ECONOMIC AND POLITICAL DEVELOPMENT TRIP REPORT

Riyadh and Jeddah, Saudi Arabia

February 2008

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In the following report we discuss a week-long trip to Riyadh and Jeddah that included our attendance at the Jeddah Economic Forum. The bulk of our meetings in Saudi Arabia were with business leaders, academics, journalists, and civic activists.

Key Findings:

- Many Saudis welcomed the emergence of a more open atmosphere, pointing to King Abdullah's ascension to the throne, dynamism in neighboring Gulf states, and a new "post-post-9/11" environment as key catalysts for the change. Yet, there was frustration at the unpredictability and arbitrariness of the newly expanded social and political space.

- Many liberal activists realize that they are not only more divided and disorganized than the conservative social forces they oppose, but also represent a minority view within society. Reformers recognize that the appointed members of the municipal councils and the *Shura* Council, as well as the King himself, are their allies in the struggle for greater reform.

- There has been some progress in legal reform, with international institutions perhaps being the most effective catalysts (Saudi Arabia's accession to the World Trade Organization as a full member in 2005 was repeatedly cited as a major motivator of legal reforms) but many laws are yet to be codified, creating opportunities for over-zealous clerics and judges to exercise arbitrary authority.

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- Macroeconomic challenges, such as unemployment and inflation, are emerging in Saudi Arabia as critical issues, given the large proportion of young people in the population.

- The next U.S. administration may have a new, but narrow, window of opportunity to reintroduce itself to Saudi Arabia. Many Saudis argued for the creation of a deeper, multi-dimensional relationship between both countries that engages society and culture, not just business and energy opportunities. The next president's ability to take advantage of this window will be constrained by urgent issues in Iraq, Iran, and the Arab-Israeli conflict, all of which affect Saudi views of the United States.

SOCIAL/POLITICAL ATMOSPHERE

Our interlocutors strongly expressed their sense that there has been a change of spirit in Saudi Arabia, coinciding with the ascent to the throne of King Abdullah. People we spoke with mentioned, and we felt, a more open and relaxed environment on a number of fronts, from women's dress to the ability to discuss openly internal social and political problems. Those we interviewed cited examples of recent expansions in the social and political space including the National Dialogue Project (inaugurated by King Abdullah in 2003 as a means of encouraging more open discussion of the domestic challenges facing the Kingdom), more vigorous reporting in the newspapers on abuses of state power, freer religious observance by Shi'i Muslims and non-Muslims, and allowing the Shi'ah greater participation in public life, such as election to the municipal councils in Shi'ah areas (in eastern Saudi Arabia). Several Saudis expressed regret that Abdullah had not become King earlier than he did.

In addition to King Abdullah's ascension to the throne, our sources cited other drivers of change, including the dynamism of neighboring Gulf societies and external pressure particularly from the United States, and particularly with regard to religious freedom. Others, however, argued that public and diplomatic discussion by the United States of Saudi social-reform issues had negative consequences. As examples, these critics cited Karen Hughes's September 2005 appearance at Dar al-Hekma College in which she discussed women driving, or the U.S. emphasis on elections leading to victories of a clerically-endorsed "Golden List" of Islamist candidates in 2005 municipal council contests. Another catalyst for the new environment is Saudi Arabia's emergence from the turbulence of the post-9/11 period into a "post-post-9/11" environment: having realized the extent of the internal challenge emanating from radical elements of society, and having fought this challenge using military and social tools, the government has achieved a significant degree of success and is now able to focus attention on other pressing social and political issues. One U.S. official with whom we spoke argued that Saudi Arabia's counterterrorism and counter-extremism efforts have been an untold success story.

It must be noted that, while expressing a sense of greater freedom, our Saudi partners also noted the unpredictability and arbitrariness of such freedoms, and cited daily cases of abuse by the *mutawwa* (the country's official religious police), their intrusion even into Western business establishments (such as Starbucks) and harassment of even upper-class citizens (business women, professors, and dual U.S.-Saudi citizens). This disjuncture was combined with our interlocutors' inability to state clearly who was responsible for the *mutawwa* activities they decried, and who held sway over the *mutawwa*. Control over the group was variously ascribed to conservative social forces, recalcitrant clerics who endorsed or incited such actions, provincial governors, the Minister of Interior (Prince Nayef) and his allies within the royal family, and the government as a whole, which some argued was trying to toss a sop to unhappy clerics while

introducing more substantive liberalizing reforms. It was unclear from our conversations whether the recent prominent cases of *mutawwa* abuses and arrests represent a resurgence by the *mutawwa* and the powers that control them, or rather a last effort to throw on the brakes by more conservative social forces that have lost other levers of control. It was equally unclear how much capacity King Abdullah has to control the *mutawwa*. It is also possible that *mutawwa* actions that we heard so much about have been occurring at a relatively constant rate, but that more of the cases are now being discussed in the press and public.

SOCIAL AND ECONOMIC INEQUALITY AND THE GENERATIONAL CHALLENGE

Inflation is a significant problem at the moment in the Kingdom, in part because of the current combination of high oil prices and the dollar dependency of the Saudi riyal. There was a bread shortage in the Kingdom during our visit, due apparently to some poor government decisions about grain imports. These very obvious "pocketbook issues" were common subjects in our meetings and were highlighted in the press during and after our visit. Saudi Arabia is probably not exempt from the region-wide trend in which, although GDP per capita is increasing, income inequality is growing at a greater pace. Official unemployment figures are notoriously unreliable in Saudi Arabia, but many with whom we spoke cited a figure of 25 percent.

These macroeconomic issues become even more urgent when considered in light of the challenge of absorbing into the economy and society the large youth cohort within the population. According to the World Bank, 37 percent of the total Saudi population was under the age of 15 in 2005, the most recent year for which data were available. As such, two critical questions are in need of attention: how are the young and less-well-educated segments of the population faring in this time of economic and social transition; and will the new economy that the Kingdom is attempting to build be one in which there is more opportunity for upward mobility among young people, especially those who are not already privileged with private school educations and university study abroad.

One very successful and influential Saudi businessman told us that "the system kills the ambitions of young people to improve themselves." In the same vein, many individuals expressed concern over creating jobs and matching education to labor needs. In addition, we heard from some about the following trends:

- Credit is apparently difficult to obtain except for the already-wealthy. Banks are so risk-averse that they will only lend to those with collateral or to those whose businesses are already profit-making. "The only way to get rich is to already be rich," said an American expatriate with whom we spoke;

- Because there is no income tax in Saudi Arabia, government spending is the only way to redistribute income in the Kingdom. Although the Kingdom is drowning in new resources reaped from a global rise in the demand for and price of oil , government spending is not occurring fast enough or in the right ways to trickle down to the wider population. While some pointed to large new projects, such as newly built, outlying industrial cities, as long-term job- and growth- engines, others dismissed these projects as "white elephants;"

- Government contracts go to those who are already wealthy or those who engage in corrupt practices (and there is a good deal of overlap between these categories);

- In labor terms, the government sector is saturated. More Saudis are working in service industries, we were told, but they do not have the skills to succeed there. A few people discussed with us the need to educate young Saudis in interpersonal skills like timeliness, communication, and teamwork.

Certain suggestions for American projects made by our interlocutors speak directly to these trends: offering training and entrepreneurship programs for young Saudis, providing small business loans, and trying to cultivate a more venture-capital-oriented lending culture among Saudi banks.

Among the Saudis with whom we spoke, higher education also garnered a great deal of attention as a key mechanism for building Saudi Arabia's capacity for post-oil economic success. The education sector is obviously an arena of opportunity for United States involvement, since poll results confirm the anecdotal finding that, even when other aspects of America are unpopular, the American education system remains its most valuable "brand" within the Middle East. Several people suggested that American universities could open branches in Saudi Arabia, as they had done in other Gulf states. When we mentioned the legal and institutional concerns that would have to be overcome, such as the lack of an associations' law to provide guidance and protection to nongovernmental institutions, those were dismissed as obstacles that could be overcome. There was discussion that Saudi Arabia would soon produce an associations' law, but this law could also codify some restrictive practices.

We noted one interesting effect of economic inequality in the Kingdom and the growing financial challenges facing many households: greater attention to women's education and more value placed on women's employment. In today's more challenging economic environment, a two-income household is seen as at least desirable, and for some a necessity. As a result, we were told, fathers no longer disdain or mistrust women's education, but instead want their daughters to get a good education and be employable. More broadly, women's presence in medicine, business, and other sectors is now a routine matter to many in Saudi society, not an exceptional situation.

DOMESTIC REFORM

On previous visits, liberal activists and reformers were very focused on elections – the municipal council elections of 2005—as a means to political change. On this visit, however, election euphoria had faded into a more sober recognition of both the obstacles to and opportunities for reform. Liberals today are more focused than in the past on civil liberties, rights education, community organizing and local politics – including lobbying and mobilizing around the new municipal councils.

Liberals expressed their realization—gained through the elections process (and the National Dialogues)—that they were not only more divided and disorganized than the conservative social forces they oppose, but also clearly a minority view within society. Reformists and liberals we spoke to clearly perceive themselves as engaged in an ongoing competition with this alternative, conservative force in society that is more organized, more powerful, and that may enjoy toleration or even encouragement from elements of the state. Reformers recognize today that the appointed members of the municipal councils and the *Shura* Council, as well as the King himself, are their allies in the struggle for greater reform; but they mistrust the motives of these other actors and are impatient with the pace of change. They perceive a race to achieve necessary reforms before King Abdullah dies, and before "those people" (the conservatives)

can become numerous enough or powerful enough to take over decision-making on key social issues. A repeated concern expressed by activists as well as reform-minded officials was that King Abdullah's reign might not be long enough to consolidate the extent of change they would like to see.

As part of recognizing the importance of this internal struggle, we heard repeated discussions of tolerance and how to develop it. One member of a municipal council—he himself had been appointed—talked about the need for the council members to learn how "to disagree with one another peacefully." Religious toleration and toleration of other streams within Islam were also cited as desiderata by many people. Ongoing attempts to reform Saudi schools' curricula remain very much focused on this issue of introducing greater tolerance and also civic lessons within the classroom.

POLITICAL INSTITUTIONS AND LAW

The *Shura* (Consultation) Council is apparently playing a more active role than in the past in reviewing legislation, though the recent report that a senior *Shura* member had been fired for criticizing the Economics Minister on the television station *al-Hurra* is disturbing. One key mechanism for legal reform, apparently, is international practice: Saudis want to conform to international practices and international norms, and so international agreements and internationally recognized standards are effective motivators for internal reform. For instance, Saudi Arabia's joining the World Trade Organization as a full member in 2005 was repeatedly cited as a major motivator for legal reforms and, overall, for creating improved transparency in business.

A key challenge raised by our interlocutors regarding legal reform is the lack of codification of much of Saudi law; law must be codified before it can be compared to international standards or reformed. Coaxing codification of existing law is therefore crucial to the reform process in a host of areas from business and investment to social freedom. Lack of codification also hampers the process of reform by allowing clerics and judges to make outrageous interpretations of existing law. Codifying law will reduce the scope and ability of these parties to take such actions.

The new succession law and the establishment of the Allegiance Council—a group of senior royal family members chosen to determine the smooth succession of power—was deemed significant by some Saudis, because the council is expected to improve the predictability of future governance and ensure that divisions within the royal family do not hijack the reform process. One person noted that the new succession procedure clarifies who might be eligible to rule in the future, and thus gives theose individuals incentive to behave constructively so as to position themselves well for succession. Another noted that the royal family needs to be held accountable, and that government corruption and royal expenditures are now publicly discussed.

U.S.-SAUDI RELATIONS

The next U.S. administration may enjoy a window of opportunity to reintroduce itself to Saudi Arabia and to the region as a whole. However, our conversations suggest that this window may be very narrow, both because the problems in the region are so pressing, and because the new president will be relatively constrained in changing the United States' approach on the core issues of Iraq, Iran, and the Arab-Israeli conflict.

Within Saudi Arabia, attitudes toward the United States clearly break along generational lines. Older Saudi elites, many of whom were educated in the United States, recall fondly the era of U.S.-Saudi cooperation in building the country's physical infrastructure in the mid-twentieth century. They decry the extent to which the September 11, 2001 terrorist attacks and subsequent events degraded the connection between the American and Saudi societies, and point to the declining presence of American businesses in the Kingdom as compared to the rising profile of European, Japanese and Chinese firms. In contrast to the older generation, younger Saudis, even wealthy and well-educated ones, largely lack these foundational experiences with the United States and do not place the same value on restoring societal links between the two countries. That said, when the Saudi government recently reestablished its scholarship program for study abroad for up to 15,000 students, reportedly more than 80 percent of those applying named the United States as their preferred educational destination.

Some of our interlocutors lamented that the United States treats Saudi Arabia as "merely a gas station" or solely a place for "doing business." The aspiration expressed in this was for a more multi-dimensional relationship that engages society and culture, not just economics. The education sector was repeatedly cited as a key arena in which U.S.-Saudi ties could be strengthened, as well as an arena in which more liberal and pro-American modes of thought could be consolidated within the Saudi population.

Both Saudis and Americans with whom we met complained that visa problems made travel between the two countries exceedingly difficult, but noted that in recent months the situation seems to have improved. Interestingly, the visa problems cited were both Saudi and American in origin. Saudi students' inability to get multi-year, multiple-entry visas for the United States caused many complaints. Similarly, many Saudis and Americans cited the Kingdom's slow and cumbersome visa process (requiring letters of invitation, for example) and refusal to provide multiple-entry visas as a barrier to business development and broadening social ties. Saudi Arabia's continuing reluctance to issue visas makes its attempts to develop the Kingdom as a tourist destination seem quixotic at best.

Closer to the ground, both the U.S. embassy in Riyadh and the U.S. consulate in Jeddah have become absolute fortresses, and security policies affecting U.S. foreign-service officers make the Kingdom a challenging place in which to undertake public diplomacy or use the local U.S. government presence as a bridge to the broader society. While a number of mid-level U.S. government officials take great pains to maintain broad networks of contacts in the local communities, the designation of Riyadh and Jeddah as one-year, no-dependent posts means that such work requires extra effort. The value of many U.S.-Saudi personal relationships is quickly lost because of the transitional nature of the diplomatic corps.