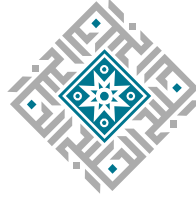


Policy Analysis

Reform in Saudi Arabia: Current Challenges & Feasible Solutions

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Abstract

Saudi Arabia today stands at a decisive crossroads. The political leadership in Riyadh is acutely aware that serious and sustainable reform is a societal and logical necessity' and should be implemented sooner rather than later. That is the central thesis of this paper prepared by the **Gulf Research Center (GRC)**, born of the Center's deep conviction that reform must be anchored within a comprehensive and well-planned strategy.

Starting on a subtle note the paper examines the concern of the Saudi authorities. This was eminently expressed by the Custodian of the Two Holy Mosques, King Fahd bin Abdulaziz, in His 17 May 2003 address to the Saudi Consultative Council and concretely reinforced by the decision by Crown Prince Abdulla bin Abdulaziz to set up executive committees, tasked with the mission to implement the reforms set out in the King's speech.

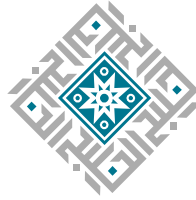
The speech has been, regarded as the expression of the official vision of a Saudi society, strong, united and ready to deal with the dangers that threaten Saudi Arabia's national security and domestic stability.

Crown Prince Abdulla, for his part, further confirmed his wholehearted support for the planned reforms. He called for a four-day national conference on intellectual dialogue, held in Riyadh between 15 and 18 June 2003.

The six sections of the paper present an intelligible and well-rounded agenda for reform through a rigorous deconstruction of the multiple determinants and factors that prompt, hamper or help reform. Some of these determinants reside within Saudi Arabia itself, others in its proximate geographical neighborhood, while a few others flow from the wider international scene.

The main argument that informs the paper branches logically and smoothly into a focused discussion of the full gamut of sectorial reform as it runs through society, politics, education and the economy.

Every issue is systematically and comprehensively analyzed; as the paper looks into its diverse constituent elements and examines the way the issue might prove to be a value-adding asset for reform or conversely, a hindering liability. National challenges, such as terrorism, religious opposition, budget deficit, soaring population growth, are addressed at reasonable length. Regional and international challenges take up a sizeable portion of the whole discussion. U.S. military presence in the Gulf and the need for the Gulf Cooperation Council to re-vamp its policies for better regional integration are two of the main regional challenges the Kingdom has to wrestle with.



Reform and innovation are the pulsing heart of Islam as the paper stresses with reference to the King's speech. The point here is to set right the traditional and insular religious thinking that would possibly oppose reform or put wedges in the reform wheel out of some erroneous exegesis of religious texts or under the influence of some unorthodox ideologies. The paper drives this principle home forcibly, as otherwise it would muffle the rising voice of opponents who seek to obstruct the progress of reforms.

For reform to meet with success, it ought to be launched and executed along the lines of a mutual accord between the ruling elite and the people. It would, thus, fortify the existing political structure and its legitimacy.

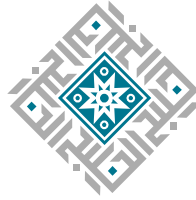
One of the paper's central recommendations lays much emphasis on the importance of proceeding through a gradual, step-by-step approach as the best option likely to avert and appease apprehensions. Jump-starting the reform program will foster the credibility of the government and preclude any unpredictable developments from taking root.

A few philosophical asides punctuate the paper, recalling practical reform experiences in a number of countries around the world and the way they uphold the suggestions and recommendations included in the paper or, highlight the dangers and pitfalls the paper warns against.

Prioritizing reform tasks is of utmost importance. It cannot, however, be achieved in a random or haphazard way. It should answer to well-defined and rational criteria such as the urgency of an issue, the nature and magnitude of the expected public reaction to any given reform and the financial cost incurred.

It would be extremely edifying, the paper suggests, to kick off the reform program by convening a consultative meeting, not unlike the one the Crown Prince held with the Saudi intellectual elite. Participants in the meeting need to be opinion makers, intellectuals, ministerial representatives, and media people drawn from different regions, sectors and groups. The meeting could ratify a decision for the creation of a Higher Committee for Coordination. A number of specialized committees could be set up to supervise and manage economy and finance, political and administrative affairs, including the oil industry, culture, information, education, social affairs, constitutional and legal affairs, and security and defense affairs.

The paper attaches special importance to unemployment among Saudi youth. It couples it with the necessity of reforming the public administration on which the execution of reforms would be incumbent, the need to change patterns of the state-society relationship, the need to shed a number of inefficient and redundant institutions and supplant them with new, more result-oriented ones.



Reform requires primarily a review of the constitutional and legal framework. It is, hence, crucial that the legal and constitutional frameworks be reviewed for the sake of pre-empting any critique or questioning by foreign academic or political circles regarding political succession and the cohesion of the royal family.

Saudi Arabia's population growth rate stands among the highest in the world. It exceeds the national economic growth rate. As such, and in case it stays on the rising curve, it is set to compound the inability of the government to maintain living standards because of the increased public demand for services.

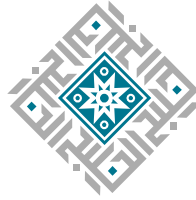
The status of women in Saudi Arabia is a main concern within the social chapter of reform. Acknowledging the excessive sensitivity of the issue, the paper treats it in a very balanced way, recommending that the traditional mechanisms tasked with managing the affairs of women in the Kingdom be integrated into a specialized, governmental body.

A powerful strategy for economic reform will certainly contribute to developing a sustainable platform for a stronger national economic structure that will be conveniently endowed with the right environment and appropriate tools to renew growth and hone the Saudi economic, competitive edge. The section devoted to economic reform provides a rigorous reading of economic figures, indicators, and forecasts in a way that presents Saudi economic decision-makers with a pretty clear economic picture.

The paper quite rightly casts educational reform into special relief as the project of re-vamping educational curricula and programs falls squarely within Saudi national interest. A well thought-out reform strategy of education, one that could be pegged to the educational standards recognized and approved by the United Nations Educational, Scientific and Cultural Organization (UNESCO).

The paper, echoing King Fahd's message, insists that educational reform is the right recipe for grooming well-balanced Saudi youth capable of living up to the demands of the times, without however, ignoring the foundational premises of 'Arabhood' and Islam.

The present paper is the product of hard thinking and synthetic research GRC has conducted for the sake of setting out a realistic examination of the nature of the indispensable reforms to be undertaken in Saudi Arabia and their economic and socio-political possibilities. The ultimate objective is to contribute to having Saudi Arabia preserve its leadership role in the Muslim and Arab worlds, together with its prestigious position on the world map. Such a goal is perfectly achievable if 'Reform in Saudi Arabia' is adequately performed and 'Current Challenges' are surmounted through a set of 'Feasible Solutions'.



Introduction

Reform in Saudi Arabia is one of the burning issues that attract much attention both within Saudi Arabia and overseas. Authorities in Saudi Arabia attach much importance to the issue of reform built on a national platform that would, at one and the same time, answer the needs and requirements of the Saudi people, strengthen the ties between the rulers and the ruled and close any and all existing gaps that external parties might exploit as pretext/s for intervening in the internal affairs of the Kingdom.

As centers for research and studies across the world endeavor to put forth suggestions, ideas and visions to come to grips efficiently with challenges and issues that confront states and societies, the Gulf Research Center (GRC) has set itself the task of planning and presenting the present paper.

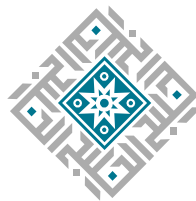
The GRC hopes to contribute to enhancing the efforts made for the elaboration and articulation of reform strategies and visions having a real potential for achieving the desired goals and objectives.

Section I: The Authorities' Concern with Reform

In His May 17 2003 address to the Saudi Consultative Council, the Custodian of the Two Holy Mosques, King Fahd bin Abdulaziz, pledged to expand the breadth and pace of reform in the country. The King's call for reform was concretely reinforced by the move decided by Crown Prince Abdulla bin Abdulaziz to set up executive committees tasked with the mission to implement the reforms mentioned in the King's speech. The speech has been, in effect, regarded as an official agenda for reform.

The main points of reform delineated in the king's speech are as follows:

- Confirming that the people of Saudi Arabia oppose all forms of terrorism and will never allow any terrorist group to harm the country and undermine the safety of its citizens and residents. The Saudi nation is determined to eradicate all forms of terrorism.
- Rejecting any form of intervention by any and all external parties, under any pretext, in the internal affairs of the Kingdom, and rejecting the claim that attempts for reform are undertaken in response to external pressure.
- Stressing the need for all internal affairs to remain open to self-revision.
- Emphasizing the importance of civil and criminal judicial procedures. The procedures have been carefully studied by the Consultative Council. New

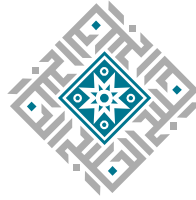


laws and regulations will provide equal access to justice for all citizens and prevent power abuses by official authorities.

- Setting up a non-governmental Human Rights' Commission, to be subsequently followed by a governmental human rights' organization.
- Boosting political and economic reform, improving the system of governance and monitoring the performance of the public sector, along with broadening popular participation in the political process.
- Placing a premium on involving women in the economy with due respect for religious precepts and teachings.
- Addressing the problems of unemployment and poverty.
- Emphasizing that national unity is in full harmony with these ideologies. National unity calls for quiet and brotherly dialogue. It is the responsibility of the religious leaders to promote a moderate and tolerant religious discourse and save Saudi youth from the evil of destructive thoughts that propagate extremism and hatred and only result in devastation and ruin. A primary and foremost obligation lies in confronting narrow-mindedness, regionalism and social divisiveness.
- Asserting that authentic reform derives from the convictions and heritage of the nation; only then, will the nation embrace reform willingly. For reforms to be successful, they ought to be gradual and smooth, avoiding counter-productive rush and abortive sluggishness.
- Making clear that education and educational curricula promote character and instill values in the young for the benefit of the nation.
- Confirming that media is not an act of self-promotion, that culture is not a status of social prestige. National unity and international recognition are inextricably linked with a media fully conscious of its obligations and a culture grounded on varied and dynamic activities, seeking to grapple with narrow-mindedness, regionalism and social divisiveness.

The King's speech makes it crystal clear that a genuine intention for reform animates the Saudi authorities. Reform is, certainly, the ideal way to ensure and entrench political stability and construct an impregnable rampart against foreign intervention/s in the domestic affairs of the Kingdom.

Such a trend towards reform places the Saudi citizen at the heart of the reform process. Quite expectedly, reforms would entail some belt-tightening, which is bound to affect the citizen; hence, the importance of gaining the citizen's trust as an active party to the reform program through a credible and convincing approach that would clarify and determine the objectives and



implementation tools of reform. Citizens would, thus, be better conscious of their rights and obligations.

Equally important is the call for untainted social reconciliation built on national unity, away from extremist discourse and ideologies. Reconciliation demands transparency and cool-headed dialogue, as the King's speech pointed out and as the Consultative Council moved to execute it. Crown Prince Abdulla, too, affirmed his wholehearted support for the planned reforms. He called for a four-day national conference on intellectual dialogue, held in Riyadh between 15 and 18 June 2003.

The Saudi ruling elite today stand before a gigantic mission, as the planned reforms involve reviewing a system that has been operating, unchanged, for a very long time. Social and behavioral patterns have been deeply ingrained, so too has the behavior of the authorities. Reform will necessarily rest on changing the patterns of the relationship between the state and society at large, in addition to the need to replace a number of age-old institutions with new, more effective ones. The new institutions need to be sufficiently efficient to help foster free-flowing communication between state and social actors.

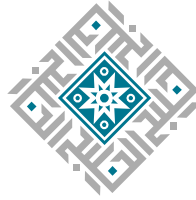
On a closely related note, transparency should exist at every step of the reform process. Objectives of reform, instruments of implementation, allocation of responsibilities and benefits, all need to be fully intelligible to the ordinary citizen, as he is, in the ultimate analysis, the center and pivot of the reform program.

More significantly, it is as well to recall here that any reform agenda in Saudi Arabia takes on a special flavor and connotation compared with other countries, due to its religious standing in the Muslim world. It is essential, therefore, to attach proper attention to the religious determinant, taking care not to let some reform opponents brandish it as an excuse to hinder the reform program.

Section II: Reasons and Grounds for Reform

A. Grounds for Reform

1. Recently, Saudi Arabia has been the scene of a plethora of events that culminated on the 12 May 2003 bombings in Riyadh. These developments have revealed the inescapable truth that Saudi Arabia is plagued by a number of problems and domestic, regional and international challenges. For Saudi Arabia to handle effectively the looming dangers that threaten its internal stability and pre-empt foreign intervention/s in its domestic affairs, it needs to opt for and implement a new and innovative policy, capable of addressing these threats, actual and potential.



2. Recognizing the existence of problems and challenges is an excellent start towards squarely confronting and eventually, surmounting them. It is crucial to identify, objectively and systematically, the nature and magnitude of the existing problems, avoiding at one and the same time the trap of disproportionate magnification and/or over-confident indifference. It is not in the public interest to turn a blind eye to the reality around or offer partial solutions that would simply put the problems to rest for a passing while, only to rise afresh with a vengeance. Besides, such an approach would bequeath this loathsome burden to future generations.

3. Handling the threat of terrorism together with tightening the security net, today, figures at the top of the state's priority list yet is far from solving the problem. The terrorist phenomenon has proved to have religious, economic, social, cultural and political ramifications, the eradication of which call for a rational, practical and innovative reform agenda. A security approach to foil or abort terrorist acts, including expert intelligence work and the identification of those planning to carry out such acts, would be lacking in efficiency unless upheld by a concomitant approach by the official authorities to uproot hard-core extremism, which offers the fertile breeding ground for terrorism.

B. Principles of Reform

No doubt, reform constitutes a master solution to the challenges and problems that face the Kingdom. For them to yield the desired results, reforms should be grounded on the following principles:

First Principle: Reform and innovation are the pulsing heart of Islam. Islam does encourage and promote reform and positive change in the interest of the general public. Making this principle explicit and clear would muffle and isolate the old and rigid religious preconceptions likely to oppose reform. Islam allows significant room for novel interpretations as far as secular matters are concerned.

Second Principle: Reform should be a comprehensive, well-wrought and objectives-based process. It is undeniable that the outline of the reform program, as postulated by the Custodian of the Two Holy Mosques, King Fahd bin Abdulaziz, in His 17 May 2003 address to the Saudi Consultative Council, together with the reform vision posited by Crown Prince Abdulla bin Abdulaziz, encapsulate the essence of the series of reform needed in the Kingdom. The proposed reforms reflect, in real effect, the demands and ambitions of the Saudi people, a sign that the reform program, its nature and areas of application, elicit the consensus of the people and the rulers. It remains for the Saudi people to see the proposed reforms efficiently and effectively implemented.



Third Principle: True reform, as has been proven elsewhere, cannot become a reality without claiming a cost in terms of cutting back, if not completely pruning away, prerogatives hitherto enjoyed by some. Similarly, citizens may have to pay for services and public goods that were provided completely free of charge or for a token price in the past. Reforms may also trigger some social and/or political tension. However, eschewing reform will generate a tremendous socio-political cost in the future when compared to the cost of implementing reforms in the immediate present.

Fourth Principle: Reform may be obstructed or delayed by those individuals or groups whose personal interest and reform move at cross-purposes. It is imperative to restrain these obstructionists from having their way, out of the conviction that public interest rises above clannish or individual interests.

Fifth Principle: Any reform launched and executed along the lines of a mutual accord between the ruling elite and the people is bound to strengthen the existing political structure and its legitimacy. In such an environment the regime would enlist the active participation of all the different political and social forces in the reform program.

Sixth Principle: Practical experience in a number of countries around the world confirms that gradual reform yields better cumulative results. The trap to avoid here is never let lethargy or disinterest set in with the passage of time, as gradual reforms would, by their very nature, be planned and implemented over a relatively long period of time.

Seventh Principle: Though reform in Saudi Arabia is, and will remain, a strictly domestic affair, a number of regional and international considerations need to be granted due attention, as they might reflect, positively or negatively, on the reform program.

Eighth Principle: That reform should be endowed with a political anchor and reference is a *sine qua non* for its potential success. The reform agenda in Saudi Arabia does, in fact, possess such an anchor as set out by both King Fahd bin Abdulaziz and Crown Prince Abdulla.

Section III: Prioritizing Reforms

1. Prioritizing reform tasks is of the utmost importance. It cannot, however, be achieved in a random or haphazard way. It should answer well-defined and rational criteria such as the urgency of an issue, the nature and magnitude of the expected public reaction/s to any given reform/s, the financial cost to be incurred etc. Obviously, such a mission can only be undertaken by specialized committees.



2. Economic reform, for instance, should start by addressing the problem of unemployment among the young, creating the environment most likely to attract Saudi foreign investment. Such steps would lead to reforming the legislative and institutional structures of the national economy, just as they would expand the economic production platform, creating along the way new employment opportunities.

3. Overhauling the administrative system is an equally important aspect of the reform program. As the administration assumes the sensitive responsibility for the execution of reform, its development is vital. As it functions today, the administration could hamper rather than help the proper implementation of reform, probably diverging from the real objectives of reform.

4. Political reform demands preparation and vigilance in order to avoid any and all negative ramifications. This could include, among other things, reviewing the constitutional and legal framework, so that they gain compatibility with the orientations of reform as put forth by both King Fahd bin Abdulaziz and Crown Prince Abdulla. In this respect, it would be highly convenient to lay stress on allotting greater responsibilities to the Consultative Council. It would also be commendable to open higher state positions to all the Saudis without discrimination and to lift the lid gradually on the freedoms of expression and opinion.

5. Saudi-American relations are, most probably, set to undergo some re-shaping, especially after the developments that ensued the September 11 events. As such, Saudi-American relations will, expectedly, affect the reform agenda.

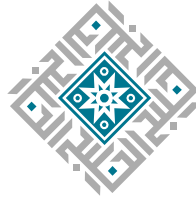
6. Once the reforms move steadily forward, it will become easier to tackle highly sensitive issues, such as the status of women and their role in society, the need to approach the prevailing religious discourse in a new light without offending the fundamentals of Islam, holding municipal and regional elections that would be a prelude to general legislative elections in the foreseeable future.

IV- Mechanisms and Requirements for Reform

A. Mechanisms of Reform

1. If the intent to execute reforms is well-established officially and publicly and problems are clearly identified, the next important move needs to be the definition of the nature and practicality of the measures and mechanisms meant to steer the reform operation in the right direction.

2. It would perhaps be edifying to initiate the reform program by convening a consultative meeting, not unlike that held by the Crown Prince with the Saudi intellectual elite. Such a meeting would be better organized under the patronage



of the Crown Prince and the supervision of one of the ministers or one of the top state officials. Participants in the meeting need to be opinion leaders, intellectuals, ministerial and media representatives drawn from different regions, sectors and groups. They should propose and debate issues pertinent to the reform agenda, as laid out in Section V of this paper under the title 'Ideas and Suggestions', along with the conclusions to be made by the specialized bodies and the Higher Committee for Coordination

1. The meeting could very well end up with the creation of a Higher Committee for Coordination that would include an appropriate number of members. Other principal and specialized committees could be set up to supervise and manage the following areas:

- Economy and finance, including the oil industry
- Political and administrative affairs
- Culture, information and education
- Social affairs
- Constitutional and legal affairs
- Security and defense affairs

The principal committees, mentioned in the foregoing sub-section, will be tasked with the following:

- Examining the main existing problems and challenges in the field of work of the Higher Committee for Coordination and articulating objective suggestions for their remedies.
- Developing plans and feasible programs for reform and innovation in the field of work of the Committee by identifying priorities, the tools of implementation, the eventual cost envelope, etc.
- The principal committees will submit well-rounded reports on the progress of their work within a reasonable time frame.
- The principal committees could establish technical and specialized sub-committees, just as they could expect support from research centers and universities for the completion of their respective tasks.

1. The Higher Committee for Coordination will study the reports compiled by the principal committees. It will, equally, devise a strategy for the planning and programming of reform. The Higher Committee will take into account the importance of priorities and the timetable for the execution of the reforms. It



will have to present a clear vision and a comprehensive work plan to his H.H. the Crown Prince or to the top official in charge, so that the vision and the plan may be accepted as the reform document. The next step will be to decide and distribute the responsibilities among the specialized bodies involved in the reform process.

B. General Requirements for Reform

Some general pre-requisites for reform could be enumerated as follows:

1. Compiling comprehensive and accurate databanks covering all economic and social sectors in Saudi Arabia. It would be most appropriate to establish a national data and information center
2. Attaching due attention and interest to scientific research on public policies adopted and implemented by the state. Such research would serve to enhance and improve public policies
3. Gradually reigning in the power of anti-reform groups
4. Adequately preparing society for the reform process. People should clearly understand that a number of reform decisions would affect, in the short term, certain social groups.

Section V: Issues and Areas of Reform Application: Suggestions & Ideas

1. Economic Reform

The Custodian of the Two Holy Mosques pointed out that the state has proceeded on a number of initiatives to liberalize the economy from bureaucratic hurdles in an effort to entice foreign and domestic investors. The state has also made a serious bid to privatize the economy by transferring public-owned economic assets to private sector enterprises, in addition to reviewing the fiscal code.

The Crown Prince stressed that economic reform targets two main problems, namely unemployment and poverty. He made it clear that reform cannot yield the desired results save within an environment of social cohesion that draws its force and impetus from national unity.

So long as economic reform is regarded as a 'must' in the eyes of the Saudi leadership, our aim here is to shed light on the ways and means of reform, the timescale and the mechanisms of implementing reform, the necessity of recognizing and dealing with the probable effects at the outset in order to contain them before they take on an ampler dimension. It is undeniable that the Saudi economy suffers from a number of readily recognizable, as well as other essential and less apparent, problems: a reality that calls for a genuine dialogue to be built into several research projects and studies.



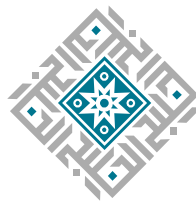
1.1 Economic Facts: Saudi Economic Performance

It should be noted that ever since the end of the oil boom in 1981 the economic performance of the Saudi economy has never registered results as good as during the three financial years (2000, 2001 and 2002), which have been quite outstanding in terms of the volume of oil revenues. The private sector has grown markedly, consumer debt and expenditure rates have picked up. The real deficit in the public budget fell short of the forecast figures. Trade balance was invariably favorable. Markets in the bonds and securities market all pointed northwards. Such positive performance was attributed to the increase in oil prices, the decrease in interest rates and the return home of Saudi capital from overseas. Oil exports constituted a hefty 80 per cent of the total national revenues and per cent of the nominal Gross Domestic Product.

The Saudi economy is endowed with strong and viable assets, the most important of which are the following:

- Huge, proven oil and natural gas reserves
- A geo-strategic location with long coastal borders
- A trove of mineral resources likely to accommodate huge investment in the field of strategic industrial production. A developed infrastructure, along with a world-class system of telecommunications
- A liberal economic system and a modern banking structure based on the free movement of capital
- A vibrant private sector that contributes to a handsome 40 per cent of the GDP
- A high population growth rate, which reflects a real growth potential in the local market. Labor import, too, adds to the strength of the local market in spite of the pressures on the state to curtail such a trend and focus instead on developing the national labor force
- Free educational and health-care systems that serve all the regions in the Kingdom
- The ability of the Saudi government to keep inflation rates at the lowest possible level. The consumer price index fell by 0.5 per cent during the financial year 2002 compared to 0.6 per cent in 2001. Provisions for the year 2003 forecast a slight increase in inflationist pressures up to one per cent due to a probable increase in the prices of non-oil commodities. However, it remains implausible that any increase in the consumer price index would exceed 2 per cent in 2003-2004. Likewise, inflation rates are not set to register any marked increase in the upcoming years, thanks mainly to the economic reform efforts and rational financial policies.

Still, in spite of the development and diversification of revenue resources in Saudi Arabia, the country has not achieved the necessary immunity against possible disruptive fluctuations in the international oil market. One of the notable reasons for this situation may be ascribed to the limited exploitation of the available resources,



the still insufficient bid to tap into new entrepreneurial ventures that Saudi investors are willing to test and the long-term economic strategizing that Saudi Arabia has adhered to for the last 30 years plus.

1.2 The 'How- to' of Economic Reform

Referring back to the vision of the Crown Prince, Abdullah Bin Abdulaziz, an examination and analysis of the different sectors of Saudi Arabia's economy confirms the pressing necessity of undertaking economic reform directed towards fulfilling a host of inter-locked and complementary objectives.

The critical question here is: How is reform to be articulated? How is it to be implemented? How are high qualifications to be secured for reform implementation? What is the appropriate timetable for its implementation?

Economic reform experience in other countries and regions around the world could be made into a launching pad for reforms in Saudi Arabia. Of course, an effective strategy for economic reform will certainly contribute to developing a sustainable platform for a stronger national economic structure. Such restructuring calls for the constitution of a committee composed of a task force headed by a chief. The task force will be allowed a six-month period to produce a draft for a strategy of economic and social development within a wider program to be publicly discussed before the draft is officially finalized into an executable plan.

The committee will have to focus on a number of economic issues, the most significant of which are as follows:

- To abandon adaptation programs and economic reforms that run contrary to the interest of the Saudi citizen. One can, obviously, induce economic liberalization and budget deficit reduction through the rationalization of government subsidies.
- To correct problems and imbalances that have plagued the Saudi economy for the last few decades. Such woes have started to fester in the recent past.
- To empower the Saudi economy by honing its competitive edge and ability to react positively and competently with the unfolding developments and the regional and international economic structures that checker the world economic map.
- To achieve a sustainable and balanced economic and social development.

To make the best use, avoiding a mere 'cloning', of developmental experiences carried out elsewhere, ready-made replicas, as presented by international financial and economic institutions, are to be definitely rejected. In



other words, an economic model needs to be prepared and decided by local Saudi economists.

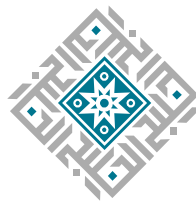
Look at the Seven Asian Tigers, which managed to enact a stable economic policy by convincing the people to invest their savings locally. They introduced new-fangled incentives, such as equitable land reform, that were deemed honest and serious by the people. They also facilitated access for the poor to marketing services. They garnered the long-term benefits from export operations that rest on the employment of the least qualified laborers.

- To foster a sustainable platform for the development and diversification of the Saudi economy and its resources, so that the Kingdom could be well protected from the dangers that arise from reliance on a single resource commodity.
- To work towards achieving a balanced economic structure by way of identifying and exploiting economic sectors where the Kingdom enjoys relative advantage, in addition to creating a propitious environment for economic success.
- To enlist the participation of the brilliant and brightest among Saudi people in formulating a future vision for an ideal method and methodology likely to help the Kingdom better cope with the local, regional and international challenges lying ahead.
- To call upon thinkers, economists and researchers to submit their opinions and ideas, relying more on pragmatic and practical approaches that could translate the visions into reality.

1.3 Instrument of Implementation: A Practical Guide for Economic Reform Strategy

The most daunting challenge facing the Saudi economy today is the slow pace of growth the GDP in contradistinction with the speedy growth of the younger class in the Saudi society. This reality brings a lot of pressure, especially unemployment, to bear on the government. The authorities have already initiated myriad measures and reforms to remedy these challenges, perhaps most remarkable of which is the bid to cut down on the country's reliance on oil revenues, eliminating the budget deficit and contracting the volume of the public debt.

The fact, however, is that the public deficit as registered in 2001 is a perennial problem that has been the main hallmark for the 19 years. The net



result of the continued deficit has been the accumulation of the local debt which netted 98 per cent as a proportion of the total GDP.

All in all, there are three fundamental imbalances in the state's financial status, which successive financial policies have been trying hard and long to eradicate:

- Towering national debt.
- Low capital expenditure (investment in infrastructure projects) compared to current expenditure, as represented in wages, operation costs, maintenance costs and debt service. This imbalance is the main force behind government's efforts to privatize the economy.
- Excessive reliance on oil revenues. Income generated by oil contracts represents 75 per cent of the overall state revenues. The Saudi government is studying the possibility of levying new taxes and new tariffs or, alternatively, increasing existing ones in a determined bid to reduce the country's reliance on just oil revenues.

It is clear that economic policy-makers need to switch to economic reform within a holistic perspective that flows from the need to place the economy on the fast track.

Economic policies should be predicated on the need to remedy high inflation rates, inability to repay debt installments and concomitant interest rates, and the lop-sided balance of payment. Sound economic policies will revive financial and long-term foreign monetary discipline, relying on market forces to manage the economy.

Economic reform policies could be regarded as a bunch of corrective policies with the goal of removing imbalances and renewing with acceptable rates of economic growth.

It is crucial to take a look into the way Saudi economic policies would approach reform in the light of the unpredictable and epoch-changing developments on the economic and political international scene, just as it is important to grant due space for a discussion of the characteristic economic reform in the other GCC states, which opted for a system of economic liberalism. The private sector plays an outstanding role in fostering a policy that stays away from relying exclusively on oil and fosters the diversification of income resources.

In this new reform thrust, the state would retain a reasonable presence through limited regulation and supervision that would veer away from inserting clogs in the private sector machine. Furthermore, the state will assume the



charge of constructing a modern infrastructure, securing production tools through sound investment of oil revenues, and providing adequate education and professional training to the national labor force in an attempt to reduce the state's reliance on foreign workers. Similarly, the state would have to create an investment-friendly environment for national economic operators.

The fact persists that the strategic developmental goal rests on a qualitative leap to be affected in the long run and linked with the performance of the Saudi economy within a wider economic plan that would incorporate a set of practical mechanisms to gauge economic development as per quantitative indicators aligned with structural and temporal curves.

In this connection, we believe that the success of the Saudi policy for economic reform depends, to a great extent, on its ability to come to effective terms with economic issues and challenges following the two under-mentioned options:

First Option:

We do believe that the project of economic reform in Saudi Arabia should comprise a number of studies as mentioned below:

First Study: A scientific examination and analysis of the Saudi economic reality (i.e. diagnosis of the current situation) at the macro-economic and sectorial levels. The study would identify areas of weakness and strength in the national economy, along with exploitable opportunities and challenges. The general environment would be carefully scrutinized at the national economic, technological, political and social levels, as well as at the GCC, Arab and international levels, casting a look into the implications, opportunities and challenges shaped by the dominant environment.

Second Study: A strategic guide. The study-guide would include:

- A general strategy, which would comprehend the main trends of the Saudi economy: macro-economic indicators and substitutes for development. The strategy would identify priorities, goals and the means to achieve those goals in each and every phase. This guide would constitute the foundation of which sectorial strategies would partake.
- Sectorial strategies would draw on the principal strategy. They would define sectorial objectives for every phase of the strategy implementation. The shorter the phases the better.



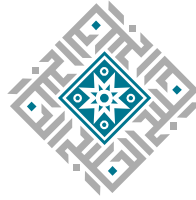
Third Study: A study of the organizational structure of the strategy and its executive program. The study will define the organizational chart and its relation with government bodies and private sector corporations. It will also define the realm of decisions, the instruments of implementing the decisions, follow up their execution, and inserting any amendments and/or corrections needed.

It is imperative that studies 1 and 2 be concerned with economic indicators and the implications these indicators may have on the overall performance of Saudi economy. As such they should come under different sub-titles:

- Analysis of the nature of the contemporary international economy and present-day political realities, in addition to an exploration of the challenges created by the wave of globalization and the effects they may have on the Saudi economic landscape.
- Investment and financing. In this respect, attention should be focused on creating a suitable environment for a stronger investment inflow, more confident saving, and securing capital resources to finance the economic reform agenda, consistently bearing in mind the need to eschew full and exclusive reliance on oil revenues or external support for financing.
- Consumption
- Market economy
- The role of the state
- The role of the economic sectors (the public sector/ the private sector)
- European partnership
- Gulf partnership
- Regional partnership
- Relations with international organizations, such as the International Monetary Fund (IMF), World Bank (WB), and World Trade Organization (WTO)
- Labor force and the population
- Planning and agenda-setting
- The market and the role of the market forces



- Policies relevant to domestic and foreign trade
- Making use of modern technology, rendering the code of foreign capital investment and the taxation system more flexible, in such a way as to entice foreign investments and technology transfer.
- Stress should be laid on the necessity to further promote industrialization, value-adding industrial production, and the share of industrial production in the GDP. Industrial organization and relations with society should be clearly articulated and rationalized.
- Pushing the case forcefully for Saudi Arabian membership of the WTO. World standards and quality compatibility tools need to be introduced and enacted in Saudi industrial production in such a way as to heighten the competitive capabilities of the Saudi economy in international markets within a long-term perspective, despite the failures and whatever negative impact might accrue from a short-term approach.
- Empowering Saudi citizens and the role they should assume within the labor force. Saudi workers ought to be adequately trained and empowered. University graduates need to be equipped with skills that accurately match the demands of the labor market. Only through such steps would national workers answer and dominate the requirements of the local economy.
- Reforming the public sector by introducing innovative management styles and policies, a novelty that would turn the public sector into a locomotive for the national economy, in a complete volte-face from the current situation. It must be affirmed emphatically here that the public industrial, trade and construction sectors, as they stand today, are quite ineffective and unproductive.
- Enrolling and integrating the private sector in the economic and social developmental plans. Privatization should move more steadily, the private sector however, not unlike the public sector, still lacks the managerial skills and the organizational competency that would qualify it to play the prominent role many expect it to assume in reforming the economy. Hence, there is the need for a careful study that would address the reality of the private sector, the problems that hinder its progress, its potential for development and the challenges that threaten to overwhelm it.
- Financial and monetary policies: The Saudi Arabia Monetary Agency, being the central bank in Saudi Arabia, should be further developed. The responsibilities of the monetary agency to manage monetary policies need to be expanded. The Saudi government needs to set its



mind to rationalizing governmental spending in such a way as to avoid disrupting the activities and projects of state departments, current and future. Needless to say, rationalization of spending should not be conducted to the detriment of employees.

- Reforming the judicial system and strengthening the concept of the rule of law.
- Enacting supervision and corrective measures of all types and at all levels.
- Expanding the national information databanks, which would secure a higher profile and more visibility for investment opportunities available in the Kingdom. Feasibility studies would be an additional asset and incentive for potential Arab and foreign investors.

Second Option:

It would be commendable, from an economic vantage point, that the economic reform program be undertaken beneath the umbrella of the Gulf economic partnership. In this way it would become an economic tool in the hands of the Gulf partnership to shape the demands of the economic reform. This program throws into relief three priorities that are inextricably linked with the development of the partnership. The three priorities are:

- Support for the economic transformation: the objective here is to enact the principle of free trade among the GCC member states by increasing the pitch of competition. Saudi Arabia would, thus, have to improve its economic performance continually, especially in its private sector, in order to keep pace with its regional competitors.
- Bolster and support the socio-economic balance: the target here is to lower the short-term cost raised by the operation of economic transformation through the adoption of a series of suitable measures related to social policy.
- Foster regional and international Gulf operations: the main objective is to finalize mutual activities between the GCC and other countries through a set of measures meant to increase the volume of exchange at the regional and international levels.

The program needs to be financed by the GCC states who will be the chief beneficiaries of the program. The General Secretariat of the GCC could assume charge of financing the project.

It is a truism that no economic reform is achievable unless it is strongly projected and politically supported. Once economic reform bears the seal of political support, implementation instruments need to be defined and a well



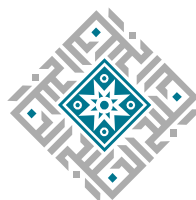
thought-out approach devised in order to introduce all and any necessary amendments into the existing economic structures.

On another front, realizing well-rounded development and economic stability demands that the Kingdom embrace a newly designed strategy according to the aforementioned options 1 and 2. The new strategy is bound to place the industrial sector on a higher pedestal as a chief contributor to the development of other sectors, such as agriculture, mining, trade and the service industry, besides securing new jobs. Industrialization will certainly answer the needs of the local market, just as it will help boost exports.

- Agriculturally, the best strategic option for Saudi Arabia at present would be to limit its agricultural production to plants that require the least water. Date palms are a good example of such plants. Wider and deeper research in modern agricultural techniques and state-of-the-art technology should certainly be funded and expanded.
- Boosting trade as an agent likely to contribute to developing national income resources, along with making goods and commodities available to all citizens in all the different regions of the Kingdom.
- The private sector in Saudi Arabia functions according to the rules of the market. It secures more than a million jobs. It employs 15 per cent of the labor force. However, as the private sector employs the majority of the foreign workers, it could very well absorb nationals through a 'Saudization' process.

For economic reform to come to successful fruition, social issues must, per force, be taken into consideration along the following lines:

- Giving priority to the reform of the social security network and boosting the role of alms-giving (Zakat), religious endowments (Awkaf), the charity fund for humanitarian services and re-orienting the work and activities of charities toward the poor and needy of the Kingdom.
- Setting up new projects and incentives for women, while attempting to contain the destabilizing effects of economic reform on low-income families and local communities.
- Conducting a field survey of Saudi society that would identify social groups adversely affected by the reforms and making sure that social security services are made accessible to everybody.



1.4 Timetable for Reforms

As the Saudi leadership strives to implement a realistic vision of future economic reform, a time frame needs to be defined in terms of the short and middle ranges with a realistic consideration of existing capabilities and resources.

1.5 Probable Ramifications of Economic Reform

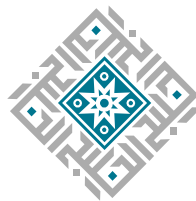
The Saudi economic authorities need to be keenly aware of the plausible effects of reform on economic growth. A deflationist effect may arise due to the decline in public expenditure and public investment, hence, an ensuing contraction of demand (purposefully lowered to absorb a liquidity surplus). This is bound to induce the following:

- A decline in production
- A rise in the unemployment rate
- A deterioration in living standards
- A decline in social services
- Social favoritism benefiting the rich (mainly due to restraint in raising taxes)
- Effects of foreign trade liberalization on domestic production (imbalanced competition)

Saudi Arabia could do well to establish a healthy equilibrium between the probable effects on demand and the effects on supply, especially since a number of countries, such as India, Pakistan, Bangladesh, Sri Lanka and Egypt, which underwent the same experience, have demonstrated clearly that deflation, in such a case, is almost always waiting around the corner. In other countries such as Turkey, however, GDP picked up even though the size of foreign debt rose, too.

Another undesirable effect might prove to be wide impoverishment, due principally to:

- The decline of government's support for staple commodities, such as foodstuff.
- Inflation and the increase in commodity prices (end of subsidies, currency devaluation).



- Diminished public social expenditures (education, health, housing, public transport).
- Unemployment as the ineluctable result of deflation. No unemployment compensation is guaranteed.
- Decline in real wages, due to inflation and elimination of job protection schemes.
- Effects of price liberalization on the local market.
- Effects of trade liberalization and the reinforcement of exports.

Another adverse effect would be the widening gap in family incomes. Of course, the poor are more likely to feel the heat of reduced public expenditures than the rich.

The Saudi government must make sure that it regulates the employer-employee relationship by defining real minimum wages. Well-defined rules will incite employers to create more job openings, improve productivity and enhance the competencies and flexibility of the labor market.

Education, training and re-habilitation programs are of paramount importance, particularly when it comes to cases of lay-off of workers necessitated by privatization or pressures flowing from competitors as a result of the liberalization of foreign trade.

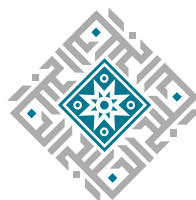
We enumerate below a number of policies we deem essential for any Saudi economic reform:

- Encouraging economic growth based on the employment of Saudi nationals.
- Shielding the poor from the negative effects of impoverishing policies.
- Establishing and financing several small-size projects, whether the provenance of these funds is national or foreign, together with empowering young men and women to manage enterprises or family projects

2. Social Reform

The crucial issues and dimensions of social reform may be articulated as follows:

Saudi Arabia's population growth rate stands among the highest in the world. It exceeds the national economic growth rate. As such, and in case it stays on the rising curve, it is set to compound the inability of the government to maintain



living standards because of the increased public demand for services. Thus, the need and urgency to limit population growth should be made part and parcel of the economic reform agenda, so economic growth can be boosted, investments fostered and infrastructure upgraded.

- **Predominance of the young in Saudi demographic architecture, the high expectations among the educated and the limited capacity of the public sector to integrate all graduates**

The Saudi population is among the youngest in the world, as the majority is aged less than 25 years of age. This means that the majority of Saudi society was born and grew up during the boom period. Many in Saudi Arabia, today, are unwilling to forfeit past privileges without political compensation. Well-educated people who have been exposed to foreign civilization, media and sophisticated high-tech gadgets make them into a force for change. The state must devise strategies to absorb these young people or else they run the risk of falling easy prey to crime and delinquency.

- **The emergence of social strata and the appearance of a generational gap**

Two aspects of the issue are critical: First, the social security net requires that it be expanded to cover the socially marginalized through a fair redistribution of wealth by means of a better organization of charity houses and the Ministry of Social Affairs. New taxation schemes would be instrumental in catering to the needs of the marginalized and the needy.

Second, the widespread propagation of satellite television, the Internet, and the ever-increasing numbers of university graduates has opened a chasm between the old tradition-bound generation and the more modernized young generation. Old policies could not be sustained and critiques and comparisons have begun to surface, which is a good incentive for instituting reform.

A few reform steps might be rejected by the older generation, such as the participation of women in public life and a number of other freedoms. It should be recalled that the tribes and the religious institutions in Saudi Arabia see eye to eye on a plethora of issues. They both wield a great deal of power and influence at the state level, which is a strong reason why they must be prudently dealt with in order to pre-empt any party using them against the reform program.

- **The Status of Women in Saudi Society**

Women are set to benefit handsomely from reform, both at the public and private levels. Quite obviously, women will wholeheartedly support



reform, while religious and social opposition to reforms that bear on the status of women in society might grow seriously vocal. Reform therefore should be gradual and brave enough to surmount opposition in a peaceful fashion. It is recommended that the traditional mechanisms that manage the affairs of women in the Kingdom be integrated into a specialized governmental body. The media, educational institutions and the mosques should be more deeply involved and they must work in unison to foster the role of women in society.

3. Political and Administrative Reform

Crucial issues and dimensions of social reform can be expressed as follows:

- **Modernizing constitutional and legal frameworks**

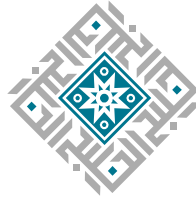
There is no gainsaying that decision-makers in Saudi Arabia are honestly intent on carrying through reforms, especially members of the ruling family, who believe that reform is necessary for the stability and continuity of the regime. Some royals, the most prominent of whom is the Crown Prince, Abdullah Bin Abdulaziz, have been outspoken about the need for reform. It is, hence, crucial that the legal and constitutional frameworks be reviewed for the sake of pre-empting any critique or interrogation by foreign academic or political circles regarding political succession and the cohesion of the royal family.

- **Stressing the principle of gradualism in political reform**

Many people have expressed apprehension and concern about the real outcome of reform. This could well be one of the reasons why reforms have been put temporarily on the backburner thus far. Some actually believe that launching reforms is far easier than predicting or for that matter controlling, future, probably unforeseeable, ramifications.

History teems with instances that confirm an action-reaction dialectic premised on the fact that every concession made by the state leads to greater popular demands by citizens. The state should, therefore, determine clearly the type, extent and limits of the reforms it plans to institute.

A gradual, step-by-step approach is the best option to avert and appease apprehensions. Jump-starting the reform program will strengthen the credibility of the government and preclude any propensities towards violence, as reforms will already be concretely and resolutely underway. Gradual execution of reforms will also allow for more options to choose from and will preclude unpredictable developments from taking root.



- **Modernizing Administrative Mechanisms**

Bureaucracy is the engine driving government work. However, the Saudi bureaucracy needs a face-lift, as some of the departments in the public administration are losing steam. The ubiquitous practice of regional cronyism and tribal favoritism has given rise to a web of interests and influences. It is also a well-established fact that bureaucracies are generally, hampering rather than helping agents for reforms more often than not. It is imperative that public administration departments be given priority in the general reform.

Reform in Saudi Arabia could benefit from the fact that the military is not politicized, that the military leadership does not have the leverage to help or hinder reforms, in contrast to the military institution in other Arab countries where it has always proved to be the main obstruction in the face of reform. Indeed, the military commandment in these countries is quite concerned to have its prerogatives and privileges atomize in the wake of reforms.

In Saudi Arabia, the military should be integrated in a professional way under the management of the ministry of defense, while shielding it from the winds of politics.

- **Popular Demands for Political Participation**

Under the pressure of accumulated debt and the ever-present budget deficit, the government has been obliged to put an end, however reluctantly, to some welfare schemes, imposing new taxes or raising existing ones. It is only too natural, under these conditions that citizens have had to shoulder the burden of these measures, as public services are no longer dispensed free of charge. Taxation however entails a price of its own. The usual equation has it that new taxes invite new demands for more political participation. The government has thus, to let go of a large portion of its authority, a necessity that needs to be done gradually and smoothly.

Liberals have been in the vanguard demanding the implementation of reforms. As a matter of fact, the reform program is bound to open new vistas of social and economic vibrancy that would grant liberals an outstanding role. Withdrawing from reform would result in the exclusion of the liberals from the sphere of influence and authority.

At the level of businessmen, however, one needs to distinguish between traders, industrialists and small business entrepreneurs. Most of the economic activity in Saudi Arabia, today, rests on trade, which, in turn, relies for its prosperity on the public sector through preferential contracts and personal connections.



It must be said that the private trading sector is loath to embrace radical economic liberalization, as it will be bereaved of government protection, making it vulnerable to fierce international competition.

Industrialists, however, do recognize that industrial projects entail long-term capital investment. In this sense, it is in their interest to erect, by way of reform, a solid framework for transparency, accountability, legal stability, guarantees for dispute arbitration and a crystal-clear investment code.

Small business entrepreneurs, for their part, extend their support for economic reform, as this would undermine the monopoly practiced by the bigger entrepreneurs who dominate the market.

When it comes to measuring public opinion in the absence of instruments to gauge world-standards, the improvement or deterioration of living standards and the quality of public services become the only indicators that could reflect the public mood and the public appreciation of reforms.

Saudi citizens are too quick to support change in public policies, as they associate it with a possible improvement of their quality of life; yet, they do not voice any explicit support for such a change. In other words, they practice a form of negative or passive support.

Reform grounded on the principle of concordance and convergence in the views and aspirations of the ruling elite and the people is a pillar that would strengthen the existing political structure and legitimacy.

- Demand for Social Equity and the Need to Eliminate Discriminatory Practices

Reform does not stand a sound chance of materializing unless and until it unfolds within a framework of social equality among the different strata of society and the fulfillment of sustainable and balanced development. Foreign voices calling for human and minority rights, would, thus, rest in silence.

Once social demands meet with satisfaction, the Saudi people would gain a deeper sense of citizenship and national belonging. Political legitimacy and stability would grow stronger. It is possible to cater to these demands by opening real avenues of local and national participation in constitutional bodies, such as representational councils, ministerial departments or civil service directorates.



- **The Human Rights' Dossier**

The human rights issue has been a loophole through which foreign intervention in the domestic affairs of the kingdom has been possible since the demise of the Cold War. In fact, Islam does insist on the respect of the dignity and inalienable rights of Man. Efforts should nonetheless be exerted to provide an impregnable framework for the protection of human rights, in such a way as to counter all foreign parties that seek to smear the image of the Kingdom on this count.

No doubt, the decision of the government to set up a non-governmental committee for the defense of human rights is a step in the right direction. Again, the promise to establish a governmental counterpart to this committee, in addition to the decision by the Consultative Council to assign the mission of protecting human rights to the Committee for Islamic Affairs, whose new appellation would be the Committee for Islamic Affairs and Human Rights, goes a long way in fostering a human rights' culture in Saudi Arabia.

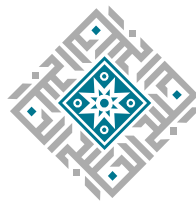
It is, of course, important to pursue such measures, while at the same time freeing any existing prisoners of opinion, improving the living conditions in penitentiaries, and gradually removing the shackles of censorship from the freedoms of expression, peaceful association and publishing.

- **Mounting Religious Opposition**

Reform and change do not conflict emphatically with the precepts and teachings of Islam, so long as reform is undertaken in the name of public interest. The point here is to set right the traditional and narrow-minded religious thinking that would probably oppose reform or put wedges in the wheel of reform out of some erroneous exegesis of religious texts.

It would be much more profitable if the official religious institutions would conduct an inside-out, intellectual review of religious education in order to render it more compatible with the requirements of the times. Despite reservations felt by a few religious bulwarks about some aspects of the reform agenda, their connection with the ruling elite and the interests they have at stake, will surely lead them to support, albeit grudgingly, reforms upheld by the authorities.

Islamists preaching outside official religious circles, however, are divided about the nature and the acceptable extent of reform. The pacifists among them do support reforms on condition they not exceed the ideological bar they regard as the norm. To put it in different terms,



pacifist Islamists call for accountability and transparency but they reject any reforms that would empower women or induce cultural plurality.

The violence-prone Islamists however, purely and categorically oppose any reform that would fall short of regime change. They are convinced that the existing regime negates and obstructs their own socio-political project. They point the finger at reform proponents as agents of the West, seeking to force Western values into Saudi Arabia.

The rising wave of political violence confronts decision-makers with the absolute necessity to take into sensible account the pacifist reformists and the radicals, some of whom operate outside the religious mainstream.

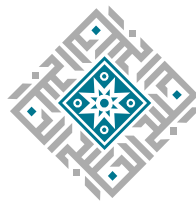
Working on a dual-policy platform would provide authorities with sufficient leeway to move at ease from a policy that promotes openness and sober dialogue to another policy intended to clip the wings of violent movements through a well-orchestrated media and security campaign.

In a deep sense, integrating enlightened Islamists within local and national representative bodies, while working to disseminate a modern and moderate approach to Islamic issues, away from hard-line interpretations of religion, are elements of undeniable importance.

The credibility and legitimacy of the Kingdom as the linchpin of the Muslim world are under strain today because of the much needed reforms and the degree of their future success. Reform under normal conditions would be quite acceptable. Currently, however, the timing of the ongoing debate about reform, coupled with the declared pressures that the U.S. exercises on Riyadh, feeds the opposition and strengthens its ranks. It threatens to shake the leadership role of Saudi Arabia in the Muslim world, just as it calls into harsh question the legitimacy of the Saudi state, which was originally founded on the strict adherence to and application of the Hanbali jurisprudence.

Expectedly, reforms would entail a move through and beyond the boundaries of Islamic law. The religious factor will certainly be a hurdle on the way to reform. It is also likely to determine the pace at which reform will proceed.

Perhaps the time has come to embrace, instead, a constitutional and institutional framework that would significantly alleviate the weight of pressures on Saudi policy-makers and grant them far more options from which to pick and choose.



- **Developing Local Administration**

1. Local development policies have been lately the buzzword in a great number of countries across the world, especially those that are struggling through a transitional phase towards achieving sustainable socio-economic development.

Yet, just as local administration is the main function of domestic development, decentralization is its main gate and means of progress. Initiatives and major policy decisions for local development fall on the shoulders of local organizations. Hence, the greater role executive government departments can play at the regional and provincial levels.

- **The Role of Local Administration in Political Development**

Subsidiary government bodies and departments, together with local regional councils and other sub-regional departments, have a critical role to play in implementing a policy of proximity vis-à-vis the citizenry. They are, in fact, the channel of confluence linking the rulers and the ruled. They can easily identify the needs and demands of constituents and provide them with opportunities for political training and practice.

Citizens will, thus, be empowered into active participation in debating and taking part in the decisions that affect their region or precinct.

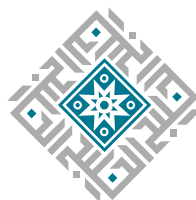
- **The Role of Local Administration in Economic Development**

The regime of local administration has yielded some laudable results in many countries, as far as economic development is concerned. This could be ascribed, in main part, to the concept of local administration as the engine driving economic development for the public good and general welfare of the population. Indeed, through decentralization, administration officials are capable of directly recognizing the needs of citizens and moving swiftly to meet them.

- **The Role of Local Administration in Social Development**

Local administrations generally seek to weave the different social threads into a unified whole in an effort to achieve comprehensive development by enlisting the participation of citizens in the decision-making process.

Likewise, the local administration contributes largely to entrenching the network of relationships that hold the society together. More significantly, it creates the right environment for the formation and development of civil society organizations. More often than not, such organizations would form partnerships with the government in a bid to create better resources



and opportunities, both at the level of official work or thorough volunteer *initiatives*.

- **The Role of Local Administration in Administrative Development**

It is highly recommended that administrative units and regional councils manage public services, particularly at the regional level. As experience has demonstrated elsewhere, efficiency would improve and positive results would be more palpable.

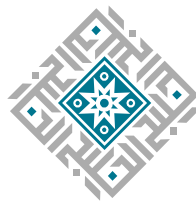
To confer on local councils and the regional administration the right to exercise their responsibilities fully within their geographical area is, in itself, an act of administrative development. Such a move would, in effect, switch part of the burden away from mother ministries and government departments and consequently, cut down on bureaucratic and procedural complexities.

It is important to recall that Saudi Arabia has established, since its political unification, a network of local administrations. In 1939, the Kingdom decreed the first law for the establishment of a local administration system, called the 'Princes' System'. The legislation defined the responsibilities of princes within their own specific regions. The same legislation laid the legal groundwork for the subsequent 'Province System' that was put into application in 1963, to be later supplanted by the 'Regions' System' ratified and implemented in 1992. The successive systems and codes were intended to enhance the quality of work and performance of the local administration regime.

In 1959, a new system, called the 'Municipal System' was introduced almost concurrently with the formation of the regional councils. The new administrative set-up was poised to restrict the role regionally assumed by the Ministerial Council and nearly efface that role at the municipal level.

Part of the reason for this development is closely related to the overweening role played by the Minister of Interior and the Minister for Municipal and Rural Affairs, as delegates working under the umbrella of the Ministerial Council.

Still, the relations in Saudi Arabia between the different principal state departments and subsidiary administrations can be qualified as being somewhat centralized. The fact is that the expansion of the role of local administrations is, to a large extent, predicated on the need for sustained coordination with the parent ministries and government departments. Herein lays the role played by the Minister of Interior and the governors.



Looking at the tasks and responsibilities shouldered by the Ministry of the Interior, one realizes their over-arching importance and magnitude. The Minister of Interior is, in actual fact, in charge of internal security, which, in itself, is a Herculean task, given the huge dimensions of the Kingdom, besides the ever-growing population and the ongoing development in all fields of economic activity and social life that put more strain on the Ministry.

Upon carefully considering the foregoing, we would suggest that local administration entities be weaned from the Ministry of the Interior and a new, special ministry be created. The new ministry could be called 'The Ministry of Local Rule'. The new ministry would initially comprise a special agency to be entrusted with the management of regional affairs. The agency would be in charge of the general affairs of the regions and rural provinces. A second agency would take charge of the citizens' rights, public and private, in addition to managing penitentiary and anti-narcotics affairs.

Self-evidently, the new ministry should have its own administrative, financial and planning departments. Its main tasks and organization would be defined along the following lines and suggestions:

First: Developing an administrative regime in the regions by granting more consequential authority to the regional governorships, regional councils, and mayordoms, which manifestly, need to be far more representative of all the citizens. This could be achieved by implementing a representational formula mid-way between election and appointment as a transitional step towards full implementation of direct election of the representative members.

Second: Transferring authority to governmental subsidiaries, thus allowing for more financial and administrative independence from the parent ministries and government departments. Technically, the ministries would still retain a close connection with their subsidiaries, which would be held accountable before the regional councils, which, in turn, would be technically dependent on the principal government entities.

Within this scenario, the role of the Ministry of the Interior would clearly shrink to managing internal security, which is the security of society at large. The Ministry of the Interior would be entrusted with the following missions:

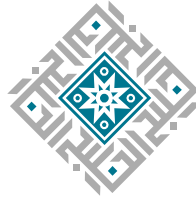
- Managing the various departments operating under the responsibility of His Highness the Deputy Minister of Interior for the following security divisions:
- The Agency for Security Affairs
- The Directorate of Public Security



- The Directorate General of Civil Defense
- The Directorate General for Penitentiaries
- The Center for Leadership and Control
- The Directorate General of Passports
- The Directorate General for Border Control
- The General Department for 'Mujahideens'. The name of this department needs to be changed.
- The General Department of Telecommunications
- The Secretariat General of the Higher Corporation for Industrial Security
- King Fahd College for Security
- The General Department for Military Affairs. This department is affiliated with the General Department for Armament and Officers' Affairs, and the Council for Military Appeal.

2. Financial, Administrative and Technical Departments affiliated with H.H. the Deputy Interior Minister are:

- Center for Anti-crime Research
- The General Directorate of Investigations
- The Department for Legal Affairs
- The Department for Planning and Programming
- The National Center for Information
- The General Department for Public Relations and Guidance
- The General Department for Projects
- The General Department for Administrative and Financial Affairs
- The Department for Arab and International Communication



D. Cultural and Educational Reform

The most pressing issues linked with cultural and educational reforms can be enumerated as follows:

- **Upgrading of the Quality of Graduates**

Such a project calls for a re-vamp of the educational curricula and programs through an objective approach, and certainly not in response to any American pressure. According to statistics garnered in 2001, there are 380,756 male and female teachers for all school levels, in both private and public schools. Out of them, 20,681 university professors and academics teach at the eight existing Saudi universities.

The number of schools and institutions, private and public, for all educational levels and orientations for both the male and female studentship totals 26,343, whereas the number of male and female students in both private and public schools is about 5015650. The budget for education for the financial year 2003 has been in the region of RS 57,500 million, a figure that converts into a hefty 27.5 per cent of the general government budget.

It must be noted that, by regional standards, these figures are, admittedly, staggering. Yet, they simply reflect the young character of Saudi society and the steadily growth rate of the population.

Reform of the educational sector was effectively started by the recently formed cabinet that took the government reins in April 2003. With the new government, the Ministry in charge of Educational Affairs shed its older name and took a new one. A concomitant decision concerned the amputation of all fields having no direct connection with education, such as monuments' affairs and youth affairs.

Indeed, the Custodian of the Two Holy Mosques insisted strongly in the speech He delivered on 17 May 2003, that good and purposeful curricula ought to instill noble values and constructive ideas in the minds of pupils and students, all in the interest and the good of the nation.

In the same breath, He pointed out that inappropriate education might yield ideological and moral perversions and hinder real participation in society. The signal could not be clearer about the necessity of reviewing and upgrading educational curricula and teaching methods.

However, the timing of the call for educational reform happens to coincide with the reduction of religious influence on educational curricula, a fact which may play into the hands of the religious opposition, all too ready to claim, loud and long, that the planned reforms are but a deliberate Saudi response, bending



to American pressures. Such claims find resonance among tradition-minded people and the Islamist media which sides with the opposition.

Still, Saudi national interest requires an overhaul of its educational system. This would undoubtedly contribute to shaping a well-balanced youth, capable of living up to the demands of the times, without, however, ignoring the foundational premises of 'Arabhood' and Islam.

Whilst enacting such reforms, we all need to preserve and protect our distinct identity and attributes as Arabs and Muslims. We must not lose sight of the following important principles:

- Shying away from insular and blinkered interpretations of religion.
- Refraining from proclaiming oneself the vessel of ultimate truth, to the exclusion of the beliefs held by the 'Other'.
- Creating a balanced educational system that includes both religious and scientific scholarly pursuits.
- Adopting educational standards as recognized and approved by the United Nations Educational, Scientific and Cultural Organization (UNESCO) to which Saudi Arabia is a signatory. It must be said that UNESCO recommendations and standards do not conflict in any way with Islamic precepts and teachings. They include, among other things, the following:
 - Accuracy and comprehensiveness of information.
 - Recognition of achievements by others.
 - Application of the principle of indiscriminate equality among different races, religious and/or ethnic groups.
 - Approaching political differences in opinion in a tolerant and honest way.
 - The language used for teaching should eschew prejudicial, hate-inspiring - expressions capable of fomenting disputes.
 - Values of freedom, dignity and human brotherhood should be positively highlighted.
 - The importance of international cooperation among the countries and populations of the world needs to be duly emphasized as a means of promoting the values of cooperation, peace and the rule of law.



- Refraining from disparaging the values, belief systems and/or heritage of other people.
- Encouraging co-existence among different people and showing tolerance and respect for difference.
- Promoting and imbuing the young with the value of and love of peace.
- Overhauling the educational system as practiced by Quranic schools by integrating these schools into the general educational system, taking care not to disrupt the fundamentals of Islam, but instead, to deepen moderation and openness.
- Devoting efforts to changing rentier cultural values associated with the oil boom era. Rentier politics had a markedly negative effect on the social structure of the Kingdom, as the state used to rely almost exclusively on oil-extracted revenues which kept the financial taps flowing. The social patterns that arose from such policies led to the emergence of a consumer society wholly dependent on state welfare schemes, the redistribution of profits, the absence of direct income taxation, the absorption of the national labor force into the public sector and worse, the spread of new lifestyles and values built on wealth display and social status.

It is quite ironic that the end of the oil boom era was not accompanied by a change of these consumerist patterns borne out of years of financial abundance.

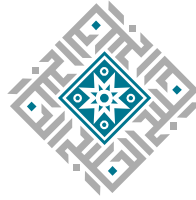
The time has come to plan for the change of these vacuous values and habits.

1. Towards a Strategy for the Modernization of Security

A- As was previously noted, extremism and terrorism are not solely and exclusively a security phenomenon. Fighting extremist ideologies through a purely security approach will simply not do. The best that could be achieved is a short-term containment of the phenomenon.

B- Security-wise, such an approach is essentially part of a more multiple-front confrontation, the attacking edge of which is to proceed with remedying any possible security loopholes. The move would consist of the following steps:

- Reviewing the means and mechanisms of coordination among the different security departments.
- Restructuring the general security apparatus.



- Upgrading the work methods practiced by the security departments, taking into account that terrorist organizations and individuals , have turned global today, traversing national borders, and making use of state-of-the-art technology. In this regard, traditional anti-terrorist methods fall far short of the required efficiency to eradicate the phenomenon.
- Compiling comprehensive and well-documented databases relevant to security work and objectives.
- Upgrading control and inspection procedures along borders with adjacent countries, especially Yemen and Iraq, so as to put an end to arms smuggling.

C. Security, in the modern sense of the term, relies heavily on rigorous scientific research that could be undertaken by specialized institutes and/or research centers based in the Kingdom

Reports compiled by security units on the identity and background of terrorist operatives involved in the latest bomb explosions, or for that matter any such acts, reveal the necessity for tracking and scrutinizing the ideological roots that animate these terrorists.

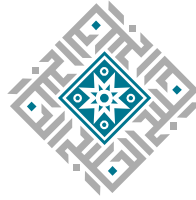
Systematic research will shed sufficient light on the social background of terrorist elements, the methods of recruitment and indoctrination adopted by terrorist cells.

D. Proclaiming that the ideologies espoused by terrorist are imported from alien lands is not going to solve the problem. In fact, the question that begs an honest answer is: Why do such heinous ideologies happen to find a fertile breeding ground in Saudi Arabia? To put the question otherwise: Why do a few Saudis, in the prime of their lives, fall easy prey to such devious ideologies, regardless of whether they are home-grown or bear a foreign trade-mark?

To work out a tenable and convincing explanation, we need to delve into the domestic and international economic, social, cultural, religious and political environment.

- 1- External and internal factors likely to complicate efforts put up by nations to shield its national security are manifold and take on different shapes and forms.

The concept of security, today, is slanted towards better containment of threatening factors on both the internal and external front. The ability of the state to immunize its internal security structure and make it impregnable is tantamount to its capacity for continuation and development.



National security policies, subsuming political, economic military and cultural dimensions in developing countries are in serious need of an in-depth re-shuffling that would enable the state to come to grips with the sources of threat, whether they are positioned outside its borders or residing within its own geographical walls.

One way for Saudi Arabia to achieve bullet-proof security is by re-organizing, through an innovative linkage system, the various instruments ensuring its national security. The said instruments are the Center for Strategic Studies, the Internal Security Directorate, the intelligence apparatus, and the National Security Council.

We need to recall that the newly formed cabinet was marked by the merger of some ministries and the abolition of others, while the responsibilities of the terminated ministries have been re-distributed among the existent ones in a bid to increase homogeneity and efficiency.

This new development prompted us to put forth the above suggestion concerning national security, particularly now that a special ministerial committee is currently immersed in examining administration organizations in the Kingdom. It is a suitable occasion for the committee to bring the various security departments together to achieve higher performance.

The new committee could act on and enact the following ideas:

- Developing national security departments through the creation of a new ministry under the appellation 'The National Security Ministry' which would include the following units:
- The General Intelligence Department
- The General Investigation Department, save for the Department for Administrative Investigation, which would be, more conveniently, directly affiliated to the Ministry of the Interior.
- The General Secretariat of the National Security Council
- The General Department for Technical affairs, operating under the responsibility of the Ministry of the Interior.
- The creation of a Center for Strategic Studies as part of the new ministry.

It is quite obvious that the linkage of the different security departments would substantially reduce expenditures. A better centralization, coordination of functions would result. Besides, with such a centralized working system, the



Ministry of the Interior could afford to devote its undivided attention to public security policies.

The main attributes and responsibilities of the new ministry could be succinctly elaborated as follows:

1. The suggested Center for Strategic Studies would be composed of a number of research and information departments. It would systematically explore and analyze the ways and means for the best national security policy possible. It would identify and categorize security problems and offer practical substitute solutions. Similarly, the center would monitor and assess the execution and results of security policies.

The center would pursue a dual approach that welds together theoretical, scientific research and practical, fieldwork.

The different sections at the center would conduct rigorous research and analysis of the whole security landscape, along with its local, regional and international ramifications. In parallel, the center would explore the current conditions and forecast possible future developments that might impact on national security.

Last, but not least, the center would draw up a coherent and appropriate security policy as well as offer consultancy on events that threaten national security.

1- The Intelligence apparatus (including the General Investigations Department and the General Intelligence Department): these are the official security arms of the government on which depends the political leadership to devise security strategies, both internally and externally. Actually, the success of the government in confronting security problems rests, in a large part, on the accuracy of information and reports compiled by these departments. In a sense, they represent the executive branch of the official security apparatus, though sometimes they act unofficially.

2- The national Security Council would be the recipient of all reports and information bearing on national security. The council, for its part, would produce forecasts regarding possible developments in security or lapses of security, while defining the appropriate measures to respond to any threat to national security.

The political leadership would benefit much from the work of the National Security Council, as it would be well prepared to take swift and sensible decisions and react adequately to any unforeseeable contingencies.



3- It would be incumbent on the National Security Council to formulate security policies focusing on the security objectives the state seeks to achieve. It would serve to create political sensitization and cohesiveness, pre-empting foreign agents from accessing secret or highly sensitive intelligence.

In a similar fashion, the council would pursue measures protective of the national economy and other policies that would guarantee the preservation of the religious values and heritage of the nation.

Section IV: The Regional and International Context of Reform

Reform in Saudi Arabia cannot be divorced from the surrounding regional and international environment. As it is very much a part of it, the Kingdom is deeply affected by any major changes occurring in that environment.

A. The Regional Environment

- **The Situation in Iraq and its Ramifications**

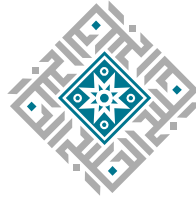
Just as the Arabian Gulf countries did not forge a unified position towards the US-led war on Iraq, they still do not have, as a regional policy, a unified, strategic vision for the new Iraq.

Of all the countries in the region to bear the possible brunt of any turbulent domestic changes in Iraq, the Arabian Gulf countries are the ones most likely to be affected. It is, hence, a 'must' that they debate individually and as a regional entity all the options available to them to contribute to the shaping of a new Iraq and securing their own interest.

- **The Future Security of the Gulf**

Perhaps the greatest threat to the security and stability of the Gulf countries may emanate from neighboring Iran, whose internal political dynamics are not that predictable. The chances are high that Iran may tilt towards more political radicalization in the event that conservatives take over the political reins. Otherwise, Tehran may move towards more liberalization, a development likely to come about through subtle intervention by foreign powers, bent on turning Iran away from an Islamic republic and into a liberal republic.

Once again, the Arabian Gulf countries lack a unified strategy or vision for such a plausible development.



- **Relations with some of the Gulf Cooperation Council (GCC) Countries, especially Qatar**

Intra-GCC relations have lost much of their harmony and co-operation in the last few years. The current situation calls for an inner reformulation of policies and a review of a common and comprehensive security strategy. The role of the Gulf must be realistically boosted and re-invigorated. The six member states of the GCC need to re-define the principles on which the Council was originally founded, drawing on past experiences.

A hovering issue to which they must attend confidently and straightforwardly is: Should Yemen and Iraq be granted full membership to the Council? If the answer is in the affirmative, then, on what terms and conditions?

- **Ongoing Political liberalization in Adjacent Countries (i.e. Qatar, Bahrain, Kuwait, and Yemen) and its ramifications on Saudi Arabia**

Some member states in the GCC and Yemen have cut the inaugural ribbon for unprecedented political reform. The reforms have been mainly concerned with constitutions, parliaments, the status of women and the freedoms of association and expression.

Due to the socio-political similarities among the GCC countries, many in Saudi Arabia are closely following developments in neighboring countries. In this connection it will do well to call to mind the message conveyed in the speech given by the Custodian of the Two Holy Mosques, King Fahd bin Abdulaziz. He dwelt quite extensively on the need for reforms and the constitution of committees with the special mission of turning the reform agenda into a reality. The whole speech and the points it outlined could be read as a positive response to the political changes well underway in nearby countries.

Of course, there are a few indispensable conditions to be materially met in order to avoid reform becoming completely deformed. Topping the list of conditions is the need to design a clear-cut, sharply defined legal framework from which reforms would precede progress and ultimately produce the required objectives.

The promising side of it all is that the similarity of the reforms launched in the Gulf countries could turn out to be a boon for the region, as the Gulf States may move closer together for better integration and long-term stability.



- **The Future of the Arab-Israeli Conflict**

The latest peace plan, or 'Road Map' as it is called, posited by the Quartet, the U.S., the U.N., the E.U. and Russia, stole the show from all other peace initiatives and proposals seeking to solve the protracted Palestine-Israel conflict. It remains to be seen, however, whether the parties involved in the application of the map are serious enough, willing enough and as far as the U.S. is concerned, ready enough to parent the plan to its full implementation.

At any rate, if the Arab-Israeli conflict were finally resolved, Saudi Arabia would be called upon to normalize its relations with Israel, as part of the settlement package, in which case other Arab and Muslim countries are likely to follow suit.

The issue of Palestinian refugees would return swiftly to the forefront, as host countries would be urged to grant them full citizenship in order to bypass the thorny question of the return of Palestinians dispossessed of their lands and expelled from Palestine in 1948.

Ultimately, as the U.S. would have it, the new Middle East would come into being with an economic structure intimately interlocked with the American economy.

On the other hand, if the Road Map is aborted, as were its sister initiatives in the past, resistance would intensify and Muslim and Arab resentment and outrage could threaten the stability of the region. Saudi Arabia would probably not be spared.

B. International Challenges

- **Relations with the U.S.**

Ever since America suffered the terrorist blow of 11Sept 2001, Washington has been resolutely and publicly pressuring Riyadh for reform. The Bush administration has placed the Saudi government in a very uncomfortable and embarrassing dilemma. How can Saudi Arabia proceed with its reform agenda, which it seeks to implement of its own accord and will, without appearing in the eyes of the opposition and the world that it is submitting to the U.S. coercive demands?

Other pressing questions, to which Riyadh must attend, may be posed in the following terms: How far and in what ways is the U.S. military deployment in the Gulf, even outside Saudi territory, going to impinge on the internal security and stability of Saudi Arabia? Is the Pentagon's



decision to re-deploy its troops from Saudi Arabia to other Gulf States a sign that Washington is ditching Saudi Arabia or even stealthily encouraging some other countries against it? Is the Pentagon's move just a first step in a larger scheme to re-map the whole region?

Riyadh is certainly aware that these are issues of utmost vitality and urgency. Accordingly, it should work out a national strategy capable of meeting any of these challenges as that might crop up in the future.

In much the same way, Saudi Arabia should ready itself to deal efficiently with any abrupt and unpredictable changes in oil prices as the possible result of the developments in post-Saddam Iraq.

It is no moot point that American control of Iraqi oil, either directly or less directly, would diminish Saudi Arabia's influence in the world oil market and in Washington itself.

Here again Riyadh should closely monitor ongoing developments in Iraq and be ready to cope with any dramatic fall in oil prices or worse still, the complete dis-aggregation of OPEC and oil dumping on international markets. Opposing scenarios are not to be excluded, however.

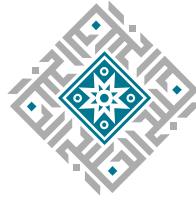


Conclusion

At present, reform in Saudi Arabia is a societal necessity; in fact, it is inevitable. Reform is the central platform from which and through which Riyadh can adroitly wrestle with, and ultimately surmount, domestic, regional and international challenges, now and at any time in the future.

There is no denying that Saudi political leadership is sincerely intent on seeing reforms through, for the sake of meeting popular demands, cementing the moral and political connection that binds the state and society, and foiling foreign attempts to intervene in the domestic affairs of the Kingdom.

As is invariably the case with any successful reform venture, the reform agenda in Saudi Arabia must, by necessity, embrace a well-planned strategy, deeply anchored in comprehensiveness, gradualism and cumulative effects. National unity, social justice and wider popular participation in public affairs would be a great deal more fortified, while voices from overseas seeking to deface the image of the Kingdom would have to look elsewhere.



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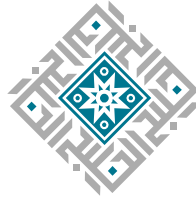
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