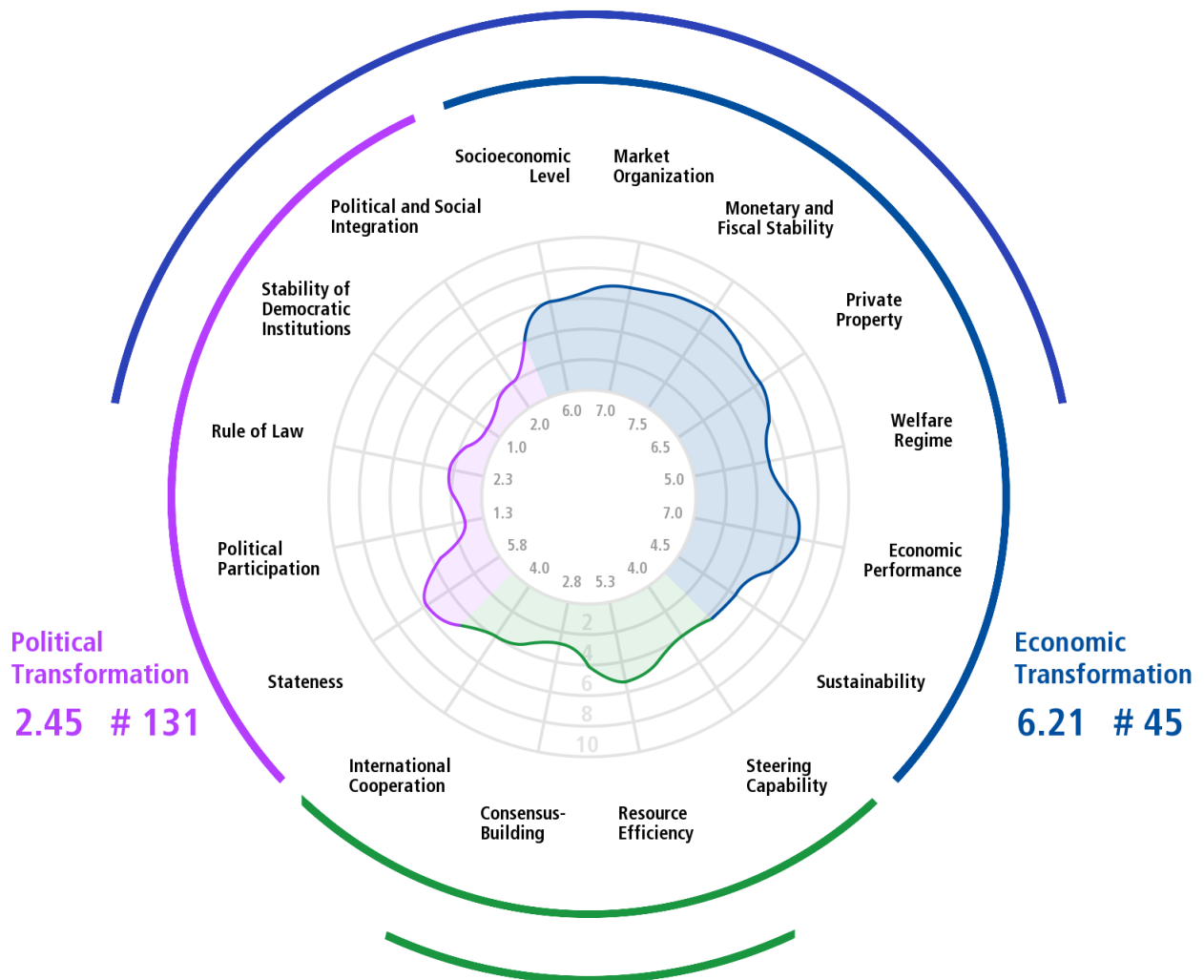


Saudi Arabia

Status Index

4.33 # 100

on 1-10 scale out of 137



Governance Index

3.54 # 111

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	33.7	HDI	0.857	GDP p.c., PPP \$	55120
Pop. growth ¹	% p.a.	1.8	HDI rank of 189	36	Gini Index	-
Life expectancy	years	74.9	UN Education Index	0.794	Poverty ³	% -
Urban population	%	83.8	Gender inequality ²	0.224	Aid per capita	\$ -

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

A number of important developments took place in Saudi Arabia during the period under review (February 1, 2017 to January 31, 2019), which have affected the kingdom's political and economic transformation. The new king, Salman bin Abdulaziz, has greatly consolidated his conservative power base by appointing his son, Mohammad bin Salman (MbS), as the crown prince (replacing his nephew Mohammad bin Nayef, MbN) and first deputy prime minister in June 2017. The crown prince is also the kingdom's minister of defense. The succession issue was followed by a series of high-profile developments, including MbS's anti-corruption drive launched in November 2017, women being granted the right to drive in September 2017 and the killing of dissident journalist Jamal Khashoggi in the Saudi consulate in Istanbul in October 2018. Khashoggi's assassination damaged the image of the kingdom as a credible international partner and has sent a chilling message to other Saudi dissidents and opponents of the regime. However, political awareness continues to grow with the spread of social media, although organized political opposition to the Al Saud family remains limited.

On the external front, King Salman has maintained a muscular approach to foreign policy. This is most evident in his decision to launch airstrikes on Yemen in March 2015 and a subsequent ground invasion of Yemen, with the support of nine Arab nations and logistical cooperation from the United States. Despite U.N. efforts to hammer out a solution to the war in Yemen, neither the Saudi-led coalition nor the Houthi rebels appear inclined to negotiate a settlement. However, the U.N.-brokered Hudaydah Agreement has somehow held. The agreement was an outcome of the December 2018 Stockholm Agreement between the Houthis and the Saudi-backed Abd Rabbu Mansour Hadi government of Yemen and ensures that imports of essential food and medicine supplies reach Yemen's severely war-affected civilian population. In Syria, King Salman has doubled down on his support for anti-government rebels (excluding the Islamic State (IS) and the al-Qaeda-affiliated Jabhat Fateh al-Sham Front groups) in an effort to check Iran's growing influence in the Levant, but without any discernible outcome. The diplomatic rift between Saudi Arabia and Qatar, which started in June 2017, persists – despite repeated U.S. efforts to iron out

the differences between the two GCC member states. Increasing war spending, coupled with declining oil prices, has forced the Saudi government to announce budget deficits over the last two years (13.6% of GDP in 2016). Though the recent increase in oil prices has mitigated the budget problem considerably. The current 2019 budget has reversed several recent radical measures (e.g., salary cuts for ministers and the cancellation of bonuses for public sector employees in late 2016) to cut the government's fiscal deficit.

MbS's ambitious development plan, Saudi Vision 2030, aims to diversify the economy by initiating a shift away from public to private sector-led economic growth. However, the plan has achieved no notable progress so far. In fact, the plan has stalled following Jamal Khashoggi's murder, and the refusal of many international (financial, investment and media) corporations to attend a high-profile investment summit in Riyadh in October 2018. The government has tied up some loose ends with respect to existing reform initiatives, such as providing more licenses to private investors in the utilities sector and strengthening the government's campaign to "Saudize" private employment.

On a happy note, Saudi women made some notable progress in 2017 and 2018. For the first time, women won the right to drive, with driving licenses issued to women from June 2018. Saudi women are also moving ahead economically. Women now receive job training from government-approved centers and institutes, and have gained access to employment, though limited. On the whole, Saudi Arabia's highly conservative society is slowly opening up to women's rights and empowerment.

History and Characteristics of Transformation

The Kingdom of Saudi Arabia, formally declared by King Abd al-Aziz of the central Arabian Al Saud clan in 1932, is a wealthy Arab state located in the Arabian Peninsula and flanked by the Persian Gulf in the east and the Red Sea in the west. Politically, the state is an absolute monarchy ruled by the sons of Abd al-Aziz, who died in 1953. Islam and Islamic teachings provide the basic guidelines for the political, social and cultural foundations of the kingdom.

Based on ever increasing oil revenues since 1953, the Saudi national administration system has expanded rapidly over the past decades. State services and the population's standard of living were substantially augmented, and the state began playing an increasingly strong and direct role in people's lives. Informally, the system was stressed by networks of personal patronage, distribution and favoritism controlled by the sprawling Al Saud family. The clergy, traditionally the Al Saud's main coalition partner, depends on the ruling family's patronage, while remaining an essential legitimating prop of Al Saud rule.

The country's large-scale oil-fueled rentier economy, which developed gradually, led to the creation of a new business class of merchant and contractor families with close links to the royal family. The presence of royal family members in the country's business sector is considerable, even if many royals act only as facilitators and commission-takers. In addition, 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.

Political opposition to Al Saud rule is rather weak. 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, grew into a political movement as a result of the 1980s economic crisis and the presence of U.S. troops on Saudi soil following the Iraqi invasion of Kuwait. The al-Sahwa movement has been the target of frequent government crackdowns. A subsequent militant challenge to the regime by al-Qaeda on the Arabian Peninsula (AQAP) between 2003 and 2006 failed to win widespread public support and was successfully brought under control. The Islamic State (IS) group emerged as a significant threat to Al Saud rulers in the summer of 2014, but the recent defeat of the group has dissipated that threat as well.

The kingdom achieved its highest GDP per capita rate in the early 1980s. Since then, the economy has expanded, despite global oil price volatility. The post-2003 economic expansion has facilitated increased public sector employment and an improvement in public services, but – given a national population of 33 million in 2018 of whom 37% are expatriate workers – resources are more stretched now than they were in the early 1980s. The Saudi economy is dominated by the public sector, although the private sector is growing rapidly. Despite an inconsistent regulatory framework, the private sector has matured considerably over recent decades and has more sophisticated managerial structures than most of its peers in the Middle East and North Africa (MENA) region.

After the seizure of the Grand Mosque in Mecca in 1979, the regime placed greater emphasis on the enforcement of conservative social mores, yielding greater influence to religious conservatives in education, cultural policies, and the enforcement of public order. Nonetheless, after the 1991 Gulf War, Islamists and liberals alike were disenchanted with Al Saud rule, particularly their apparent inability to protect the kingdom without U.S. aid, and authoritarian and non-transparent approach to governance.

King Abdullah was seen as a driver of both socioeconomic and political reforms, although he largely ceased to promote political reform after the mid-2000s. His death in early 2015 led to the ascension of Salman bin Abdulaziz to the throne. King Salman is a well-known conservative and has demonstrated little interest in continuing the reforms initiated by King Abdullah. The young crown prince, Mohammad bin Salman (MbS), has seemingly broken with this conservative trend. Though it is unclear how far MbS will proceed.

There is an absence of strong public pressure for reform. Even the Arab Spring uprisings failed to galvanize mass protests in Saudi Arabia beyond the Shi'ite-dominated Eastern Province and the region around Qatif. However, young Saudis are increasingly politically aware due to the rapid growth of social media networks.

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 continues as a confederation of powerful tribes backed by the Wahhabi clerics. State authorities have not experienced any serious internal or external challenges. Other than weak political opposition, which emerges from time to time, the Al Saud rulers control the state with relative ease. In the post-9/11 context, domestic terror, which peaked between 2003 and 2005, was a significant problem. In general, the Saudi government was able to suppress such opposition through the use of force and social rehabilitation programs, although al-Qaeda retains a residual capacity to disrupt. There are significant transnational security threats to Saudi Arabia from groups in Yemen, Iraq and Syria, such as the now physically eliminated Islamic State (IS) group.

There has been an increase in violent clashes and demonstrations, centered in and around the Shi'ite city of Awamiya in the Qatif region. The situation turned significantly violent following the execution of prominent Shi'ite leader Shaikh Nimr al-Nimr in early January 2016.

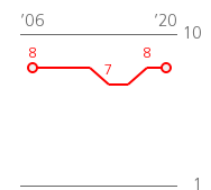
However, the state's broader monopoly on the use of force was never seriously challenged domestically. The war in Yemen and counterattacks by Houthi rebels, however, have crippled the Saudi government's ability to effectively govern the Saudi-Yemen border regions, with Jizan being a prime war zone.

Saudi citizens are Muslims (or Arab Muslims) by definition; no indigenous non-Muslim groups live in today's Saudi Arabia (other than some 10 million expatriates belonging to various religious denominations). Most Saudis see themselves at the center of the Arab universe and believe that their culture is vastly superior to that of the West. The Shi'ite minority – Twelver Shi'ites in the east and Ismaili Shi'ites in the south – is denied certain cultural rights. They also suffer from socioeconomic deprivation, which often creates political tensions. Late King Abdullah's attempts to focus more government attention on underdeveloped regions did not result in that

Question
Score

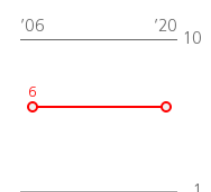
Monopoly on the
use of force

8



State identity

6



much change for the Shi'ites. There is an implicit ethnic hierarchy in Saudi Arabia, with powerful tribes from the central province of Najd on top, followed by Hijazis and Eastern Province Sunnis, and the rest below. Najd is associated with the Hanbali Islamic school of law and its Wahhabi interpretation. Non-Hanbali religious practices were tolerated under King Abdullah, but the public and collective organization of non-Sunni Islam still functions under fairly strict constraints (and occasionally meets with violence from vigilantes and the religious police).

Some Shi'ite oppositionists in exile critique the Al Saud state as it is organized today, but secession is openly advocated only by a small number of radical actors. Late Shi'ite cleric Nimr al-Nimr, who publicly mooted secession, had built a popular following among radicalized younger Shi'ites. Some members of the jihadi political fringe do not accept the Al Saud state as a legitimate entity, but they do not have a clear alternative vision for organizing the Saudi state.

Saudi Arabia is officially an Islamic state, as defined by the 1992 Basic Law (Article 1). The Qur'an and the Hadiths (sayings and deeds of Prophet Muhammad) define its constitution and the overall legal system. While the Al Saud rulers control the political and economic systems of the state, senior Wahhabi 'Ulama (Islamic legal scholars) interpret the legal system and the administration of justice through their control of the judiciary. The Council of Senior 'Ulama advise 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 little freedom of worship for non-Muslims (although tolerance of practice varies depending on the nationality of the practitioners). The construction of Christian churches, Hindu temples or Buddhist pagodas is prohibited, although non-Muslims can perform religious rituals privately and practice their faith at home. On December 1, 2018, the country's ever first Coptic mass was officially celebrated in Riyadh, attended by Christian Egyptians residing in Saudi Arabia.

Secular thinking has no place in Saudi society or public discourse. Dissident blogger Samar al-Badawi (Raif al-Badawi's sister) and Nassima al-Sada, both prominent human rights activists, were detained in early August 2018. Samar has been banned from traveling since 2014. The Saudi government arrested and imprisoned prominent Sunni cleric Sheikh Salman al-Ouda, who criticized the Saudi blockade on Qatar in September 2017. The Saudi government recently held a secret trial of Sheikh Salman al-Ouda, apparently to hand down a death sentence.

Officially, all legislation should be based on Shariah law (the Qur'an and the Hadiths). In practice, however, significant parts of the administration are run according to secular principles (including the regulation of Saudi banks). Inopportune fatwas have repeatedly been ignored by the regime, while in some cases the clergy swiftly came forward to defend the Al Saud rule. For example, the Grand Mufti of Saudi Arabia, after the "Arab Spring" broke out, warned the protesters of God's wrath

No interference of religious dogmas

2

'06 '20 10

2

1

if they participated in anti-government rage. On economic matters, Shariah courts are often circumvented through administrative tribunals; specialized commercial courts are currently being established in a slow and haphazard process, giving the religiously trained judges more influence but also forcing them to apply positive law.

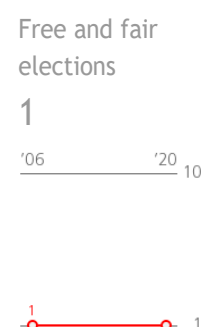
Traditionally, the Saudi state administration has reached out to remote villages with provisions of basic services, thanks to a rapid expansion of infrastructure in the wake of the recent oil boom. This function has been somewhat disrupted by the war in Yemen, as the border areas (villages and towns)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

The “infrastructural power” of the state is unevenly developed, as it has difficulties in enforcing certain economic rules, applying regulations consistently and gathering information about its constituents. For example, residency registrations and the introduction of residential addresses have only begun in recent years and are proceeding only haltingly. As a rentier state, Saudi Arabia has no comprehensive tax system and the government’s information about economic activities can be deficient. The VAT system, with a 5% levy on majority goods and services, was introduced for the first time in January 2018 to make up the losses from lower oil prices. 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

As an absolute monarchy, no national elections have ever been held. All 150 members of the Majlis al-Shura (consultative assembly) are appointed by the king. Municipal elections were conducted in 2005, 2011 and 2015, and led to the formation of 285 rather powerless municipal councils. Currently, two-thirds of all council members are elected. In 2005 and 2011, only half of council members were elected. The councils are controlled by 13 regional governors appointed by the royal family. Voter turnout in the municipal elections has been very low. Since the 2015 election, women have been allowed to participate, both actively and passively.

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. Additionally, Saudi citizens are little aware of Western democratic system of governance and there is hardly any public demand for democracy.



Saudi national politics is royal family politics per excellence. The king is the head of the state and the government and is not accountable to anyone else. The incumbent Crown Prince MbS also wields considerable power as the deputy prime minister, defense minister, the chairman of the Council for Economic and Development Affairs, and the chairman of the Council of Political and Security Affairs. There are no elected political officials at the national level. Senior government officials, including ministers, are appointed by the king. 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. The elected members on the municipal councils look after local issues and enjoy no substantive powers.

The Saudi government suppresses civil efforts to form groups and associations. Formal associations require royal fiat in order to obtain a license. Most civil society groups are registered as “charities” under the ministry of social affairs, which closely supervises them. An NGO law, approved by the cabinet in 2015, allows Saudi citizens to operate NGOs under a state legislative framework, though the law’s potential contribution to the development of a vibrant civil society remains unclear. A February 2014 anti-terrorism law imposed broad restrictions on freedom of speech.

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 – including several professional associations and one human rights group – have been licensed in recent years, but these are state-controlled.

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. Salman al-Ouda’s arbitrary arrest and detention in late 2017 is another example. 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.

In brief, the Saudi monarchy heavily depends on extensive surveillance, the suppression of dissent and the buying of popular support to maintain power. In September 2017, Crown Prince MbS authorized a series of arrests, which suppressed dissent and fortified his personal authority in the kingdom. Popular preachers and reform advocates were the primary targets. In November 2017, a host of prominent figures – including powerful princes, former ministers and business elites – were detained under an anti-corruption campaign. Many of the detainees were forced to negotiate their freedom by paying billions of dollars to the state.

Effective power to govern

1

Year	Score
'06	1
'20	1

1

Association / assembly rights

2

Year	Score
'06	2
'20	1

2

1

Under the tight Saudi system, public debates about substantial political issues are rare. While Saudi citizens enjoyed some space to discuss cultural and social issues under the previous king, Abdullah, the murder of prominent journalist Jamal Khashoggi in October 2018 showed the current regime's ruthless response to any public criticism. Once a supporter of the Saudi regime, Khashoggi became a critic of MbS and went into self-imposed exile in the United States in 2017. His monthly column in the Washington Post, highly critical of the Saudi regime, drew MbS's ire.

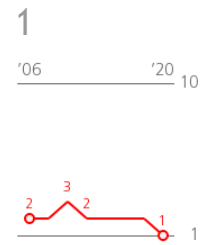
Khashoggi's murder inside the Saudi consulate in Istanbul (supposedly under MbS's order) drew international condemnation, creating the impression that Saudi Arabia is a kingdom of intolerance in which journalists enjoy little freedom. The Saudi press and Saudi-funded Arab media outlets downplayed the killing of Khashoggi. MbS also maintains social media groups that spread disinformation within Saudi Arabia.

Saudi Arabia's 1992 Basic Law contains no guarantees of press freedoms. A royal decree in 2011 amended the 2003 media law, imposing strict conditions on journalists (e.g., restricting the ability of journalists to report on national security issues, promote foreign interests or slander religious leaders) and severe penalties for journalists who break these conditions (e.g., lifetime professional bans and a fines of up to SAR 500,000). Newspapers are regulated through the Ministry of Culture and Information under the 2003 Press Law. In practice, the Ministry of Interior has considerable control over the Ministry of Culture and Information. Editors-in-chief must be approved by the state. The press has few statutory guarantees (e.g., Article 39 of the 1992 Basic Law) against state encroachment. Though a minimal level of pluralism is guaranteed by the fact that different newspapers are controlled by different factions of the royal family.

The influence of social media on Saudi society may increase, as state control over the distribution of information is declining. Social media users are very active in Saudi Arabia. By January 2018, 30.25 million people out of Saudi Arabia's total population of 33.25 million (91%) use the internet and social media. Saudi Arabia had 2.4 million active Twitter users in 2014, which increased to 4.99 million by 2016, making it the fastest growing market in the world for Twitter.

The Saudi rulers are struggling to manage social media, however. In late 2010, the government moved to increase its control over independent blogs and websites, demanding that publishers of online content obtain official licenses.

Freedom of expression



3 | Rule of Law

Limited separation and a high concentration of powers in the executive branch of government characterize the Saudi system of rule of law. The king appoints higher court judges, including to the Supreme Court (established in 2007), and controls the Majlis al-Shura. However, laws are expected to apply equally to all citizens, though senior princes can avoid the judiciary's reach more or less at will. The official Wahhabi clergy – although appointed by the king – has been given some limited autonomy to run the judicial system through the Supreme Judicial Council and the new Supreme Court, a situation that has elicited some displeasure on the part of non-royal Saudi elites.

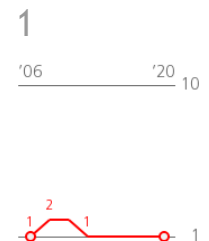
The clergy exerts some control over social and political questions referred to them by the king through the Council of Senior 'Ulama. This relative autonomy seems to have been eroded by recent judicial reforms, however. In August 2014, for example, the government opened specialized courts, allowing judges to use their understandings and interpretations of religious texts (the Qur'an and the Hadiths) to rule on complex cases ranging from commercial disputes to murder cases.

Further changes in the judicial system were initiated by King Salman to facilitate the ambitious Saudi Vision 2030 program. Launched in April 2016, Saudi Vision 2030 aims to transform Saudi Arabia from a petro-state to a major industrial power, with corresponding social and cultural changes to follow. In line with the program's goals, the Ministry of Justice, based on the National Transformation Program (NTP) 2020, has undertaken a number of initiatives to improve the judicial system. Key NTP performance indicators include the proportion of cases disposed, the number of judges, public trust in the administration of justice and Saudi Arabia's World Bank institutional ranking.

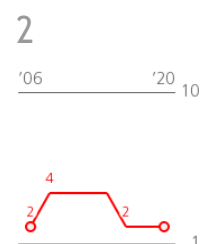
Large parts of the functional bureaucracy, particularly technical posts, are staffed by non-royal personnel. Senior princes control various government departments and agencies. Intervention by the royal family in day-to-day matters is limited, as long as no immediate political or economic interests are at stake.

The Saudi judicial system is based on the Islamic legal system (Shariah) which repudiates secular laws. The Saudi system follows the Hanbali school of Sunni Islamic jurisprudence – the most conservative school of Islamic law. 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. The government doggedly resists external pressure to reform judicial functions and procedures. Despite international calls to ensure transparency in the trial process of journalist Khashoggi's murder by a Saudi hit squad, the government – apparently

Separation of powers



Independent judiciary



with support of the Trump administration in the United States – has ignored or bypassed external pressure.

In the course of a judicial reform and a functional differentiation of courts initiated in 2007, however, the system has gradually been subjected to the expanding influence of positive law, a process overseen by the Council of Ministers under the king's control. Still, judges are free to hand down verdicts on domestic issues and cases they deal with.

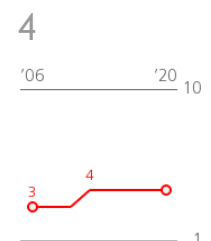
Judicial professionalism is often limited, especially when it comes to comparatively technical areas such as commercial law, although gradual improvements are to be expected in the course of current training initiatives. Given their huge responsibilities, judges are seen as underpaid, at least relative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

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

Intrastate accountability and investigation mechanisms exist in principle, but are not used often. However, they have been called into play somewhat more frequently since the mid-2000s, as several major scandals related to suspect land deals have been investigated. A new National Anti-Corruption Commission, established in May 2011, is focused primarily on mid-level bureaucratic abuses and issues of administrative efficiency, regularly complains about non-cooperation from other agencies, and has yet to hold any senior figure directly accountable for abuse of position. By December 2018, the Saudi Anti-Corruption Commission had received over 14,000 corruption notifications.

Princes are very rarely removed from office – it usually requires a major offense to be made public for this to happen. An absolute exception so far was the arrest on 4 November 2017 of 10 princes and even MbS's own mother, Princess Fahda bint Falah, plus dozens of other high-level decision-makers, including ministers, CEOs and media moguls, in Riyadh's Ritz Carlton Hotel (according to U.S. officials, as many as 500 people were arrested that day). A five-member Supreme Committee for Public Corruption Issues with MbS as the chair was established on the same day, and more than 2,000 bank accounts totaling an estimated \$800 billion were frozen. After a series of arrests over the following weeks, most suspects were released in January 2018 upon transferring a total of \$107 billion to the state. A total 56 people remained in custody, two died while trying to escape the hotel, and a general was allegedly tortured to death.

Prosecution of
office abuse



Critics have claimed that these series of arrests marked less an attempt to tackle corruption, and were aimed rather at neutralizing MbS's potential opponents. The Supreme Committee was dissolved after it delivered its final report on January 30, 2019, which stated that a total of 381 people had been summoned, only some as witnesses.

While public naming of corrupt officials remains fairly rare, 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, which King Salman simply renamed Public Prosecution in June 2018, had filed a total of 485 embezzlement-related corruption cases. Though it is not made clear over what time period these cases were filed and what share of the cases pertained to government as opposed to private sector corruption.

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

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, the government reportedly illegally tortures prisoners, and uses 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 beheading, are 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.

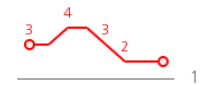
Discrimination, both *de facto* and *de jure*, still is rampant in the kingdom, despite recent improvements in women's rights. Saudi Arabia's ultraconservative Wahhabi version of Sunni Islam requires strict segregation of the sexes, including in government offices, workplaces and public spaces. In line with the key social goal of Saudi Vision 2030, MbS lifted the ban on women driving cars in June 2018. At the same time, however, prominent women's rights activists – most notably Loujain al-Hathloul, Eman al-Nafjan and Aziza al-Yousef – were arrested and imprisoned in May 2018. Government officials cited suspicious contacts with and financial support to foreign enemies as reasons for the arrests.

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. The suffocating situation forced a Saudi

Civil rights

2

'06 '20 10



teenage girl, Rahaf al-Qunun, to flee from Kuwait to Bangkok in 2018. The case received widespread publicity, before she was eventually granted asylum in Canada.

Saudi Shi'ites face significant discrimination, which creates a glass ceiling to public or even private sector employment, and are generally treated as second-class citizens by public administration and the judiciary. This has 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 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). Between October 2018 and January 2019, the Saudi police arrested and deported hundreds of Bangladeshi workers, despite the majority of these workers holding legal work permits. The authorities also deported many members of the Rohingya community, a community heavily suppressed and forced to migrate to Bangladesh by the Myanmar government. A hopeful sign for Egyptian Coptic Christians workers in Saudi Arabia was the first Christian mass officially held on Saudi territory. The mass was led by a Coptic bishop from Cairo, who reportedly visited Saudi Arabia at the invitation of MbS, in Riyadh on 1 December 2018.

Deportation procedures include 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 is neither a democratic state nor does it possess any democratic national institutions. Consequently, Saudi domestic politics can be characterized as “royal family politics” par excellence. King Fahd bin Abdulaziz created the Majlis al-Shura under the framework of the 1992 Basic Law. However, the Majlis al-Shura enjoys no legislative powers and its primary function is to make recommendations to the king. In November 2018, members of the Majlis al-Shura approved a proposal to protect informants from corrupt officials in the kingdom. The Majlis al-Shura has at times exposed ministerial inefficiencies, but has never held the government or senior royals directly accountable.

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.

Performance of democratic institutions



None of Saudi Arabia’s powerful princes have any substantial interest in democratization. The government has never accepted the idea of a national parliament and “Gadfly” members of the ruling family (e.g., Prince Talal bin Abd al-Aziz, who has called for national elections in the past and recently emphasized the need for meaningful political reforms) are sidelined in the decision-making process.

Commitment to democratic institutions



The various “majles,” or open-door meetings held by the king, a prince, or an important local or regional official can be opportunities for decision-makers to engage with local citizens and explain government policies. Theoretically, any male citizen or foreign national may express an opinion or a grievance at such a meeting. Ministers and governors can in theory also be directly approached at a majlis, although senior-level majles are in practice tightly controlled affairs.



5 | Political and Social Integration

Political parties are illegal in Saudi Arabia. The only (highly imperfect) substitute for parties are the societal clienteles attached to various centers of power (e.g., tribal groups in the National Guard or the advisers attached to various senior princes). Attempts to set up parties in the past have been suppressed. Most recently, in early 2011, five activists sought official recognition for their “The Islamic Ummah Party” and were subsequently arrested. That said, there is no historical tradition of party politics or party system in the country and societal demand for such an innovation thus far seems limited.

Party system

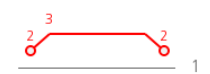


The state tightly controls existing interest groups that deal mainly with social issues. The Muslim Brotherhood was one of the strongest actors in this area, but its activities ceased after it was declared a terrorist organization in March 2014. Many Muslim Brotherhood activists and supporters, who traditionally worked in the Saudi education system, were either fired or told to leave the kingdom.

Interest groups



More modern functional-corporatist interest groups (e.g., professional associations, women’s and youth associations, consumer rights groups) are state-controlled and do not reach out sufficiently to their ostensible target groups. Independent human rights initiatives, such as the Saudi Civil and Political Rights Association, are typically suppressed or dissolved.



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. MbS’s rise to power and the crackdown on some powerful royals has weakened the informal clientelistic networks run by other princes. Political mobilization remains repressed.

The 2014 Arab Opinion Index indicated high rates of support among Saudis for the statement “despite having its problems, a democratic system is better than other systems.” Of Saudi respondents to the survey, 34% said they “strongly agree” and 25% said they “agree” with the statement, the fourth highest level of agreement among the 15 Arab countries surveyed.

However, interest in the existing electoral mechanisms is limited, and petitions calling for constitutional democracy in the wake of the 2011 Arab uprisings found less support than in poorer Arab monarchies. Consequently, pro-democratic activity quickly ebbed away after a 2011 to 2012 security crackdown.

While formal associational life remains strictly state-controlled, informal help networks can be extensive. Usually based on friendship, kinship, tribe or locale, they remain functionally undifferentiated. Extended family remains the most basic social institution, while tribal life is characterized by strong feelings of unity and solidarity. There is little tradition of formal association, and social bonds, even if powerful, are often vertical. Society has been politically demobilized by an omnipresent provider state. Since the Arab uprisings, there has been some grassroots activism on local social and cultural issues, but this is often limited to small groups of educated, urban Saudis.

Approval of democracy

n/a



Social capital

3



II. Economic Transformation

6 | Level of Socioeconomic Development

Saudi Arabia is currently the world’s 16th largest economy, in terms of purchasing power parity. Vital statistics on income inequality (Gini coefficient) and poverty are unavailable, however. Low-income Saudi citizens are provided a variety of social welfare benefits, including pensions, and monthly payments for food and utility bills. The government also spends billions of dollars each year to provide all Saudi citizens with free education and health care services. To improve the socioeconomic conditions of the poor, the government has recently developed a social protection system to eradicate poverty and raise the living standard of poor Saudis.

Question Score

Socioeconomic barriers

6



The government’s effort to increase the share of Saudis in private employment has led to a doubling of private sector jobs for Saudis. Currently, some 1.8 million Saudi men and women work in the private sector. The government aims to increase the number of private sector employees to 3 million by 2020. But many of these jobs only pay a minimum wage of SAR 3,000 per month (\$800) and general labor market participation remains below 40%. The unemployment rate declined a little from 11.4% in 2015 to 11.2% in 2016. The current unemployment rate is 12.3%, but – under the National Transition Program – this is expected to reduce to 9% by 2020.

Saudi Arabia's Human Development Index (HDI) and Gender Development Index (GDI) rankings improved over the last two years, with Saudi Arabia scoring 0.853 in the HDI and 0.877 in the GDI (although for the female GDI, Saudi Arabia scored 0.782) in 2018. 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 kingdom's vast rural and peripheral areas, particularly in the Jizan region (currently a war zone between the Houthis and the Saudi-led coalition), still tend to be excluded from development, as are some Shi'ite groups in the Eastern 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		2015	2016	2017	2018
GDP	\$ M	654269.9	644935.5	688586.1	782483.5
GDP growth	%	4.1	1.7	-0.7	2.2
Inflation (CPI)	%	1.2	2.1	-0.8	2.5
Unemployment	%	5.6	5.7	5.9	5.9
Foreign direct investment	% of GDP	1.2	1.2	0.2	0.5
Export growth	%	0.7	8.0	-3.1	7.5
Import growth	%	1.5	-20.3	0.4	2.6
Current account balance	\$ M	-56723.8	-23842.8	10464.3	70606.4
Public debt	% of GDP	5.8	13.1	17.2	19.0
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-15.8	-12.9	-9.2	-
Tax revenue	% of GDP	3.3	3.4	3.4	-
Government consumption	% of GDP	30.0	25.8	24.4	23.2
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	4.1	3.9	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	13.3	9.9	10.3	8.8

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

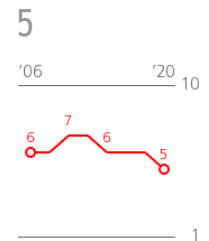
7 | Organization of the Market and Competition

Saudi Arabia is less statist than most of its MENA peers. Nonetheless, setting up and operating a business can be relatively cumbersome. Saudi Arabia has fallen drastically in the World Bank's Doing Business survey from rank 22 in 2013 to rank 92 in 2019. 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. According to the World Bank's Doing Business 2019 report, it is particularly burdensome to establish a business in Saudi Arabia. The country ranked 141 out of 190 countries in the "starting a business" category. On average, it takes 10 procedures and 17 days, and costs 6.6% of income per capita to start a business in Saudi Arabia. In the Heritage Foundation's 2019 Index of Economic Freedom, Saudi Arabia ranked 91, a slight improvement over the country's previous ranking of 98 in 2018. However, this also reflects Saudi Arabia's declining business environment given that Saudi Arabia ranked 64 in 2017, and 77 in 2016 and 2015.

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. According to some observers, the forced closure of Riyadh's Ritz Carlton Hotel from November 4, 2017 to February 11, 2018 during a series of arrests of high-level members of the royal family, business, religious and media circles on charges of corruption is indicative of the government's willingness to interfere in business activities when leadership feels it is necessary.

Saudi Arabia introduced a VAT system in 2018. The religious tax system, called zakat, was already in operation, although the relevant taxes are not thoroughly collected. The informal sector in Saudi Arabia is not significant, and many companies circumvent formal regulations by registering as a type of business that is different from their actual operation, failing to share data with authorities, employing foreigners informally, and by registering under a national's name while being financed and operated by a non-national. Despite government campaigns, the informal sector has not been brought under state control. The bureaucracy's regulatory powers remain limited.

Market
organization



In Saudi Arabia, a General Authority for Competition (GAC) 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. While an upgrade along modern standards is expected for spring 2019, Saudi competition law in its current form does not apply to government corporations or state enterprises. Also, it is not clear whether the law has any power over critical, partially state-controlled sectors (e.g., petrochemicals or aviation). In a rather political move, the GAC fined Qatari BeIN sports network \$2.6 million in August 2018 for allegedly violating the kingdom's competition laws (a development of the Qatar-Saudi diplomatic rift). Sectoral regulators for banks, utilities and telecoms are in place, but only the telecoms regulator has a clear competition policy.

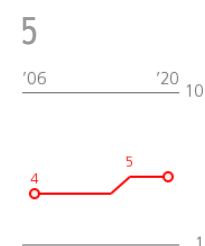
De facto commercial oligopolies remain in place through the commercial agency system, which channels the distribution and retail of international goods through local agents. This system can be circumvented under new WTO-related rules, but in practice remains strong.

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. Though the tariff integration process received a major setback following the embargo on Qatar. Already at a low weighted average of 7.3% in 2004, tariffs were further reduced in subsequent years to 4.3% in 2012, according to World Bank data, and the remaining exceptions are rather minor (e.g., tariffs on dates). Average duty rates stood at 5% by the end of 2018, although some goods are heavily taxed (e.g., cigarettes and energy drinks at a rate of 100%, and carbonated drinks at a rate of 50%). The simple average most-favored nation (MFN) applied tariff was 5.9% in 2017. Further revisions of tax and duties may be required as the kingdom, along with its GCC partners, become part of China's grand "One Belt, One Road" initiative.

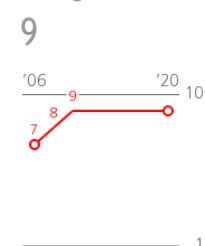
Some support measures aimed at local producers, such as the provision of inexpensive gasoline or natural gas, could be construed as export subsidies. As Saudi gas is not exported, however, there is no clear basis on which to argue for the existence of price discrimination. In December 2015, the government launched an energy subsidy reform plan to reduce government expenditure. In reaction, prices for petrol increased more or less immediately from \$0.16 to \$0.24 per liter, while the price of natural gas increased from \$0.75 to \$1.25 per million British thermal units. Over the last few years, petrol and natural gas prices have increased even further. As of January 2019, the price of petrol was \$0.54 per liter, while the price of natural gas was \$3.98 per million metric British thermal units in December 2018.

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

Competition policy



Liberalization of foreign trade



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 and have not involved retail activities. Among these are BNP Paribas, JPMorgan and Deutsche Bank, while First Abu Dhabi Bank, Goldman Sachs and Citigroup have considerably expanded their financial and investment operations in the kingdom following the formal launch of Saudi Vision 2030 in 2016.

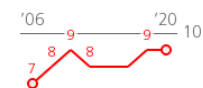
The Saudi Arabian Monetary Agency (SAMA), the central bank, is a qualified and well-respected regulator, which cooperates well with the banks. In the course of the international and regional financial crisis from 2009, several large business-owning families defaulted on their loans, reducing the availability of private sector credit and trust within the banking system. However, this did not endanger the existence of any of the banks, most of which have managed to remain profitable despite repeated non-performing loans write-offs. SAMA has consistently enforced capital requirements far above the Basel II and III levels, as well as a loan-to-deposit ratio at or below 80%. In March 2018, SAMA allowed banks to exercise more power to calculate their loan-to-deposit ratios and decided to keep the loan-to-deposit ratio for commercial banks at 90% to facilitate more loans.

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

Saudi investment markets opened for large, pre-selected foreign investors in mid-2015, leading to substantial capital inflows and pressure for better governance. In August 2016, the CMA made a significant decision to allow foreign investors to buy initial public offerings in the kingdom, effective from 1 January 2017. This was a big step in opening up the Gulf’s largest stock market to the outside world. Further meaningful reforms to deregulate the stock market for qualified foreign investors were implemented in January 2018. The CMA now allows foreign investors to operate in the stock market with assets worth \$500 million, which was previously set at \$1 billion. Meanwhile, the limit on foreign-owned holdings of a Saudi-listed company was increased to 49%.

Banking system

9



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8 | Monetary and fiscal stability

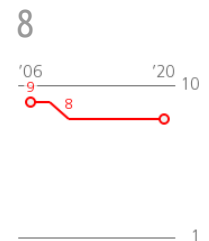
Saudi Arabia has historically been quite successful in containing inflation. After a spike in inflation to above 10% during the 2008 boom year, annual price growth has dropped to around 5% again despite rapid economic expansion up to 2015. The inflation rate dropped to approximately 3.5% in December 2016 and to -0.2% in 2017. In December 2018, the inflation rate stood at 2.2% having never crossed over the 3% threshold over the course of 2018. 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. By mid-2016, there were rumors that the government might change the exchange rate of riyal. However, SAMA announced in May 2016 that the government remained committed to the current exchange rate policy (\$1 = SAR 3.75), with the same policy still being pursued.

The central bank, SAMA, is operationally independent and well respected, although politically dependent on the ministry of finance. SAMA's foreign assets sharply increased to \$737 billion in late 2014 but fell to \$554 billion by August 2016. The plunge in oil prices further decreased the net assets of the central bank, although a recent recovery in oil prices is gradually pushing up the margin of reserves and assets. By December 2018, SAMA's total foreign reserves reached \$497 billion.

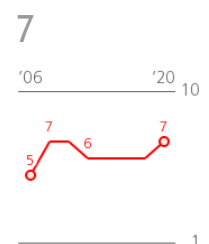
Saudi fiscal discipline has slipped in recent years: While spending increases were moderate and considerable reserves were accumulated during the early phase of the oil boom, spending increases have been more dramatic in the years since 2005. Public expenditure growth has been particularly vigorous since the outbreak of the Arab Spring. During the Arab Spring years, the government spent \$130 billion on social spending, new public projects and stipends, partly as a reaction to the effects of public discontent elsewhere in the region.

Nonetheless, rapid 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. This will require ever-higher oil prices in order for government spending to break even. The collapse in oil prices by the mid-2010s led to substantial budget deficits over recent years. In 2015, the budget deficit stood at a record SAR 366 billion, but shrank to SAR 297 billion in 2016 – primarily due to spending cuts, which slowed economic growth. The 2017 budget is estimated to have a deficit of SAR 198 billion. In October 2016, the government raised \$17.5 billion by selling bonds in the international markets to fund its budget deficits. By the end of October 2018, the budget deficit was reduced sharply by 60% to SAR 49 billion, indicating a return to fiscal stability in the kingdom. This reduction was primarily due to an upturn in oil prices and the introduction of VAT in 2018.

Monetary stability



Fiscal stability



The state remains fiscally dependent on oil. However, the government started levying taxes on the incomes of individuals and domestic companies in January 2018, which means that long-term fiscal problems are likely to ease gradually.

9 | Private Property

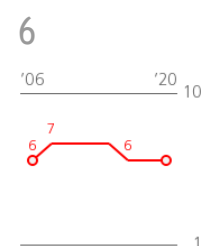
Property rights are generally respected, but asserting them through the court system can be time-consuming and uncertain. In some important areas such as land ownership, regulation of property rights is deficient, as there is no generally accepted public registry, and powerful players can muscle their 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 have advanced only slowly. However, in November 2015, the Ministry of Housing set-up a “Developers Service Center” (ETMAM) for the administration of real estate, including land. This includes an online service for land registry, which has made the registration of land as well as the resolution of potential disputes easier.

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. To get tackle this situation, the Saudi Arabian General Investment Authority secured a new law in early 2018, which allows foreigners to completely own and operate businesses in select economic sectors.

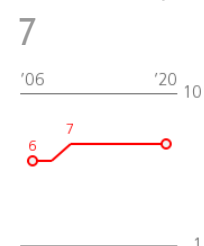
Two strategic sectors in the kingdom – oil and petrochemicals – are wholly state-controlled. Though, for some time, the government was preparing to partially privatize the state-owned oil-giant Aramco in order to reduce the state’s dependence on oil revenues. However, the privatization proposals have finally been abandoned due to Saudi concerns about disclosure of Aramco’s total assets and information about oil reserves under its control. The state has shares in several large and important banks, including a majority share in the important National Commercial Bank. The government has a majority stake in the largest telecommunications operator and controls the (small, but rapidly expanding) national railway, a national bus company, the national airline that dominates domestic air transport, important parts of the mining sector and the majority of the utilities sector.

Most other sectors (e., retail and wholesale, most industries, and services) are largely privately controlled. Privatization in general – including the further sale of government shares in Saudi Arabian Basic Industries (SABIC), water and electricity services, and Saudi Arabian Airlines – is moving ahead slowly. 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. In October 2018, the government

Property rights



Private enterprise



announced privatization plans affecting four sectors: silos and grains, schools, health care, and desalination. Observable progress on the government’s privatization drive is expected to take time. The government has promised to ensure that health care remains free of charge for patients even after privatization.

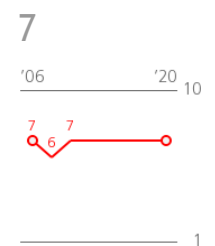
10 | Welfare Regime

Saudi Arabia is often described as a state with “cradle to grave” welfare services for its citizens. It offers many public services for free or at great discount and employs a disproportionate share of nationals in the public sector. Water and electricity are strongly subsidized for those within lower consumption brackets, while public education and health services are free. There is a system of social security payments, but it is patchy and administered on a case-by-case basis by the Ministry of Social Affairs. Consequently, the system has proven unable to alleviate the kingdom’s poverty problems, despite considerable budget increases in recent years. State pension payments are financially secured for many decades to come. 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 recent oil slump forced the government to introduce a series of austerity measures, including a 20% cut in the salaries of ministers and Majlis al-Shura members, and a freeze on public sector pay increases to the end of 2017. However, the 2019 budget has sought to reverse this situation with a 7% increase in state spending. The resumption of allowances and bonuses for public sector employees are expected to push up wages, boost public consumption and increase economic dynamism.

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. This has to some extent been mitigated by welfare services and small financial disbursements from the zakat fund. Millions of migrant workers continue to live in poverty, with average wages below \$300 per month. These individuals are politically disenfranchised and by and large excluded from the state’s welfare systems. Attempts to replace them with Saudis in the private sector (“Saudization”) have met resistance due to the latter group’s higher salary expectations and unwillingness to work as many hours as foreigners do under the “kafala” system.

The Saudization campaign, known as “nitaqat,” has doubled the number of formally employed Saudis in the private sector to about 1.5 million people. However, almost half of Saudis employed in the private sector receive a minimum wage of SAR 3,000

Social safety nets



(\$800) per month. Under Saudi Vision 2030, the private sector has been slated to generate more jobs for Saudi citizens. At the end of 2018, the private sector employed a total of 9.4 million people of whom only 1.9 million were Saudi. The situation has not improved significantly over recent years, despite specific benefits for Saudi employees. For example, as of 2018, an employer must contribute 12% of a Saudi employee's salary to the General Organization for Social Insurance (GOSI) and pay accident insurance equal to 2% of the salaries paid for non-Saudi employees.

Saudi Arabia provides public services on a relatively broad basis, including ensuring access to public services 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 can be a particular disadvantage.

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

However, Saudi women's labor market participation has greatly increased in the wake of the government's labor market "Saudization" campaign. In international comparison, however, female workforce participation remains very low, at about 18%. (In 2016, approximately 80% of Saudi Arabia's labor force are not Saudi nationals). World Bank data for 2018 reported that the labor market participation rate of women in Saudi Arabia was a meager 16.1%.

11 | Economic Performance

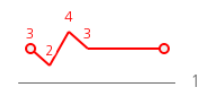
The Saudi economy had been growing at a relatively strong rate until the 2016 drop in global oil prices. Following the drop in oil prices, Saudi Arabia's economic growth rate dropped from 3.5% in 2015 to 1.2% in 2016 to -0.9% in 2017. Similarly, GDP per capita growth turned negative in 2016 (-0.6%) and 2017 (-2.7%). In parallel, inflation – which had hovered between 2.2% and 3.5% from 2012 – plummeted to -0.2% in 2017. The official unemployment rate has remained stable at around 5.5%.

The government has countered the recent economic pressures with strong increases in state spending. While state debt had been heavily reduced to 1.6% of GDP in 2014, it increased to 13.1% of GDP in 2016 and 17.2% of GDP in 2017. The trade balance

Equal opportunity

3

'06 '20 10



1

Output strength

7

'06 '20 10



1

has traditionally been strong, largely due to oil revenues. However, the current account balance also fell into the negative in 2015 (-\$56.7 billion) and 2016 (-\$23.8 billion). Foreign direct investments reached an all-time low of 0.2% of GDP in 2017, having reached 8.5% of GDP in 2009. Gross capital formation also followed a downward trend, dropping from 35.1% of GDP in 2015 to 30.9% of GDP in 2016 to 28.2% of GDP in 2017.

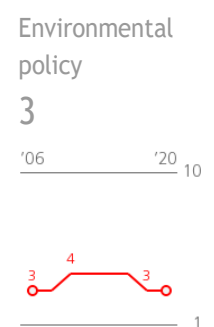
The situation of the Saudi economy will remain precarious over the long term due to fluctuations in oil prices. Overseas reserves could be depleted if oil prices are not stabilized, as the country still lacks a viable tax system to generate non-oil income. Nevertheless, the VAT introduction in 2018 was a first step toward reducing government dependence on oil revenue and a tax on real estate holdings has been discussed, although 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

In recent years, environmental concerns have received significant governmental attention and media coverage. The government adopted a series of measures in 2012 to fight environmental degradation and promote sustainable development. In the face of local gas shortages and rapidly increasing domestic oil consumption, renewable energy has become a particular focus of national debate. State oil giant Saudi Aramco, as well as the new King Abdullah City for Atomic and Renewable Energy (KACARE), created in spring 2010, are the leading players in this field. Environmental assessments for new projects are 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. Unfortunately, the kingdom has been rated the worst-performing country on a number of climate change indicators over successive years. The 2019 Climate Change Performance Indicators report ranked Saudi Arabia bottom out of 60 countries.

Sewage problems plague all major Saudi cities 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



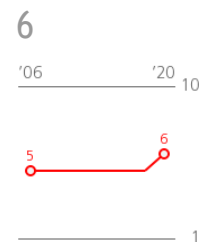
ground has to date been thin, with domestic oil and gas consumption growing at an annual rate of up to 10%. Public awareness of environmental safety did not increase accordingly.

Education expenditure rose sharply during the course of the oil boom in the early 2010s, accounting for a quarter of the national budget and reaching close to 10% of GDP. The quality of public education has not necessarily increased at the same rate, however. Arabic and Islamic studies, rather than scientific disciplines, still hold dominant 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 benchmark study, the TIMSS (Trends in International Mathematics and Science Study), have not improved much from 2011, with Saudi Arabia ranked among the worst-performing countries in the world. Elementary and secondary school students' scores in mathematics and science in Saudi Arabia were among the lowest in the world, with Saudi Arabia's secondary school performance the lowest in the world. However, the literacy rate currently stands at 94.4%, in line with Saudi Vision 2030. In 2018, the government allocated \$51 billion to education with the aim of achieving a 100% literacy rate by 2024.

The number of private schools has grown, and more than a dozen private universities have recently been licensed. Access for the poor remains a problem, however. As in most other Arab countries, R&D spending in Saudi Arabia remains very low with 0.82% of GDP in 2013 (the latest available figure). 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 King Fahd 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. In February 2019, the Majlis al-Shura called on the Ministry of Education to improve the quality of education by developing a unified and integrated plan. It remains to be seen what initiatives (if any) the ministry will propose.

Education policy /
R&D



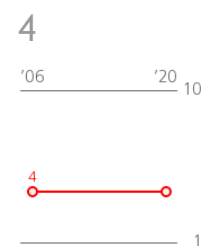
Governance

I. Level of Difficulty

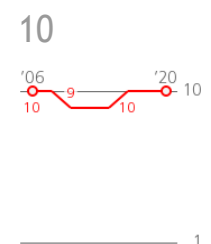
The availability of vast resources has enabled Saudi Arabia to largely overcome structural constraints on governance. However, this advantage has been compromised by the kingdom's participation in the war in Yemen, declared in March 2015, which has created problems of governance in the region of Najran on the Yemeni border. Saudi Arabia remains thinly populated relative to its size, however. This increases infrastructure costs and makes it difficult to develop peripheral regions or to avoid an over-centralization of population and economic activity in its three main city clusters. Moreover, the Saudi state suffers from capacity deficiencies due to its comparatively recent emergence, the rentier mentality of many of its bureaucrats, its limited penetration of society from a regulatory perspective, and its own penetration by clientelistic networks in significant parts. This can make consistent implementation of policies difficult.

As an absolute monarchy, Saudi Arabia does not allow Western-style civil society associations to operate. However, regional civil society traditions did exist in the kingdom before the onset of large-scale oil income in the 1950s. Since that time, the state has taken over many welfare functions and has generally prevented independent organizations. Although there are numerous welfare societies with considerable resources, these exist in the shadow of the state. 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 have failed to draw on firm organizational structures or gain widespread popular support.

Structural
constraints



Civil society
traditions



Conflicts in Saudi Arabia are primarily defined by two sources: the Sunni challenge to the royal family (e.g., al-Qaeda, and the Islamic State (IS) group) and the socioeconomic grievances of the Shi'ites. Additionally, regional and tribal identities 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, with police forces regularly opening fire and killing or wounding demonstrators. This trend continues to today. Nonetheless, despite widespread frustration among Shi'ites, large-scale militant mobilization has not yet happened. The monarchical system of rule is otherwise supported or accepted by most Sunni Saudi citizens. Consequently, al-Qaeda has not succeeded in creating a major support base in Saudi Arabia.

Conflict intensity

4

'06 '20 10

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II. Governance Performance

14 | Steering Capability

Late King Abdullah was known for his reformist approach to Saudi politics and society. The opening of debate on sociocultural issues reflected 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 advisers. Commitment to reforms over the long term was inconsistent and policy initiatives sometimes had a knee-jerk quality.

King Salman's broader policy priorities are hard to gauge, as he remains preoccupied with Saudi involvements in regional affairs. Though the modernization program Saudi Vision 2030 epitomizes the series of domestic economic, social and cultural, though not political, reforms the kingdom is undergoing under the leadership of MbS.

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

Question

Score

Prioritization

4

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reflection of genuine ideological conviction. The primary consideration remains regime survival.

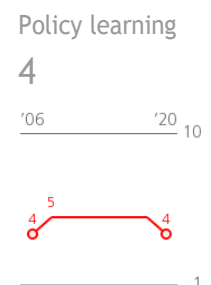
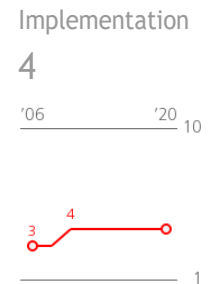
Traditionally, extensive social benefit programs, supported by oil revenues, have reduced the pressure for political reforms in Saudi Arabia. Even the 2011 Arab Spring uprisings did not ignite widespread anti-government protests in Saudi Arabia. As a result, political reform in Saudi Arabia has been lacking. Though MbS's recent initiatives seem to have relaxed some previously strict rules, others have been tightened.

On the economic reform front, considerable modernization has taken place within the context of WTO accession in 2005. Since that time, there have been individual economic reform initiatives, including individual infrastructure and investment projects, "Saudization" of private employment, the gradual opening of the capital market, the creation of a commercial court system, and lately Saudi Vision 2030. In general, change has been easier to effect on the formal-legal level than on the level of bureaucratic implementation. Public administration has not changed substantially over recent decades and continues to face issues of bureaucratic inertia and 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 Salman's reign represents a break from the reign of King Abdullah. MbS is more conservative in outlook and action and is of advanced age and potentially closer to Saudi Arabia's conservative interests than King Abdullah was. Yet, MbS, as the real power agent, has set the kingdom on a new course, driven primarily by economic interests. MbS's policy to grant women the right to drive and allow women to attend sporting events indicates a new era of cultural flexibility in the kingdom. This policy agenda aims to simultaneously address domestic discontent and international criticism. MbS is accused of cementing his power base through gaining popularity and cracking down on his opponents. The killing of Jamal Khashoggi appears to have created a substantial hurdle for him to further solidify his power base.

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. A willingness to learn from previous policies or external advice is visibly lacking.



15 | Resource Efficiency

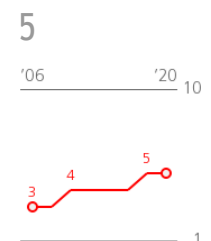
Resource efficiency in Saudi Arabia has by and large improved since the 1970s oil boom. On the whole, the fiscal balance has improved over the last decade, despite volatile oil prices. Though national budget targets have regularly been exceeded by more than 10%. There is a sense among many technocrats and businessmen that project costs have been inflated in recent years due to a widespread perception that the state had unlimited resources, which allowed private contractors to rent seek. When it comes to specific allocations, budgets lack transparency and closing accounts are not published. Meanwhile, the Majlis al-Shura lacks budgetary powers.

Inefficiencies are deeply embedded in the state apparatus. Many agencies remain overstaffed, despite a recent decline in oil prices, as the dismissal of surplus personnel is practically impossible. The state sector employs at least twice as many Saudis as the private sector. One government agency that has drawn particular attention recently is the General Authority for Zakat and Tax (GAZT). The GAZT successfully introduced a VAT in January 2018 and has presented a revised proposal to reduce the VAT registration cap to SAR 375,000, effective from 1 January 2019, to expand the tax base.

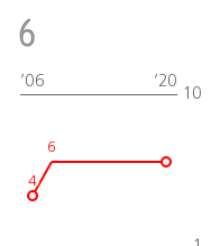
In the Saudi state sector, recruitment is based on reasonably competitive examinations, but – due to wage stagnation and low upward mobility – the public sector has in general ceased to be a competitive employer for the most talented Saudis. Good governance principles have not pervaded the bureaucracy; 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. King Salman, soon after his ascension to the throne, abolished a number of ministerial committees and appointed several new ministers, but has so far not launched a long-term public sector reform agenda. MbS did introduce pay cuts for government employees, although pay benefits will again increase following the 2019 budget.

Policy coordination at the top of the system improved under the late King Abdullah, but there have been no remarkable advances in this area over the last two years under King Salman. Redundancies and overlapping responsibilities in the policy implementation process still exist at the ministerial level and below. Interministerial coordination tends to be vertical rather than horizontal and for most senior agencies (including the royal court, the Ministry of Defense and the Ministry of the Interior) personalized power continues to be a problem. Policy areas such as education and health care remain fragmented, as large institutions (e.g., the Ministry of Defense and the Ministry of the Interior) have their own educational and health care

Efficient use of assets



Policy coordination



establishments. Furthermore, the Ministry of the Interior continues to be involved in numerous issues of economic regulation, which 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.

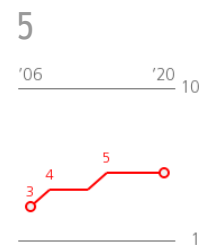
King Salman created two new supreme councils in January 2015, one for political and security affairs, and one for economic and development matters, with both councils chaired by MbS. It is not yet clear whether these bodies will be more effective than previous supreme councils, which lacked administrative capacity for monitoring and evaluation.

Corruption in Saudi Arabia has always been worst at the most senior levels of government, but many 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. An erratic development has been MbS's crackdown on corrupt businessmen and other influential groups in the kingdom on November 4, 2017 at the Ritz Carlton Hotel in Riyadh. After the creation of a high-level Supreme Committee on Public Corruption Affairs, consisting of MbS (as committee chairman), Abdulrahman bin Ibrahim al-Hussain (Chairman of the Control and Investigation Board), Khalid bin Abdulmohsen al-Mehaisen (Chairman of the National Anti-Corruption Commission), Hussam bin Abdulmohsen al-Angari (Chief of the General Audit Bureau), and Saud bin Abdullah al-Mua'jab (Attorney General and Head of the State Security), 11 members of the royal family, among them MbS's own mother, and dozens of influential business people were held captive for several weeks, until they agreed to pay a total of \$107 billion to the state. On January 30, 2019, the committee was dissolved, as it had finished its work.

The crackdown may have been politically motivated, but it has led to changes in the anti-corruption law. To protect public money and state interests, the kingdom amended an anti-corruption law in September 2018 to remove the 60-day statute of limitations on investigating allegations of graft and abuse of power against serving and former ministers. This reform is expected to check future corrupt practices in the kingdom.

That said, certain government institutions have traditionally been seen as largely corruption-free, including the state oil company Saudi Aramco, the central bank (SAMA), and the Royal Commission for the Industrial Cities of Jubail and Yanbu. 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 (e.g., an administrative supervisory agency and a disciplinary board for bureaucrats) have gained some visibility over the last few years, but these bodies do not report systematically on their activities and cannot touch the key fiefdoms (e.g., the Ministry of Defense or Ministry of the Interior).

Anti-corruption policy



The new National Anti-Corruption Commission, established in May 2011, has mostly concentrated on issues of public service quality and low-level corruption, and has repeatedly complained about ministerial non-cooperation. The trials of several senior municipal administrators, involved in real estate corruption that exacerbated the consequences of the Jeddah flood in 2009, were successful. In addition, several judges involved in corrupt land deals have been prosecuted. In November 2013, four judges were dismissed for corruption.

16 | Consensus-Building

The public in general accepts the Islamic nature of the state. The Al Saud rulers are generally supported by the people, though there are disagreements about the extent of their involvement in day-to-day politics. Opposition to the royal family comes from three different parties: the al-Qaeda jihadists, the Shi'ites in the Eastern Province and the moderate Sunni Saudis (e.g., the Islamic Ummah Party). Conversely, there is no consensus on democratization, a concept that remains alien to important parts of Saudi society and is generally poorly understood, although the current regional ferment seems to be changing this at least among younger Saudis. Nor is there general agreement within the elite with respect to steps toward political liberalization. Democracy, as a result, always takes a back seat.

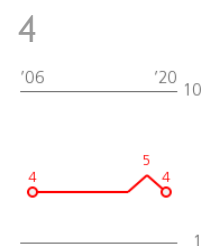
Consensus on the importance of the market economy and on the need for gradual economic reform is broader among senior princes, technocrats and merchant families. Such a consensus well conforms to the Islamic political and economic system, as private ownership and individual entrepreneurship are well recognized in Islamic religious system. The recently launched modernization program Saudi Vision 2030 testifies to this.

On the top levels of government, there are no reformers advocating for democratization. When it comes to other types of reform, senior princes have been able to cast vetoes against specific policies in the past. King Salman remains committed to this tradition and pattern of practices, while his son, MbS, is open to economic but not political reforms. It looks likely that any demand for democratic reforms would be resisted.

The 'Ulama, rich merchant families and government agencies (on specific policies) also have some veto power, but their opposition can be overruled by powerful princes. Though 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 are the hardline Wahhabis. Currently, the Wahhabis are kept under check by the crown prince, but they can muster considerable popular support. Generally, even forward-looking reforms lack a democratic framework and are not the product of democratic forces.

Consensus on goals



Anti-democratic actors



King Salman is a more conservative leader than King Abdullah and has broken with King Abdullah's reformist agenda. King Salman has stronger links to the traditional central Arabian forces of conservatism and pursues hardline policies (e.g., the execution of Sheikh Nimr al-Nimr, despite questions about the process of his trial). This approach has escalated tensions in the Eastern Province and across Saudi Arabia's border with Iran. This reflects the Al Saud monarchy's historical and ideological ties to the Wahhabi brand of Islam, which is exclusivist, patriarchal and extremely conservative, and has been identified with the supremacy of elites from the central province of Najd. Senior royal advisers and leaders of the religious establishment predominantly originate from this area, and the inclusion of other groups does not automatically imply equality.

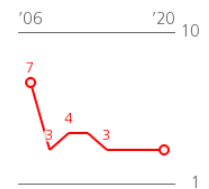
Anti-Shi'ite prejudice among Saudi Arabia's governing elites and the Sunni population at large has worsened with the escalation of tensions with Iran over the conflicts in Syria, Iraq and Yemen in which Saudi Arabia supports Sunni factions fighting Iranian-back Shi'a factions. But large-scale clashes between sectional interests remain unlikely. The kingdom's anti-Qatar policy has fueled domestic tensions, with some sections of the Sunni religious elites refusing to support MbS's campaign against Qatar, a Sunni Arab country.

There is little "formal" civil society with which the regime can engage in the course of policy deliberation, with the notable exception of the private sector, which is relatively well organized through chambers of commerce and industry. Other formal interest groups created in the course of the mid-2000s wave of reforms (e.g., various professional organizations, a pensioners' association, a human rights and a consumer rights society) are still largely excluded from policy deliberation within the bureaucracy. Social interests can however be informally represented through religious, tribal and community leaders who engage with princes, or more indirectly, through the information-gathering services provided by the princes' various hangers-on. The capacity of these channels to represent the interests of an increasingly complex society is limited, however. The disjointed policy-making process means that social interests can be integrated into policy deliberations by one institutional actor, but later ignored by another institutional actor.

King Salman's approach to civil society participation is as yet unclear. Senior princes (e.g., Prince Al-Waleed bin Talal) who have advocated for reforms and greater civil society participation have been sidelined. The kingdom has a tradition of running into difficulties with foreign countries that support civil society activism in the kingdom. For example, the government cut off diplomatic relations with Canada in August 2018 over Ottawa's criticism of the arrest of Saudi human rights activists. Civil society reform has been a top-down process that has followed a similar process to MbS's directives that allow women to attend sporting events or go to cinemas.

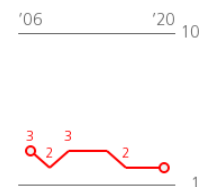
Cleavage /
conflict
management

3



Civil society
participation

2



Excluding the atrocities committed in the war in Yemen, Saudi Arabia has not seen major acts of mass violence or genocide within living memory, although violence has been used against Shi'ite uprisings in the Eastern Province and militant Sunni groups in the past.

Due to the hegemony of Wahhabi ideology emerging from the central province of Najd, the main perceived injustice is that the country has been a very exclusive system socially and culturally controlled by elites from Najd. The late King Abdullah took significant symbolic steps toward bringing previously excluded groups (e.g., women, Shi'ites, non-Hanbali Sunnis (especially Sufis) and tribes based in poor regions) 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. In the wake of the war in Yemen, King Salman's government has courted previously marginalized non-Sunnis, particularly the Ismaili Shi'ites in the Najran region bordering Yemen, in attempt to ensure their loyalty to the kingdom and dissuade them from cooperating with Yemen's Houthi rebels.

There has been no national commission to investigate perceived or real social and cultural injustices. Advances made by Saudi Shi'ites in this context have been reversed since 2011, however. King Salman has not so far pursued a policy of social dialog between the Wahhabi Sunnis, and other social and religious groups (e.g., the reform-oriented Sunni political-religious group, the Sahwa movement).

17 | International Cooperation

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

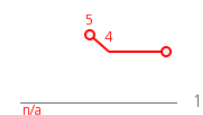
That said, as the kingdom pays for its consultants, international actors have limited leverage over the implementation of policies, and it is in this phase that special interests in the bureaucracy can often stall or alter the course of reform. The kingdom is currently executing its 10th five-year development plan (2015 – 2019) and has designed the framework for Saudi Vision 2030 to facilitate an integrated development planning and goals.

On political issues, the rather prickly Saudi elite almost uniformly rejects international involvement. This does not mean that pressure behind the scenes never works – it did to some extent when the United States pressured the kingdom on

Reconciliation

4

'06 '20 10



Effective use of support

5

'06 '20 10



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.

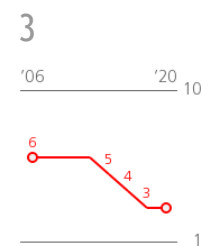
Saudi Arabia had always pursued a very conservative approach to foreign policy prior to the current muscular foreign policy approach under King Salman. Until the last two years, the kingdom was considered a reliable partner by the West. The war in Yemen, the murder of Khashoggi (followed shortly after by the boycott of an investors' conference in Saudi Arabia), disputes with Canada (2018) and Sweden (2015), the GCC boycott of Qatar (since 2017), and the escalation of tensions with Iran have damaged Saudi Arabia's image as a credible international partner. It may take the kingdom a long time to recover its global standing.

The kingdom has also run into difficulties with other countries regarding matters of economic change. Saudi Arabia is very conscious of its sovereignty and has been criticized for not implementing international obligations fully (e.g., WTO obligations), and is very reluctant to subject itself to non-Saudi judicial mechanisms. There is little cooperation with political international NGOs, although cooperation with development-focused bodies (e.g., the World Bank, UNDP or the IMF) has been closer. While 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 to basic economic rules do not occur – although in the mid-term, fiscal strains could lead to the renegotiation of large international projects and delayed payments.

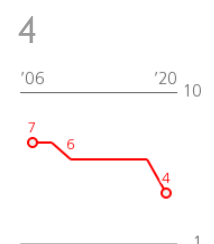
The country has historically played a major role in defending the Sunni Islamic community in various regional and international conflict zones. It has been heavily involved in the Syrian conflict and, since 2015, the war in Yemen. In Bahrain, it has forcefully sided with anti-Shi'ite and anti-Iranian interests risking its international credibility. The export of weapons to Saudi Arabia, for instance, has become an issue of heated debate in several Western countries, including the United States.

Saudi Arabia has been an active player in regional political and economic cooperation. The country took a leadership role in creating the League of Arab States (LAS) and the Gulf Cooperation Council (GCC) to work toward political and economic cooperation between Arab states. At the regional level, it has also consistently supported a nuclear-weapon-free zone in the Middle East. In the wake of the Arab uprisings and regional civil wars, however, Saudi Arabia has become a more aggressive player, and has more openly sided against regimes and movements perceived as hostile. For example, Saudi Arabia has opposed Sunni Islamists (e.g., the Muslim Brotherhood), and Shi'ite-led governments and movements. This has led to very tense relations with the pro-Muslim Brotherhood regime in Qatar. Qatar-Saudi relations reached boiling point in June 2017 when Saudi Arabia – supported by

Credibility



Regional cooperation



Bahrain, Egypt and the United Arab Emirates – cut off diplomatic relations with Qatar, and imposed an all-out land, air and sea blockade on Qatar.

King Salman has been pursuing a confrontational policy toward Iran. Relations with Iran remain tense even under the more moderate President Hassan Rouhani. In recent years, the Saudi government has tried to court Israel in its efforts to confront Iran, and roll back Iranian influence in Iraq, Syria and Yemen. The kingdom actively competes against Iran in the Gulf region, Iraq and the Levant for regional dominance and influence.

Relations with Iraq improved somewhat under the moderate Prime Minister Haider al-Abadi, but remain characterized by mistrust. 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 domestic groups which may be tempted to challenge Saudi rule. In a similar vein, the Saudi royal family has militarily intervened in Yemen to prevent the Shi'ite Houthis from dominating Yemeni politics. Since the exit of Ali Abdullah Saleh from the Yemeni presidency in 2012, Saudi Arabia has had no functioning partnership with any major force in its unstable southern neighbor. The kingdom has had a lopsided economic relationship with Yemen for years and historically tried to influence it through strategic aid and the control of migrant workers. Relations with Lebanon reached boiling point after the Lebanese prime minister, Saad al-Hariri, was allegedly detained by Saudi authorities in November 2017, apparently for al-Hariri's failure to act on a Saudi demand to marginalize Hezbollah.

Strategic Outlook

Saudi Arabia continues to be an Islamic state with little prospect of further democratization. Possibilities for substantive political reform in the country are very limited now that King Salman has taken over. The most serious advocates of political participation are Islamists, who in the medium term could emerge as the main proponents of a transition toward meaningful participation, especially groups affiliated with the Muslim Brotherhood. Though the Muslim Brotherhood was branded a terrorist organization by the Saudi government in March 2014. Any remaining hope of democratic reform in the short term was neutralized by an extensive financial and social benefits package. In the short term, the wave of modest political advocacy seen in 2011 has receded 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 have to be established. This will require the creation of a public space for the independent organization of social interests grounded in regional, professional, religious and other identities. If the reins are loosened, civil society groups might at first be dominated by Islamists who, although under pressure from the regime, constitute the best-organized ideological group in Saudi society. This would not per se prevent pluralism, as the Islamist spectrum is fairly wide in Saudi Arabia and encompasses a broad range of points of view. What is needed is a national infrastructure to aggregate interests, which is not based on exclusive and unequal kinship, sect or patron-client relations.

Though democracy is largely absent in Saudi Arabia, electoral politics could be rehearsed through the actions of civil society groups and their gradual inclusion in policy-making could make for a more public style of politics. To overcome societal cleavages, Saudi Arabia needs to adapt to the public interplay of different opinions and interests. At present, a young and increasingly educated generation of social media users has an ever-growing presence on online platforms (e.g., Facebook and Twitter), which connect Saudi society to regional and global developments. Increasing access to social media may influence debates over political reform in the future. However, increased social media influence could also lead to further polarization and radicalization, as extremist communities extend their online networks. MbS has initiated an opening to economic and sociocultural reforms, but seemingly has established several red lines (e.g., initiating real moves toward democratic reforms).

Foreign states, international governmental organizations (IGOs) and INGOs can assist the development of civil society in Saudi Arabia, 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. There is significant interest among Saudi intellectuals, who are often highly

educated and internationally oriented, in engaging with international peers and civil society institutions. Though ossified, Saudi society is relatively pluralist, and has many access points for discussion, research and exchange. Foundations run by liberal princes could be used to increase international communication.

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 should play on the strong Saudi interest in international benchmarking and “best practices” to support further economic reform. The scope for international cooperation has increased further as the kingdom has embarked on a modernization drive through Saudi Vision 2030. It is here that international players can provide useful policy inputs regarding labor market, immigration and civil service reforms, with a view to preparing Saudi Arabia for private sector-led development and civil society participation.