

BTI 2016 | Saudi Arabia Country Report

Status Index	1-10	4.26	# 100 of 129	
Political Transformation	1-10	2.52	# 124 of 129	➔
Economic Transformation	1-10	6.00	# 49 of 129	➔
Management Index	1-10	3.82	# 101 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	30.9	HDI	0.836	GDP p.c., PPP \$	51924.3
Pop. growth ¹	% p.a.	2.2	HDI rank of 187	34	Gini Index	-
Life expectancy	years	75.7	UN Education Index	0.723	Poverty ³	% -
Urban population	%	82.9	Gender inequality ²	0.321	Aid per capita	\$ -

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

Little took place in Saudi Arabia's political and economic transformation process from February 2013 to January 2015. The death of the 90-year-old King Abdullah on 23 January 2015 and the ascension to the throne of the 79-year-old Salman the same day have, if anything, further dimmed prospects for political opening, as the Al Saud (House of Saud) now appears even more cohesive. Political dissidence increased in parallel with the Arab uprisings of 2011 but has since died down as a result of both regime patronage and repression. Political awareness continues to grow with the spread of social media, but organized political opposition to the Al Saud family remains limited.

Yet if radical transformation in Saudi Arabia, akin to what happened in other nations in the region, appears unlikely in the short term, the effect of the regional uprisings on the country's internal and regional politics should not be underestimated. The ruling Al Saud is acutely aware of the potential for dissent and has paid close attention to the uprisings in other countries in the region. Political leaders remain quite sensitive to any hint of similar popular movements spreading to Saudi Arabia. Many of the demographic factors that contributed to Arab uprisings elsewhere are also present in Saudi Arabia. These include a young population (60% of Saudis are under the age of 21), persistent unemployment and underemployment (with a labor force participation ratio of below 40%), widespread dissatisfaction with inequality, uneven access to state resources, and severe limitations on free speech.

While opposition tapered off quickly after 2011, the regime has continued to placate the national population through housing projects, increases in public employment and various welfare payments. Continuing Shi'ite unrest in the eastern provinces remains a strong source of concern for the ruling family. Regional unrest has led the Saudi leadership into a more active and aggressive position, openly taking sides in domestic conflicts in Bahrain, Iraq, Syria, Yemen and Egypt, generally on the side of Sunni and/or anti-democratic forces.

Recent years have seen few major new economic reforms. The most notable step being taken is the opening of the Saudi stock market to foreign investors scheduled for mid-2015. The government has also tied up some loose ends with respect to existing reform initiatives, such as providing more licenses to private investors in the utilities sector and giving more teeth to the government's campaign to "Saudi-ize" private employment.

The kingdom continued to achieve reasonable economic growth rates during the period under review, but only by means of a significant fiscal expansion that, in the face of lower oil prices, is likely to lead to budget deficits in the foreseeable future – not a short-term concern thanks to large overseas reserves, but a critical structural problem over the long term.

The most significant reform efforts during the review period have arguably focused on educational and judicial issues. In both areas, late King Abdullah had continued ambitious modernization programs that started in the late 2000s. Abdullah's government also increased its efforts to create private sector jobs for Saudi women, against the opposition of the religious establishment and conservative activists. However, his agenda of social opening has been counterbalanced by an increasingly aggressive anti-Shi'ite atmosphere in the Saudi media and public. It is not clear to what extent the new leadership under Salman shares Abdullah's commitment to gradual social reform.

History and Characteristics of Transformation

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

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

The country's large-scale oil-fueled rentier economy – which developed gradually over time – led to the creation of a new business class of merchant and contractor families close to the royals. The kingdom experienced some political and labor unrest in the 1950s and 1960s at the heyday of Arab nationalism. However, the Al Sauds managed both to suppress strikes in the (oil rich) Eastern

Province and to avert a number of military coup attempts. Official announcements of timid reforms – appointment of a consultative council, drafting of a basic law – usually came to nothing. One of the persistent advantages associated with the Al Saud’s political survival has been their ability to embed themselves deeply in significant parts of the administration, especially in the security services, where hundreds of princes hold office. Their presence in the country’s business sector is also considerable, even if many of them act only as facilitators and commission-takers.

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

The kingdom achieved its highest real GDP per capita in the early 1980s. Since that time, the overall economy has for prolonged periods been unable to keep pace with demographic growth, which for many years was above 4%. The post-2003 economic expansion has allowed for increased public employment and an improvement in public services, but given a national population of about 30 million (2014, with ca. 10 million expatriate workers), resources remain nonetheless stretched more thinly than they were in the early 1980s.

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

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

- A “basic law.” This set out basic features of the political system and endowed some basic rights with a legal foundation, although without properly articulated recourse mechanisms.
- The creation of a Majlis al-Shura. This is an appointed consultative body tasked with the review of draft legislation and has been enlarged three times since (from 60 to 150 members); in 2013, King Abdullah appointed 30 female members for the first time.

Although the majlis is not representative and has a certain technocratic bias, it has acquired increasing importance in comparatively technical fields of legislation.

- A law of regions, setting out basic structures of governance for the kingdom's 13 regions.

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

Crown Prince Abdullah became the effective head of government when a stroke incapacitated King Fahd in 1995. Abdullah gained a higher political profile after 1998, initiating a number of economic reforms beginning in 1999, with somewhat mixed results. In August 2005, he became king following Fahd's death. Abdullah was popular and is generally seen as a driver of both socioeconomic and political reforms, although he largely ceased activities on the latter front after the mid-2000s – the definite end of the “Saudi Spring.” His death in early 2015 led to the accession of King Salman, whose policy profile has yet to emerge.

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

There has, however, been an increase in political awareness among young Saudis. This could raise the bar for the regime in the medium term, as social media users are engaging in more open debate about regime politics and its public service failures, potentially generating a higher capacity to organize small-scale protests and petitions.

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

Saudi Arabia has not witnessed significant violent conflict within its borders since the 1930s. Nearly all regions and tribes nowadays recognize the sovereignty of the Al Saud state, and there is rather broad consensus over the role of the Al Saud as lynchpin of the polity. The domestic terror problem, which peaked between 2003 and 2005, has been largely overcome, although al-Qaeda retains a residual capacity to disrupt, and significant future transnational security threats from Yemen, Iraq or Syria are possible, as evidenced by a cross-border attack by Iraq-based Islamic State (IS) group militants in January 2015 that killed a Saudi border security general and two guards. An increase in violent clashes and demonstrations, centered in and around the Shi'ite city of Awamiya in the Qatif region, has been witnessed since 2011. The most recent raid by security forces, in December 2014, resulted in the death of four reported Shi'ite militants. However, the state's broader monopoly on the use of force was never seriously challenged.

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

Question
Score

Monopoly on the
use of force

7

State identity

6

Some Shi'ite oppositionists in exile critique the Al Saud state as it is organized today, but secession is openly advocated only by a small number of radical actors. Shi'ite cleric Nimr al-Nimr, who has publicly mooted secession and has built a popular following among radicalized younger Shi'ites, was sentenced to death by a Saudi court in November 2014. Some members of the jihadi political fringe do not accept the Al Saud state as a legitimate entity, but despite the presence of the IS in Iraq and Syria they do not have a clear alternative vision beyond conquering Saudi Arabia and making it part of a broader caliphate – a vision most Saudis reject.

The Saudi state is officially defined as Islamic, with the Quran as its constitution. Senior Wahhabi 'ulama (Islamic legal scholars) are part of the state apparatus through their control of the judiciary and the Council of Senior 'Ulama, which advises the government on all religious matters. They wield considerable influence on issues of public morals, personal status law, education and culture, although under King Abdullah, they had come under increasing pressure from the royal court to scale back their puritanical rhetoric. There is no freedom of worship for non-Muslims (although tolerance of actual practice varies by nationality of the practitioners).

No interference of religious dogmas

2

Secularism continues to be beyond the pale of Saudi discourse, both officially and to a large degree within the broader society. Blogger Raif al-Badawi was sentenced in early 2015 to 1,000 lashes for writings perceived critical towards Islam and sweeping new terror laws in early 2014 declared atheists terrorists.

Officially, all legislation is to be based on Shariah. In practice, however, significant parts of the administration are run according to secular principles (including the regulation of Saudi banks). Inopportune fatwas have been repeatedly ignored by the regime, while in some cases the clergy have been forced to issue new verdicts acquiescing to new facts. On economic matters, Shariah courts are often circumvented through administrative tribunals; specialized commercial courts are currently being established in a slow and haphazard process, giving the religiously trained judges more influence but also forcing them to apply positive law. In August 2014, the kingdom also opened specialized family courts, to be staffed by judges with special training in matters like divorce and child custody. This institutionalization could reduce the discretion judges have historically exerted in such matters.

The Saudi state is large and the administration reaches out even to remote villages, as do increasingly the state's basic services thanks to a rapid expansion of infrastructure in the wake of the recent oil boom. Access to sanitation (100%) and water (97%, World Bank 2012) is assured all over the country. However, the bureaucracy is very bloated, with its size estimated at three million state employees.

Basic administration

7

The "infrastructural power" of the state is unevenly developed, as it has difficulties in enforcing certain economic rules, applying regulations consistently and gathering information about its constituents. For example, residency registrations and the

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

2 | Political Participation

There are no democratic elections at the national level. Municipal elections were held on a nationwide scale for the first time in spring 2005 and then again, after a two-year postponement, on 29 September 2011. The governors of the 13 administrative regions are appointed by the royal family and preside over 285 rather toothless municipal councils of which only half the members are popularly elected. In the last elections, 5,324 candidates competed for more than 1,056 seats. Though these were only the second elections to be held in the history of the country, the media reported extremely low voter turnout rates, with no more than 300,000 people voting out of a total Saudi population of about 18 million (of whom about 5 million males were eligible to vote). While the polling itself appears to have been free from manipulation, the broader constraints under which it was conducted made the elections far from free.

Free and fair
elections

1

Women were excluded from voting. After, by Saudi standards, massive protests by women's organizations, including an (ultimately rejected) legal complaint, King Abdullah promised that women would be able to vote and stand in the 2015 municipal elections, a pledge that was confirmed in 2014. No date has been announced yet for the 2015 elections.

The prospect of national elections has been mooted, but these are unlikely to take place any time soon. This is in part because the economic boom (which ended in 2014) had taken political pressure off the leadership and in part because the Arab uprisings led to a retrenchment of authoritarianism within the kingdom. Only a serious socioeconomic crisis could push the regime to organize (controlled) national elections, but thanks to large fiscal reserves, this remains many years off.

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

Effective power to
govern

1

Parties and unions are not allowed, and formal associations require royal fiat in order to obtain a license. Most civil society groups are registered as “charities” under the ministry of social affairs, which closely supervises them. An NGO law under consideration since at least 2006 has still not been issued despite repeated requests from civil society groups.

Association /
assembly rights
2

The regime has allowed some “civil society” activities to take place since the early 2000s. In the voluntary sector, some bottom-up initiatives have been created, but although some of these have addressed socially difficult topics, none has ventured into open political advocacy. Some political interest groups – professional associations and a human rights group – have been licensed in recent years, but these are state-controlled, and the drive to license new associations outside of the welfare sector has slowed since the mid-2000s.

Dissidents trying to set up independent human rights groups have repeatedly been prosecuted and jailed. Waleed Abu al-Khair, a lawyer and founder of watchdog group Monitor of Human Rights in Saudi Arabia is a prominent example, having been sentenced to a total of 15 years in prison in 2014 and 2015 for supposed disloyalty to the king and creating an unauthorized organization. A February 2014 anti-terrorism law imposes broad restrictions on freedom of speech which could impinge any political activity in civil society.

There is more freedom of speech in informal gatherings (“majlis,” a salon), but these are inherently limited in scale and participation is often limited to social elites.

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

Freedom of
expression
2

Newspapers are regulated through the ministry of culture and information under the 2000 Press Law. In practice, the ministry of interior has considerable control over the culture and information ministry. Editors-in-chief must be approved by the state. The press has few statutory guarantees against encroachments when they occur (Art. 39 of the 1992 basic law makes what is essentially an open case for censorship). A minimal pluralism of opinions is guaranteed by the fact that different newspapers are controlled by different factions of the royal family, which can have somewhat different ideological orientations.

Mobilization and civic participation through social media is a relatively new phenomenon in Saudi Arabia but has already had an impact on Saudi society, notably through campaigns for women's employment and women's right to suffrage and – briefly – in the wake of the 2011 Arab uprisings, when they were used for organizing local political petitions (attempts to organize demonstrations failed outside of Shi'ite cities in the Eastern Province). Social media might have a strong influence on Saudi society in the future, as state control over the distribution of information is eroding – hundreds of political and societal web sites have emerged, some of which are highly critical of the regime.

The ruling Saudis are struggling to keep the wave of social media at bay and Twitter is widely used (Saudi Arabia had 2.4 million active Twitter users in 2014, making it the fastest growing Twitter nation in the world). In late 2010, the government moved to increase its control over independent blogs and web sites, demanding that these too obtain official licenses. The rule could not be effectively implemented, but several Twitter users and bloggers have been arrested in recent years for alleged religious deviance. The government closely monitors social media and has its own operatives engage in targeted counter-propaganda.

3 | Rule of Law

The king is the highest judicial, executive and legislative authority, and senior princes can avoid the judiciary's reach more or less at will. The official clergy – although appointed by the king – has been given some limited autonomy to run the judicial system through the Supreme Judicial Council and the new Supreme Court (established in 2007), a situation that has elicited some displeasure on the part of non-royal Saudi elites. The clergy also exerts some control over social and political questions referred to them by the king through the Council of Senior 'Ulama. This relative autonomy seems to have been gradually eroded by recent judicial reforms, however.

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

Insofar as a judiciary run by the religious establishment can be considered independent, Saudi Arabia's judiciary has historically enjoyed considerable day-to-day autonomy. The regular administration has very little leeway to control (or predict) judicial goings-on. In the course of a judicial reform and a functional differentiation of courts initiated in 2007, however, the system has gradually been subjected to the expanding influence of positive law, a process overseen by the Council of Ministers under the king's control. It remains to be seen whether new King Salman's reported

Separation of powers

1

Independent judiciary

2

closer links to conservative forces will slow down the process of secular control over the judiciary.

Judicial professionalism is often limited, especially when it comes to comparatively technical areas such as commercial law, although gradual improvements are to be expected in the course of current training initiatives. Given their responsibilities, judges are seen as underpaid, at least relative to salaries available to senior personnel in the private sector. The government has removed a number of judges in recent years for corruption and for sympathy with extremist religious groups – a new development or at least one which previously went unreported.

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

Intrastate accountability and investigation mechanisms exist in principle, but are not used often. However, they have been called into play somewhat more frequently since the mid-2000s, as several major scandals related to suspect land deals have been investigated. A new National Anticorruption Commission, established in May 2011, is focused primarily on mid-level bureaucratic abuses and issues of administrative efficiency, regularly complains about non-cooperation from other agencies, and has yet to hold any senior figure directly accountable for abuse of position. The Control and Investigation Board, established in 1971, is responsible for investigating financial and administrative corruption. In April 2013, the kingdom ratified the United Nations Convention against Corruption, which it had signed in 2004.

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

Public naming of corrupt officials remains fairly rare, but has taken place in the course of major crises such as the catastrophic floods in Jeddah in late November 2009, which were caused by deficient infrastructure linked to corruption in the local administration. Reporting on abuses by local judges, notaries and municipal administrators has been extensive. In November 2014, it was reported that prosecutors at the Bureau of Investigation and Public Prosecution had filed a total of 485 embezzlement-related corruption cases, but it was not made clear over which time period and which share of the cases pertained to government as opposed to private sector corruption.

Upon taking office, new ministers occasionally try to discover and remove compromised staffers within state organizations, most recently the new minister of

Prosecution of
office abuse
4

health appointed by King Abdullah in December 2014. The range of such reviews, however, is usually restricted (the new minister of health was in turn replaced in January 2015 as part of a comprehensive government reshuffle under new King Salman).

The Saudi state rarely resorts to mass violations of existing civil rights, as other Arab authoritarian states have been wont to do. Aside from the detention of thousands of terrorism suspects, unlawful arrests are comparatively rare. However, legal rights are very limited: For example, the law does not offer rights of assembly, of freedom of opinion, of organization or of religion, among other gaps.

A few rights are enshrined in the 1992 basic law, including privacy of residence and mail correspondence, and the concept of *nulla poena sine lege* (no penalty without a law). This does not include a grant of basic political rights, however. Moreover, there are reports that the government is using spyware to access citizens' emails and other digital communication. The judicial system also continues to apply corporal punishment according to its interpretation of Shariah. While amputations are rare, flogging is more common. Executions, including beheadings, are sometimes done in public.

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

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

Women also face disadvantages relating to the requirement for male guardianship, limitations on freedom of movement, a lack of laws defining a minimum age for marriage and inequalities in family law. Saudi Shi'ites too face significant discrimination, resulting practically in a glass ceiling in public and even private employment as well as general second-class-citizen treatment by the administration and judiciary. This has probably worsened in recent years due to regional tensions with Shi'ite-led regimes and movements in Iran, Iraq and Lebanon and more recently the Houthi uprising and advance in Yemen.

In contrast to Saudi nationals, guest workers, particularly those under the *kafala* (sponsorship) system, can hardly trust that their basic rights are respected. They live and work often under slave-like conditions, with many of them stripped of their passports by their "kafeels" (employers). As Human Rights Watch documented in

Civil rights

2

2015, hundreds of thousands of such “undocumented foreigners” have been deported by Saudi authorities in a far-reaching campaign that started on 4 November 2013, including to countries where their life and health cannot be guaranteed. Deportation procedures included mistreatment and abuse by Saudi officials. As Saudi Arabia has not signed any refugee regulation, guest workers that are threatened by deportation have no possibility to challenge their removal legally or to apply for asylum in Saudi Arabia.

4 | Stability of Democratic Institutions

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

Performance of democratic institutions

1

Social and political links between the citizens and the government are articulated through patron-client relationships or through informal groups such as tribes, families and professional hierarchies. Theoretically, any male citizen or foreign national may express an opinion or a grievance at a majlis, an open-door meeting held by the king, a prince or any other important local or regional official. Ministers and governors can in theory also be directly approached at any majlis, although senior-level majlises are in practice tightly controlled affairs.

Commitment to democratic institutions

1

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, are sidelined in the decision-making process.

5 | Political and Social Integration

There is no party system in Saudi Arabia. Attempts to set up parties in the past have been suppressed, most recently in early 2011, when five activists sought official recognition for their “Party of the Islamic Ummah” and were subsequently arrested. Not even party-like entities, such as an independent human rights association initiated in 2004, or the Saudi Civil and Political Rights Association created in 2009, have been tolerated. That said, there is no historical tradition of party politics in the country and societal demand for such an innovation thus far seems limited. The only (highly imperfect) substitute for parties are the societal clienteles attached to various centers

Party system

1

of power, such as tribal groups in the National Guard or the advisors, hangers-on and clients attached to the various senior princes.

Associational life is controlled by the state; a long-promised set of NGO laws remains stalled. There is a lively voluntary sector that attends to various social problems, although its socioeconomic base lies primarily in the upper and educated middle class. Many of the larger charities have a strong Islamist influence, involving both Salafi and Muslim Brotherhood-inspired networks, which has led, however, to tighter political controls over them in the wake of the Arab uprisings. The Muslim Brotherhood in particular was declared a terrorist organization in March 2013. Above a certain size, associations informally require a royal patron to be able to function.

Interest groups
3

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

That said, many interests are represented within the state through various functional agencies, or through princes' informal clientelistic networks. Such agencies and networks in part play a role similar to that played by associations elsewhere, though they are subject to stronger political restraints. Ad hoc mobilization on specific social or consumer rights issues through social media has somewhat improved the capacity of larger numbers of Saudis to make their views heard. Political mobilization, however, remains repressed, as was recently most visible when the government heavily cracked down on attempts to organize a "day of rage" in March 2011.

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

Approval of
democracy
n/a

In a poll of young Arabs between 18 and 25 years of age conducted in late 2012 by Burson-Marsteller, 68% of Saudi respondents reported that living in a democratic country was very important to them, a share only exceeded at that time in Egypt. It is not clear how strong a commitment to democratic institutions this represents in practice, as there is no clear institutional reference point, and young Saudis also scored highest (55%) in their fear of regional unrest, possibly indicating that they do not seek rapid and potentially destabilizing change.

Interest in the existing electoral mechanisms is limited: according to some reports, turnout for the municipal elections in 2011 was limited to just 300,000 of about five million eligible males. Petitions calling for constitutional democracy in the wake of

the 2011 Arab uprisings have found broader support than before, but this remains far below the level witnessed in poorer Arab monarchies and pro-democratic activity quickly ebbed again after a 2011 to 2012 security crackdown.

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

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

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.

Social capital
3

II. Economic Transformation

6 | Level of Socioeconomic Development

No Gini coefficient for Saudi Arabia is available, but from a historical perspective, inequality seems to have become somewhat worse after the 1980s oil boom, due both to population growth and the state's limited provision for employment. King Abdullah's regime has taken steps to alleviate poverty, based on a national poverty strategy that was announced in rather general terms in mid-2005 and ratified in October 2006. These steps have included an augmented focus on rural development in subsequent budgets and increased social security expenditure as well as a national housing program and an unemployment assistance grant available to individuals for a maximum of one year, both of which were activated in 2011 after the regional uprisings. Effects thus far have been modest, in part because they were counteracted by significant inflation related to the recent oil boom, especially within the housing market. The government's effort to increase the share of Saudis in private employment has led to a doubling of private jobs for Saudis from 2011 to 2014 (to about 1.5 million), but many of these jobs pay only a minimum wage of 3,000 Saudi riyal per month (\$800) and general labor market participation remains below 40%.

Unlike other MENA states outside the Gulf region, public services (utilities, education, health care and housing credit) remain in most cases free or subsidized.

Question
Score

Socioeconomic
barriers
5

Job market opportunities have improved somewhat due both to oil-financed public-sector job generation and governmental pressure on private business to employ nationals. Private-sector employment generation remains insufficient to lower the country's very high dependency ratio (an estimated 4 to 5 persons per wage earner), however. Recent poverty rankings as well as household income distribution data are not available.

The Gender-related Development Index ranked the country 112th worldwide in 2013 (with a female human development index value of 0.773), an improvement from 135th in 2011. This reflects good access to education and health, but also an exclusion from large parts of the job market and public life. Poorer groups in the vast kingdom's rural and peripheral areas, particularly in the Jizan region, still tend to be excluded from development, as are some Shi'ite groups in the Eastern Province. Similarly, the vast majority of expatriate workers earn subsistence wages at best. Average salaries earned by expatriates are less than a third of the level of Saudi salaries.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	328461.1	526811.5	744335.7	746248.5
GDP growth	%	7.3	4.8	2.7	3.5
Inflation (CPI)	%	0.7	5.3	3.5	2.7
Unemployment	%	5.9	5.4	5.7	-
Foreign direct investment	% of GDP	3.7	5.5	1.2	1.1
Export growth	%	-	-	0.2	1.7
Import growth	%	-	-	3.7	11.3
Current account balance	\$ M	90060.3	66751.0	135442.0	76915.7
Public debt	% of GDP	37.3	8.4	2.2	1.6
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-

Economic indicators		2005	2010	2013	2014
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	21.3	20.3	22.5	26.4
Public expnd. on education	% of GDP	5.4	-	-	-
Public expnd. on health	% of GDP	2.6	2.6	2.0	-
R&D expenditure	% of GDP	0.04	-	-	-
Military expenditure	% of GDP	7.7	8.6	9.0	10.8

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Prices are largely unregulated in Saudi Arabia, and the Saudi riyal has been convertible for many decades. Saudi Arabia is less statist than are most of its MENA peers. Nonetheless, despite all reform attempts since the late 1990s, parts of the Saudi bureaucracy can be stifling. Setting up and operating a business can be relatively cumbersome. Saudi Arabia has fallen in the World Bank's Doing Business survey from rank 22 in 2013 to rank 49 in 2015. This, however, does not reflect a real decline in performance, but rather a refinement of the World Bank's methodology that now makes the survey more accurately reflect the kingdom's business environment. In the Heritage Foundation's 2015 Index of Economic Freedom, Saudi Arabia holds rank 77, a slight improvement over rank 82 held in 2012 and probably a better reflection of the Saudi environment than even the updated World Bank ranking.

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

Because there are no taxes beyond the religious zakat, which is itself not thoroughly collected, the informal sector in Saudi Arabia is not significant. However, many companies circumvent formal regulations by registering as a type of business that is different from their actual operation, failing to share data with authorities, employing

Market-based
competition

6

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

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

Anti-monopoly
policy
5

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

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

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

Liberalization of
foreign trade
9

Some support measures aimed at local producers, such as the provision of inexpensive gasoline or natural gas, could be construed as export subsidies. As Saudi gas is not exported, however, there is no clear basis on which to argue for the existence of price discrimination. Energy pricing reforms have been debated for many years, but so far without any result.

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

The Saudi financial system is well developed and generally very well capitalized. Foreign banks own minority shares in some of the big players, and banks with full foreign ownership have been licensed over the last decade, although their operations have remained relatively limited, not involving retail activities. The Saudi Arabian Monetary Agency (SAMA), the central bank, is a qualified and well-respected

Banking system
8

regulator which cooperates rather well with the banks. In the course of the international and regional financial crisis from 2009 on, several large business families defaulted on their loans, strongly reducing the availability of private sector credit and trust within the banking system. However, this did not endanger the existence of any of the banks, most of which have managed to remain profitable despite repeated write-offs of non-performing loans. SAMA has consistently enforced capital requirements far above the Basel II and III levels, as well as a loan-to-deposit ratio at or below 80%.

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

Until 2015, international institutional investors that could improve the availability of information tended to avoid the Saudi market, as direct investment in Saudi stocks remained impossible for foreigners. The market, however, is set to open for large, pre-selected foreign investors in mid-2015, which could lead to substantial capital inflows and pressure for better governance.

8 | Currency and Price Stability

Saudi Arabia has historically been quite successful in containing inflation. After a spike in inflation to above 10% during the 2008 boom year, annual price growth has dropped to around 5% again despite rapid economic expansion up to 2015. Due to the peg of the Saudi riyal to the dollar, the central bank’s only tools for managing inflation are the manipulation of reserve requirements and open market operations of limited scope due to a lack of interest-rate flexibility. Despite much speculation over the years, the riyal-dollar peg is unlikely to change any time soon.

The central bank, SAMA, is operationally independent and well respected, although politically dependent on the ministry of finance. SAMA’s foreign assets have sharply increased in recent years, to \$732 billion in late 2014. The kingdom, however, is set to draw down these assets in the coming years as oil prices are likely to remain below the “breakeven oil price” for its budget which is estimated to lie around \$90 per barrel.

Saudi fiscal discipline has slipped in recent years: While spending increases were moderate and considerable reserves were accumulated during the early phase of the boom, spending increases have been more dramatic in the years since 2005. Public expenditure growth has been particularly vigorous since the outbreak of the “Arab Spring.” In the intervening years, the government has spent over \$100 billion on

Anti-inflation /
forex policy

8

Macrostability

6

social spending, new public projects and stipends, partly as a reaction to the effects of public discontent elsewhere in the region.

Thanks to very high oil prices, a significant amount of foreign assets have been accumulated despite this expenditure and government debt has decreased from more than 100% of GDP in 1999 to about 1.6% of GDP in late 2014.

Nonetheless, fast spending growth (nominal spending has more than tripled within the last decade) has contributed to bouts of inflation, and has locked in government spending at a high level that will require ever-higher oil prices in order to break even. The recent collapse in oil prices will lead to a substantial deficit in 2015. Spending growth on public employment and welfare benefits has accelerated in the wake of the Arab uprisings. Even if spending plateaus from 2015 on, significant deficits are likely and foreign reserves could be depleted in less than a decade.

The state remains very fiscally dependent on oil, as it levies no taxes on income, sales or value added by nationals or local companies. This means that long-term fiscal problems are likely. There is no formal budget stabilization mechanism.

9 | Private Property

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

Similarly, hundreds of thousands of small enterprises are de facto owned by foreigners, while the official Saudi owners collect no more than a monthly fee from them. Ownership rights in these “cover-up businesses” are accordingly precarious. Repeated crackdowns on them have not eradicated the phenomenon. There can also be marginal infringements on property rights by bureaucrats or princes who take commissions or demand silent shares in successful operations.

Two strategic sectors in the kingdom – oil and petrochemicals – are wholly state controlled. The state has shares in several large and important banks, including a majority share in the important National Commercial Bank. The government has a majority stake in the largest telecommunications operator and controls the (small, but rapidly expanding) national railway, a national bus company, the national airline that

Property rights
6

Private enterprise
7

dominates domestic air transport, important parts of the mining sector and the majority of the utilities sector.

Most other sectors (retail and wholesale, most industries, services, etc.) are largely privately controlled. Privatization in general – including further sale of government shares in Saudi Arabian Basic Industries (SABIC), water and electricity services, Saudi Arabian Airlines, etc. – is moving ahead only slowly or not at all. Apart from the public listing of 25% of the shares of National Commercial Bank in late 2014, a number of large independent water and power projects with foreign participation represent the most important new area of private involvement.

10 | Welfare Regime

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

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

An unemployment insurance program was introduced only in 2014; an unemployment assistance program introduced in 2011 offers payments only for a maximum of 12 months. The last five years have witnessed considerable numbers of oil-financed additions to the government payroll. Public employment is not provided to all nationals, however, leading to an uneven and discretionary distribution system.

As family networks remain tight, many individuals are prevented from sliding into poverty thanks to assistance from wealthier relatives, but these networks are being increasingly stretched as the population continues to grow and labor market participation remains below 40% among the national working age population.

The benefits of the recent oil boom have trickled down only unevenly to the population. Millions of expatriate workers continue to live in poverty, with average wages below \$300 per month. These individuals are politically disenfranchised and by and large excluded from the state’s welfare systems. Attempts to replace them with Saudis in the private sector (“Saudization”) have met resistance due to the latter

Social safety nets

7

group's higher salary expectations and unwillingness to work as many hours as foreigners do under the "kafala" system.

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

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

Former King Abdullah made a special effort to cater to peripheral regions and to women's needs, but much remains to be done and it is not yet clear whether new King Salman will pursue similar priorities. Saudi women's particular problem is that – despite formal changes to the contrary – they often still need a male intermediary to deal with the state on their behalf, which can expose them to fraud and make interaction with the rather opaque bureaucracy especially cumbersome. Although they have good access to (segregated) higher education, increasingly even to subjects once reserved for males, women's job opportunities are largely restricted to sectors such as health and education. The government has recently pushed with some success for women's employment in the retail sector, though conservative forces have lashed out against such measures and the practical obstacles to providing separate facilities for female retail workers remain considerable.

In 2013, Saudi Arabia ranked 56th (out of 187 countries) on the UNDP's Gender Inequality Index (value: 0.321), a strong improvement mostly due to higher labor market participation of women in the wake of the government's labor market "Saudization" campaign. In international comparison, however, female workforce participation still remains very low, at about 18%.

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

Equal opportunity
3

11 | Economic Performance

The Saudi economy has continued to grow at a relatively fast pace, achieving real annual growth rates of 5.4% in 2012, 2.7% in 2013 and an expected 3.6% in 2014, with the private sector respectively achieving 5.5%, 7.0% and 5.7% growth. Most of this has been driven by strong increases in state spending, however, and the private sector's long-term capacity to drive growth independently of state spending remains in doubt. The share of state spending in the total economy has trended upwards in recent years.

While state debt has been heavily reduced, inflation remains at an annual rate of around 3%. The trade balance is strongly positive, largely due to oil.

Although the recent boom has been better managed than previous such period during the 1970s and early 1980s, there are clear threats on the horizon. The economy remains precarious in the long term, as the recent strong reduction in oil prices – which is likely to usher in a longer phase of reduced oil income – could undermine the state's fiscal leeway and compromise business confidence. Overseas reserves could be depleted in less than a decade. The country still lacks a viable tax system to generate non-oil income; a tax on real estate holdings has been discussed but no decision has yet been taken on this.

In the long term, private employment generation for Saudis is likely to be insufficient to accommodate the estimated 300,000 new entrants to the labor market per year, in part because wage levels are strongly differentiated between “cheap” expatriates and more expensive Saudis in most sectors. Even if the “nitaqat” system of quota-based Saudization in private employment has produced some initial successes, it is not clear what proportion of the Saudis now in formal jobs are in fact productively employed and how many more the private sector can accommodate without a serious impact on its profitability and growth.

12 | Sustainability

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

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

Environmental awareness is not deeply anchored in the public or bureaucratic consciousness, however, and the formal obligation to perform environmental impact

Output strength
7

Environmental
policy
4

assessments for new projects is usually treated cavalierly. Powerful follow-up mechanisms are lacking and KACARE has struggled to build administrative capacity. A national target to build 41 GW of solar capacity by 2032 was pushed back to 2040 in early 2015 in the wake of lower oil prices.

For the time being, the Saudi economy remains very energy intensive and energy inefficient due to low domestic electricity and fuel prices. Pricing reform has been repeatedly discussed but postponed for political reasons.

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

Education expenditure has risen sharply in the course of the recent oil boom, accounting for a quarter of the national budget in recent years, and reaching close to 10% of GDP. The quality of public education has not necessarily increased at the same rate, however. Teaching still is oriented toward rote learning, and Arabic and Islamic studies still hold an extremely dominant position in the curricula. An ambitious project to retrain teachers and reform curricula was initiated in the late 2000s, but has met considerable resistance. Saudi scores in the international math and science skills benchmarking exercises TIMSS (Trends in International Mathematics and Science Study) has improved somewhat from 2007 to 2011, but it remains among the worst-performing countries.

The number of private schools has grown and more than a dozen private universities have recently been licensed. Access for the less affluent remains a problem, however.

As in most other Arab countries, R&D spending in Saudi Arabia remains very low (the last published figure is 0.08% of GDP in 2009). Aramco and state heavy-industry giant SABIC are the only corporate entities engaging in significant and increasing amounts of research, sometimes in cooperation with the (state-run) King Abdullah City for Science and Technology. With the exception of the King Abdullah University of Science and Technology and the smaller University of Petroleum and Minerals, public universities are of low quality.

In the higher education system more broadly, during the oil boom years quantitative expansion received more attention than qualitative upgrades, with enrollment rates reaching 80%, creating large cohorts of graduates with questionable skills.

Education policy /
R&D
5

Transformation Management

I. Level of Difficulty

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

Structural
constraints

4

Regional civil society traditions did exist in Saudi Arabia before the onset of large-scale oil income in the 1950s. Since that time, the state has taken over many welfare functions and has generally prevented independent organization. Although there are numerous welfare societies with considerable resources, these exist in the shadow of the state and – at least above a certain size – are tightly controlled by it. In the aftermath of the terror attacks of the mid-2000s, religious organizations have also come under increasing control by the state. There are no powerful independent unions, syndicates or issue-oriented groups in the kingdom, leaving Saudi society deeply fragmented. The only social structures most Saudis can rely on are small-scale informal networks of kinship and friendship. Government attempts since the mid-2000s to set up formal interest groups in a top-down fashion have not really caught on and have stalled almost completely since 2011; less political welfare associations and charities have seen considerable expansion, however. In the wake of the Arab uprisings, younger urban Saudis have engaged in sporadic grassroots activism on a variety of social issues, but without drawing on firm organizational structures.

Civil society
traditions

10

Regional, tribal – and in some regions, sectarian – identities in Saudi Arabia remain strong. The Saudi state and its patronage networks have to date been strong enough to prevent the emergence of significant organized challenges by sub-state identity groups or other communities. Although there is informal discrimination, violent incidents are mostly limited to the Shi'ite minority in the Eastern Province, where the overall level of sociocultural integration remains rather low. The town of Awamiya in the Qatif region, for example, has experienced repeated violent clashes since 2011,

Conflict intensity

4

with police forces regularly opening fire and killing or wounding demonstrators. Nonetheless, despite widespread frustration among Shi'ites, large-scale militant mobilization has not yet happened.

II. Management Performance

14 | Steering Capability

Former King Abdullah was committed to gradual economic and sociocultural reform; his accession to the throne represented a clear improvement over the situation of paralysis in place under King Fahd until 2005. Abdullah's opening of debate on sociocultural issues reflects a clear commitment to reforming some of the rigidities of the patriarchal Saudi society.

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

New King Salman, 79 years old when he acceded to the throne, is reported to suffer from mild dementia. His broader policy priorities are hard to gauge. The next claimant to the throne, Crown Prince Mughrin, is perceived as a weak figure and should he accede there could be policy paralysis. The division of the leadership into different camps and institutional fiefdoms has slowed modernization of the system. The appointment of Minister of Interior Prince Mohammad bin Naif as deputy crown prince, however, has alleviated fears over future succession struggles when the kingship passes to the next generation of princes, of which he is the most prominent member.

More fundamentally, no one within the Saudi elite seems committed to substantial political change; Abdullah's very careful agenda of political opening was abandoned after 2005 and reversed after the Arab uprisings, when the regime cracked down on dissidents. Enabling serious popular participation in the form of national elections, public fiscal accountability on the part of the government, or the freedom of organization is not a topic given credence within the national strategic debate. Among the senior princes, styling oneself as "reformist" or "conservative" is as often a tactical move as it is a reflection of genuine ideological conviction. The primary consideration remains regime survival.

Question
Score

Prioritization
4

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

Implementation
4

On the economic reform front, considerable modernization has taken place within the context of WTO accession in 2005. Since that time, there have been individual economic reform initiatives, but these have not been part of an overall modernization program. These policies include individual infrastructure and investment projects, “Saudization” of private employment, the gradual opening of the capital market, and the creation of a commercial court system, a venture which is still in progress. Change in general is easier to effect on the formal-legal level than on the level of bureaucratic implementation, where the atmosphere has not changed substantially over the last decades and where there are issues of bureaucratic stalling and sometimes corruption.

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

King Abdullah was clearly a more consultative ruler than his predecessors, and was more willing to recognize new challenges and discuss change. At the same time, his age, limited education and reliance on advisors prevented him from envisaging any radical change, certainly on the political level. Recent Saudi policy on the Arab uprisings as well as other socioeconomic challenges was essentially reactive rather than proactive. It is too early to evaluate King Salman’s capacity for learning – on the one hand, he has vast administrative experience, but on the other, is of advanced age and potentially closer to conservative interests than Abdullah was.

Policy learning
5

In some policy areas, recent years have shown somewhat increased political flexibility. The handling of the recent oil revenue inflow indicated that some learning has taken place since the 1970s oil boom, when more money was squandered more rapidly. Labor market reform and Saudization have been tackled in a more systematic fashion since 2011 than before (though much of this is owed to the personality of Minister of Labor Adel Faqieh). Similarly, willingness to engage in some limited cultural opening indicated that Abdullah recognized the political problems caused by Wahhabi cultural rigidities. It is too early to tell how Salman will act on issues of social and cultural reform.

In any case, the large and immovable state apparatus, and the complex structure of political clienteles attached to it and to the Al Saud family, limits the pace of any large-scale change.

15 | Resource Efficiency

Resource efficiency in Saudi Arabia has by and large improved since the 1970s oil boom, as both administrative capacity and fiscal management experience have expanded. The fiscal balance has improved tremendously during the last decade, although this is as much due to higher oil prices as to good fiscal management and is likely to reverse in coming years.

Efficient use of
assets

4

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

When it comes to specific allocations, budgets remain nontransparent and closing accounts are not published. The Majlis al-Shura (a consultative assembly with all 150 members appointed by the king) lacks budgetary powers.

Moreover, many inefficiencies are deeply embedded in the state apparatus. Former King Abdullah had reined in princely corruption to some extent, but large institutions such as the ministries of interior and defense remain unaccountable, as they were run by senior princes whose day-to-day activities were beyond his reach. Many agencies remain overstaffed – even more so after the recent boom – and dismissal of surplus personnel is practically impossible. There are about twice as many Saudis employed by the state as by the private sector.

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

Good governance principles have not pervaded the bureaucracy; it remains opaque, over-centralized and unaccountable. Interministerial administrative reform committees have not produced any significant administrative reform policy proposals for the last 20 years. Still, compared to many other oil states the Saudi state is 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. It remains to be seen whether King Salman, who abolished a number of ministerial committees and appointed several new ministers after his ascension in early 2015, has a longer-term public sector reform agenda.

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

Policy
coordination
6

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

King Salman created two new supreme councils in January 2015, one for political and security affairs, chaired by Minister of Interior and Deputy Crown Prince Mohammad bin Naif, and one for economic and development matters, chaired by Salman's son Mohammad, who is also minister of defense. It is not yet clear whether these bodies will be more effective than previous supreme councils, which lacked administrative capacity for monitoring and follow-up.

Corruption in Saudi Arabia has always been worst on the most senior levels of the government, but many long-term observers argue that there has been a gradual trickle-down during the last 30 years due to slowly rising costs of living and stagnating wages. This said, certain government institutions have traditionally been seen as largely corruption-free, including the state oil company Saudi Aramco, the central bank (SAMA) and the Royal Commission for the Industrial Cities of Jubail and Yanbu.

Anti-corruption
policy
5

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

judges involved in corrupt land deals have been prosecuted. In November 2013, four judges were dismissed for corruption.

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

16 | Consensus-Building

The most fundamental political consensus in Saudi Arabia currently seems to pertain to the broadly Islamic nature of the state and the Al Saud's status as ruling family (even if there is disagreement about the extent of their involvement in day-to-day politics). This is currently questioned only by relatively marginal jihadist dissidents who lack a local organizational base, as well as some radical Shi'ite oppositionists. Conversely, there is no consensus on democratization, a concept that remains alien to important parts of Saudi society and is generally poorly understood, although the current regional ferment seems to be changing this at least among younger Saudis. Nor is there general agreement within the elite with respect to steps toward political liberalization. Former King Abdullah was willing to concede some token aspects of political opening, but this petered out around 2005, and no strong follow-up demands have been made.

Consensus on goals

4

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

On the top levels of government, there are no reformers advocating for democratization. When it comes to other types of reform, senior princes have been able to cast vetoes against specific policies in the past. To what extent this will remain the case under King Salman remains to be seen, as his position in the family is more central than King Abdullah's was. It is likely, however, that a powerful player like Minister of Interior Prince Mohammad bin Naif could stop reforms that are not in his interest.

Anti-democratic actors

2

The 'ulama, rich merchant families and government agencies (on specific policies) also have some veto power, but their opposition can be overruled by powerful princes – although the princes' policy-making caution often prevents them from taking this step.

The consensual Saudi decision-making process implies that specific reforms can become stalled for considerable periods. Another major obstacle to reform is represented by hardline Wahhabis, who can muster considerable popular support against certain measures such as allowing women to drive.

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

King Abdullah was generally perceived as a reconciler and previously marginal groups – be it due to geography, religion or gender – generally perceived him as the best hope they had among the senior princes. He repeatedly received Shi'ite and women's delegations, and in his own paternalistic way was genuinely concerned about making the Saudi system inclusive, pushing the religious establishment toward a discourse of tolerance, and instituting a (limited) sociocultural pluralism. How ecumenical King Salman will be is not clear at present. On the one hand, he has stronger links to the traditional central Arabian forces of conservatism, but on the other hand, kings often try to build new constituencies.

Cleavage /
conflict
management
3

In any case, Abdullah's relatively open approach does not mean that deep social cleavages have disappeared. The Al Saud monarchy remains historically and ideologically tied to a Wahhabi Islam that is exclusivist, patriarchal and extremely conservative, and has been identified with the supremacy of elites from the central province of Najd. Senior royal advisors as well as leaders of the religious establishment still stem predominantly from this area, and the inclusion of other groups does not automatically imply equality.

Anti-Shi'ite prejudice among governing elites and the Sunni population at large has worsened with the heightened conflict with Iran and the Syrian civil war, in the latter of which Saudi Arabia is supporting factions of the Sunni opposition. King Abdullah's "National Dialogue," which was supposed to bring together different regions and sects within Saudi Islam, has stalled and become an apolitical affair; it might not be prolonged under Salman.

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

There is little "formal" civil society with which the regime can engage in the course of policy deliberation, with the notable exception of the private sector, which is relatively well organized through chambers of commerce and industry. Other formal interest groups created in the course of the mid-2000s wave of reforms (like various professional organizations, a pensioners' association, a human rights and a consumer rights society) are still largely excluded from policy deliberation within the bureaucracy. Social interests can however be informally represented through religious, tribal and community leaders who engage with princes, or more indirectly, through the information-gathering services provided by the princes' various hangers-

Civil society
participation
2

on. The capacity of these channels to represent the interests of an increasingly complex society is limited, however.

Former King Abdullah was willing to consult with social interests, but organized partners with whom to consult were not always available in society. King Salman's approach is as yet unclear. The disjointed process of policy-making in the Saudi bureaucracy can also mean that social interests might be taken on board at a certain point of deliberation, but are later ignored by different institutional actors.

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

Reconciliation
4

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

This does not amount to an official apology, but still meant significant decompression of the Saudi public space, now increasingly institutionalized through stronger checks on the religious police, a centralization of the issuance of fatwas in order to avoid extremist statements, and a modernization of the education system. Advances made by Saudi Shi'ites in this context have been reversed since 2011, however, and it is not clear how open King Salman is to social dialogue.

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

17 | International Cooperation

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

Effective use of
support
5

That said, as the kingdom pays for its consultants, international actors have limited leverage over the implementation of policies, and it is in this phase that special interests in the bureaucracy can often stall or alter the course of reform. The kingdom lacks a functioning long-term framework of integrated development planning.

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

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

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

Credibility
4

Saudi Arabia has historically had a vested interest in a calm regional environment, as this allowed it to flex its economic muscle. It has thus taken a leadership role in the League of Arab States (LAS) and the Gulf Cooperation Council (GCC) to work toward economic cooperation and a nuclear-weapon-free zone in the Gulf. In the wake of the Arab uprisings and regional civil wars, however, it has become a more aggressive player. It has taken sides more openly against regimes and movements perceived as hostile, be they Sunni Islamists like the Muslim Brotherhood or Shi'ite-led governments and movements which, among other things, has led to very tense relations with the pro-Brotherhood regime in Qatar.

Regional
cooperation
6

Relations with Iran remain tense even under the more moderate President Rouhani. Relations with Iraq have improved somewhat under the new Prime Minister al-Abadi but remain characterized by mistrust. In Egypt, Saudi Arabia has clearly sided with the military against the Muslim Brotherhood.

Saudi Arabia has a strong interest in preventing political upheaval on the Arabian Peninsula. In Bahrain, the continuing presence of Saudi troops is designed not only to have external results (i.e., saving the ruling family of Bahrain), but also internal results in terms of sending a strong signal to all groups which may be tempted to challenge Saudi rule, especially the Shi'ites within the Saudi Kingdom.

In a similar vein, the Saudi royal family has also been involved in limiting Yemen's democratic movements, albeit in a manner more discrete than was the case with its involvement in Bahrain. Since the exit of Ali Abdullah Saleh from the Yemeni presidency in 2012, Saudi Arabia has had no functioning partnership with any major force in its unstable southern neighbor. The kingdom has had a lopsided economic relationship with Yemen for years and historically tried to influence it through strategic aid and the control of migrant workers.

While the Saudi government does not formally recognize Israel, it has been ready to strike informal, pragmatic deals if they benefit the Palestinian cause – and, possibly, if they work to the detriment of Iran.

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

Strategic Outlook

Possibilities for substantive political reform in Saudi Arabia remain very limited in the short term and might even be more limited now that King Abdullah has died. The kingdom does not at present have the social infrastructure to sustain a peaceful democratic transition or an open contestation of political interests and the interest in any such development within the elite is very muted. The most serious advocates of political participation are to be found among Islamists, who in the medium term could emerge as the main partner in a transition toward meaningful participation. This started among groups affiliated with the Muslim Brotherhood, but has now also spread among some of the groups identifying themselves as “Salafi,” which were originally opposed to modern democratic governance. How the members of a younger generation of “post-ideological” political activists – which has come to the fore in the wake of the Arab uprisings – will position themselves vis-à-vis Islamist forces remains to be seen. In the short term, the wave of modest political advocacy seen in 2011 has died down again and the pull of Islamic radicalism in the region could stall political moderation among Saudi Islamists.

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

The last decade’s comparatively more open debate over sociocultural issues represents a first, modest step toward the acceptance of political differences. Electoral politics can be rehearsed through the actions of civil society groups and their gradual inclusion in policy-making 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.

Some of this has been taking place through the relaxation of media censorship and the emergence of social media, but society, if anything, is more polarized today than it was before 2011, and significant parts of the conservative spectrum remain uninterested in any kind of pluralism. However, a young and increasingly educated generation of social media users has an ever-growing presence on platforms such as Facebook and Twitter. Saudi society is increasingly less isolated from regional and global developments. However, it remains to be seen how these virtual forms of collective organization may influence debates over political reform in the future. They also open the gate for further polarization and radicalization as extremist communities extend their online networks.

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

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

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

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

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

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