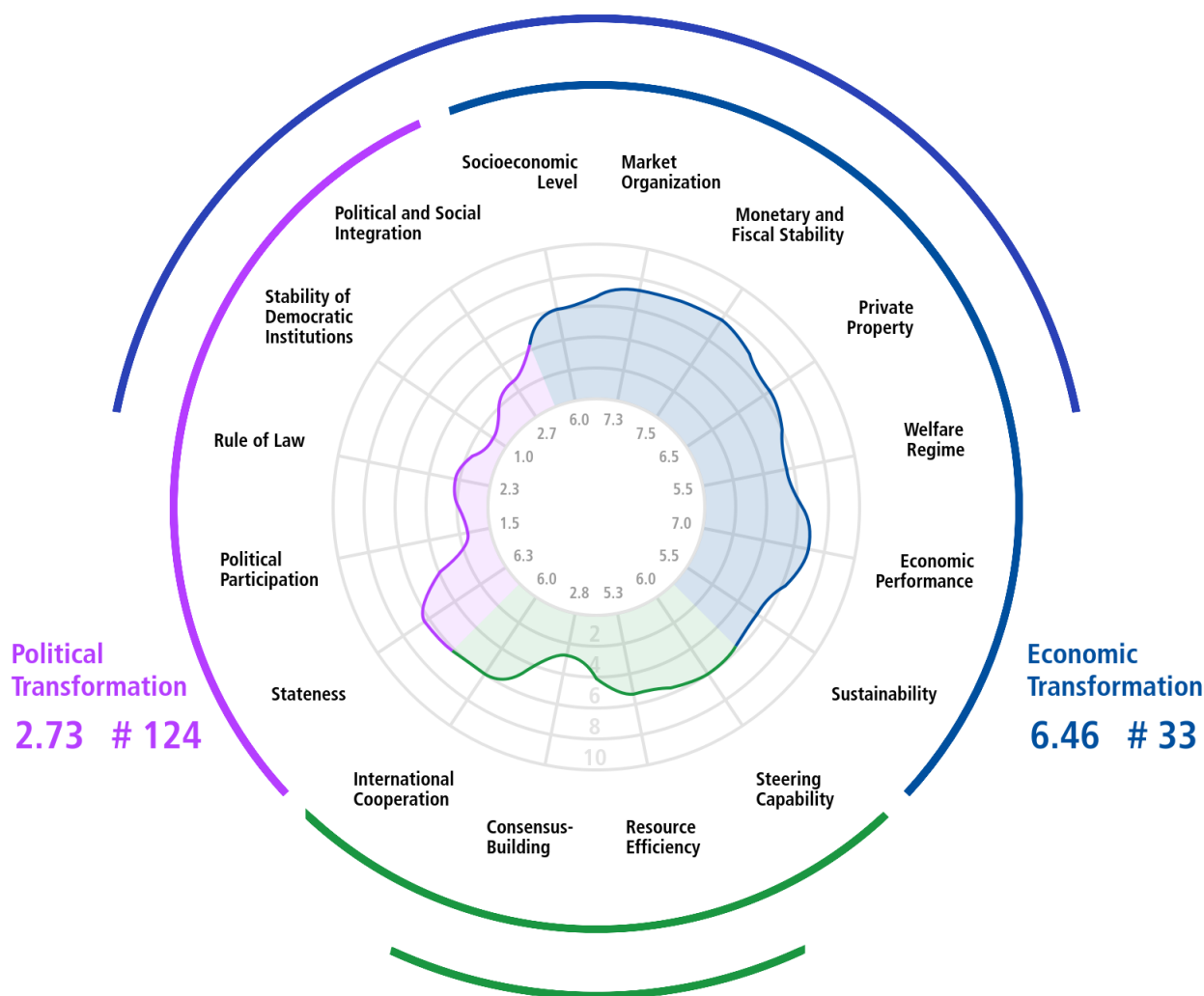


Saudi Arabia

Status Index

4.60 # 84

on 1-10 scale out of 137



Political Transformation
2.73 # 124

Economic Transformation
6.46 # 33

Governance Index

4.36 # 84

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. 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	36.4	HDI	0.875	GDP p.c., PPP \$	59065
Pop. growth ¹	% p.a.	1.3	HDI rank of 189	35	Gini Index	-
Life expectancy	years	76.9	UN Education Index	0.825	Poverty ³	% -
Urban population	%	84.7	Gender inequality ²	0.247	Aid per capita	\$ -

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Saudi Arabia has embarked on a twofold transformation path: socially opening up like never before, while political power has been concentrated more than ever in the hands of one person – Muhammad bin Salman (MbS). The 37-year-old crown prince was nominated prime minister by his father, King Salman bin Abd al-Aziz, in 2022. Today, MbS is Saudi Arabia’s uncontested de facto ruler. He has broken with the consensus policy of the royal court, evicting and even arresting powerful rivals such as former Crown Prince Muhammad bin Nayif. Most importantly, MbS has sidelined the formerly extremely influential Wahhabi establishment. He has gone so far as to declare the ultra-conservative interpretation of Islam as out of date and frequently based on a faulty interpretation. He attempts to downplay the Wahhabi role in the foundation of the Saudi kingdom and promotes a Saudi identity based on populist nationalism rather than Islam. Some observers even describe the kingdom as a “post-Wahhabi state.”

With the Vision 2030 strategy, MbS embarked on an ambitious economic and societal modernization program. One billion dollars, a third of the planned amount, has allegedly already been spent on gigantic infrastructure initiatives such as the “visionary” NEOM infrastructure project along the northern Red Sea coast, with the smart city “The Line” at its core.

Like previous government initiatives, Vision 2030 also aims at achieving Saudization, that is, ensuring that a higher percentage of Saudis make up the country’s workforce. More than one-third of the country’s population, which stands at 35 million, consists of migrants who are intended to return to their countries of origin. The vacancies left by these migrants are intended to be filled by young Saudis. It is worth noting that two-thirds of the Saudi population are under 35 years old, and among them, 63% are unemployed, despite 58% holding a university degree.

Vision 2030 intends to make the country more independent from its oil wealth, which currently makes up 80% of the GDP. After years of low budget surpluses and even deficits, the windfall oil revenues in 2022 and record growth rate of around 8% – following the price hike after the Russian invasion of Ukraine – allow the country to finance Vision 2030 without major problems. The kingdom has started a new drive to attract foreign investments and, for the first time, tourism. One of the major touristic projects is to transform the second-biggest Nabatean town after Petra, “Madain Saleh,” in the al-Ula oasis, into a global attraction. By the end of the decade, the kingdom plans to welcome 100 million tourists.

Almost more important than economic reform is Saudi Arabia’s societal and cultural liberalization. Women have been allowed to drive since 2018, and since 2019, they can also appear in public without headscarves, attend rave parties and go to the cinema alongside men. In 2022, significant portions of the male guardianship system were abolished (although its foundations remain intact). Women are no longer required to obtain permission from a male guardian to study, work or travel.

Societal liberalization is not accompanied by any form of political liberalization. On the contrary, any form of political dissent is crushed. The government continues to crack down on women’s rights activists, Shi’ites, and generally on everybody who voices the slightest dissent and is not willing to be co-opted.

Saudi Arabia attempts to present itself as a dependable foreign policy ally, despite the ongoing failure of its military intervention in Yemen. The crown prince, who had enjoyed a close rapport with the Trump administration, incurred the displeasure of U.S. President Joe Biden when he declined to raise oil production amidst the energy crisis that followed the Russian invasion of Ukraine.

The kingdom continues to express its desire to normalize relations with Israel to counter Iranian influence but insists – as a precondition – on the establishment of a Palestinian state.

History and Characteristics of Transformation

The Kingdom of Saudi Arabia, created by conquest and formally declared by King Abd al-Aziz of the Central Arabian Al Saud clan in 1932, is the dominant state on the Arabian Peninsula. It is an absolute monarchy and was ruled by the sons of Abd al-Aziz, who died in 1953. The Wahhabi brand of Islam and its teachings provided the underlying ideology for the kingdom’s political, social and cultural foundations. The development of the Saudi state was very gradual. The first Council of Ministers was created in 1953, when oil income began to transform the country profoundly in economic terms. In subsequent decades, the country’s national administration expanded rapidly, state services improved and the standard of living grew substantially. The state also began playing an increasingly strong, direct role in people’s lives.

The country's large-scale oil-fueled rentier economy led to the creation of a new business class of merchants and contractors belonging to families that became close to the royals. The kingdom experienced some political and labor unrest in the oil industry during the 1950s and 1960s – the heydays of Arab nationalism. However, the Al Saud rulers, supported by the Wahhabi clergy and by promoting a form of pan-Islamism, managed to increase their hold over society and politics and to avert several military coup attempts. The Al Sauds' survival was partly due to lessons learned from the first (1727 – 1818) and second Saudi state (1824 – 1891). They avoided disastrous family feuds and established a form of consensus governance among them by installing senior members of the dynasty in key government ministries, institutions and security services.

Subsequent challenges to the Al Saud regime – without seriously threatening their survival – were a terror campaign by al-Qaeda in the Arabian Peninsula (AQAP) from 2003 to 2006 and Shi'ite unrest in the Eastern Province, such as between 2017 and 2020.

King Abdallah (2005 – 2015) initiated a number of relatively modest economic and political reforms, such as reintroducing local elections, which had somewhat mixed results. The current monarch, King Salman (born in 1935 and reportedly suffering from severe Alzheimer's), has a reputation for being more conservative. However, in a significant move, he passed the throne to the new generation – the grandsons of the state founder Ibn Saud. Over the course of just a few years, Crown Prince Muhammad bin Salman, born in 1985 and known as MbS, established himself as the de facto ruler. In 2016, MbS launched the ambitious socioeconomic reform program "Vision 2030." The crown prince has increasingly distanced himself from Wahhabism as the state ideology and significantly weakened the power of the Wahhabi establishment. In contrast, political reforms are not being considered.

The kingdom achieved its highest real GDP per capita in the early 1980s. Since then, the economy has expanded, despite fluctuating global oil prices. The post-2003 economic expansion allowed for increased public employment and an improvement in public services, but the country's rapidly growing resident population, which now exceeds 35 million (more than 30% of which are expatriate workers and their families), the gradual post-2014 decline in oil prices, the kingdom's war against Yemen, launched in March 2015, as well as the COVID-19 pandemic have at times placed pressure on the Saudi economy, resulting in a budget deficit. The high oil prices following the Russian invasion of Ukraine have, in 2022, resulted in windfall gains and record economic growth. Budget surpluses are expected for the coming years.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Since the establishment of Saudi Arabia's current borders in 1926, the rule of the Al Saud dynasty has been seriously challenged only once – during the Ikhwan revolt from 1927 to 1930. A serious external challenge resulted from Iraq's 1990 invasion of Kuwait, which triggered fears that the kingdom would likewise be invaded. Domestically, the most serious symbolic threat to Saudi Arabia was the seizure by apocalyptic Islamist extremists of the grand mosque in Mecca in 1979.

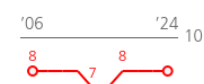
Shi'ite unrest in the eastern provinces was last suppressed in 2020, as was a violent campaign of terror by al-Qaeda in the Arabian Peninsula (AQAP) from 2003 to 2005, but which never seriously threatened the Saudi state's monopoly on the use of force. Saudi Arabia has been a major (rhetorical) target of the so-called Islamic State (IS), which has threatened to overthrow the Saudi government in order to establish its power at the birthplaces of Islam, Mecca and Medina. A considerable number of Saudi citizens have joined the IS group and the Saudi government has invited them to return and atone for their acts of terrorism.

Frequent drone attacks from Yemeni Houthi rebels on Saudi military bases, oil installations and infrastructure continued in 2022. The targets of these attacks, which included the Eastern Province, Riyadh and an oil depot near Jeddah, were located across the entire country. An allegedly Iran-backed militia launched a drone attack on a royal palace in Riyadh in January 2021, reportedly from Iraq. Although these attacks do not threaten the Saudi state itself, they demonstrate the vulnerabilities of Saudi military defenses and have also revived the old plan to rebuild the state's southern border protection facilities, including a 900 km fence between Saudi Arabia and Yemen.

Question
Score

Monopoly on the
use of force

8



1

Saudi citizens are 100% Muslims, with Sunni Muslims being the dominant group, comprising approximately 85% to 90% of the population. The Shi'ite minority, which makes up 10% to 15% of the population, is predominantly composed of Twelver Shi'ites in the east and Ismaili Shi'ites in the south. This minority group experiences religious, cultural and socioeconomic discrimination, which frequently leads to political tensions. The late King Abdullah attempted to foster religious tolerance and prioritize the development of underdeveloped regions, but these efforts did not yield significant improvements for the Shi'ite community.

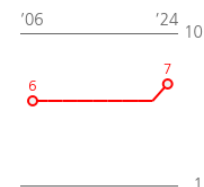
However, in line with Vision 2030's ambitious remaking of the nation, religious and ethnic internal markers have been sidelined by a growing new populist nationalism, seeking to reformulate the notion of citizenship and move it away from the religious sphere. In January 2022, King Salman decreed the introduction of a new holiday celebrated as "Founding Day" on February 22, commemorating the beginning of the reign of Muhammad bin Saud in 1727. This rewrite of the nation's history seeks to rid itself of the 1744 Wahhabi-Saudi alliance. In addition to pro-Shi'a government rhetoric, this move has motivated the closure of TV stations that promoted Salafi clerics engaging in fervent anti-Shi'a rhetoric. It has also led to extending citizenship to prominent Shi'a scholars like the Lebanese Muhammad al-Husseini in November 2021.

Yet, there is an implicit ethnic hierarchy in Saudi Arabia, with the powerful tribes from the central province of Najd at the top, followed by Hijazis and Eastern Province Sunnis, while other groups like the Assir and the Shi'ites from the east are located much lower. Najd is both the birthplace of the Saudi dynasty and of Wahhabism.

Out of the total population of 36 million, the percentage of foreign residents fluctuates between 36% and nearly 39%. This share fell during COVID-19 and as a consequence of the Saudization scheme but has since increased due to the strong demand for foreign labor resulting from the ambitious Vision 2030 program, which includes the development of megacities and other large-scale infrastructure projects. Despite the increase, it remains extremely difficult for foreign workers to obtain Saudi citizenship and enjoy equal rights. However, Saudi Arabia has granted citizenship to "talented" expatriates, such as doctors, clerics and academics, through a formal naturalization program introduced in November 2022 – making it the second Arab Gulf state to do so. In January 2023, King Salman approved an amendment to the nationality law, opening the possibility for children of Saudi mothers and non-Saudi fathers to apply for citizenship, following civil society and Shura Council initiatives to revise the law. It's important to note that Saudi Arabia does not recognize dual citizenship.

State identity

7



Formally, Saudi Arabia remains an Islamic state, with the Qur'an serving as its constitution. Legislation continues to be derived from the hanbali/wahhabi form of Shariah. However, in practice, MbS's reform program has gradually marginalized Wahhabism. Recent advancements, such as granting women the right to drive and work and the increased acceptance of mixed-gender interactions in newly opened cinemas or large-scale concerts, can be viewed as a significant sociocultural "revolution."

The Council of Senior Religious Scholars ('ulama) still advises the government on all religious matters. Its members wielded considerable influence for a long time on public morals, personal status law, education and culture. However, MbS not only considerably curtailed their power but also deprived the despised religious police of all their prerogatives in 2016. Most importantly, he declared that the Qur'an and the Hadith were open to interpretation (ijtihad). As a result, he openly challenges the Wahhabi monopoly of interpretation.

Officially, legislation must be based on Shariah, but in practice, an increasing number of important aspects of legislation and administration apply secular principles – including the regulation of Saudi banks. The regime has repeatedly disregarded untimely fatwas, while in certain instances, the clergy promptly stepped in to support the Al Saud rule, as was the case during the Arab Spring protests. When it comes to economic issues, administrative tribunals frequently bypass Shariah courts. In June 2020, the Saudi judicial system implemented Commercial Court Laws to address conflicts between merchants concerning contracts or profit-sharing agreements.

MbS's reforms are supported by millions of young Saudis who aspire to free themselves from repressive Wahhabi doctrine. Saudis joke today that the General Entertainment Authority is more powerful than the Council of Senior Religious Scholars. The construction of Christian churches, Hindu temples and Buddhist pagodas is still prohibited, but non-Muslims can privately perform religious rituals and practices at home.

The country is highly urbanized – 85% of Saudis live in cities and towns. Gradually, the reach of the state administration has extended to the remotest villages in the largest country in the Middle East, where it has provided basic services. All Saudis have access to electricity and at least basic sanitation and water supply (100%); 59.1% have access to safely managed sanitation.

Basic health care and education are provided free of charge to all Saudis. In recent years, the government has implemented various initiatives to decrease the Wahhabi influence in primary and secondary education curricula. The state also makes substantial investments in higher education.

The Saudi bureaucracy is oversized. Historically, Saudis preferred employment in the prestigious government sector, where salaries have been a means of redistributing oil rents without considering efficiency. While the administration is generally overstaffed, shortages persist in important parts of the Saudi administration. For

No interference of religious dogmas

3

'06 _____ '24 10



1

Basic administration

7

'06 _____ '24 10



1

example, in the judicial system, the Saudi courts have been quick to resolve commercial and non-commercial cases since early 2020, but concerns arise regarding the quality of justice. A high number of Saudis still resort to traditional means of conflict resolution, such as arbitration within their tribes or in the majlis (councils) of local governors, who are mainly princes of the royal family. Today, well-educated young Saudis are seeking job opportunities in the newly created tourism, entertainment and creative sectors.

State power is unevenly developed – it has difficulties enforcing certain economic rules and applying regulations consistently. Until recently, the Saudi government did not have a comprehensive tax system. However, in January 2018, they introduced a value-added tax (VAT) system with a 5% levy on the majority of goods and services. On July 1, 2020, the VAT was increased to 15%.

In the militarized and disputed border area with Yemen, government services are reduced and villages are abandoned, evacuated and even razed.

2 | Political Participation

There are no national democratic elections in Saudi Arabia. The only legislative body that advises the king, or the crown prince, is the Majlis al-Shura (Consultative Council). It can only propose legislation and is composed of 150 members appointed by the king.

Municipal elections were first held in spring 2005, followed by a second round in September 2011, and a third – which marked the inclusion of female candidates for the first time – in December 2015. The elected members make up only half of the members of the comparatively powerless municipal councils. The governors of the 13 administrative regions are appointed by the royal family and oversee the 285 councils.

The Saudi government used the COVID-19 pandemic to indefinitely postpone renewed local elections.

Other elections that exist in Saudi Arabia include the chamber of commerce and industry elections, university elections where students elect presidents of student clubs, elections for professional bodies such as the “Saudi Council of Engineers,” cooperative societies elections, sports club elections, labor committee elections and elections for cultural institutions.

Saudis so far have not voiced a broad-based demand for democracy and, for the most part, have no awareness of the functioning of democratic systems of governance. The prospect of national elections is more than remote.

Free and fair elections

1

'06 '24 10

1 1

King Salman bin Abd al-Aziz Al Saud is the head of the state and theoretically holding nearly absolute powers, the 87-year-old king has delegated his prerogatives to his son, Muhammad bin Salman, who is crown prince and prime minister and is not accountable to anyone except his father. Saudi Arabia has always been an authoritarian monarchy, and it is becoming even more so since MbS broke with the traditional consensus politics of the House of Saud, where the opinions of senior princes were taken into account. He concentrated almost all decision-making power in his own hands, forcibly putting other senior members of the royal family on the sidelines.

All high government officials are appointed by the king. The only elected individuals with some influence in society are the heads of chambers of commerce, although they typically represent economically influential families, often leading to conflicts of interest with the citizenry at large. The elected members of the municipal councils solely focus on local matters and lack substantial powers.

The Wahhabi religious scholars, who, until the accession of MbS as de facto ruler, had some veto power, have been sidelined. Additionally, the senior royals of the House of Saud belonging to other branches of the family have also been relegated to the margins, leaving only the immediate family of MbS as potential wielders of veto power. One such example is his brother Khalid bin Salman – a highly trained fighter pilot, army officer, former ambassador to the United States and current minister of defense.

Saudi Arabia’s authoritarian rule does not allow for political parties. Political advocacy is circumscribed and mostly takes place behind closed doors.

Civil society groups are registered with the Ministry of Human Resources and Social Development under the 2015 “Law on Associations and Foundations.” This law represents a significant step toward the development of Saudi civil society. Upon its introduction in 2015, the country had approximately 650 non-governmental organizations (NGOs). As of January 2020, the ministry supervised 1,220 NGOs. The new legislation has considerably expanded the permissible scope of activity, but it does not permit political or human rights activism. Theoretically, the new legislation continues to grant the ministry extensive powers over associations; however, the limited number of ministry employees impedes strict control in practice.

The government’s Vision 2030 strategy is characterized as a citizen transformation program that aims to rally one million Saudi volunteers by 2030. In recent years, numerous government initiatives have actively sought to mobilize young Saudis to establish NGOs and participate in volunteer work.

Some political interest groups – professional associations and one human rights group – have been licensed in recent years, but these are under tight state supervision.

There is more freedom of speech in informal gatherings (majles – in this case best translated as “salons”) – but these are inherently limited in scale and to social elites.

Effective power to govern

1

1

Association / assembly rights

2

2

Saudi Arabia faces a paradoxical situation: on one hand, individual and social freedom in Saudi society has grown exponentially in recent years, and numerous sociopolitical taboos have been lifted. Artistic life, both online and in the creative industry, has flourished over the past decade. On the other hand, freedom of expression and criticism of the ruling family are more circumscribed than they were before.

The quasi-constitutional Basic Law of 1992 does not guarantee freedom of expression but requests in Article 39 that all media “shall play their part in educating the masses and boosting national unity.” All that may give rise to mischief and discord, may compromise the security of the state and its public image or may offend against man’s dignity and rights shall be banned. This opens the door to any random censorship and legal proceedings against media reports once deemed inappropriate from the regime’s perspective.

All media outlets are controlled by the regime, which sets its guidelines through the Saudi Press Agency (SPA). Saudi Arabia has consistently ranked low in the World Press Freedom Index of Reporters without Borders, with a ranking of 144 out of 180 listed countries in 2007. By 2022, this position had further deteriorated to 166 due to the authoritarian politics of MbS. According to the report, Saudi journalists live under heavy surveillance, even when abroad. The number of imprisoned journalists and bloggers has tripled since 2017. This situation leads to permanent self-censorship, including on private social media pages.

Cyber trolls who disseminate misinformation are active on social networks and harass journalists. The kingdom also uses high-tech espionage tools to surveil journalists in exile.

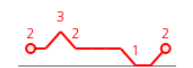
The penal code, anti-terrorism, and cyber-crime laws allow for the imprisonment or suspension of journalists who voice criticism on grounds of “blasphemy,” “inciting chaos,” “jeopardizing national unity,” or “harming the image and reputation of the king and the state.” Among today’s taboo topics are Vision 2030, the war in Yemen and the rapprochement with Israel. Former taboos, such as equal rights for women and criticism of the religious establishment, are now common themes in public news. Criticism of the ruling elite, especially the crown prince himself, is an absolute red line. In 2018, the Saudi Washington Post journalist Jamal Khashoggi crossed that line and was murdered. Those who prefer to remain neutral and do not follow the official line of praise for MbS become de facto suspects.

Saudi Arabia also controls a significant number of influential pan-Arab media outlets, both within and outside the country. For instance, the influential newspaper Asharq al-Awsat (“The Middle East”) and the MBC group (Middle East Broadcasting), which owns the news network al-Arabiya. These media platforms serve as powerful tools for enhancing the kingdom’s image and diverting criticism.

Freedom of expression

2

'06 _____ '24 10



Raif Badawi, a blogger sentenced in 2014 for his blog “Free Saudi liberals,” was released in March 2022 but is banned from leaving the country for another expected 10-year period. In 2022, Saudi Arabia, along with other Gulf Arab countries, demanded that Netflix remove content that “violates Islamic and societal values and principles.”

3 | Rule of Law

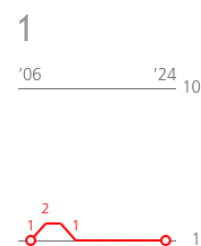
Saudi Arabia lacks a clear separation of powers, as outlined in the Basic Law. Article 44 of the Basic Law outlines the division of powers into executive, judiciary and legislature. However, the king and the Council of Ministers, appointed by the king, hold all executive authority. Similarly, legislative authority is wielded by the king and the Consultative Council, with council members also being appointed by the king. While the judiciary does hold judicial authority, it is the king who appoints judges for the higher courts, including the Supreme Court established in 2007.

Laws are expected to apply equally to all citizens, although senior princes were known to evade the judiciary’s reach as they pleased. Senior princes held sway over various government departments and agencies. However, the current crown prince is endeavoring to curtail their influence and eradicate potential rivals. He even intervenes in daily matters when his political or economic interests are threatened, which marks a departure from long-standing tradition.

Members of the official Wahhabi clergy – although appointed by the king – have enjoyed some limited autonomy to run the judicial system through the Supreme Judicial Council and the new Supreme Court. The Wahhabi scholars also exerted some control over social and political questions referred to them by the king through the Council of Senior ‘Ulama. Yet the crown prince has reduced and is continuing to reduce Wahhabi influence considerably.

Changes in the judicial system, in line with the goals of the ambitious “Vision 2030,” have been groundbreaking. This includes measures such as expediting case disposition times and increasing the number of judges. These changes aim to enhance citizens’ trust in the administration of justice. Additionally, other reforms cater to the needs of a more diversified economy and promote foreign investment. Examples of such reforms include the publication of case law and the availability of rules and regulations online. In 2021, Saudi Arabia enacted a wave of judicial reforms, including the promulgation of a personal status law, which has set the kingdom on a path toward codified law.

Separation of powers



The Saudi judicial system is based on the Shariah Islamic legal system, which repudiates “man-made” laws. It follows the Hanbali school of Sunni Islamic jurisprudence, which is the most conservative of the four schools of Islamic legal thinking. The Shariah courts are structured at several levels: the Courts of the First Instance, Courts of Cassation and the Supreme Judicial Council.

In 2007, a judicial reform and functional differentiation of courts were initiated, which expanded the influence of positive law. This process was overseen by the Council of Ministers under the king’s control. Judges have the freedom to hand down verdicts on issues and cases they handle, but only in relation to common people. Additionally, regulations necessary for a modern economy, such as those pertaining to intellectual property and corporate law, were added to the legislation derived from the Shariah through royal decrees.

Saudi Arabia has announced new judicial reforms, putting the kingdom on a path to codified law – a significant step in the deeply conservative country whose legal system is based on Islamic law. In the context of the Vision 2030 strategy, a new wave of legal reforms was initiated in 2021 concerning the personal status law, the civil transactions law, the penal code for discretionary sanctions, and the law of evidence. These reforms will most likely continue as the country seeks to open up not only to foreign investment but also to tourism on a large scale.

Higher judges are directly appointed by the king.

MbS’s so-called crackdown on corruption and the detentions of senior princes in 2017 – 2019 occurred outside the purview of the judiciary and illustrated how the rules can operate beyond the legal framework. Many significant conflicts are resolved in the majlises (councils) of senior princes or by the crown prince himself. Judges, given their immense responsibilities, are perceived as underpaid, especially compared to the salaries offered to senior personnel in the private sector.

Judicial corruption does occur, especially with regard to land registration and land disputes. The government has removed a number of judges in recent years for this issue.

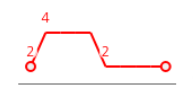
Corruption and sympathy with extremist religious groups – a new development, or at least one that previously went unreported.

In political questions or decisions involving royal family interests, the judiciary traditionally yields to royal pressure. An example of this is the secretive trial of the planners and murderers of journalist Jamal Khashoggi. The trial’s exclusion of MbS, who was widely suspected of ordering the murder, highlights the limitations of justice when it concerns the House of Saud. Politicized mass trials, such as those of Shi’ites, often resulting in frequent death penalties, further demonstrate how justice is manipulated for the political interests of the rulers.

Independent
judiciary

2

'06 _____ '24 10



Intrastate accountability and investigation mechanisms exist in principle but are not often used. However, they have been called into play somewhat more frequently since the mid-2000s as several major scandals related to suspect land deals have been investigated. The national Control and Anti-Corruption Authority (Nazaha), established in 2011, focuses primarily on mid-level bureaucratic abuses and issues of administrative efficiency.

It frequently complains about a lack of cooperation from other agencies and has yet to hold any senior figure directly responsible for abuse of power. Allegations of corruption are not always taken seriously by the Ministry of Justice. Princes are seldom removed from their positions – it typically requires a significant, publicly noticeable transgression for this to occur. MbS's anti-corruption crackdown, which purportedly had political motivations, can be cited as an example. Ordinary citizens are dismissed (and sometimes prosecuted) more frequently, but corrupt officials with strong connections to the royal family can remain in office for decades without facing any consequences. The areas of defense and security procurement are widely perceived as lacking accountability and transparency.

Reporting on abuses by local judges, notaries and municipal administrators has been extensive. Yet, reviews of government staffers and arrests in the kingdom are a relatively recent development. In 2021, Nazaha arrested 207 employees from about a dozen government ministries, and in January 2023, another 142 government officials were arrested on corruption charges, including bribery, forgery and money laundering.

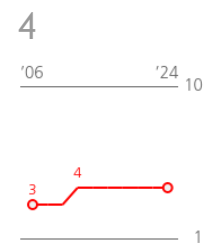
After the 2017 Ritz Carlton arrests, the state treasury recovered \$107 billion and Saudi banks froze more than 2,000 domestic accounts. It is noteworthy that the arrests of about 500 suspects and the confiscation of assets occurred without any clear legal grounds and proceedings, and the main reason for the arrests rather seemed to be the elimination of political rivals of the crown prince rather than actual anti-corruption interests.

It is also noteworthy that Saudi rulers have regularly been accused of trying to corrupt foreign leaders. According to the New York Times, a Saudi sovereign wealth fund led by MbS invested \$2 billion in Jared Kushner's private equity firm six months after his father-in-law, Donald Trump, had left the presidency – reportedly as a reward for favorable treatment.

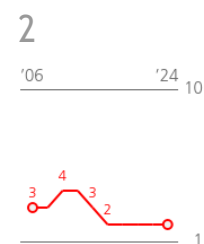
The absolute monarchy restricts almost all civil rights, and it continues to conduct arbitrary arrests, trials and convictions of peaceful activists.

How ruthlessly MbS acts was demonstrated not only by the murder of Jamal Khashoggi but also by the imprisonment of Muhammad bin Nayef, once crown prince and minister of interior, thus making him one of the most powerful royals. In some cases, even the children of potential opponents who are outside Saudi Arabia are arrested or prevented from leaving the country to join their parents.

Prosecution of office abuse



Civil rights



The law does not grant citizens the rights of assembly, freedom of opinion, freedom of organization or freedom of religion. A few rights are enshrined in the 1992 Basic Law, including privacy of residence and mail correspondence, as well as the concept of “nulla poena sine lege” (no penalty without a law). However, it does not include a grant of basic political rights.

There are reports indicating that the government is utilizing spyware to gain access to citizens’ digital communication. The state-sponsored National Society for Human Rights has undertaken various individual cases of rights violations, primarily focusing on administrative rights rather than political rights.

Despite recent reforms, religious minorities and women still face considerable discrimination. The strict Wahhabi segregation of sexes has been abolished, and the male guardianship system has been loosened. Since 2018, adult women can, for example, travel without the permission of a male guardian but still need his consent for marriage. Women’s rights activists are subject to travel bans and arbitrary arrests. In late December 2020, the activist Loujain al-Hathloul was sentenced to nearly six years in prison. She was charged with agitating for change, threatening public order and pursuing a foreign agenda.

Gender-based violence, albeit poorly documented, is believed to be an extremely grave problem. About one-fifth of Saudi women are believed to have undergone circumcision or female genital mutilation, a practice conducted reportedly often in combination with forced child marriage.

After a record 180 executions in 2019, according to Amnesty International, the Saudi Human Rights Commission reported a “drastic reduction” to 27 state killings in 2020. However, at least 147 people were executed in 2022.

Saudi Shi’ites face significant discrimination, resulting in a glass ceiling in both public and private employment. Shi’ites are generally treated as second-class citizens by the administration and judiciary.

Hundreds of terrorism suspects are currently in detention. In August 2022, three men from the Sunni Huwaiti tribe were sentenced to death on terrorism charges. However, it appears that they were arrested for resisting forced evictions related to the construction of a 170-km linear mega-city known as “The Line.”

In contrast to Saudi nationals, guest workers, particularly those under the kafala (sponsorship) system, can hardly trust that their basic rights are respected. The large expatriate labor force does not enjoy the same rights as Saudi citizens. “Undocumented foreigners” are often deported by the Saudi authorities, with occasional media reports of domestic female workers being raped, tortured or killed.

In 2021, changes to the kafala visa-sponsorship system ended the requirement that foreign workers need to obtain their employer’s permission to leave the country or to take another job – a practice that had enabled, in some cases, forced labor. However, the changes are difficult to access for the nearly 3.6 million domestic workers, personal security guards or chauffeurs.

4 | Stability of Democratic Institutions

Under MbS, Saudi Arabia has become even more authoritarian. The regime can be described as a modernizing dictatorship – even the traditional consensus politics within the royal family have been brought to an end. MbS shows no willingness to introduce more popular participation, let alone speak about forms of democratization. The state thus lacks any democratic institutions. Some clientelistic mechanisms of informal accountability persist – for example, in the form of the majlis (councils) of princes – insofar as princes are eager to respond to public sentiment and be seen as benevolent patriarchs.

On a practical level, the various groups in society have different degrees of access to these mechanisms. The municipal councils – the only elected public bodies – have done little to date and have found only limited resonance in society.

It is uncertain whether future elections will be held for the councils. The Majlis al-Shura has occasionally revealed ministerial inefficiencies, but it has never held the government or senior royals accountable as a whole.

The Saudi rulers firmly oppose democratic institutions. In the absence of an elected parliament or formal political parties, informal groups like tribes, families and professional hierarchies maintain the links between the government and the citizens. Theoretically, any male citizen or foreign national is able to express an opinion or grievance at a majlis – an open-door meeting attended by the king, a prince or any other important local or regional official.

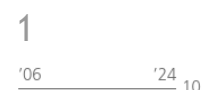
Ministers and governors can, in theory, also be directly approached at any majlis, although senior-level majlises are, in practice, tightly controlled affairs. None of the powerful princes have any substantial interest in democratization. “Gadfly” members of the ruling family, like Prince Talal bin Abd al-Aziz, who has called for national elections in the past and recently emphasized the need for meaningful political reforms, are sidelined in the decision-making process. Princess Basmah bint Saud bin Abd al-Aziz, the youngest child of the kingdom’s founder, who called for the transformation of Saudi Arabia into a constitutional monarchy, was abducted from Jeddah in 2019. She was arbitrarily held in a high-security prison in Riyadh until her release in 2022 under unclear circumstances.

The government has allowed NGOs to operate, but the legal framework requires them to stay out of politics.

Performance of democratic institutions



Commitment to democratic institutions



5 | Political and Social Integration

Political parties are illegal in Saudi Arabia, nor does the government tolerate party-like entities. Thus, there is no historical tradition of party politics or a party system in the kingdom and so far there seems to be limited societal demand for such an innovation. The only (highly imperfect) substitute for parties are the societal clienteles attached to various centers of power, such as tribal groups in the National Guard or the advisers and clients connected to the various senior princes.

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

According to official data, there are 3,156 state-controlled non-profit organizations in Saudi Arabia. In the past, many of the larger charities were influenced by Islamists, including both Salafi and Muslim Brotherhood-inspired networks. However, in the aftermath of the Arab uprisings, tighter political control has been imposed on these organizations. Modern interest groups that function as corporations, such as professional associations, women's and youth associations, and consumer rights groups, are relatively weak and fail to adequately engage with their intended audiences.

Many interests are represented within the state through various functional agencies or through princes' informal clientelistic networks. To some extent, such agencies – such as ministries, bureaus and regulatory bodies – operate as key institutional mechanisms for policymaking and implementation.

And networks play a role similar to that played by associations elsewhere, though they are subject to stronger political restraints. Ad hoc mobilization on specific social or consumer rights issues through social media has somewhat improved the capacity of larger numbers of Saudis to make their views heard.

Some support for the democratic system at the mass level exists. According to the Arab Opinion Index 2019/2020, 7.7% of Saudis believe democracy has a presence in their country without elaborating how. The 2022 Index has not yet released detailed figures for Saudi Arabia.

Interest in the existing electoral mechanisms is also limited; voter turnout is usually low, failing to exceed 47% in the 2015 municipal elections. Petitions calling for the establishment of constitutional democracy in the wake of the 2011 Arab uprisings found broader support than before, but even this was far below the level witnessed in other Arab monarchies.

Party system



Interest groups



Approval of democracy



Formal associational life, although under state supervision, has provided a vibrant platform for social, cultural, and, more recently, environmental associations for many years. The network of formal associations frequently intersects and engages with informal support networks, which can be extensive. These networks typically rely on friendship, kinship, tribal connections, or local ties and they retain their functional unity. The extended family continues to serve as the fundamental social institution, while tribal life is distinguished by a sense of unity and solidarity. Social bonds, although influential, often exhibit a hierarchical nature.

No data is available on Saudi citizens' trust in each other. Society has been politically demobilized by a still-powerful welfare state. Since King Abdallah's reign (2005 – 2015), there has been some grassroots activism on local social and cultural issues, but this is often limited to small groups of educated, urban Saudis. The societal reforms of MbS might open the space for new developments. Saudi youth today have many more opportunities to gather in informal settings.

Although the state has advocated for the establishment of more registered associations, many collective initiatives choose to engage as informal groups. Human rights groups allege that the Saudi government actually seeks to suppress civil society through social media. For instance, an app called “Kollona Amn” (“we are all security”) enables citizens to report others, and it has reportedly resulted in the arrests of at least two women's rights activists.

II. Economic Transformation

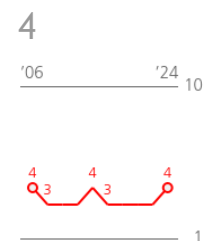
6 | Level of Socioeconomic Development

Saudi Arabia is a G-20 member state and is currently the world's 17th largest economy in terms of purchasing power parity (2023 estimate). Its share in the global gross domestic product adjusted for purchasing power parity was 1.19% in 2021 and an estimated 1.25% in 2022. Vital statistics on income inequality and poverty are often unavailable or outdated. Saudi Arabia's Gini index was reportedly 45.6 in 2019, well above the OECD average, indicating significant inequality.

The UNDP's 2022 Human Development Index ranked Saudi Arabia 35th out of 191 countries, scoring 0.875 and advancing three places from the previous report. Saudi Arabia now falls into the category of “very highly developed countries.”

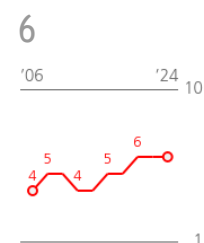
The Gender Development Index (GDI) value was 0.918 in 2020 and remains nearly unchanged at 0.917 in 2021. Saudi Arabia achieved a score of 0.247 in the 2021 Gender Inequality Index and 0.64 in the 2022 Global Gender Gap Index, showing significant improvement over the past decade. This improvement indicates the

Social capital



Question Score

Socioeconomic barriers



increased educational and health care opportunities for women, as well as their growing participation in the labor market and public life. However, despite these advancements, the kingdom still falls into group 5, which represents the worst category in the index.

Poorer groups in the rural and peripheral areas of the vast kingdom, particularly in the Jizan region (currently a war zone between the Houthis and the Saudi-led coalition), still tend to be excluded from development. This exclusion also affects some Shi'ite groups in the eastern al-Sharqiya province. In poor urban areas, certain individuals, such as divorced women or widows, are marginalized and largely excluded from the welfare state. Additionally, the vast majority of expatriate workers earn subsistence wages, with average salaries for expatriates being less than a third of Saudi salaries. Critics who argue that Vision 2030 might result in increased income inequality, for example, through privatizations, are sidelined and even arrested.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	838564.7	734271.2	868585.9	1108149.0
GDP growth	%	0.8	-4.3	3.9	8.7
Inflation (CPI)	%	-2.1	3.4	3.1	2.5
Unemployment	%	5.6	7.5	6.7	5.6
Foreign direct investment	% of GDP	0.5	0.7	2.2	0.7
Export growth	%	-5.0	-10.6	1.0	18.7
Import growth	%	9.6	-19.7	8.3	12.0
Current account balance	\$ M	38229.9	-22814.2	44323.5	150753.1
Public debt	% of GDP	21.6	31.0	28.8	23.8
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-

Economic indicators		2019	2020	2021	2022
Net lending/borrowing	% of GDP	-4.2	-10.7	-	-
Tax revenue	% of GDP	7.0	8.2	-	-
Government consumption	% of GDP	23.4	28.0	24.0	20.3
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	-	-	-	-
R&D expenditure	% of GDP	-	0.5	0.5	-
Military expenditure	% of GDP	8.1	9.2	7.6	7.4

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Prices are largely unregulated in Saudi Arabia, and the Saudi riyal has been convertible for many decades. Saudi Arabia is less statist than most of its peers in the Middle East and North Africa (MENA) region.

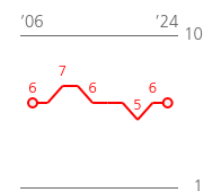
Nonetheless, despite a variety of reform attempts since the late 1990s, parts of the Saudi bureaucracy can be stifling. Setting up and operating a business can be quite burdensome. According to the Heritage Foundation's 2022 Index of Economic Freedom, Saudi Arabia ranks 118, showing a significant decline from its 2020 position of 83. Major areas of concern include fiscal health, judicial effectiveness, property rights, government integrity and financial freedom, contributing to Saudi Arabia's classification as "mostly unfree."

In the past, state agencies and chambers of commerce have implemented numerous initiatives to promote the development of small and medium-sized enterprises (SMEs). The Vision 2030 plan prioritizes firms of this size by offering credit provisions to entrepreneurs. During the COVID-19 crisis, the government extended a generous financial aid package of \$13 billion to SMEs. Overall, the private sector received a significant support package of \$18.7 billion, along with additional financing from the National Development Fund.

The informal sector in Saudi Arabia is relatively insignificant. However, certain companies circumvent formal regulations by registering as a different type of business than their actual operation, failing to share data with authorities, employing foreigners in an informal manner, or registering under the name of a national while being financed and operated by a non-national. The regulatory powers of the

Market
organization

6



bureaucracy to enforce rules against such practices remain limited. Foreign investors receive comparable incentives and guarantees as domestic enterprises and have the freedom to repatriate profits and capital as desired.

Saudi Arabia's new competition law, enacted in September 2019 and replacing the 2004 law, applies to all business entities operating within the country. The law specifically prohibits anti-competitive practices such as price-fixing, constraints on the free flow of goods and services to and from markets, market divisions and bid-rigging. While sectoral regulators for banks, utilities and telecommunication companies exist, it is worth noting that only the telecoms regulator has a clearly defined competition policy.

Since the new law came into effect in 2019, the General Authority for Competition (GAC) has expanded its enforcement efforts. In January 2021, the authority was investigating 13 entities for potential violations of the competition law. In 2022, the number of merger control filings in Saudi Arabia increased by 14% compared to 2021. GAC blocked the National Gas and Industrialization Company from acquiring a majority stake in Best Gas Carrier on grounds of concerns related to vertical competition.

The government warned in 2021 that foreign businesses failing to relocate their regional headquarters to Saudi Arabia by 2023 will risk losing their ability to conduct business in the kingdom.

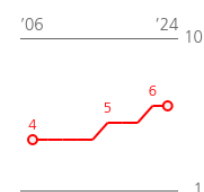
Saudi Arabia is one of the 17 founding members of the Arab Competition Network (ACN) – established in Cairo in March 2022.

Saudi Arabian foreign trade has historically been quite open, although it occasionally faces expensive non-tariff barriers. According to the Trade Freedom Index, Saudi Arabia received an average score of 71 points between 1996 and 2022, with a low of 59 points in 1996 and a high of 83 points in 2010. The most recent score, from 2022, was 75 points, surpassing the average of all 175 countries listed at 69 points.

Steps toward liberalization were taken in the course of WTO accession in 2005 and through the Gulf Cooperation Council (GCC) tariff integration. The GCC's customs union agreement eliminated all tariffs for intraregional trade and unified external tariffs. Riyadh applies the Gulf Cooperation Council's (GCC) common trade tariff of 5% to most imports from non-GCC countries – although some goods are taxed more highly, such as cigarettes and energy drinks, which are at 100%, and carbonated drinks receive a rate of 50%. In June 2020 and again in June 2022, the Saudi customs authority increased customs duties for a range of other goods at rates ranging from 6% to 25%. The most-favored nation (MFN) applied total tariffs' average was 6.3% in 2021.

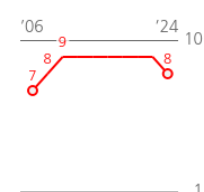
Competition policy

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Liberalization of foreign trade

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In 2021, Saudi Arabia attempted to establish a free trade agreement with 11 countries: Australia, Bangladesh, China, India, Indonesia, New Zealand, Pakistan, the Philippines, Sri Lanka, the UK and the United States.

Some support measures aimed at local producers, such as the provision of inexpensive gasoline or natural gas, could be seen as export subsidies. As Saudi gas is not exported, though, there is no clear basis to argue for the existence of price discrimination.

The Saudi financial system is well developed and very well capitalized. Foreign banks own minority shares in some of the market's big players. Banks with full foreign ownership have been licensed over the last decade. In 2019 and 2020, banking regulations regarding loans, profits and digital and Shariah banking were tightened. Since then, new legislation, regulatory guidelines and technical standards have been developed as part of a new framework. This framework aims to enable banks and fintechs to provide open banking services in the Kingdom in 2023.

By 2021, the government had issued 13 licenses for domestic banks. Additionally, 12 foreign banks operate in the kingdom, including BNP Paribas, JPMorgan and Deutsche Bank. Following the formal launch of the Saudi Vision 2030 plan in 2016, First Abu Dhabi Bank, Goldman Sachs and Citigroup significantly expanded their financial and investment operations in the kingdom.

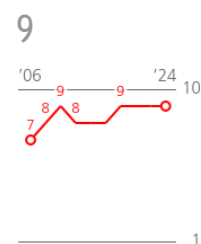
Within the Vision 2030 policies, the Saudi Arabian Monetary Agency (SAMA), the Saudi central bank, launched an Open Banking Program in 2022 as one of the pillars of the Financial Sector Development Program (FSDP), aiming to make the kingdom “a global fintech hub.”

SAMA is a qualified and well-respected regulator that cooperates quite well with the banks. SAMA has consistently enforced capital requirements far above the levels set by Basel II and III, as well as a loan-to-deposit ratio at or below 80%. In March 2018, SAMA allowed banks to have more authority in calculating their loan-to-deposit ratios and decided to maintain the loan-to-deposit ratio for commercial banks at 90% to allow for greater flexibility in increasing overall loan volumes. Saudi Arabia's capital-to-assets ratio stood at 13.8% in 2021, while non-performing loans remained low at 1.9% the same year. Throughout 2022, Saudi banks required liquidity injections from the central bank as lending growth continued to surpass deposit growth.

In January 2023, the Saudi Arabian Monetary Authority (SAMA) initiated a public consultation on a new set of financial system reforms. These reforms encompassed the classification of credit-granting institutions as “banking businesses.”

The Capital Market Authority (CMA), created in July 2004, has struggled to control the more influential players in the stock market. It has increasingly identified and prosecuted individuals who manipulate the market, including at least one member of the ruling family. However, speculative trading persists, and financial disclosure

Banking system



often only meets the minimum legal requirements. In mid-2015, the Saudi stock exchange, called Tadawul, opened to large, preselected foreign investors, resulting in significant capital inflows and mounting pressure for improved governance. In January 2018, several actual reforms were implemented to deregulate the stock market for qualified foreign investors. The CMA permitted foreign investors with assets worth \$500 million to participate in the stock market, a decrease from the previous benchmark of \$1 billion. The allowed foreign participation share in a Saudi-listed company was also increased to 49%. Throughout 2021 and 2022, the CMA has consistently revised its regulations in order to attract more foreign investment – an ongoing process.

8 | Monetary and fiscal stability

Saudi Arabia has historically been successful in containing inflation. In 2022, the CPI inflation rate was 2.5%, compared to 3.1% in 2021 and 3.4% in 2020. The main drivers of inflation were housing, food and transportation prices. The COVID-19 pandemic also had an impact on the monetary health of the kingdom, contributing to inflation.

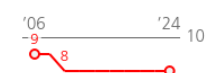
As the Saudi riyal is pegged to the U.S. dollar and lacks interest-rate flexibility, the central bank's only tools for managing inflation are the manipulation of reserve requirements and open market operations of limited scope. In 2020, SAMA reaffirmed the value of the peg policy as a strategic option contributing to sustainable economic development. Despite much speculation over the years, the riyal-dollar peg remains stable, as confirmed by analysts in 2022. This does not, however, imply that Saudi Arabia might seek long-term alternatives like currency baskets. The real effective exchange rate in 2022 was 118.2%.

SAMA is operationally independent, well-respected and exerts considerable influence in the Saudi economy. It has successfully spearheaded a range of monetary and fiscal measures, supported by the Ministry of Finance (MoF), aimed at mitigating the impact of COVID-19.

In July 2020, the MoF increased the value-added tax (VAT) rate from 5% to 15% in order to generate more non-oil revenues. Additionally, cost-of-living allowances for public sector employees were eliminated. Private sector support measures were extended in July, and, in early October, penalty waivers for tax filings and payments were extended until the last day of 2020. During the same year, the Saudi Arabian Monetary Authority (SAMA) lowered the interest rates offered to cover fees for private sector transactions for a period of three months. SAMA also instructed all banks to defer loan payments for three months without charging any extra fees. In 2022, SAMA began raising interest rates in alignment with the U.S. Federal Reserve. Throughout the year, SAMA facilitated banking liquidity and provided funds to the banking sector to support the provision of credit to the private sector.

Monetary stability

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For the first time in many years, Saudi Arabia achieved a budget surplus in 2022, amounting to 102 billion riyals (\$27 billion) and constituting 2.6% of Saudi Arabia's GDP. The budget deficit for 2021 was 2.7% of GDP, lower than the 3.2% in 2020 and the 4.2% seen in 2019. The 2022 budget surplus can be largely attributed to the spike in oil prices caused by the Russian invasion of Ukraine. To achieve a long-term balanced budget, oil prices need to be between \$75 and \$80 per barrel.

Expenditures of \$296 billion are planned for the fiscal year 2023. The current account balance stands in contrast to -\$22.81 billion in 2020, when public debt slightly declined to 30% of GDP in 2021 from 32% in 2020. For 2022, public debt is estimated at 24.75%. On a positive note, the kingdom owes no external debt.

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

The total public revenues are forecasted to reach SAR 1.13 billion in 2023 as a result of anticipated domestic economic growth and high international energy prices, thus remaining high.

Saudi Arabia's economy grew by 8.7% in 2022. The International Monetary Fund lowers Saudi Arabia's economic growth forecast for 2023 to 2.7%.

The state remains fiscally very dependent on oil but continues to increase the levying of taxes in the form of VAT and on the incomes of individuals and local companies.

9 | Private Property

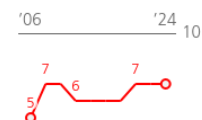
According to the 2022 International Property Rights Index, Saudi Arabia ranks 5th in the MENA region and 35th worldwide.

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

Yet land and property ownership rights are put into question when they conflict with Vision 2030 projects – for example, when, from October 2021 onwards, thousands of people were expelled from areas in Jeddah or through massive expropriation in the northern Tabuk province for the NEOM project.

Fiscal stability

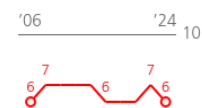
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Property rights

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

In terms of intellectual property rights, the country has made considerable progress. It ranked 24th in the world in 2020 on the Intellectual Property Rights Index and launched a national strategy for intellectual property rights in 2022.

Private companies are active in numerous economic sectors, but two strategic sectors in the kingdom – oil and petrochemicals – are nearly wholly state-controlled. For some time, the government was in the process of finalizing proposals for the partial privatization of state-owned oil giant Aramco, but it ultimately abandoned the plan due to Saudi concerns regarding the disclosure of Aramco’s total assets and information about the oil reserves under its control. Only 1.5% of its shares were introduced in 2019 to the Saudi stock market.

The state holds significant shares in several large and important banks and has a majority stake in the largest telecommunications operator. It also exercises control over the national railway, a national bus company and the national airline, which dominates domestic air transport. Additionally, the state has significant holdings in the mining sector and holds a majority share in the utilities sector. However, most other sectors, such as retail and wholesale, as well as the majority of industries and services, are primarily privately controlled.

Privatization in general received a significant boost from Vision 2030 – one of whose goals was to make the private sector more dynamic. The government decided to reduce public ownership by expanding the sale of shares in Saudi Basic Industries Corporation (SABIC), water and electricity services, Saudi Arabian Airlines and other entities. However, progress in this area is relatively slow. In October 2018, the government unveiled plans for privatization in four sectors, including silos and grains, schools, health care and desalination. In 2020, the government announced the privatization of 38 public agencies and prepared for 160 privatization deals in 2021.

In late 2021, Saudi Arabia’s sovereign wealth fund, the Public Investment Fund (PIF), sold a 5% stake in the Saudi Telecom Company (STC) – the largest and most profitable firm in the regional telecoms sector. In 2022, several large flour mills were privatized, and the National Center for Privatization approved a new set of rules to simplify privatization processes and, at the same time, create more transparency. Additionally, plans to privatize more than 20 airports were announced in 2022.

A number of Saudi citizens have expressed their opposition on social media, particularly to the privatization of basic services, in light of skyrocketing consumer prices. Already in 2017, journalist Jamil Farsi was arrested for criticizing the privatization of ARAMCO.

Private enterprise

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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 a great discount and employs a disproportionate share of nationals in the public sector. Water and electricity are heavily subsidized for those in lower-income brackets. Low-income citizens are also provided with a variety of social welfare benefits, pensions and monthly payments for food. In 2022, Saudi Arabia allocated \$5.3 billion as additional financial support to low-income families to help them confront the global price rises. This additional funding was possible through record oil prices of up to \$100 per barrel and contrasts with the 2020 budget, when public spending was slashed by 2.7% (compared to the 2019 budget) to cope with the pressures of declining oil prices.

There is a system of social security payments, but it is patchy, administered on a case-by-case basis by the Ministry of Social Affairs, and payments are far below local poverty line estimates despite several raises since the Arab uprisings in 2011. In addition, every year, traditionally during the fasting month of Ramadan, the king and the crown prince donate extensively to the poor.

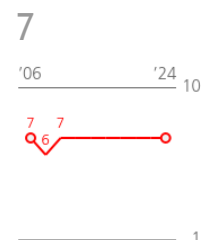
The government also spends billions of dollars each year to provide all Saudi citizens with free education and health care services. The government’s effort to increase the share of Saudis in private employment has led to positive changes for Saudis in the private job market.

The state pension system is financially secure for many decades to come. Unemployment insurance assistance programs offer payments for a maximum of 12 months.

Public employment is not provided to all nationals; however, this results in an uneven and discretionary distribution system. As family networks remain tight, assistance from wealthier relatives prevents many individuals from sliding into poverty. Nevertheless, these networks are becoming increasingly stretched due to population growth and a labor market participation rate of just 40% to 45% among the national working-age population. Millions of expatriate workers still live in poverty, earning average wages below \$300 per month.

The COVID-19 pandemic created additional pressure on the public welfare regime. The government allocated extra funds to support the health sector but also halted the provision of monthly living allowances to Saudis (except low-income Saudis), citing a sharp decline in oil revenues.

Social safety nets



The government claims “to do justice to a person, regardless of their religion, race, gender, or nationality,” implying equality and nondiscrimination. In principle, the state makes public services available on a relatively broad basis, including the provision of access for women and regional and sectarian minorities. However, clientele networks and personal relationships often play an important role in the administration of public services, which can create de facto inequality in access.

On the gender front, Saudi women enjoy good access to higher education, which has become less segregated and increasingly inclusive, even in subjects that were previously reserved for males. Women no longer need male guardians’ permission to pursue their studies. According to 2021 World Bank data, the female-to-male enrollment ratio stands at 1.0 in primary, secondary and tertiary education. In 2019, there were 3.1 million girls and women enrolled in school, along with 3.3 million men or boys. The literacy rate among women was 93% in 2017, compared to a 97% rate among men. By 2020, the rate had increased to 96% among women and 99% among men.

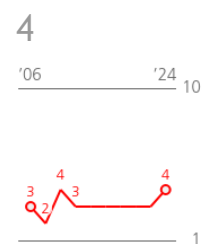
The 2022 World Bank’s Women, Business and the Law Index assigned an overall score of 80 for Saudi Arabia, significantly higher than the MENA regional average of 53. Within the Mediterranean region, the highest score recorded was 88.8 in Malta.

However, 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 through its Vision 2030 program. Women’s labor market participation has greatly increased in the wake of the government’s Saudization campaign. According to the World Bank, women constituted 20.4% of the Saudi workforce in 2021. In general, the Saudi workforce participation rate is far below the global average.

Being a Shi’ite or coming from a peripheral region can be a disadvantage. For example, Shi’ites are not allowed to broadcast rituals from religious gatherings. Anti-Shi’a rhetoric has recently been banned from school textbooks, but it is still present in public and private discourses.

Stateless “bidoon” are often refugees from Yemen or Syria. Some of them nevertheless have the right to education and health care and can access jobs that are not reserved for Saudi citizens.

Equal opportunity



11 | Economic Performance

Saudi Arabia was the 19th largest world economy in 2022 in terms of total GDP, reaching \$833.5 billion in 2021 (per capita: \$48,711, a growth of 3.4% compared to 2020). The country benefited from a record economic growth rate of 8.7% due to high oil prices following the Russian aggression against Ukraine. In 2021, the growth rate was 3.2%. Looking ahead to 2023, the International Monetary Fund (IMF) forecasts a growth rate of 2.6%, which is significantly better than the negative growth rates of -1.3% and -4.1% in 2019 and 2020, respectively.

The government's total public debt was 22.8% of GDP in 2019 but rose to 33.4% in 2020, primarily due to social spending pressures caused by the pandemic. In 2021, public debt decreased to 30.01%. In 2022, there was a further decrease to 24.9%. Forecasts for several years with a fiscal surplus predict a further reduction to 22.6% of GDP in 2025.

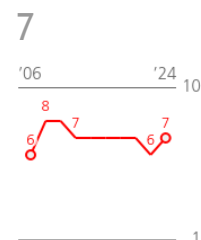
Saudi Arabia's foreign direct investments were 3.31% of GDP in 2021. The UAE, the United States, France, Singapore, Japan, Kuwait and Malaysia are the main investors in Saudi Arabia.

CPI inflation was moderate at 2.5% in 2022. The unemployment rate decreased slightly from 7.45% in 2020 to 7.36% in 2021. The unemployment rate for Saudi nationals in 2022, with no definite figures at the time of writing, fluctuated around 9.9% – although declines are expected if robust growth levels of non-oil activities continue to occur.

In the long term, however, private employment is likely to be insufficient to accommodate the estimated 300,000 new entrants to the labor market per year. This is partly due to the strong wage differentiation between “cheap” expatriates and more expensive Saudis, as well as the impact of the COVID-19 economic crisis.

Although the “nitaqat” system of Saudization in private employment has yielded some initial successes, it remains unclear what proportion of Saudis currently employed in formal jobs are actually productive or how many more the private sector can absorb without seriously affecting profitability and growth. As of 2022, approximately 1.55 million Saudis were employed in the private sector, with two-thirds of them being men. Historically, the positive growth rates of the Saudi economy were primarily driven by increases in state spending. However, Vision 2030 aims to foster stronger private-public partnerships.

Output strength



12 | Sustainability

Environmental policies and protection have been declared priorities of the Saudi government. In late 2021, Saudi Arabia announced the establishment of an investment fund to combat climate change and fulfill its pledge to reach net-zero emissions by 2060.

However, the Saudi Environmental Society, a non-profit organization created in 2006, has remained largely inactive. The state oil giant Saudi Aramco, along with the new King Abdullah City for Atomic and Renewable Energy (KACARE), are the key players in the renewable energy sector. Inadequate follow-up mechanisms persist, and KACARE has faced difficulties in developing its administrative capacity.

In May 2019, the Ministry of Environment, Water, and Agriculture signed a multimillion-dollar agreement with the U.N. Environment Program to build institutional and human capacities to protect the environment. According to the agreement, Saudi Arabia will host U.N. experts in the field of environmental laws and regulations, climate change, waste management, air quality management, and other related areas.

The media often highlights environmental issues. In the face of climate change, local gas shortages and rapidly increasing domestic oil consumption, renewable energy has become a particular focus of national debate. Environmental awareness seems to be growing, especially among young Saudis. Future giant smart cities like “the Line,” which can accommodate up to 9 million people, are planned to be carbon-emission-free, without roads and cars, and entirely reliant on renewable energies.

However, environmental assessments for new projects are often treated casually. More generally, Saudi Arabia has faced accusations of greenwashing and hypocrisy. While the kingdom has implemented various measures to address the climate crisis, its economy still largely relies on fossil fuels. In late 2022, Saudi Arabia opposed an international treaty on plastic waste, emphasizing the need for “local solutions.” It is likely that the government did not want to undermine the hydrocarbon sector through a plastic ban.

Another spectacular example is that the regime wants to organize the 2029 Asian Winter Games at a 60-square-kilometer skiing and outdoor resort to be completed in the middle of the desert in 2026 – exclusively renewable energy-powered, as the government insists. The question remains whether the tremendous amount of energy needed does not constitute a major waste.

The average Saudi household produces large amounts of garbage and consumes as much energy as a U.S. household – considerably more than the European average. The government’s solar energy agenda is ambitious, but activity on the ground has to date been thin, with domestic oil and gas consumption growing at an annual rate of up to 10%.

Environmental
policy

5

'06 '24 10



1

Saudi Arabia has consistently improved its ranking in the U.N. Education Index, from 0.705 in the 2012 edition to a respectable 0.825 ten years later.

The primary school enrollment rate in 2022 exceeded 95%, while the secondary school enrollment rate surpassed 91%. The education system accommodates non-Saudis, including the children of a significant population of undocumented migrants and stateless individuals, in primary and secondary schools. Regional disparities in education persist, manifested in limited educational resources in rural areas.

The country is home to the largest number of the top 10 universities in the MENA region. Most of them have been desegregated to allow women to attend. MbS aims to eliminate Wahhabi content at all levels of education.

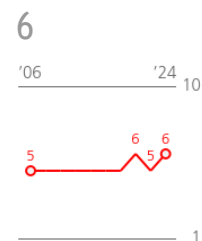
Education expenditure began to rise sharply in the course of the oil boom in the early 2010s.

Accounting for 19.37% of the national budget in 2022 and equating to 7.81% of the GDP, the quality of public education has not necessarily increased at the same speed. Public spending on research and development was considerably lower, amounting to only 0.5% of GDP in 2022.

The number of private schools has increased, and numerous private universities have recently obtained licenses. In contrast to the public school system, many private schools and private universities provide exceptional education to both women and men. Nonetheless, access for the poor continues to be a concern. The overall literacy rate in 2021 was approximately 99%.

Aramco and state heavy-industry giant SABIC are the only corporate entities engaging in significant and increasing amounts of research – sometimes in cooperation with the state-run King Abdullah City for Science and Technology – with the exceptions of the King Abdullah University of Science and Technology (KAUST) and the King Fahd University of Petroleum and Minerals (KFUPM). It is worth noting that certain public universities still possess mediocre or inferior academic standards.

Education policy /
R&D



Governance

I. Level of Difficulty

Structural constraints on governance in Saudi Arabia are moderate, as the state has considerable resources that have significantly increased in 2022 thanks to high oil prices. The kingdom's economy could thus more than recover from the oil price slump during the COVID-19 pandemic.

Located in the conflict-prone Middle East brings certain constraints. On the other hand, hosting Mecca and Medina as Islam's two holiest places brings millions of U.S. dollars every year to Saudi Arabia from pious pilgrims performing their "Umrah" or "Hajj."

Saudi Arabia remains thinly populated relative to its size, which increases infrastructure costs and makes it difficult to develop peripheral regions or avoid an overcentralization of the population and economic activity in major cities like Jeddah and Riyadh. Additionally, the Saudi state faces capacity deficiencies stemming from a partially inefficient state apparatus, a rentier mentality among many bureaucrats, and limited or moderate penetration of society from a regulatory standpoint.

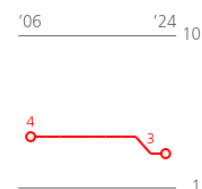
Saudi Arabia continues to rely heavily on foreign labor, including in high-skill professions. The ambitious Vision 2030, with its intended infrastructure projects, highlights the need to pursue its Saudization scheme to increase the share of Saudis in the workforce.

Under Saudi Arabia's authoritarian tradition, civil society associations have little scope to exist or operate. Since the onset of large-scale oil income in the 1950s, the state has taken over many welfare functions and has generally prevented the growth of independent organizations. Although there are numerous welfare societies with considerable resources, these exist in the shadow of the state. The same is true of religious organizations. There are no powerful independent unions, syndicates or issue-oriented groups in the kingdom, other than the chambers of commerce and industries. The only social structures most Saudis can rely on are small-scale informal networks of kinship and friendship.

Government attempts since the mid-2000s to establish formal interest groups in a top-down manner have had limited success; in contrast, relatively non-political welfare associations and charities have experienced significant growth. Following the Arab uprisings, younger urban Saudis have intermittently participated in grassroots activism on various social matters, yet they have not relied on strong organizational systems and have not garnered widespread popular backing.

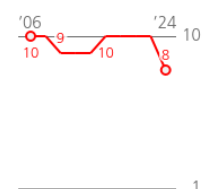
Structural
constraints

3



Civil society
traditions

8



The regime has recently begun to encourage civil society organizations in fields such as environmental protection, students, cultural associations and professional associations. Yet, these organizations have to strictly maintain an apolitical stance. It remains to be seen what effects the new opportunities for Saudi youth to gather for entertainment and cultural events will have on the development of a larger civil society.

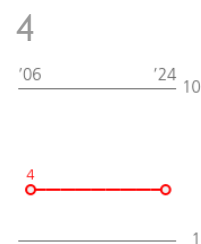
Saudi Arabia suffers from a variety of low-level conflicts – tribal, sectarian and gender. Conflicts over identities, particularly between the Shi'ites and Sunnis (primarily in the eastern al-Sharqiya province, where the Shi'ites dominate), remain. For example, the town of al-Awamiya in the Qatif region has experienced repeated violent clashes since 2011, with police forces regularly opening fire and killing or wounding demonstrators or executing Shi'ite leaders. At the beginning of 2022, the government launched a large-scale Awamiyah development project. The region around the town is intended to become a tourist destination while preserving traditional cultural and architectural heritage. Whether the project is part of MbS's outreach to Shi'ites or part of a policy of cultural homogenization remains to be seen.

Members of the Howaitat tribe opposed their expropriation in northern Saudi Arabia for the NEOM project in 2020. Despite the regime's repressive apparatus and patronage networks, it has managed to prevent the emergence of significant organized challenges by sub-state identity groups or other communities. As a result, the current level of jihadi-inspired terrorism remains low and seemingly poses no threat to the state.

Spillover threats from the war in Yemen persist on Saudi territory along the southern border and occasionally extend to the capital, Riyadh. These threats mainly result from Houthi rocket attacks.

While domestic violence against women has reportedly increased in many countries under the stress of the COVID-19 pandemic, no such reports have emerged from Saudi Arabia. This may, however, mainly be due to the low level of critical reporting. Women's protests have largely subsided, on one hand, due to severe repression and, on the other hand, because the authoritarian crown prince has introduced far-reaching reforms.

Conflict intensity



II. Governance Performance

14 | Steering Capability

MbS, crown prince and, since 2022, prime minister, is attempting to rapidly modernize the kingdom through the Vision 2030 program. Despite facing opposition from now-sidelined forces, including some members of the royal family and the Wahhabi religious establishment, he is forging ahead with the implementation of the strategy that was launched in 2016. While the program aims to reduce Saudi Arabia's dependence on oil revenues and diversify the economy, Vision 2030 also encompasses a comprehensive plan to modernize Saudi society and culture. This plan includes a swift Saudization of the economy, which involves the creation of numerous job opportunities for Saudi citizens.

MbS's strategy breaks with that of the late King Abdullah, who initiated gradual economic and sociocultural reforms. Abdullah's reform agenda, though cautious, if not purely cosmetic, focused on political opening but was abandoned after his death in 2015. Moreover, it was even reversed following the 2011 Arab uprisings, as his regime cracked down on dissidents.

MbS's broader domestic policy priorities have been partially delayed by the Yemen war, involvements in other regional affairs, and the pandemic. Speeding up the reforms clearly comes at the cost of any near-term perspective on political system reform. No dissent is tolerated regarding the Vision 2030 program. Additionally, it remains unclear to what extent the overhauled government ministries and newly created agencies have autonomy, if any, from the crown prince's office.

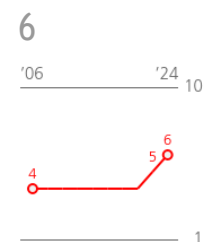
There is currently no agenda for political reform at all.

Although sometimes moving slowly, the Vision 2030 initiatives have already improved women's rights and their socioeconomic position. The overall societal liberalization reform has yielded some considerable successes, such as a more inclusive and liberal education system, a more vibrant art and cultural scene, and the development of tourism. Labor market reforms and the Saudization scheme have been conducted in a relatively systematic fashion since 2011 and accelerated since, but their outcomes remain below expectations. Mega projects like NEOM and The Line are underway, though it is difficult to assess their eventual success at this point.

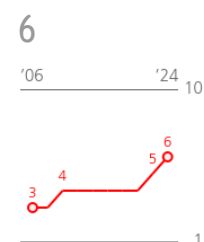
Although Saudi Arabia faces no severe budget constraints in the coming years, the lack of efficient government agencies for implementing the Visions 2030 project is a concern. While these agencies are currently established, addressing the shortage of vibrant and dynamic administration officials who can implement reforms at the desired speed is not an easy task. Additionally, the Saudi private sector lacks the capacities necessary for the reform program, requiring the kingdom to currently import a significant number of foreign experts.

Question
Score

Prioritization



Implementation



Vision 2030 heavily relies on expertise from international consultancies – not only for setting up new ministries like the Ministry of Culture and the Ministry of Sports but also for conducting large events and most activities in the fields of tourism, arts, culture, and, more importantly, for mega infrastructure projects like NEOM.

A large-scale effort to increase government efficiency exists, despite the complex structure of the Saudi administrative system and the political clienteles attached to it. Any action of government ministries or agencies, as well as private sector contractors, is theoretically constantly aligned, evaluated and measured in terms of the goals of Vision 2030.

As in other countries, the COVID-19 crisis has also created a new policy learning experience for Saudi Arabia. The government quickly responded to economic priorities and the sociocultural needs of citizens. Education swiftly transitioned online, and restrictions on social gatherings were imposed to contain the pandemic, with noteworthy success. Different public departments and ministries largely performed well, despite prior criticisms of bureaucratic immobility and dysfunction.

15 | Resource Efficiency

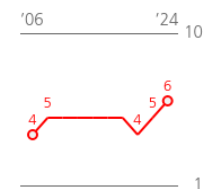
In the past decade, the balance of current and capital spending has significantly improved, and Saudi Arabia achieved a very positive fiscal balance in 2022, enabling the continuation of substantial infrastructure investment. National budget targets have consistently been exceeded by more than 10% of GDP. Many technocrats and businessmen believe that project costs have been inflated in recent years, given the perception of unlimited resources that allowed private contractors to seek rents. Concerning specific allocations, budgets remain nontransparent and closing accounts are typically not published.

Some inefficiencies are deeply embedded in the state apparatus. Many government agencies remain overstaffed – despite the decline in oil prices, dismissal of surplus personnel is practically impossible. There are at least twice as many Saudis employed by the state as by the private sector, despite the Saudization efforts. Many subsidies that government employees have historically received have been reduced in recent years. The Ministry of Human Resources and Social Development generally plans the civil manpower and serves the government’s need for competent civil servants.

The bureaucracy remains opaque, overcentralized and unaccountable. However, compared to many other oil states, the Saudi state is reasonably efficient and includes several pockets of efficiency. These pockets are tasked with high-priority functions and operate relatively autonomously from the rest of the state apparatus. Soon after ascending to the throne, King Salman abolished a number of ministerial committees and appointed several new ministers. MbS enacted some administrative reforms, but at a relatively slow pace. He attempts to compensate for deficiencies in state efficiency with large-scale pro-business reforms in order to implement Vision 2030.

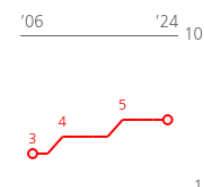
Policy learning

6



Efficient use of assets

5



Since being declared prime minister in September 2022, MbS is likely the most powerful Saudi ruler ever, especially since he has already brought all centers of power – namely, the National Guard and the interior ministry – under his control, and two close brothers, Khalid and Abdulaziz, head the powerful defense and energy ministries. In contrast to former kings, MbS no longer has to compete with rival family clans.

All this could allow him to reduce the hitherto persistent redundancies and overlapping responsibilities at the ministerial and lower administrative levels. Whether or not that happens remains to be seen.

Historically, interministerial coordination has been weak, characterized by vertical rather than horizontal communication. Policies and procedures that require the involvement of multiple institutions often suffer from inconsistencies. Policy domains such as education and health have traditionally been fragmented, as major institutions like the ministries of defense and interior maintain their own educational and health establishments. While responsibilities for certain areas, such as labor and water issues, have been consolidated, it has not always been technically or politically feasible to do so in other cases.

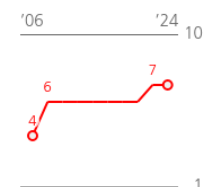
The COVID-19 pandemic response resulted in an advancement in policy coordination. The Ministries of Health, Civil Aviation, Finance and Education demonstrated leadership. Under the guidance of MbS, the Ministry of Finance made decisive choices regarding economic matters. The civil aviation authority facilitated the return of Saudis who were stranded overseas, while the Ministry of Health ensured access to free health care, including vaccinations, for citizens. Moreover, the diverse vaccination requirements for the Hajj and Umrah in 2022 were effectively handled. In addition, the Ministry of Education extended network access to citizens, enabling students to participate in online learning.

The crown prince regularly stresses the importance of fighting corruption – on the one hand, with a genuine desire to enhance state efficiency, but on the other hand, for political reasons, to eliminate potential rivals.

Investigations and arrests are regularly conducted. The government has established several intra-bureaucratic integrity mechanisms, such as an administrative supervision agency and a disciplinary board for bureaucrats. However, these mechanisms do not provide systematic reports on their activities and lack the authority to address major power centers like the Ministries of Defense or Interior. The recently formed Oversight and Anti-Corruption Authority, known as “Nazaha,” has primarily focused on matters pertaining to public service quality and low-level corruption. This authority has consistently voiced concerns about insufficient collaboration from other ministries.

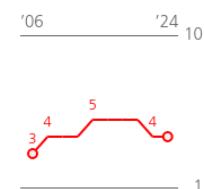
Policy coordination

7



Anti-corruption policy

4



More recently, Saudi Arabia has become more active in the fight against corruption on an international level. In 2021, the United Nations launched the Saudi-inspired global initiative against transnational corruption – the Global Operational Network of Anti-Corruption Law Enforcement Authorities (GlobE Network). This initiative offers states that adhere to the U.N. Convention against Corruption (UNCAC) the possibility to connect anti-corruption practitioners worldwide. In March 2022, the kingdom asked Arab states to participate in a regional anti-corruption network.

Corruption in Saudi Arabia has been quite prevalent, including at the most senior levels of the government, and there has been a gradual trickle-down effect in recent years due to slowly rising costs of living and stagnating wages. In October 2022, the former president of the prestigious King Abdulaziz University admitted to having stolen over \$133 million from university funds, according to Nazaha.

That said, certain government institutions have traditionally been seen as largely corruption-free, including the state oil company, Saudi Aramco; the central bank (SAMA); and the Royal Commission for the Industrial Cities of Jubail and Yanbu – though in reality this may never have been the case.

Since the COVID-19 crisis, Nazaha has become more active in arresting low-level state employees involved in bribery, fraud and abuse of influence and power, but higher-level figures often remain untouched. In December 2022, Nazaha conducted 2,364 inspection visits, filed charges against 307 people, and arrested 142 individuals.

16 | Consensus-Building

De facto ruler MbS is moving away from the traditional Wahhabi-monarchical consensus that has historically shaped Saudi Arabia's legitimacy, in an effort to establish a new consensus centered around his modernization program. Despite awareness of his authoritarianism and his involvement in actions such as the murder of Jamal Khashoggi, MbS remains immensely popular among young Saudis.

This support allows MbS to marginalize the Wahhabi establishment and their school of thought. Some observers already speak of a post-Wahhabi Saudi Arabia.

Democratization – a concept that remains alien to important parts of Saudi society and is generally poorly understood – has never been broadly supported. However, potential oppositionists to MbS's rule, including jihadists, Shi'ites, moderate Sunni Saudis as supporters of political Islam (i.e., groups more or less affiliated with the Muslim Brotherhood), and more recently, many Wahhabis, do not pressure for democracy.

Thus, even slight political reforms – for example, forms of popular participation that do not fall within the framework of Western democracy – such as a renewed national dialogue or the multiplication of majlis are increasingly unlikely under this pretext.

Consensus on goals

5

'06 '24 10



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A consensus on large-scale economic reforms toward a more market economy and the opening of the country is broadly based among senior princes, technocrats and merchant families. Especially young Saudis hope to be part of a vibrant modern economy with skilled jobs available to them.

MbS promotes societal, cultural and economic reform, but he is strictly opposed to any political reform. On the contrary, he concentrates power with an iron fist.

There are no reformers at the top levels of government who advocate more popular participation, let alone democratization. The few pro-democracy forces have next to no ability to make themselves heard and risk severe repression.

The country's hard-line conservative Wahhabis, who have been politically sidelined by the crown prince but can still muster popular support, represent another major obstacle to reform.

MbS is attempting to unite the Saudi population behind his modernizing authoritarian Vision 2030 strategy. The new "populist nationalism" of social and economic liberalization has, among certain young Saudis, further strengthened their sense of Saudi identity.

Few informal conflict management mechanisms exist in Saudi Arabia, such as co-optation into the clientele system or the utilization of regional and local majlises (councils) for mediation. However, MbS appears to heavily rely on severe repression when faced with dissent.

Since King Salman became the Saudi king and his son MbS the de facto ruler in 2015, executions have spiked, averaging 129.5 per year. In 2022, at least 147 people have been executed. In March of that year, a mass execution resulted in the deaths of 81 individuals. Amnesty International reports that the men were convicted of offenses including "terrorism," murder, armed robbery, arms smuggling, or simply "disrupting the social fabric and national cohesion," as well as "participating in and inciting sit-ins and protests." Of the individuals executed, 41 were from the Shi'a minority, apparently targeted to suppress dissent in the Eastern Province, according to Amnesty International's assessment.

Human rights observers also criticize the lack of proper procedure in the court system, torture, forced disappearances of activists and extremely high prison sentences for those who criticize the government on social media – including women.

The days of a political and social reform drive seeking to mitigate conflicts between ethnic and religious factions of reformist King Abdullah seem far away since his death in 2015. Different marginal groups – whether due to geography, religion or gender – perceived him as the best hope they had among the senior princes. The execution of Shi'ite leader Sheikh Nimr al-Nimr in January 2016, despite questions about the process in his trial, already escalated tensions in the eastern al-Sharqiya province.

Anti-democratic actors

1

'06 _____ '24 10



Cleavage / conflict management

3

'06 _____ '24 10



The only significant progress made under MbS in terms of the nondiscrimination of Shi'ites was the removal of extremely hateful anti-Shi'ite language from Wahhabi-inspired publications in the education system.

While the official website of the Saudi government states, “In the Kingdom of Saudi Arabia, your opinion matters!”, this statement appears highly ironic in light of the extensive surveillance and arrests targeting all dissenting voices. However, it seems that MbS genuinely aims to mobilize Saudi youth for his Vision 2030 and incorporate their suggestions, inspirations and ideas, as long as they avoid political criticism or challenging his nearly absolute rule. The eagerness of Saudis to participate in the large-scale e-consultation will undoubtedly be constrained by the knowledge of the severe repression that exists. In general, there is minimal “formal” civil society available for the regime to engage in policy deliberations, except for the relatively well-organized private sector, represented by chambers of commerce and industry.

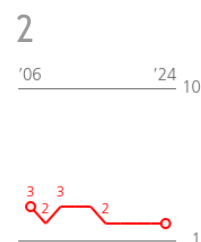
Some traditional consultancy mechanisms still exist; for instance, influential individuals might be called to the royal court for several months to give feedback on specific issues. The new government, in this context, has heavily relied on consultancy and input from experts rather than from the royal family, as was traditionally done.

Some formal interest groups created in the mid-2000s, such as various professional and cultural organizations or human rights and consumer rights societies, are largely excluded from policy consultation processes. Certain social interests can be informally represented through religious, tribal and community leaders who engage with princes or, more indirectly, through the information-gathering services of the royal entourage and the Saudi state. However, the capacity of these channels to represent the interests of an increasingly complex society is limited.

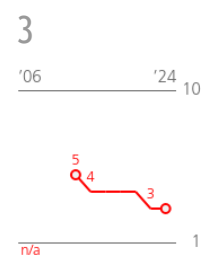
Saudi Arabia was created through violent conquest, culminating in the occupation of the Kingdom of Hejaz, which included Islam's holiest places Mecca and Medina, in 1926. In order for the conquered populations to come under the protection of Ibn Saud, the founder of the kingdom, and his successors, they were required to swear an oath (bay'ah) of absolute allegiance. Additionally, conquered tribes and other population groups were required to adopt Wahhabism to attain a certain level of social and legal equality. The initial support for this came from the Saudis of the Najd region in central Arabia.

The Wahhabi establishment has been sidelined in recent years. However, the only way to obtain some degree of recognition for an injustice committed is through publicly pledging loyalty. In 2018, Salah, the son of murdered journalist Jamal Khashoggi, had to shake hands with MbS after the government acknowledged that state officials had a role in his father's killing, while denying that the prince had any knowledge of it.

Public consultation



Reconciliation



People even expect that the former crown prince and rival of MbS, Muhammad bin Nayef, who is currently under arrest, will eventually publicly pledge his loyalty. However, those who demonstrate allegiance, including individuals and groups, may have some leverage to negotiate financial, social, or other rewards as a result of their cooperation, and they could potentially be granted a royal pardon. This is particularly relevant given the prevailing perception of an inherent injustice in the country, namely the highly exclusive and culturally homogeneous system that is controlled by the elites from Najd.

But former King Abdullah made significant symbolic steps toward integrating previously excluded groups, such as Shi'ites and non-Hanbali Sunnis (especially Sufis), through a form of national dialogue. However, the current government has not implemented any reconciliation processes. With regard to the war on Yemen, the government has sought the support of marginalized non-Sunnis, specifically the Ismaili Shi'ites in the Najran region, which shares a border with Yemen. The objective is to secure their loyalty and prevent any potential collaboration with the Houthi rebels.

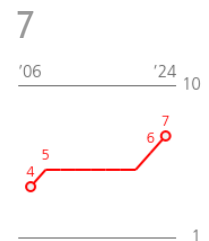
17 | International Cooperation

In the context of Vision 2030, Saudi Arabia is eager to demonstrate integration into the international system and openness to exchange and advice, particularly following the murder of Jamal Khashoggi in 2018, when the kingdom nearly became a pariah. In 2020, it chaired the G-20, hosting numerous meetings, including the 15th summit of heads of state and government in Riyadh, albeit mostly held virtually due to COVID-19.

The country's leadership is immune to advice concerning domestic politics but can accept and incorporate technocratic or consultant-driven advice from international organizations, both private and public, with regards to the economy and environmental issues, for example. This has been demonstrated through the 2005 WTO accession, the management of independent water and power projects, the upgrading of capital market regulation, and the May 2019 agreement with the U.N. Environment Program to develop state environmental protection and management capacities.

That said, as the kingdom pays most frequently for its consultants, international actors have limited leverage over the implementation of policies. It is during this phase that special interests in the bureaucracy can stall or alter the course of reforms. However, under the Vision 2030 development plan, bureaucratic wrangling is diminishing.

Effective use of support



Saudi Arabia's international credibility has faced significant strain as a result of the impulsive, sometimes forceful and arrogant approach taken by the crown prince. Previously, relations between Saudi Arabia and the United States had already deteriorated due to the murder of Jamal Khashoggi in 2018. However, these relations were repaired during Donald Trump's presidency through a close personal friend of Jared Kushner's and a rapprochement with Israel. Nevertheless, MbS (Mohammed bin Salman) has now created a new low point in Saudi-U.S. relations. In July 2022, Joe Biden, after abandoning his previous policy of snubbing MbS, met with him in Riyadh. Nevertheless, Biden was right to have doubts about Saudi Arabia's reliability when the crown prince decided to back out of a deal to increase oil production in light of the Russian invasion of Ukraine.

MbS generally seems to strive to outbalance United States and more general Western influence by developing closer relationships with Putin's Russia and with China. His foreign policy has already been erratic in previous years. For example, in 2017, he sequestered the Lebanese prime minister Saad Hariri and blockaded Qatar from 2017 to 2021. The Saudi war in Yemen has created one of the worst humanitarian crises in history, resulting in unprecedented suffering for millions of Yemenis, particularly women and children.

Even in matters of economic change, Saudi Arabia is very conscious of its sovereignty and has been criticized for not fully implementing international obligations, for example, those of the WTO. It is also very reluctant to subject itself to non-Saudi judicial mechanisms. There is basically no cooperation with political international non-governmental organizations (INGOs) such as Amnesty International or Human Rights Watch. However, cooperation with development-focused bodies such as the World Bank, UNDP or the IMF has been closer.

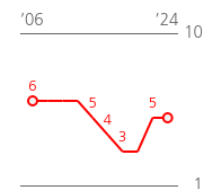
Saudi Arabia has traditionally taken a soft power approach regarding regional cooperation. It played an important role in the creation of the League of Arab States (LAS) in 1945 and assumed a leadership role in establishing the Gulf Cooperation Council (GCC) in 1981, aiming to promote political and economic cooperation. At the regional level, Saudi Arabia has consistently advocated for the establishment of a nuclear-weapon-free zone in the Middle East – although this can be interpreted as mainly targeting Israel (as the de facto owner of nuclear weapons) and Iran (as a potential owner) due to their possession of nuclear arsenals in the region.

Through its powerful and rich Islamic organization, such as the Muslim World League, it spread the Wahhabi ideology throughout the Middle East and Africa. MbS's gradual distancing from Wahhabism brought this to an end, but the intolerant and regressive interpretation of Sunni Islam is now already widely spread in many Islamic countries.

Since the Arab Spring, the kingdom has become an increasingly aggressive player, openly siding against regimes and movements perceived as hostile, whether they are Sunni, like the Muslim Brotherhood, or Shi'ite-led. Consequently, this has resulted

Credibility

5



Regional cooperation

6



in a strained relationship with the pro-Brotherhood regimes in Türkiye and Qatar, as well as even more tense relations with Shi'ite Iran. Saudi Arabia provides support to the anti-Brotherhood dictatorship led by President Abdel Fattah al-Sisi in Egypt, thereby extending its influence over the nation.

Saudi Arabia's hostile policy toward Qatar dealt a significant blow to GCC cooperation. Differences between Qatar and Saudi Arabia persist as Doha insists on foreign policy autonomy to maintain relations with all parties, including Iran. Riyadh's confrontational policy toward Iran continues to be a major foreign policy issue. The two rival powers are deeply engaged in proxy wars in Syria and Yemen. Hostility toward Iran has also prompted Saudi Arabia to explore contacts with Israel, aiming to jointly counter Iranian power and influence.

While the Saudi government does not formally recognize Israel, there have been some overtures in recent years. These overtures initially aimed to circumvent nuclear negotiations between the United States and Iran and currently aim to reduce Iran's influence in Iraq, Syria and Yemen. The kingdom indirectly supported Bahrain's and the United Arab Emirates' recent diplomatic recognition of Israel and is likely the next Arab state to establish formal relations with Jerusalem. In 2020, it opened Saudi airspace to Israel, and in 2022, the agreement was expanded. However, as of January 2023, the kingdom has also clarified that it will not normalize its relationship with Israel.

In this respect, it is noteworthy that the mega project NEOM in Saudi Arabia's north is strategically located at a crossroads with Israel/Palestine, Jordan and Egypt. With this, the kingdom can get closer to its hope of becoming a hub in the region – a plan that Vision 2030 intends to foster.

Strategic Outlook

The large-scale experiment of economic, societal and cultural reforms embodied by the Vision 2030 of Crown Prince MbS, while excluding political change, will not only change Saudi Arabia but might also impact the whole MENA region. Thus far, the crown prince appears to have overwhelming support from Saudi youth, who make up the vast majority of the total population. Despite being aware of his flaws and his often violent repression, they still stand behind him as he pushes back against Wahhabism and creates new social and cultural spaces, significantly empowering women according to Saudi standards. “Nobody is perfect, but he pushes the country forward. What MbS did was unthinkable a couple of years ago,” is the sentiment expressed during dozens of interviews with young Saudis over the past two years.

The crown prince’s popularity was further bolstered by symbolic victories, which should not be underestimated in terms of national pride – the 2-1 win against Argentina during the FIFA World Cup in 2022 is but one example. Previously unknown public outcries of joy were observed all over the kingdom.

How long the very self-assured and authoritarian ruler will remain popular and how long he can implement policies that can be described as “The Vision is me” depends especially on one major factor: the price of oil. Saudi Arabia needs a price between \$69 and \$79 per barrel for a balanced budget and to finance Vision 2030 with its huge promises; otherwise, public budgets might come under severe strain.

As MbS has concentrated nearly all power in his hands, he might become the focus of dissatisfaction. Saudi Arabia is much more diverse than often assumed, with a number of, in part, centrifugal religious, regional and political forces. These forces range from conservative Wahhabis to moderate Sufis, from Hejazis or Shi’ites to sidelined members of the royal family – MbS’s rule could face severe tests.

In an alternative scenario, MbS’s large-scale social and cultural liberalization could also lead to higher demand for political spaces and political liberalization from Saudi youth. At present, he does not seem like a suitable leader to positively respond to such calls if they become reality.

States and international governmental and non-governmental organizations (IGOs and INGOs) can make use of the new opportunities presented by liberalization and contribute to the growth of Saudi civil society. However, they should approach this task by being responsive to local demands, engaging with local actors as equals, and taking into consideration the unique characteristics of the country.

Saudi Arabia’s close allies and commercial partners – the United States and the European Union – should confront the Saudi government with its human rights record, which contrasts badly with the country’s aspirations for modernization. Not least, the United States and the European Union should remind Saudi Arabia of its international obligations and take a more forceful approach to mediating a peace agreement in the disastrous Yemen war. However, on March 10, 2023 – after the assessment period of this report – Saudi Arabia and Iran agreed to reestablish diplomatic relations. The deal, brokered by China after secret negotiations, may not only reshape the geopolitics of the MENA region but also redefine the role of the West in the region and, obviously, in Saudi Arabia.