

Saudi Arabia

Status Index 4.1 (Democracy: 1.2 / Market economy: 2.9)		Management Index 2.3	
System of government	Autocracy	Population	22.8 mill.
Voter turnout	No elections	GDP p. c. (\$, PPP)	13,330
Women in Parliament	0 %	Unemployment rate	-
Population growth^a	4.4 %	HDI	0.769
Largest ethnic minority	n. a.	UN Education Index	0.71
		Gini Index	n. a.
Data for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.			

1. Introduction

Since 11 September 2001, the social and political order of the Kingdom of Saudi Arabia has been subjected to intense international scrutiny. The terrorist attacks in New York and Washington—the majority of whose perpetrators were Saudi citizens—were an expression of anti-American sentiment widespread across the Muslim world. Yet, they also served as a warning to the House of Saud that it can not afford a false sense of security regarding the perpetuation of its dynasty. The suicide attacks of 12 May 2003 on foreign housing complexes in Riyadh made it clear to both the ruling family and its traditional allies and economic partners abroad that the kingdom is vulnerable to destabilization at its very core.

After decades of unparalleled development from an essentially nomadic and agrarian way of life into an industrializing and urbanizing society, Saudi Arabia faces the challenge of redefining itself politically, economically and socially, and must do so before the eyes of the world. For all the positive achievements of “catch-up” development founded on oil export revenues since the 1970s, it cannot be overlooked from either within the kingdom or abroad that Saudi society has developed in diverging directions.

The royal family (both at its core and on its periphery), the traditionally powerful merchant families, and the religious establishment centered around the al-Sheikh allies of the al-Saud must re-define their place in a system in which such disparate

phenomena as ultra-religious protest (and terrorism), urban youth culture and women's struggles for emancipation have entered the picture. The crux of the problem is whether decision-makers in government and society will be able to give direction to the changes already in motion.

Given this background, it may seem incongruous to interpret the most recent developments in the kingdom as a process of democratic and market-economic transformation. While in principle the concept of market economics has not been met with misgivings (though the practical limits of Saudi Arabia's rent-based economy are another matter), democracy has not yet become a vital philosophy among those in control of government and society. Nevertheless, elements of political and economic opening can be identified that should be evaluated more closely in light of the demands of democracy and a market economy.

2. History and characteristics of transformation

Saudi Arabia is a country of ancient civilization but recent statehood. The Kingdom of Saudi Arabia derives its name from Abdul Aziz Ibn Abdul Rahman Al-Saud, who unified the central Arabian Najd with the northeastern coastal zones on the Persian Gulf and the western Hijaz and Asir regions on the Red Sea, declaring it his kingdom in 1932. The nation was founded by military conquest and strategic marriage politics but it resulted above all from an alliance forged between the House of Saud and *Wahhabi* religious warriors and custodians of the faith whose movement was founded in the 18th century by Muhammad Ibn Abdul-Wahhab.

The religious scholars agreed to affirm the legitimacy of Abdul Aziz's rule because he committed to enforce a puritanical interpretation of Islam within his realm. The leading role the monarchy has played in the development of the nation-state has been equally significant in terms of symbolic capital, however. This became feasible after World War II when large-scale exploitation of the country's oil reserves began and export revenues were invested in social services and infrastructure. Public expenditure also enabled the private sector to flourish: private entrepreneurs benefited from and became supporters of the political and social system in addition to religious scholars.

However, the fall in oil prices in 1986, during the first years of King Fahd's reign, made clear the limitations of oil export-based finance and progress through the redistribution of centrally controlled profits. The legitimacy of the House of Saud suffered because it was no longer in the financial position to maintain its system of patronage relationships. The princes' lifestyle and the general orientation of society

made it the target of Islamic opposition, and the monarchy was unprepared to cope with the new regional situation in the wake of the Iraqi invasion of Kuwait in 1990.

In response to the invasion of Kuwait by Saddam Hussein's Iraq and the threat of an occupation that might extend further into Saudi Arabia's oil-rich eastern region, King Fahd agreed to the stationing of American troops in Saudi Arabia. While even the loyal clergy offered only partial support for this move, other Muslim dignitaries and Islamic activists were openly opposed, maintaining that the Holy Land could not be protected by an army of infidels. For their part, secular liberals questioned why Saudi Arabia, with the billions it had invested in national defense, was not able to defend itself against a possible attack.

In two "Memoranda of Good Advice", religious scholars and secular intellectuals confronted the monarchy with the demands that state and society be organized more rationally and for the inclusion of citizens in a transparent decision-making process. The House of Saud reacted to the challenge in two ways. While the grievances expressed in the memoranda were taken seriously, attempts were also made to prevent the emergence of opposition figures. The Kuwait War was a catalyst for the 1991 Madrid peace conference between Israel and its Arab neighbors and it also led to reforms in Saudi Arabia.

In March 1992, the king decreed a Basic Law (*al-nizam al-asasi li-l-hukm*) that, as an abridged constitution, defined areas of authority for the state. In 1993 the king ordered Saudi Arabia to be divided into 13 administrative regions (*nizam al-manatiq*), and on 29 December 1993, King Fahd opened the first session of the Consultative Council (*majlis al-shura*), Saudi Arabia's first advisory body.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

At the time reforms were undertaken in the early 1990s, the rule of law and the language of democracy were not a part of Saudi political discourse, and through the present, the issues of popular sovereignty, balance of power and human rights engender open uneasiness. Article 1 of the 1992 Basic Law emphasizes that the Koran and the tradition of the Prophet constitute the kingdom's constitution. Thus, the role of politics is not to build consensus among the population, but to bring God's commandments and prohibitions to bear upon society according to the "true teachings."

3.1.1 Political regime

(1) *Stateness*: References to the binding nature of divine will aside, it is clear that the state has essentially developed a monopoly on the use of force, which is in place nationwide. However, tribal structures very regularly supplement or overshadow the mechanisms of government action. In certain regions, clashes between Islamic dissidents and terrorists have escalated to the point that the state's monopoly on the use of force is impaired. These regions are the theater of a fundamental conflict between the politically pragmatic approach of the House of Saud and the religiously dogmatic demands of Islamic activists, who belong either to the disillusioned cadres of the Wahhabi religious police, or to new movements striving to outdo even the religious establishment in zeal.

There is broad consensus on the issue of qualification for citizenship. However, state discrimination against the Shiite population, most heavily represented in the oil-rich Eastern Province, is also present. The government's posture towards the Shiites corresponds to the mutual resentment found at the social level between Islam's two major movements. Nevertheless, Shiites have been represented in the Consultative Council by royal appointments for some time. Discrimination exists against women, as elsewhere in the Arabic world, especially in connection with the Islam-oriented personal status law covering hereditary transmission of nationality, inheritance rights, and divorce (among other issues). Here, as in many other areas, the state provides for the enforcement of religious rules for which a consensus among the population is not always a given.

There are, moreover, latent tensions between the inhabitants of the Najd, where the power base of the al-Saud is located, and the population of the bordering regions of Hijaz and Asir, which in the last two decades have produced a disproportionate share of dissidents and opposition figures. Functional administrative structures exist in Saudi Arabia. These were strengthened in the early 1990s through the formal division of the kingdom into 13 regions or provinces, each with its own governor. The implementation of policy decisions beyond the urban centers is often inadequate, however, and is not infrequently accompanied by the social and economic neglect of the Hijaz and Asir regions. Further, the negative effects of the lack of judicial independence are making themselves felt.

(2) *Political participation*: Saudi Arabia is governed by an absolute monarchy. There are no elections at the national, regional or local level. The participation of citizens in the political process presupposes—in addition to free elections—instruments for the development and exchange of opinions. However, freedom of assembly, association, speech and the press are not guaranteed. Though restrictions on public discussion have been relaxed since 11 September 2001, the current situation is the result of

government tolerance, not principles of freedom under which citizens would have legally enforceable rights.

On the other hand, opportunities for political participation do exist in three areas. In the media, television broadcasters with regional satellite coverage in such places as Qatar, Dubai and Cairo offer the opportunity to criticize the Saudi government through their stations. Secondly, *majlis* forums have been strengthened in past years. These are informal meetings of citizens with decision-makers, particularly members of the royal family, in which grievances may be aired.

Thirdly, the Consultative Council has improved its political image since its formation ten years ago, though it only has the authority to advise the government (the king) on national affairs. While it has no formal role in creating legislation, it has become the de facto forum for political debate and at present includes 120 members appointed by the king for four-year terms. A demand by members of the Consultative Council for authority over budgetary matters is also one of the conditions for admission to the Inter-parliamentary Union which Saudi Arabia has sought. So far, however, the Consultative Council remains financially dependent on the king, who exercises budgetary control over it under Article 27 of the Consultative Council Establishment Act. In addition, Article 30 of this act, like Article 83 of the Basic Law, stipulates that the king alone may change these laws.

(3) *Rule of law*: Separation of powers exists only in rudimentary form. The Consultative Council resembles a legislative assembly in many ways but does not have the authority of one. The judiciary is independent according to Article 46 of the Basic Law, but in practice, merely applies Islamic law according to the abridged constitution. However, the interpretation of Islamic law is contentious and there is no mechanism for judicial review.

It goes without saying that the king, who is also chairman of the Council of Ministers, plays a key role here as well. The legal system is thus subordinate to both religious and political authorities, and legal or political mechanisms to punish office-holders for abuse of office are virtually non-existent. Human rights in Saudi Arabia are defined as the rights of Muslims, and Saudi Arabia consciously rejected the 1948 Universal Declaration of Human Rights. Discrimination continues, in particular against women and non-Muslims. Freedom of religion is not guaranteed, and human rights violations cannot be taken up in a court of law.

3.1.2 Patterns of political behavior and attitudes

(1) *Institutional stability*: Democratic representation through elections does not exist. The Consultative Council functions as an appointed body, but only within the limited scope of its defined purpose. More than a few Saudi Arabian citizens regard the Consultative Council as their representation and demand that royal appointments be changed to elections.

(2) *Political and social integration*: The main factors of political and social integration in Saudi Arabia are, in economic terms, patron-client relationships between government and the governed and, in cultural terms, a commitment to a religious model of social organization dictated by the Wahhabi religious police. Political parties do not exist in Saudi Arabia, and the media have become the only arena for public debate. Civic institutions are not allowed, although chambers of industry and commerce act as interest groups in the economic field. In a Memorandum of Advice in January 2003, well-known religious scholars and academics called for an opening of civil society to be allowed.

3.2 Market economy

Saudi Arabia's economic system is market-oriented by tradition. Substantial revenues from the export of oil and petrochemical products have enabled Saudi Arabia to take advantage of the opportunities its underdevelopment presented and to systematically develop the country's economic potential. Despite progress in establishing industries not associated with the oil industry (primarily in the private sector), the public sector in Saudi Arabia continues to be greatly important. Moreover, the dynamics of the economy as a whole are shaped considerably by the level of government expenditure. The Saudi government's continuing dependence on oil proceeds for roughly three-quarters of its income remains a structural economic weakness, even if it is forgotten in times of high oil prices.

3.2.1 Level of socioeconomic development

In the three decades since the beginning of the oil boom in 1973, social exclusion based on poverty and education level has been reduced. However, over the past five years, Saudi Arabia has not succeeded in matching quantitative expansion in access to education with qualitative improvement. As a result, broad segments of the population are insufficiently prepared for the future, and the prospects for social mobility through state-sponsored education are reduced. Even though extreme poverty does not exist, declining per capita income will affect access to resources.

Although the social and economic role of women has improved slightly, it continues to fall far short of what is economically possible and socially necessary.

3.2.2 Market structures and competition

Free-market competition in Saudi Arabia is rooted in tradition, although it does not extend to sectors in which the government holds a monopoly, such as oil production and the petrochemical industry. In all other sectors, the private economy has developed a network of industrial and trade associations coordinated by the Council of Saudi Arabian Chambers of Commerce and Industry in Riyadh. Challenges to the market and competition are extensively debated in the media, which, like the daily *Al-Iqdisadiyah* published in Riyadh, have traditionally enjoyed certain liberties in addressing economic policy.

Oligopolies exist within the trade missions for the import of consumer and luxury goods as well as in the representation of international firms. The process of accession to the WTO makes a revision of Saudi practices and regulations necessary, particularly with respect to the principle of sponsorship (*kafala*) for the economic activities of foreigners. As elsewhere in the Middle East, it is not uncommon for reforms to be ordered on paper strictly to improve the country's image without leading to any real change in practice.

Saudi Arabia's foreign trade is traditionally organized according to liberal principles. Oil and petrochemical revenues facilitate the import of consumer and capital goods on a large scale. Nevertheless, Saudi Arabia has not fully realized its market potential. In the last few decades, the United Arab Emirates city of Dubai on the Persian Gulf rather than the Saudi Red Sea port of Jeddah has established itself as the international shipping center for the Arabian Peninsula. The reasons for this are more political than economic: Members of the Organization for the Propagation of Virtue and the Prevention of Vice (a kind of religious police) inspect cargo of every provenance and size—from parcels to shipping containers—for goods forbidden in Saudi Arabia.

As in the other Arabic Gulf states, the Saudi banking system and capital markets are separate and follow international standards. Yet, the country's relative isolation has created a dampening effect in times of great economic dynamism. On the other hand, this isolation has resulted in a certain buffering against the vicissitudes of international financial capital, such as the crises in East Asia and Russia in the late 1990s, which had limited negative effects on the Saudi banking system and capital markets. Joint ventures with American, British, French and Dutch banks provide a management culture with an international orientation.

3.2.3 Stability of currency and prices

With its oil production and petrochemical industry, along with a number of other industries, the health of the Saudi economy is directly linked to global economic conditions. In line with this orientation, Saudi Arabia pegs its currency to the dollar at the rate of one Riyal to \$3.7450, which ensures currency and price stability. The rate of inflation is low. Acting as the central bank, the Saudi Arabian Monetary Agency (SAMA) follows principles of efficiency and simplicity in relation to the domestic economy and foreign trade; nonetheless, it is not legally independent. Budget deficits posed risks to stability in the 1990s, but a surplus of \$6.67 billion is expected for 2003. This indicates a certain volatility, which the government seeks to avoid though it does not provide institutional guarantees.

3.2.4 Private property

Private property rights are guaranteed in Saudi Arabia; and unlike other countries in the Middle East and North Africa, Riyadh has traditionally pursued policies favorable to the private sector. Even though the oil-producing states of the Gulf region could be characterized collectively as rentier states in their political economies, the government of Saudi Arabia has not sought to monopolize economic life outside the oil sector.

Consideration for the economic interests of the large and long-established merchant families has always been part of the political consensus. Thus, the monarchy has pursued a dual strategy between public and private sectors. The private sector has generally been free to become involved in all areas, while the state has limited itself primarily to the spheres crucial to nation-building such as traffic infrastructure, power and water supply, and telecommunications. Nevertheless, the private sector is more or less dependent upon the level of public expenditure.

Patron-client relationships and corruption occasionally lead to economic favoritism, but these relationships do not call into question the principle of private property. Since 1999, the government has repeatedly announced plans for the privatization of individual industries, including power generation and telecommunications, as well as the debt-laden national air carrier Saudi Arabian Airlines and the profit-making petrochemical concern Saudi Arabian Basic Industries Corporation (SABIC). Here the forces of inertia seem to prevail: during times of relatively healthy finances, reform pressure from within subsides.

Something similar may be said of the initiative of Crown Prince Abdullah Ibn Abdul Aziz to allow foreign firms to develop oil reserves in Saudi Arabia. Despite signing

an investment agreement with nine international firms in 2001, implementation agreements have yet to materialize, primarily as a result of opposition from the government monopoly Aramco and discord within the Saudi family over the reauthorization of foreign investment in the oil and gas sector. Reform recommendations coming from abroad, such as the liberalization of telecommunications in connection with accession to the WTO, are often pursued only hesitantly; and as elsewhere in the Middle East, become more a matter of fulfilling formal requirements than actively pursuing the course of reform.

3.2.5 Welfare regime

Following a decline in the government's capacities that resulted from high population growth rates over the last three decades, Saudi Arabia's social security net in rural areas has reverted to a system heavily dependant on family and tribal structures. In urban areas, the state has been able to maintain the welfare services it has assumed responsibility for since the 1970s. However, the state's involvement is less a matter of ameliorating the risks inherent in an open economic system than an attempt to integrate the population into the social and political system through a network of patron-client relationships. The system continues despite the fact that these relationships often make dynamic economic activity seem unnecessary to those who benefit as clients.

The welfare regime thus reflects poorly on the government's ability to provide social services. This state of affairs takes on added importance when it is considered that per capita income has declined over the last three decades. This has resulted from high population growth, which remains above 3 %, and the inadequate qualifications of the bulk of the population, which impedes greater economic vitality.

Although women's level of education is higher than average, despite an urban-rural gradient, their opportunities are limited. Avenues for professional activity exist only in the health, banking and education sectors, in institutions where women are physically separated from men. Women have no access to public office.

3.2.6 Strength of the economy

The private sector in Saudi Arabia has developed further than that of other developing countries because of substantial public expenditure and a relatively high level of political stability. In 1974, the state-dominated oil sector contributed roughly two thirds of GDP, with other economic sectors accounting for the remainder. Over the last thirty years this ratio has nearly reversed. Nevertheless, the government depends

almost exclusively on oil industry profits for revenue, and just under one quarter of its income originates outside the oil sector. Saudi Arabia is extraordinarily dependent on the strength of its trading partners' economic performance.

Though rising oil prices mean potentially higher state revenues and a greater potential for social distribution, high energy prices also jeopardize global economic vitality: if the global economy stagnates, the demand for energy also decreases. Moreover, Riyadh, like other oil-producing Persian Gulf states, has invested so extensively in foreign holdings that it cannot afford to restrain global economic development through high oil prices.

Budgetary deficits in the 1990s resulting from financial involvement in the 1990–1991 Kuwait War have been followed by an unstable equilibrium despite surpluses in the last few years. In the first half of 2003, the price of Saudi oil stood at \$27 per barrel and income from the export of oil for 2003 will run to roughly \$80 billion. The Saudi Arabian economy remains structurally vulnerable because of its dependence on economic developments elsewhere in the world and because of political factors such as the cessation of Iraqi oil production during the most recent war.

3.2.7 Sustainability

Questions regarding the environmental sustainability of economic growth are generally of secondary interest in Saudi Arabia. That said, examples such as the large petrochemical works in Jubail on the Persian Gulf and Yanbu on the Red Sea meet international ecological standards. Here the decisive factor appears to be that both the government and the private sector are anxious to embrace the latest technological developments when importing for key industries. In this respect, a well-developed sense of prestige also indirectly promotes environmental interests in economic matters.

The acquisition of technological progress, on the other hand, has been sub-optimal up to now. Although the state provides the basic infrastructure for education, training and research, easy access to imported consumer and capital goods as well as human resources from industrialized countries in Asia and the West has contributed to an under-emphasis on the human capital within the country. Ambitious projects such as the information technology center King Abdul Aziz City of Science and Technology (KACST) have a reputation for being more willing to perfect censorship than to stimulate creativity.

4. Trend

(1) *Democracy*: Democratic tendencies in Saudi Arabia have not consolidated over the past decade. The reforms of the early 1990s have been maintained but have not developed further. This may be connected with the health of King Fahd who transferred his official duties to Crown Prince Abdullah temporarily in 1995 and permanently in 1999 after suffering a stroke.

The Consultative Council has been given greater importance. Its membership increased to 90 at the end of its first session in 1997, and by another 30 members in 2001 to the current 120 delegates, which has allowed an increase in representation. At the same time, expansion has allowed the king to retain old members in the Consultative Council while respecting Article 13, which stipulates that at least half of the council members appointed at the beginning of each session must be new members.

(2) *Market economy*: The Human Development Index shows a minimal improvement over a period of five years. Whether dynamic development above the stagnation level was actually achieved in this case is unclear, as the recording of statistical data in Saudi Arabia is extremely unreliable. It is probable that disparities in income distribution have increased further.

Table: Development of socioeconomic modernization indicators

	HDI	GDI	GDP Index	UN Education Index	Political representation of women (a)	GDP per capita (\$, PPP)
1995	0.737	n. a.	n. a.	-	0	-
2000	0.759	0.731	0.79	0.71	0	11,367

Free market reforms consist primarily of attempts to overcome dependencies that might threaten the existing hybrid of public and private sectors in the long term rather than a departure from the state-run economic model. Because it is so dependent on the global energy market, growth in the Saudi economy is essentially tied to the economic health of its trading partners. This is true despite the fact that industries outside the oil sector have assumed the oil industry's former share of GDP over the last three decades because the government continues to depend on the export of oil and petroleum products for three-quarters of its income. With a budget that directly or

indirectly pays more than 80 % of wages and salaries, income from the oil industry almost exactly reflects the purchasing power of the population.

Table: Development of macroeconomic fundamentals (1998–2002)

	1997	1998	1999	2000	2001	2002
Growth of GDP in %	2	1.7	-0.78	4.5	1.8	
Foreign trade	54.1			64.6	61.7	
Export growth ^{a)} in %		-36.1	30.7	52.9	-12.3	
Import growth ^{a)} in %	3.5	4.4	-6.6	8.1	3.1	
Inflation in %		-0.4	-1.6	-0.8	-0.4	
Unemployment in %						25 ^{a)}
Budget deficit/surplus as % of GDP		-8.9	-6	6.4	-3.6	

^{a)} Estimate

5. Transformation management

5.1 Level of difficulty

The World Bank classifies Saudi Arabia as a high-income country. It did not achieve this status through continuous growth, however, but has slipped from an even higher income level. Given the population growth of the past decades, which shows no clear sign of slowing, this could mean a descent to a middle income level within a few years. Saudi Arabia falls in the middle in terms of education; and it is evident that the period of high revenue was not used to improve its educational system.

Overcoming tribalism and ensuring a minimum of political-ethnic homogeneity has been one challenge to the nation-building process. Efforts toward the Shiites have begun only recently even though there was no real reason to ignore the issue in the past. The transformation process has been hindered by a lack of civic tradition for which a vague concept of tribal equality is no substitute.

Cast against the background of weak development in institutional stability and the rule of law, the level of difficulty appears high. On the other hand, it should be considered that the deliberate courting of the religious police by the House of Saud

was a calculated choice made to legitimize its power. In this respect, the monarchy has, for the sake of preserving the status quo, found itself at a starting position possibly more difficult today than it was 20 or 30 years ago.

5.2 Reliable pursuit of goals

Primarily in response to foreign pressure, the Saudi government considered and to some extent implemented reforms in both 1991 and 2001, thereby meeting the expectations of critics within Saudi Arabia as well. Because the king plays such a powerful role, a phase of systemic stagnation set in when King Fahd became ill. As regent, Crown Prince Abdullah has made efforts, especially since the end of 2001, to win back the initiative in relation to both Saudi Arabian dissidents and foreign nations.

However, the reform measures of the early 1990s were so infused with Islamist-tinged discourse that, in light of the current necessity to defend even the Muslim heritage against Islamic terrorism, it is altogether unclear whether the “Islamization” of discourse will bring political moderation to broader population groups. The government is relying on a vague concept of Islamic government to win back the initiative from its more radicalized critics and to salvage its own—Islamic—legitimacy. For many, however, the government’s venture is too little, too late and merely accentuates its lack of true legitimacy.

Although streamlining the government and economy is recognized as a strategic priority, the government has been unable to either formulate or implement a comprehensive reform policy. In this respect, Saudi Arabia has been unable to guarantee reliable expectations either internally or externally. This highlights the essence of the difficulty presented by the uncertainty of the medium-term succession to the monarchy, particularly the question of when the leadership of the kingdom will pass to the generation of King Abdul Aziz Ibn Abdul Rahman Al-Saud’s grandchildren.

5.3 Effective use of resources

The use of resources appears to have improved within the last five years, although it remains below the optimal level. One problem is that reforms in public administration are implemented such that new, more efficient institutions are created alongside existing inefficient ones. Rivalry between these institutions leads to gridlock, preventing even the new institutions from functioning smoothly. In infrastructure, the government has not developed adequate public services to safeguard progress in

development; and there are no specific instruments for reducing and fighting corruption.

The inability of the House of Saud to use its cultural and religious heritage as a resource for political and economic reform has been documented extensively over the last decades. Only individual Saudi academics have been involved in re-thinking the issues of heritage and innovation, tradition and modernity, while the government uses history primarily in the discourse of apology. Saudi Arabia has not developed into an intellectual center in this field.

5.4 Governance capability

The House of Saud has demonstrated the strength of its political leadership through the introduction of innovation. Very often, however, innovation has been accompanied by apologetic reference to its utility from a religious standpoint, such as using the telephone to transmit a recitation from the Koran. The monarchy has failed to develop a non-religious formula to support its legitimacy and political authority, and has squandered the symbolic capital of its innovations in favor of enhanced status for religious scholars and the religious police.

5.5 Consensus-building

There is no consensus regarding the development of democracy and a market economy; yet there has been a growing consciousness of the need to subject government and the economy to more rational criteria. As a first step toward that end, the leading princes of the House of Saud convened an internal family council in 2000 to forge a consensus on the royal succession. For all the internal competition, particularly over the succession of the monarchy, the royal family has shown a degree of political pragmatism that it must now convey to the public.

5.6 International cooperation

Saudi Arabia sees itself as a leading nation within the Muslim world. As the home of the Mecca pilgrimage, the kingdom stakes a claim to leadership of the Islamic World League and the Organization of the Islamic Conference, which it underscores by financing numerous development projects in the Muslim world. However, more than a few of these cooperative projects are bound by ideological constraints that are as incompatible with democratic and market transformation elsewhere as they are in Saudi Arabia.

In the regional context, Saudi Arabia seeks conciliation. While it verbally resisted US troop deployments preceding the third Gulf War of March 2003, it supported the military operation at least indirectly, as did the other Arabic Gulf states. Riyadh also sees a diplomatic role for itself in the Arab-Israeli conflict, and above all in the Israeli-Palestinian conflict. However, Crown Prince Abdullah's initiative for conciliation with Israel, adopted at the end of February 2002 at a summit meeting of the League of Arab States, has not been followed up publicly. In relation to its neighboring states, Saudi Arabia is particularly committed to an amicable demarcation of international borders.

6. Overall evaluation

(1) *Starting conditions*: The initial conditions for democratic and market-economic transformation are linked to the long-term effects of nation-building and its inner contradictions. While in principle there was no need to re-invent the market economy, the transformation of family rule into government hierarchy has been a challenge. It is not surprising that fifty years after the death of the nation's founder, dynastic consolidation continues to rank high on the agenda. Nevertheless, given the massive financial in-flows of the second half of the 20th century, it may be justifiably asked why the incoming capital could not have been used to create a more pluralistic political culture.

(2) *Current status and evolution*: In the transformation to a market economy, the traditional dualism between public and private sectors has been retained. The basic framework was established earlier, and we must note that no further steps have been made in the last five years, particularly in connection with privatization. We cannot help but suspect that further progress toward reform can only be expected in the event of another crisis.

With respect to political opening, Saudi Arabia's path is proving to be longer and rockier than expected. The stagnation brought on by the king's illness will only be overcome if a strong leader assumes the throne—not just administratively, but both politically and symbolically as well. Furthermore, it has become evident during the years of Crown Prince Abdullah's de facto regency that the Saudi government must work harder to develop the communication skills necessary for dialogue with its own citizens. Without at least a preliminary decision about the country's leadership, and the inclusion of the population in these impending changes, Saudi Arabia will not have the strength to break out of its reactive posture and regain the political initiative.

(3) *Transformation management*: During the period covered by this report, the Saudi government was more occupied with crisis management than with transformation

management. Both economic and political change were retarded, and this lack of vitality alone could be considered regressive. It is understandable that in view of the country's weak industrialization, the leading members of the royal family feel they must first devote themselves to internal consolidation. But as the legitimacy of the state has been questioned at regular ten-year intervals since the Iranian revolution (1979, 1990–1991, 2001), it can be expected that a House of Saud more reactive than active since the death of its founder will have to find answers.

7. Outlook

Saudi Arabia now faces fundamental revision of the social contracts that underpinned its political stability and economic development to the present.

To begin with, the alliance between the monarchy and court “Islamicism,” embodied in the al-Saud royalty and the al-Sheikh religious establishment, is coming under internal pressure from an Islamic opposition disloyal to the royal family. Externally, the United States, in particular, criticizes the alliance as an impediment to a pluralistic social order. In contrast to revolutionary Islamic factions, however, the established religious scholars appear to be a stabilizing element. Crown Prince Abdullah accordingly seeks to portray the traditional alliance of throne and pulpit as one of the system's particular strengths. On the other hand, maintaining this alliance requires concessions to the religious establishment that are becoming increasingly difficult to defend in the international context.

Second, the alliance between the monarchy and the mercantile community is facing a test. The traditional merchant families tend toward a liberal orientation and they have consistently been disproportionately favored as appointees to the Consultative Council. Yet, while individual figures appear promising, it is too early to speak of an emerging liberal movement that might provide an alternative to the monarchy. Most problematic in this respect is that merchant and royal interests threaten to collide: In light of demographic developments, the government is attempting to promote the replacement of foreign with domestic workers; the private sector, on the other hand, prefers to recruit foreigners in the interest of competitiveness. In view of these dominant special interests in the private sector, it is unclear whether the Consultative Council can, with its present composition and mission, transform itself into a strong political organ. With persistently high unemployment, businesses will probably not be able to increase their political influence unless they prove their ability to solve social problems.

Third, there are possibly intense rivalries within the monarchy to be dealt with. While politically controversial subjects such as foreign policy, domestic policy towards the

religious sector, and economic strategy in light of population developments could trigger conflict by themselves, they could also emerge in connection with the issue of the al-Saud succession. Unless there is a familial consensus on a the succession, we must assume that given the advanced age of the current heir to the throne, there will be more than one transfer of power in the next few years. The consequences of instability induced by a change of leadership would make it even more difficult for the al-Saud to orchestrate change.