occur, especially with regard to land registration and land disputes. 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. In the case of political questions or decisions in which royal family interests are involved, the judiciary traditionally yields to royal pressure. An example is the secretive trial of the planners and murderers of journalist Jamal Khashoggi. The exclusion from the trial process of Crown Prince Mohammed bin Salman, who was widely suspected of being involved in the murder, did a major disservice to justice.

Independent
judiciary

2

'06 '22 10



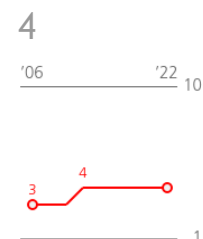
Intrastate accountability and investigation mechanisms exist in principle but are not often used. However, they have been called into play somewhat more frequently since the mid-2000s, as several major scandals related to suspect land deals have been investigated. The national Control and Anti-Corruption Authority is focused primarily on mid-level bureaucratic abuses and issues of administrative efficiency. It regularly complains about non-cooperation from other agencies and has yet to hold any senior figure directly accountable for abuse of office. The Saudi Control and Investigation Board is responsible for investigating financial and administrative corruption, but charges of corruption are not always taken seriously by the Ministry of Justice. Princes are very rarely removed from offices – it usually takes a major, publicly visible offense for this to happen. MBS’s anti-corruption purge, ostensibly carried out for political reasons, can be mentioned here as an example. 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. The areas of defense and security procurement are seen as particularly unaccountable and nontransparent.

Reporting on abuses by local judges, notaries and municipal administrators has been extensive. By December 2018, the Saudi Control and Anti-Corruption Authority received over 14,000 corruption notifications. In September 2020, five government officials allegedly involved in corrupt financial practices were arrested, and in November 2020 a total of 226 government officials said to be involved in 158 graft cases were rounded up. But reviews of government staffers and arrests have not been very frequent in the past; this is a recent development.

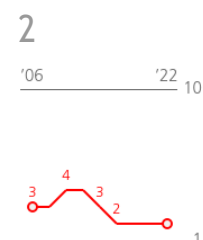
Saudis enjoy limited civil rights. Hundreds of terrorism suspects are currently in detention, though unlawful arrests are comparatively rare. However, legal rights are very limited; for example, the law does not grant citizens the rights of assembly, freedom of opinion, freedom of organization or freedom of religion, among other gaps. A few rights are enshrined in the 1992 basic law, including privacy of residence and mail correspondence, and the concept of *nulla poena sine lege* (no penalty without a law). This does not include a grant of basic political rights, however. There are reports that the government is using spyware to access citizens’ emails and other digital communication. 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. Extra curbs were imposed on social media activity in the wake of the COVID-19 outbreak. The government also banned all types of gatherings in May 2020, including family gatherings, and even suspended prayers at mosques. A three-week national curfew was imposed in late March 2020.

Women’s civil status is deplorable, as has been traditionally true in Saudi Arabia. The Wahhabi version of Sunni Islam requires a strict segregation of the sexes, including in government offices, workplaces and public spaces. Under the male

Prosecution of office abuse



Civil rights



guardianship system, women typically require permission by close male relatives even for minor decisions, such as opening bank accounts or obtaining passports or identification cards. When 18-year-old Rahaf Mohammed al-Qunun attempted to escape from Saudi Arabia via Kuwait, and was ultimately arrested in the Bangkok airport, it made international headlines. She was eventually granted asylum in Canada in January 2019, where she has since been an activist criticizing Saudi Arabia's repression. Gender-based violence, albeit poorly documented, is believed to be an extremely grave problem in Saudi Arabia. A study published by the British Medical Journal in 2019 indicated that 18.2% of women interviewed at a Jeddah-based hospital reported having undergone female circumcision or female genital mutilation, a practice believed to be conducted frequently in combination with forced child marriage.

Women won the right to drive only in 2018, three years after winning voting rights in 2015. At the same time, prominent female activists in the campaign for women's driving rights, most notably Loujain al-Hathloul, Eman al-Nafjan and Aziza al-Yousef were arrested and imprisoned on different occasions, accused of having suspicious contacts with and providing financial support to foreign enemies. In late December 2020, al-Hathloul was sentenced to nearly six years in prison on charges of agitating for change, threatening the public order and pursuing a foreign agenda.

After a record 180 executions in 2019, according to Amnesty International, the Saudi Human Rights Commission reported a "drastic reduction" to 27 state killings in 2020. Saudi Shi'ites face significant discrimination, resulting effectively in a glass ceiling in public and even private employment. Shi'ites are generally treated as second-class citizens by the administration and judiciary.

In contrast to Saudi nationals, guest workers, particularly those under the kafala (sponsorship) system, can hardly trust that their basic rights are respected. "Undocumented foreigners" are often deported by the Saudi authorities, with occasional media reports of domestic female workers being raped, tortured or killed. After the outbreak of COVID-19, hundreds of foreign workers, particularly from South Asian countries, were sent back to their home countries.

4 | Stability of Democratic Institutions

Saudi Arabia is not a democratic state, and it does not possess any democratic national institutions. There are some 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 to date and have found only limited resonance in society. Due to COVID-19, it is uncertain when future elections to the councils will be held. The Majlis al-Shura has at times exposed ministerial inefficiencies but has never held the government or senior royals accountable as a whole. The government, headed by the king, continues to remain as authoritarian as ever.

In Saudi Arabia, in the absence of an elected parliament or formal political parties, informal groups such as tribes, families and professional hierarchies maintain the links between the government and the citizens. 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 like 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. Princess Basmah bint Saud bin Abdulaziz Al Saud, who called for the transformation of Saudi Arabia into a constitutional monarchy, was abducted from Jeddah in March 2019 and arbitrarily held in a high security prison in Riyadh. The government has allowed NGOs to operate, but the legal framework requires them to stay out of politics. Under the extraordinary COVID-19 pandemic situation, the government’s authoritarian grip on power has further increased.

5 | Political and Social Integration

Political parties are illegal in Saudi Arabia. Citizens’ attempts to set up political parties are suppressed. In early 2011, five activists who sought official recognition for “The Islamic Ummah Party” were arrested. Neither does the government tolerate party-like entities, such as the Saudi Civil and Political Rights Association created in 2009. That said, there is no historical tradition of party politics or party system in the kingdom, 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 advisers and clients attached to the various senior princes.

Performance of democratic institutions



Commitment to democratic institutions



Party system



There are state-controlled interest groups in Saudi Arabia. The voluntary sector 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; however, in the wake of the Arab uprisings, this has led to tighter political controls being imposed on them. Above a certain size, associations informally require a royal patron to be able to function. Modern functional-corporatist interest groups (e.g., professional associations, women's and youth associations, consumer rights groups) are relatively weak, and do not reach out sufficiently to their ostensible target groups.

Many interests are represented within the state through various functional agencies, or through princes' informal clientelistic networks. To some extent, such agencies and networks play a role similar to that played by associations elsewhere, though they are subject to stronger political restraints. Ad hoc mobilization on specific social or consumer rights issues through social media has somewhat improved the capacity of larger numbers of Saudis to make their views heard, but this trend has recently been halted by the coronavirus pandemic.

Various interest groups have been founded abroad by exiled Saudis, such as the National Assembly Party founded in London in 2020, which calls for the establishment of an elected government in Saudi Arabia. The murder of Jamal Khashoggi has served as catalyst for opposition abroad; however, such groups have to date had negligible influence on real developments within the kingdom.

Some support for democratic system at the mass level exists. According to the Arab Opinion Index 2019 – 2020, 7.7% of Saudis believe democracy has a presence in their country, without elaborating how. Interest in the existing electoral mechanisms is also limited: voter turnout is usually low, failing to exceed 47% in the 2015 municipal elections. Petitions calling for the establishment of constitutional democracy in the wake of the 2011 Arab uprisings found broader support than before, but even this was far below the level witnessed in other Arab monarchies.

Formal associational life remains strictly controlled by the state, though 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 feelings of unity and solidarity. Social bonds, even if powerful, are often vertical. No data is available on Saudi citizens' trust in each other. Society has been politically demobilized by a still-powerful welfare 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.

Interest groups

2

'06 '22 10



1

Approval of democracy

n/a

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n/a

Social capital

3

'06 '22 10



1

II. Economic Transformation

6 | Level of Socioeconomic Development

Saudi Arabia is a G-20 member state and is currently the world's 17th largest economy in terms of purchasing power parity (2020 estimate). Vital statistics on income inequality (Gini coefficient) and poverty are unavailable, however. Low-income Saudi citizens are provided a variety of social welfare benefits, pensions and monthly payments for food and utility bills. The government also spends billions of dollars each year to provide all Saudi citizens with free education and health care services. The government's effort to increase the share of Saudis in private employment has led to positive changes for Saudis in the private job market. By early 2019, some 1.8 million Saudi men and women worked in the private sector. The government had a plan to push the number of private sector employees to 3 million by 2020, but it is not clear whether this goal has been achieved given the coronavirus pandemic. The unemployment rate rose to 15.4% in Q2 2020, but slightly declined to 14.9% in Q3 2020. Despite the shocks related to COVID-19, the Saudi economy was projected by the World Bank to grow by 2.5% in 2021.

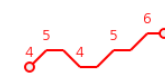
Saudi Arabia's Human Development Index (HDI) score remained the same for two consecutive years in 2018 and 2019, with a value of 0.854 (world average: 0.737). The Gender Development Index (GDI) value was 0.875 in 2018, rising slightly to 0.896 in 2019. While this reflects women's improved access to education and health, the labor market, and public life, it still keeps the kingdom in group 5, the index's worst category. As usual, poorer groups in the vast kingdom's rural and peripheral areas, particularly in the Jizan region (currently a war zone between the Houthis and the Saudi-led coalition), still tend to be excluded from development, as are some Shi'ite groups in the eastern al-Sharqiya province. Even in poor urban areas, some people, for example divorced women or widows, are marginalized and largely excluded from the welfare state. 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.

Question
Score

Socioeconomic
barriers

6

'06 '22 10



1

Economic indicators		2017	2018	2019	2020
GDP	\$ M	688586.2	786521.8	792966.8	700117.9
GDP growth	%	-0.7	2.4	0.3	-4.1
Inflation (CPI)	%	-0.8	2.5	-2.1	3.4
Unemployment	%	5.9	6.0	6.1	8.2
Foreign direct investment	% of GDP	0.2	0.5	0.6	-
Export growth	%	-3.1	7.2	-5.0	-10.8
Import growth	%	0.3	2.6	9.6	-25.2
Current account balance	\$ M	10464.3	71971.9	38229.9	-19646.8
Public debt	% of GDP	17.2	19.0	22.8	32.5
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-9.2	-5.9	-4.5	-
Tax revenue	% of GDP	3.4	8.9	7.4	-
Government consumption	% of GDP	24.4	24.6	23.8	28.5
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	4.5	4.0	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	10.2	9.5	7.8	8.4

Sources (as of December 2021): 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 peers in the Middle East and North Africa (MENA) region. Nonetheless, despite a variety of reform attempts since the late 1990s, parts of the Saudi bureaucracy can be stifling. Setting up and operating a business can be relatively cumbersome. Starting a business takes 10.4 days, three procedures and costs 5.4% of GNI. In the Heritage Foundation's 2020 Index of Economic Freedom, Saudi Arabia holds rank 83, a noticeable improvement from its 2019 position at 91st place.

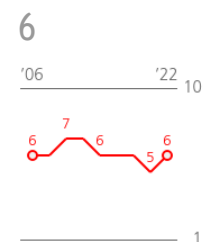
State agencies and chambers of commerce have implemented numerous initiatives to further the development of small and medium-sized enterprises (SMEs). The Vision 2030 plan places special emphasis on firms of this size, with credit provisions available to entrepreneurs. The government extended a generous \$13 billion financial aid package to SMEs during the COVID-19 crisis. Overall, the private sector was provided with a huge support package of \$18.7 billion, plus extra financing through the National Development Fund.

The informal sector in Saudi Arabia is fairly insignificant. However, some companies circumvent formal regulations by registering as a type of business that is different from their actual operation, failing to share data with authorities, employing foreigners informally, or by registering under a national's name while in fact being financed and operated by a non-national. The bureaucracy's regulatory powers to police such practices remain limited. Foreign investors enjoy similar incentives and guarantees as national enterprises and are free to repatriate profits and capital as they wish.

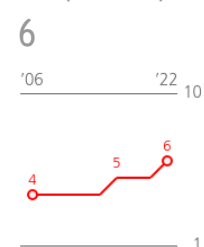
A national competition authority has existed since 2004, but appears to have become active only after a restructuring in 2013, after which it approved a number of private sector acquisitions. A new competition law was put into force in September 2019, replacing the 2004 law. The law applies to all business entities operating in the country, and prohibits anti-competitive practices like price-fixing, constraints on the free flow of goods and services to and from markets, market divisions, and bid-rigging. Sectoral regulators for banks, utilities and telecommunication companies are in place, but only the telecoms regulator has a clear competition policy. In the two years 2019 – 2020, banking regulations regarding loans, profits, and digital and Shariah banking have been tightened. MBS has also warned that foreign businesses failing to relocate their regional headquarters to Saudi Arabia will risk losing their ability to conduct business in the kingdom.

As of the time of writing, the government had issued 13 licenses for domestic banks; however, 12 foreign banks also operate in the kingdom, including BNP Paribas, JPMorgan and Deutsche Bank. First Abu Dhabi Bank, Goldman Sachs and Citigroup considerably expanded their financial and investment operations in the kingdom after the Saudi Vision 2030 plan was formally launched in 2016.

Market organization



Competition policy



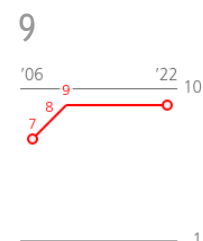
Saudi foreign trade has traditionally been rather free, although trade does on occasion encounter costly non-tariff obstacles. Further steps toward liberalization were taken in the course of WTO accession in 2005, and through the Gulf Cooperation Council (GCC) tariff integration. The GCC's custom union agreement eliminated all tariffs for intraregional trade and unified external tariffs. Riyadh applies the GCC's common trade tariff of 5% to most imports from non-GCC countries (although some goods are taxed more highly; for example, cigarettes and energy drinks receive a rate of 100%, and carbonated drinks a rate of 50%). In June 2020, the Saudi customs authority increased customs duties for a range of other imported goods, many of which are, at the time of writing, at 15%.

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.

The Saudi financial system is well developed and generally very well capitalized. Foreign banks own minority shares in some of the market's big players, and banks with full foreign ownership have been licensed over the last decade. The Saudi Arabian Monetary Agency (SAMA), the central bank, is a qualified and well-respected regulator that cooperates rather well with the banks. 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%. In March 2018, SAMA allowed banks to exercise more power to calculate their loan-to-deposit ratios and decided to keep the loan-to-deposit ratio for commercial banks at 90% to create more room for an increase in total loan volumes. As positive outcomes, Saudi Arabia's capital-to-assets ratio was 14.4 in 2019, a slight decline from 15.2 in 2018. Saudi banks' non-performing loan record is also positive; this share was 2% in 2018, and then dropped to 1.9% in 2019.

The Capital Market Authority (CMA), created in July 2004, has struggled to control the more powerful actors active in the stock market. It has increasingly identified and prosecuted market manipulators, including at least one member of the ruling family, but speculative trading continues, and financial disclosure is often limited to the legally required minimum. The Saudi stock exchange, called Tadawul, opened for large, preselected foreign investors in mid-2015, leading to substantial capital inflows and pressure for better governance. Some real reforms were undertaken to deregulate the stock market for qualified foreign investors in January 2018. The CMA allowed foreign investors to operate in the stock market with assets worth \$500 million, a benchmark that was previously set at \$1 billion. The allowed foreign-participation share in a Saudi-listed company was increased to 49%. During the coronavirus crisis, the CMA reported that up to Q3 2020, there was a 50% fall in corporate profits, but market liquidity, spurred by foreign capital inflows, went up by \$30.66 billion.

Liberalization of foreign trade



Banking system



8 | Monetary and fiscal stability

Saudi Arabia has historically been quite successful in containing inflation. In December 2018, the inflation rate stood at 2.2%, and throughout that whole year (2018), it never crossed 3%. In 2019, the inflation rate was -2.1%. The coronavirus pandemic has affected the monetary health of the kingdom, pushing the inflation rate to 3.4% in 2020. If the pandemic persists, the inflation rate may increase further. As the Saudi riyal is pegged 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, as it lacks interest-rate flexibility. Despite much speculation over the years, the riyal-dollar peg is unlikely to change any time soon. In fact, in early May 2020, SAMA reaffirmed the value of the peg policy as a strategic option contributing to sustainable economic development.

SAMA is operationally independent and well respected, and exerts considerable influence in the Saudi economy. It has quite successfully spearheaded a range of monetary and fiscal measures, supported by the Ministry of Finance (MoF), aimed at mitigating the impact of COVID-19. In July 2020, the MoF increased the VAT rate from 5% to 15% to raise more non-oil revenues, cost-of-living allowances for public sector employees were removed, private sector support measures were extended in July, and in early October penalty waivers for tax filings and payments were extended to the last day of 2020. SAMA additionally reduced the interest rate twice in March; offered to cover fees for private sector transactions for three months; instructed all banks to delay payments of loans, without extra fees, for three months; and in June 2020, facilitated banking liquidity and the provision of private sector credit by injecting \$13.3 billion into the banking sector.

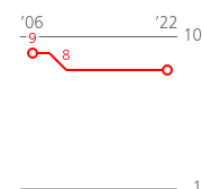
Saudi fiscal discipline has slipped in recent years. Public expenditure growth was high particularly following the outbreak of the Arab Spring. During the Arab Spring years, the government spent \$130 billion on social spending, new public projects and stipends, partly as a reaction to the effects of public discontent elsewhere in the region.

The collapse in oil prices by the mid-2010s, which has continued through the present despite some fluctuation, led to substantial budgetary deficits in recent years. The 2017 budget was estimated to have a deficit of SAR 198 billion (approx. \$52 billion), and the government raised \$17.5 billion in October 2016 by selling bonds in the international markets to fund budgetary deficits. The IMF forecast for the 2019 budget deficit was 4.2% of GDP, a little lower than the 4.6% seen in 2018. The 2020 budget deficit was projected to widen to 8% of GDP.

The state remains fiscally very dependent on oil but began levying taxes on the incomes of individuals and local companies beginning in January 2018. This meant that long-term fiscal problems were set to ease gradually, although the coronavirus

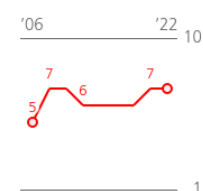
Monetary stability

8



Fiscal stability

7



pandemic has since intervened. The current account balance declined to \$47 billion in 2019 (from \$72 billion in 2018), with public debt increasing to 22.8% of GDP in 2019 from 19% in 2018. On a positive note, the kingdom owes no external debt.

9 | Private Property

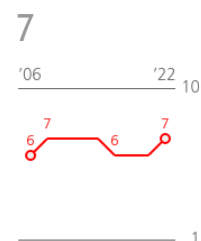
Property rights are generally respected, but asserting them through the court system can be time-consuming and uncertain. In some important areas such as land ownership, regulation of property rights has been deficient until recently. The government created the first land registry agency in late 2016. Recent years have seen a number of large real estate scandals, several of which involved corrupt judges and the notary public. GCC nationals and GCC companies, subject to some restrictions, are allowed to buy and own land and residential properties in Saudi Arabia. Even non-GCC foreigners and foreign companies enjoy certain rights to buy land and property.

After the formal launch of Vision 2030, the government removed the requirement that foreign-operated businesses must have a 25% Saudi-national ownership share. Currently, hundreds of thousands of SMEs are owned and operated by foreigners. The Saudi Arabian General Investment Authority passed a new law in 2018 to this effect.

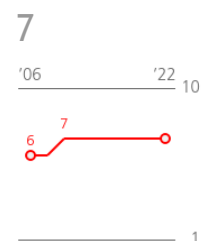
Two strategic sectors in the kingdom – oil and petrochemicals – are wholly state controlled. For some time, the government was in a process of finalizing proposals for the partial privatization of state-owned oil giant Aramco, but it finally abandoned the plan due to Saudi concerns regarding the disclosure of Aramco's total assets and information about the oil reserves under its control. The state has significant shares in several large and important banks and a majority stake in the largest telecommunications operator, and it controls the national railway, a national bus company, the national airline that dominates domestic air transport, significant 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 received a big thrust from Vision 2030, one goal of which was to make the private sector more dynamic. The government decided to reduce public ownership through further sale of shares in Saudi Arabian Basic Industries, water and electricity services, Saudi Arabian Airlines, and more, but it is moving relatively slowly in this regard. In October 2018, the government announced plans for privatization across four sectors: silos and grains, schools, health care, and desalination. As of the time of writing, there has been little progress. In September 2020, the government announced that the privatization of 38 public agencies had not materialized as planned, but that it hoped to privatize 13 of those agencies in the health, education and housing sectors over the next two years. Many Saudi citizens actually oppose the privatization of basic services in view of the skyrocketing prices and financial difficulties created by the coronavirus pandemic.

Property rights



Private enterprise



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. Water and electricity are heavily subsidized for those in lower income brackets, while public education and health services are free. There is a system of social security payments, but it is patchy and administered on a case-to-case basis by the Ministry of Social Affairs. The state pension system is financially secure for many decades to come. Unemployment insurance assistance programs offer payments only for a maximum of 12 months. But the recent oil slump has forced the government to introduce a series of austerity measures, including 20% cuts in the salaries of ministers and Majlis al-Shura members. The 2019 budget sought to reverse this situation with a 7% increase in state spending. But in the 2020 budget, public spending was slashed by 2.7% (compared to the 2019 budget) to cope with the pressures of declining oil prices.

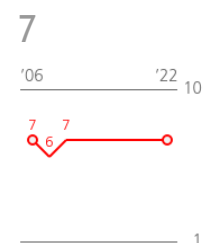
Public employment is not provided to all nationals, however, leading to an uneven and discretionary distribution system. As family networks remain tight, many individuals are prevented from sliding into poverty thanks to assistance from wealthier relatives, but these networks are being increasingly stretched as the population continues to grow, and as the labor market participation rate remains at just 40% to 45% among the national working-age population. Millions of expatriate workers continue to live in poverty, with average wages below \$300 per month.

The COVID-19 pandemic has created extra pressures on the public welfare regime. The government has allocated extra funds to support the health sector and canceled expat fees (charges incurred when hiring foreigners and when processing their visas), but also stopped the provision of monthly living allowances to Saudi citizens (except low-income Saudis), citing a sharp decline in oil revenues. Poor and unemployed Saudis are likely undergoing some hardship as a consequence.

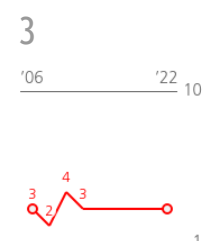
In principle, the Saudi Arabian state makes public services available on a relatively broad basis, including the provision of access for women and regional and sectarian minorities. Personal relationships with members of government institutions can play an important role in the administration of public services, however, which can make for de facto inequality in access. Being a Shi’ite or coming from a peripheral region in particular can be a disadvantage. The Shi’ites face religious discrimination (e.g., they are not allowed to broadcast rituals from religious gatherings or observe their religious traditions), and anti-Shi’ite rhetoric is common in Sunni school textbooks. Those who protest such inequality usually land in prisons.

On the gender front, Saudi women enjoy good access to (segregated) higher education, increasingly even within subjects once reserved for males. According to 2020 World Bank data, the ratio of female to male enrollment stood at 1.0 (primary

Social safety nets



Equal opportunity



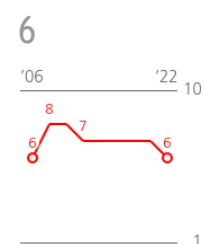
education), 0.9 (secondary education) and 1.1 (tertiary education). In total, there were 3.1 million women or girls enrolled in school in 2019, along with 3.3 million men or boys. The literacy rate among women was 92.7% in 2017, compared to a 97.1% rate among men. However, women’s job opportunities are largely restricted to sectors such as health and education. Through its Vision 2030 program, 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. Women’s labor market participation has greatly increased in the wake of the government’s labor market “Saudization” campaign. In international comparison, however, the workforce participation rate among women still remains very low, at 15.9% in 2018, and falling slightly to 15.8% in 2019 and 2020.

11 | Economic Performance

In recent years, Saudi Arabia’s economic growth has been disappointing. After poor to moderate growth rates from 2012 to 2016 (average growth rate was 3.28% during these years), annual GDP growth fell into negative territory (-0.857%) in 2017. The growth rate was -1.3% in 2019, and the IMF has projected a further dip in real GDP growth of -5.4% in 2020. However, the forecast for 2021 is 3.1%. Most of the positive growth rates before 2017 were driven by strong increases in state spending, and the private sector’s long-term capacity to drive growth independently of state spending remains in doubt. There is no public external debt. The Saudi government’s total public debt amounted to 22.79% of GDP in 2019, but jumped to 33.4% in 2020, largely due to social spending pressures created by the pandemic. The trade balance has traditionally been strongly positive, largely due to oil revenues. The unemployment rate remained at a constant 5.9% through 2019 and 2020. The kingdom did not receive significant foreign investment in 2019, with the incoming total amounting to just 0.6% of GDP.

The economy remains precarious in the long term, due to fluctuations in oil prices and the impact of COVID-19. These two factors are gradually depleting foreign currency reserves (falling from \$514.96 billion in 2019 to \$441.2 billion in 2020). 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, and in part due to the COVID-19 economic crisis. 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, or how many more the private sector can accommodate without a serious impact on its profitability and growth.

Output strength



12 | Sustainability

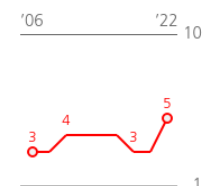
The environment has become a significant issue in Saudi Arabia, particularly in the context of very large development projects. The media often highlight environmental issues. In the face of local gas shortages and rapidly increasing domestic oil consumption, renewable energy has become a particular focus of national debate. State oil giant Saudi Aramco, as well as the new King Abdullah City for Atomic and Renewable Energy (KACARE) are the leading players in this field. Environmental assessments for new projects are usually treated cavalierly. There is a lack of robust follow-up mechanisms, and KACARE has struggled to build administrative capacity. In May 2019, the Saudi Ministry of Environment, Water and Agriculture signed a multimillion-dollar agreement with the U.N. Environment Program to build institutional and human capacities to protect the environment. Under the agreement, Saudi Arabia would host U.N. experts in the field of environmental laws and regulations, climate change and waste management, air quality management, and other similar areas.

Mass awareness of environmental threats and concerns is low but seems to be growing. Saudi Arabia's G-20 presidency in 2020, while somewhat hampered by the COVID-19 pandemic, included various environmental issues on its agenda. However, the Saudi Environmental Society, a non-profit organization created in 2006, has remained mostly inactive. The average Saudi household produces large amounts of garbage and consumes as much energy as a U.S. household, considerably more than the European average. The government's solar energy agenda is ambitious, but activity on the ground has to date been thin, with domestic oil and gas consumption growing at an annual rate of up to 10%. Environmental awareness is not deeply anchored in the public or bureaucratic consciousness; nor is the formal obligation to perform environmental impact assessments.

Education expenditure rose sharply in the course of the oil boom in the early 2010s, accounting for a quarter of the national budget in recent years and reaching close to 10% of GDP. The quality of public education has not necessarily increased at the same rate, however. Saudi scores in the Trends in International Mathematics and Science Study (TIMSS), an international math and science skills benchmarking exercise, has not improved over the years, and it remains among the worst-performing countries. In the 2015 TIMSS report, Saudi elementary- and secondary-school students' scores in mathematics and science were among the world's lowest (and indeed, were the lowest at the secondary level). In the 2019 TIMSS competition, Saudi students' performance improved, but still continues to lag well behind students from advanced countries, and even students from other Middle Eastern countries.

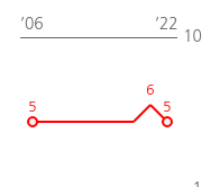
Environmental
policy

5



Education policy /
R&D

5



The number of private schools has grown, and many private universities have recently been licensed. Access for the poor remains a problem, however. The overall literacy rate was 95.3% in 2017, and the country's score on the U.N. education index was 0.789 in 2019. As in most other Arab countries, R&D spending in Saudi Arabia remains very low. No recent statistics on R&D spending are available; the latest available figure was for 0.82% of GDP in 2013. 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 exceptions of the King Abdullah University of Science and Technology and the King Fahd University of Petroleum and Minerals, public universities are of medium or low quality. The primary school enrollment rate in 2018 was 95%. Additionally, regional imbalances in education remain, and there is no clear long-term strategy for addressing this issue.

Governance

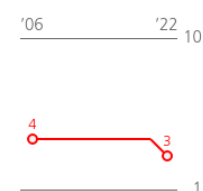
I. Level of Difficulty

Structural constraints on governance in Saudi Arabia are moderate, as the state has considerable resources. But this advantage has been compromised by the kingdom's war on Yemen and the recent decline in global oil prices, creating problems of governance under the coronavirus pandemic (although the full effects of the pandemic are not as yet known) and in the region of Najran on the Yemeni border. This constraint will continue until the war ends and oil prices rebound. Saudi Arabia remains thinly populated relative to its size, however. This increases infrastructure costs and makes it difficult to develop peripheral regions or to avoid an overcentralization of population and economic activity in big cities such as Jeddah and Riyadh. Moreover, the Saudi state suffers from capacity deficiencies due to the lack of an educated and skilled local labor force, the rentier mentality of many of its bureaucrats, and its limited or moderate penetration of society from a regulatory perspective. In addition, a certain number of skilled public officials especially within the higher ranks of the Saudi bureaucracy – in some cases even princes – have been sidelined by the increasingly authoritarian politics of MBS. This can make consistent implementation of policies difficult.

Under Saudi Arabia's authoritarian tradition, civil society associations have little scope to exist or operate. 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 the growth of independent organizations. Although there are numerous welfare societies with considerable resources, these exist in the shadow of the state. The same is true of religious organizations. There are no powerful independent unions, syndicates or issue-oriented groups in the kingdom, other than the chambers of commerce and industries. The only social structures most Saudis can rely on are small-scale informal networks of kinship and friendship. Government attempts since the mid-2000s to set up formal interest groups in a top-down fashion have not really caught on; comparatively apolitical 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, and gaining no general popular support.

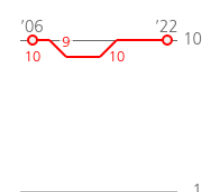
Structural constraints

3



Civil society traditions

10



Saudi Arabia suffers from a variety of low-level conflicts – tribal, sectarian and gender. Conflicts over identities, particularly between the Shi'ites and the Sunnis (primarily in the eastern al-Sharqiya province, where the Shi'ites dominate), as well as women's protests against intrusive male domination, remain strong. However, the Saudi state and its patronage networks have to date been strong enough to prevent the emergence of significant organized challenges by sub-state identity groups or other communities. Violent incidents have mostly been limited to the Shi'ite minority in the al-Sharqiya 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 or executing Shi'ite leaders. Spillover threats from the war in Yemen have become a constant possibility on Saudi territory along the southern border and occasionally even up to the capital, Riyadh, mainly resulting from Houthi rocket attacks.

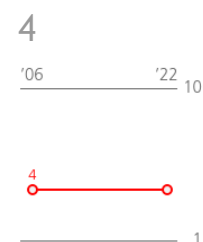
The monarchical system of rule is otherwise supported or accepted by most Sunni Saudi citizens. Under the stress of the COVID-19 pandemic, domestic violence against women has increased in many countries, but no major report of violence has emerged from Saudi Arabia. Given the male guardianship system, and the fact that only a few relatively weak organizations providing support for women exist, this may be due to the low level of critical reporting in the country rather than the true absence of domestic abuse. Saudi journalists are not able to report on such events and developments freely.

II. Governance Performance

14 | Steering Capability

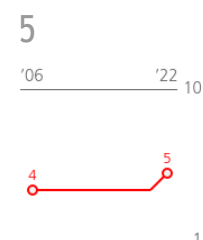
Under the late King Abdullah, Saudi Arabia initiated gradual economic and sociocultural reforms, reflecting a clear commitment to loosening some of the rigidities of the patriarchal Saudi society. But consistent follow-up on long-term reforms has been deficient, and policy initiatives sometimes have a knee-jerk quality. King Salman's broader domestic policy priorities have been upset by the Yemen war and high-profile involvements in regional affairs. MBS, the king's ambitious son, is trying to modernize the kingdom through the Vision 2030 program but is facing opposition from forces including the Wahhabi religious establishment. While in part intended to wean Saudi Arabia from its dependence on oil revenues and diversify the economy, Vision 2030 is also a grand plan to modernize Saudi society and culture. Although it is moving slowly, the plan aims to improve women's socioeconomic lot, defying the resistance of the Wahhabi clerics.

Conflict intensity



Question
Score

Prioritization



As usual, there is strong apathy toward substantial political change; Abdullah’s very careful agenda of political opening was abandoned after his death in 2015, and even reversed after the Arab uprisings, when the regime cracked down on dissidents. Enabling serious popular participation in the form of national elections, fiscal accountability to the public on the part of the government or the freedom of organizations are not topics 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 the survival of the Al Saud regime at any cost.

In March 2020, seeking to counter the impact of COVID-19, the government announced incentive packages of \$61 billion targeting the private sector, including a wage subsidy of 60% for Saudi employees working in the private sector for a period of three months.

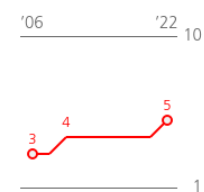
Traditionally, Saudi Arabia has been opposed to any serious political reform program, and the few steps that have been taken – such as municipal elections or the licensing of specific interest groups – have been inconsistently implemented. The oil boom and extensive welfare regimes have reduced pressure for political reforms, while the Arab uprisings led to instinctive rejection of constitutionalist demands.

On the economic reform front, considerable modernization has taken place since WTO accession in 2005. Two major current economic transformation initiatives include the ongoing privatization of the economy and the measures being implemented in the context of the Vision 2030 plan. The gradual opening of the capital market and the creation of a commercial court system are aiding the transformation process. However, progress on Vision 2030 has stalled, in part due to the outbreak of the COVID-19 pandemic. The pandemic-driven nosedive in oil prices has generated extra budgetary constraints, forcing the government to divert \$8 billion from the Vision 2030 budget normally earmarked for financing modernization efforts. A generous package of financial and fiscal initiatives is strongly supporting the private sector, however.

The kingdom has a shortage of vibrant and dynamic government administration officials able to implement reforms at a comfortable pace. Although some reforms are seen through effectively – such as the involvement of private investors in the water and power sectors – others have been badly hampered by bureaucratic infighting and sluggishness.

Implementation

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In recent years, Saudi Arabia has shown somewhat increased political flexibility in some policy areas. The handling of the oil revenue inflow in the early 2010s 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 also been tackled in a more systematic fashion since 2011. Similarly, King Abdullah’s willingness to engage in some limited cultural and political opening indicated that he recognized the political problems caused by Wahhabi cultural rigidity. MBS’s policies of granting women the right to drive and allowing female spectators to attend sporting events point to the opening of a new era of cultural flexibility in the kingdom.

As in other countries, the COVID-19 crisis has created a new policy learning experience for the Saudis. The government was quick to respond to economic priorities and to the sociocultural needs of citizens. Education went online rather quickly, and restrictions on social gatherings were imposed to contain the pandemic, with considerable success. Different public departments and ministries largely performed well despite previous criticisms of bureaucratic immobility and dysfunction. The complex structure of the Saudi administrative system, along with the political clientele attached to it and to the Al Saud family, limits the pace of large-scale change in the kingdom. Nevertheless, MBS and the country’s people are learning gradually.

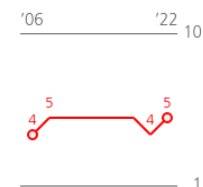
15 | Resource Efficiency

In the past decade, the balance of current and capital spending has much improved, allowing for considerable infrastructure investment. However, lower oil prices have led to reduced capital spending in the medium term. National budget targets have regularly been exceeded by more than 10% of GDP. 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 rents). When it comes to specific allocations, budgets remain nontransparent, and closing accounts are not usually published.

Some inefficiencies are deeply embedded in the state apparatus. The late King Abdullah had reined in princely corruption to some extent, but large institutions such as the ministries of Interior and Defense, both run by princes, remain unaccountable. Many agencies remain overstaffed; despite the decline in oil prices, dismissal of surplus personnel is practically impossible. There are at least twice as many Saudis employed by the state as by the private sector, despite the policy of Saudization. The Ministry of Human Resources and Social Development generally plans the civil manpower and serves the government’s need for competent civil servants.

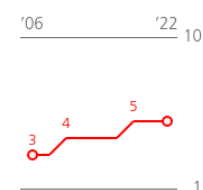
Policy learning

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Efficient use of assets

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Good governance principles have not pervaded the bureaucracy; it remains opaque, over-centralized and unaccountable. Still, compared to many other oil states, the Saudi state is reasonably efficient, and it includes several pockets of efficiency that are tasked with high-priority functions and are relatively autonomous from the rest of the state apparatus. King Salman, soon after his ascension to the throne, abolished a number of ministerial committees and appointed several new ministers, but to date has launched no long-term administrative reform agenda. The Saudi executive and administrative apparatus have responded to the COVID-19 pandemic fairly well in terms of shifting priorities and reallocating resources.

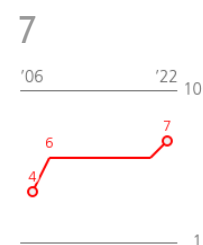
The Saudi system of authority is highly centralized, with redundancies and overlapping responsibilities in implementation still existing at the ministerial level and below. Interministerial coordination is weak, as communication tends to be vertical rather than horizontal, while on the level of the most senior agencies (the royal court, the ministries of Defense and Interior) it can be hampered by the personalization of power, as has happened under Crown Prince Mohammed bin Salman. Policies and procedures which involve more than one institution often suffer from inconsistencies. Policy areas such as education and health have traditionally remained fragmented, as large institutions such as the ministries of Defense and Interior have their own educational and health establishments. In some cases (e.g., labor and water issues), responsibilities have been consolidated, but in others this has not been technically or politically feasible.

The COVID-19 pandemic response resulted in a big change in policy coordination. The ministries of Health, Civil Aviation, Finance, and Education showed the way. Led by the Crown Prince, the Ministry of Finance made bold decisions in economic matters, the civil aviation authority took bold steps to bring back Saudis stuck abroad, and the Ministry of Health ministry provided free health care to citizens, including vaccinations. The Ministry of Education expanded citizens' network access, enabling students to engage in online learning. In brief, coordination in the pandemic crisis management was excellent.

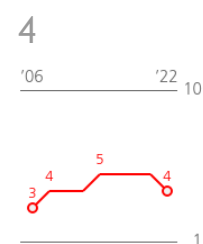
Corruption in Saudi Arabia has always been quite prevalent at the most senior levels of the government, and there has been a gradual trickle-down effect in recent years due to slowly rising costs of living and stagnating wages. That said, certain government institutions have traditionally been seen as 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, though in reality this may not be the case. For example, Aramco reportedly received suspicious payments from Petrobras, the Brazilian state oil company, between 2014 and 2016.

The government has created several intra-bureaucratic integrity mechanisms, including an administrative supervision agency and a disciplinary board for bureaucrats, but these do not report systematically on their activities, and cannot touch large fiefdoms such as the ministries of Defense or Interior. The new

Policy coordination



Anti-corruption policy



Oversight and Anti-Corruption Authority has mostly concentrated on issues of public-service quality and low-level corruption and has repeatedly complained about the lack of cooperation from other ministries. Under the COVID-19 crisis, the anti-corruption authority has become more active in arresting low-level state employees involved in bribery, fraud, and abuse of influence and power, but higher-level figures remain untouchable. Some see MBS's anti-corruption policy as a pretext being used to appropriate assets from powerful groups in the establishment to expand his own power.

16 | Consensus-Building

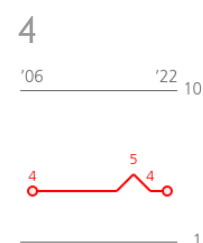
In terms of achieving a political consensus with respect to democracy in Saudi Arabia, the consensus currently seems to pertain to the broadly Islamic nature of the state. The Al Saud rulers are generally supported by the people, though there are disagreements about the extent of their involvement in day-to-day politics. Opposition to the royal family comes from three different parties – the al-Qaeda jihadists, the Shi'ites in the eastern al-Sharqiya province, and the moderate Sunni Saudis (the non-acknowledged Islamic Ummah Party, for example). Conversely, there is no consensus on democratization, a concept that remains alien to important parts of Saudi society and is generally poorly understood. Nor is there general agreement within the elite with respect to steps toward political liberalization. King Abdullah was willing to concede some token aspects of political opening, but under King Salman, the door to democratic reforms has been effectively closed, and MBS, despite his Vision 2030 modernization program, has avoided political reforms.

Consensus on the importance of the market economy and on the need for gradual economic reform is broad-based among senior princes, technocrats and merchant families. Such a consensus conforms well with the broader Islamic political and economic system, as private ownership and individual entrepreneurship are well recognized in the Islamic religious system.

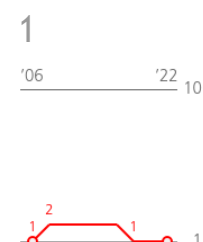
There are no reformers at the top levels of government who are advocating for democratization. When it comes to other types of reform, senior princes have been able to cast vetoes against specific policies in the past. King Salman remains committed to this tradition or pattern of practices; his son Mohammed bin Salman is open to economic but not political reforms. It appears that any demand for democratic reforms would be resisted. Since the Saudi political system is authoritarian, pro-democracy forces have little ability to make themselves heard.

The country's hardline Wahhabis, who have currently been politically checked by the crown prince but can nonetheless muster considerable popular support, represent another major obstacle to reform. Generally, even forward-looking reforms lack a democratic framework, and are not the product of democratic forces.

Consensus on goals



Anti-democratic actors



The political and social reform drive seeking to mitigate conflicts between ethnic and religious factions evaporated after reformist King Abdullah passed away in 2015. Different marginal groups – be this due to geography, religion or gender – generally perceived him as the best hope they had among the senior princes. King Salman is a more conservative leader, has stronger links to the traditional central Arabian forces of conservatism and pursues hardline policies. The execution of Shi'ite leader Sheikh Nimr al-Nimr in January 2016, despite questions about the process in his trial, is an example; this escalated tensions in the eastern al-Sharqiya province, and also across the borders with Iran. The total number of executions of regime opponents and other criminals shot up to 180 in 2019, but fell back to 27 in 2020.

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 advisers and leaders of the religious establishment still stem predominantly from this area, and the inclusion of other groups does not automatically imply equality. Large-scale clashes between sectional interests cannot be totally ruled out. Growing opposition to MBS and his authoritarian politics from within the Saudi ruling family occasionally makes headlines, despite the crown prince's tight grip on the security apparatus.

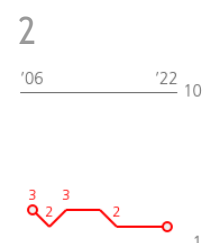
There is little in the way of “formal” civil society with which the regime can engage in the course of policy deliberation, with the notable exception of the private sector, which is relatively well organized through chambers of commerce and industry. Other formal interest groups created in the course of the mid-2000s wave of reforms (such as various professional organizations, a pensioners' association, and human rights and consumer rights societies) are still largely excluded from policy consultation processes. However, social interests can 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.

There is little information about the degree of civil society participation in the development of COVID-19 response measure. The whole show is run and managed by the government.

Cleavage /
conflict
management



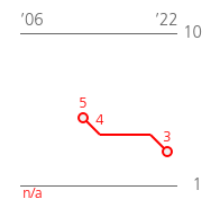
Civil society
participation



The use of violence in Saudi Arabia is not uncommon; for instance, it has in the past been wielded against militant Sunni groups and Shi'ite uprisings in the eastern al-Sharqiya province. The main perceived injustice is that the country is a very socially and culturally exclusive system controlled by social and religious elites from Najd. 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. Even under the pandemic, the situation did not change; injustices against opposition groups of various forms, including arrests of women, have continued unabated. In the wake of the war on Yemen, King Salman's government has courted the previously marginalized non-Sunnis, particularly the Ismaili Shi'ites in the Najran region bordering on Yemen, with the aim of keeping them loyal to the kingdom and preventing any cooperation with the Houthi rebels. However, there has to date been no national commission tasked with investigating perceived or real social and cultural injustices in the kingdom.

Reconciliation

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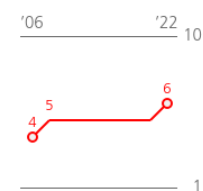


17 | International Cooperation

On certain occasions, the Saudi government has been relatively good at accepting and integrating technocratic or consultant-driven advice from international organizations, both private and public. This has been demonstrated in the course of WTO accession, in the management of independent water and power projects, in the upgrading of the capital-market regulation, and most recently in the May 2019 agreement with the U.N. Environment Program (UNEP) to develop state environmental protection and management capacities.

Effective use of support

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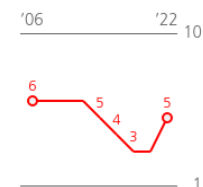
That said, as the kingdom pays for its consultants, international actors have limited leverage over the implementation of policies, and it is in this phase that special interests in the bureaucracy can often stall or alter the course of reforms. However, under the Vision 2030 development plan, bureaucratic wrangling is diminishing. And the government's successful policy coordination in response to the COVID-19 crisis promises better policy coordination under Vision 2030.

On political issues, the rather prickly Saudi elite almost uniformly rejects international involvement. In general, there is a strong sense of "Saudi exceptionalism," and attempts to counsel Saudis publicly on political change tend to backfire. Yet, the Saudi government is susceptible to external political pressures. Patronized by the Trump administration, MBS imposed a complete blockade on Qatar and has started a process of recalibration of relations with Israel since 2020.

Barring King Salman's muscular foreign policy approach in the Middle East, Saudi Arabia has always pursued a conservative foreign policy course and is generally considered a reliable partner by the West. However, this pertains to international diplomacy and economic cooperation, not to partnership in democratic reforms or human rights issues. The murder of Jamal Khashoggi directly implicated MBS and has greatly tarnished the image of the kingdom. The Saudi war on Yemen has created the worst humanitarian crisis in history – unprecedented sufferings for millions of Yemenis, especially women and children. Similarly, Saudi contact with Israel and the blockade on Qatar were heavily criticized by other regional states, and especially the Palestinians. Even in matters of economic change, Saudi Arabia is very conscious of its sovereignty, 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), such as Amnesty International or Human Rights Watch. Cooperation with development-focused bodies such as the World Bank, UNDP or the IMF has been closer. The kingdom chaired the powerful G-20 in 2020 and played a significant role in the global response to COVID-19. In March 2020, the kingdom donated \$10 million to the WHO to fight the pandemic.

Credibility

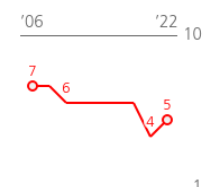
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Saudi Arabia took a leadership role in creating the League of Arab States (LAS) and the Gulf Cooperation Council (GCC), with the goal of working toward political and economic cooperation between the Arab states. At the regional level, it has also consistently supported the creation of a nuclear-weapon-free zone in the Middle East. However, it took a more aggressive player during the Arab Spring by siding more openly against regimes and movements perceived as hostile, be they Sunni Islamists like the Muslim Brotherhood or Shi'ite-led governments and movements. This led to very tense relations with the pro-Brotherhood regime in Qatar in June 2017, as well as with Shi'ite Iran. The hostile Saudi policy toward Qatar dealt a major blow to GCC cooperation, but the rift has recently been somewhat patched up. Differences between Qatar and Saudi Arabia continue to persist, as Doha insists on foreign policy autonomy to maintain relations with all parties, including Iran. But Riyadh's confrontational policy toward Iran remains a big foreign policy issue, as the two rival powers are deeply engaged in proxy wars in Syria and Yemen.

Regional cooperation

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Hostility toward Iran has also pushed Saudi Arabia to explore contacts with Israel, with the goal of jointly countering Iranian power and influence. While the Saudi government does not formally recognize Israel, there have been some Saudi overtures to Israel in recent years that at first aimed at circumventing nuclear negotiations between the U.S. and Iran and are currently aimed at reducing Iran's influence in Iraq, Syria and Yemen. The kingdom indirectly supported Bahrain's and the United Arab Emirates' recent diplomatic recognition of Israel and is likely the next Arab state to establish formal relations with Tel Aviv.

Strategic Outlook

Saudi Arabia remains an absolute monarchy that has become even more authoritarian under Crown Prince Mohammed bin Salman (MBS), and still tries to derive its legitimacy from the Wahhabi brand of Islam. The scope for substantive political reform in terms of greater popular participation remains very limited in the short and long term under conservative King Salman and de facto ruler MBS. Democratic reform aspirations are bought off or neutralized through a generous welfare regime that co-opts citizens. The regime is likely to use the COVID-19 pandemic as an excuse to shut the door to reforms even further for a considerable period of time.

The creation of more inclusive and equitable political processes would require the presence of civil society institutions that as yet do not exist, with public space allowed for the independent organization of social interests grounded in regional, professional, religious and other identities. The organizational field today is open to only a limited extent – largely to issues of welfare, while more political associations are tightly controlled by the regime. What is needed is a national interest-aggregating infrastructure that is not based on kinship, sect or patron-client relations, which are almost by definition exclusive and unequal.

The last decade's comparatively more 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, and their gradual inclusion in policymaking processes could make for a more public style of politics. To overcome its cleavages, Saudi society needs to adapt to the public interplay of different opinions and interests.

External actors can be helpful by publicly accepting that Saudi Arabia has to find its own way toward participatory politics, while remaining firmly behind the basic vision of introducing participatory elements. States, international governmental and non-governmental organizations (IGOs and INGOs) can help assist with the development of Saudi civil society but should do so carefully and in response to local demands, not on the basis of external ideas of what Saudi society should look like. In terms of external relations, there is an urgent need to reassess and recalibrate the active involvements in regional affairs, many evidently driven by the Iran factor, that have proved counterproductive (consider the financial and human costs in Yemen). Saudi Arabia's close allies, particularly the current Biden administration, should gently press MBS to reduce extremist-inspired measures and improve the country's human rights record in order to build a better Saudi Arabia.