The Cost of Wealth:

The Saudi Struggle for Sustainable Development

by
Ben Hammond

A thesis submitted to the faculty of The University of Mississippi in partial fulfillment of the requirements of the Croft Institute for International Studies and the Sally McDonnell Barksdale Honors College.

Oxford
May 2006

Approved by

Adviser: Dr. Curtis Thomson

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Reader: Dr. Peter Frost

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My thanks to former Mississippi Governor
and former American Ambassador to Saudi Arabia
Ray Mabus for making this project possible.

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Introduction

In a landmark speech to the Gulf Cooperation Council in November 1999, the former Custodian of the Two Holy Mosques King Fahd bin Abdul Aziz of the Kingdom of Saudi Arabia delivered an address that demonstrated a marked shift in Saudi foreign policy. "The world today, despite conflicts and differences, is marching steadily toward open markets and borders in an all embracing tide of globalization," the King stated. "We observe this tide and realize that we should not simply drift along with it as spectators. Instead, we should hasten to become part of it. The fast pace of economic changes taking place in the world does not allow us to move at the same old leisurely pace."[1]

This royal announcement illustrated the major shift in domestic and foreign policy the Royal Family – descendants of the founding father of Saudi Arabia Abd al Aziz ibn Sa'ud, oftentimes deemed Abdul Aziz by Western scholars – experienced near the turn of the millennium. Saudi Arabia, for the first time in the country's 74-year existence, sought to embrace increased international trade and the world economy as a path for slow, gradual economic growth. In August 1999 by Ministerial Order No. 111, the King foreshadowed this shift by issuing a decree that established the Supreme Economic Council. In that order, he noted how "rapidly changing economic developments at the local and international levels require, more than at any previous time, that governments focus on creating an effective, productive national economy that can meet their particular needs." Further clarifying the government's role in stimulating economic growth, Fahd revealed the cornerstone on which Saudi socioeconomic stability was built: consistent economic growth. "Saudi Arabia's economic policy is . . . committed to providing steady economic growth at an appropriate level to achieve a real increase in per capita income . . . in order to ensure the security, welfare, and prosperity of society."[2]

For the better part of three decades, the Saudi government has sought to create sustainable economic growth through centralized government planning and the dispersal of oil revenues to modernize the country's social and economic infrastructures. To Western scholars, however, those efforts have proved largely unsuccessful. As the world's largest oil exporter and possessor of roughly one-quarter of the world's proven oil reserves, Saudi Arabia took advantage of sharp rises in oil prices in the 1970s and amassed hundreds of billions of dollars in

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[1] Quote obtained from the official website of King Fahd bin Abdul Aziz, <http://www.kingfahdbinabdulaziz.com/>.
[2] Quote obtained from Ministerial Decree No. 111, accessed from the official website of the Supreme Economic Council of the Kingdom of Saudi Arabia, <http://www.sec.gov.sa/>.

government revenues.[3] On the surface, the country seemed rich beyond its years by 1980 with a per-capita income of $20,900 and several development programs underway designed to provide Saudi citizens with new economic opportunities for the future.[4]

But over the next two decades, centralized government efforts proved unable to maintain and build upon Saudi economic success largely due to, according to many Western scholars, the very nature in which the country first received its national wealth. By 2001, sagging oil prices and a rapidly growing population lowered per-capita GDP to $12,200, including a drop in real per-capita oil revenues from $22,589 in 1980 to $4,564 in 2004. Western scholars, consequently, began to question the sustainability of the Saudi economic system.[5] By the turn of the millennium, the country was experiencing a crisis of development. Increasing sociopolitical tensions that were exacerbated by high unemployment and economic stagnation spawned a rise in social conservatism that resented the absolute rule of the Royal Family and threatened to disturb the delicate balance in Middle Eastern relations. It is in this context that King Fahd addressed Saudi Arabia's fellow Gulf states in his November 1999 address, and it is in this context that I analyze the major questions regarding the Saudi path to modernization: why was the Royal Family unable to build upon its 1970s success when it had all the capital it needed to do so, how has the country reached this current economic crisis, and what potential paths of development exist for the country to achieve its stated economic goals.[6]

An Easy Choice

For the former King Fahd and, at the time of his 1999 address, his younger brother Crown Prince Abdullah, who replaced his brother as King in 2005, the decision to reform Saudi economic policy was an easy one. Real oil prices, which drove economic growth so effectively in the 1970s, had gone into a two-decade decline during the 1980s and 1990s, and the government's windfall profits from the 1970s quickly dwindled as the costs of improving the country's infrastructure mounted. To offset the fall in oil prices, the government ran budget shortfalls from 1982 to 1999 to maintain its financial commitment to modernizing the country's infrastructure, sustaining its defensive military capabilities, and providing its country with an extensive social welfare system. By 1999 at the age of 76, King Fahd recognized, as most other

[3] Figures obtained from U.S. Department of State, <http://www.state.gov/r/pa/ei/bgn/3584.htm>.
[4] Statistics obtained from the U.S. Energy Information Administration, <www.eia.gov>.
[5] *Ibid.*
[6] Modernization has come to have several different meanings and connotations over the last several decades. In this context, efforts at *modernization* simply mean government policies implemented to create an economy that is able to adapt to slow, gradual growth; accordingly, these efforts can take the form of social or political change, since the key concept to modernization rests in the interconnectedness of social behavior, economic performance, and political institutions.

economic experts had already forewarned, the Saudi economy was unsustainable in its present state. Continued government commitment to existing development programs would not spawn economic growth without a dramatic increase in oil prices, and that very dependence on oil created an economy that was neither capable of slow, gradual growth nor sustainable over the long-term future. To further compound the government's problems, the high growth rate of the Saudi population coupled with lagging international oil prices created high unemployment and a rapidly shrinking GDP per capita, leaving the government with little choice but to embrace the economic ideas of increased international trade, foreign direct investment, and private sector development. For the economy to continually grow, Saudi leaders recognized that the country would have to change, both socially and economically.[7] Fahd, in accordance with his goal of obtaining consistent economic growth, re-committed the government to modernizing reform and reiterated the Saudi belief that the economic policy of the Kingdom was designed to increase the country's social well being while preserving its traditional Islamic beliefs.

For many Western scholars, the shift in Saudi policy is a long-awaited admission that consistent economic growth cannot be maintained without corresponding changes in a country's social and political behavior.[8] For decades, oil-rich Saudi Arabia seemed to serve as the exception for these Western scholars, labeled modernization theorists.[9] By 1980, the country was as rich as many Western European countries in terms of GDP per capita, but examination of the country's sociopolitical indicators demonstrate that it remained a 'traditional society.'[10] Yet a mere two decades later, on the back of lagging oil prices and budget shortfalls, the economy failed to show signs of consistent growth, and by the turn of the millennium, most economic experts deemed the economy unsustainable.[11]

These same experts argued that the country needed major economic, social, and political reforms to achieve Fahd's stated goal of steady economic growth, and the interconnectedness of Saudi culture with the economy it was trying to create became evident. To most modernization theorists, the problem was clear: the country possessed traditional economic, social, and political

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[7] Ministerial Order No. 111 (SEC).

[8] Digby Lidstone, "A Clear Objective," *The Middle East Economic Digest* (2005): 49.

[9] Western scholarship, in this paper, refers to classical economic thought often associated with the economic, social, and political transformations experienced in the United States and Western Europe throughout the nineteenth and twentieth centuries. Likewise for the term 'West,' which refers to the most advanced democratic, capitalist countries like The United States and those in Western Europe.

[10] Modernization theorists argue that true stability lies in slow, consistent economic growth, and countries that wish to obtain that stability follow a linear, unidirectional line from tradition to modernity. 'Traditional society,' in this context, refers to a society that has cultural characteristics that stand in direct opposition to a modern one capable of maintaining slow, consistent economic growth. Characteristics of traditional society include lack of diversified labor, gender inequality, political rule based on a 'mandate from heaven,' *et cetera*.

[11] Eliyahu Kanovsky, "The Woeful State of Saudi Finances," *The Jerusalem Letter* (1995): 3.

barriers that inhibited the creation of a truly modern economy.[12] Economically, the country was too oil-dependent to maintain growth when oil prices declined in real terms, did not experience a net inflow of investment from 1970 to 2004, and maintained low levels of economic growth in the non-oil sectors of the economy. Socially, the distinct rise of conservatism following government efforts at modernization, high levels in the birth rate and lingering gender inequality, and low levels of internet and mobile phone proliferation did not demonstrate a society that was knowledgeable, open to change, and valued innovation. Politically, the country remained an absolute monarchy with no input from individual citizens, jailed peaceful political dissidents, and had no outlet for its non-violent opposition. Additionally, modernization theorists contended that the individual, and not the government, would have to become the key player in the economy, although this could not occur without a corresponding social transformation that would affect the country's polity and the population's organizational behavior.[13] Put simply, these experts argued that the Royal Family's stated economic goals did not match Saudi society's values nor were they reinforced with political institutions that allowed individuals to hold their leaders accountable.

All of the indicators in these three areas reflect structural problems that explain Saudi Arabia's inability to grow economically once it received the needed capital in the 1970s. Because of the manner in which Saudi Arabia received its "national wealth" – inflated oil revenues paid to the central government based on the work of thousands of foreign workers – the country had no impetus to match its per-capita wealth with economic or cultural changes. Efforts at modernization, instead of arising out of the individual, were designed and controlled by the state through government revenues; consequently, society became insulated from the outside world and, at the most fundamental level, was not pushed to reform. As oil revenues remained persistently high during the 1970s and early 1980s, Saudi leaders were able to use oil revenues to keep their society insulated while also fostering economic growth. However, when oil revenues began to decline in real terms, the country's social insulation became one of the inhibiting factors preventing leaders' economic goals of consistent growth.

By the mid-1980s, the world's two oil shocks the decade before had skewed the country's economic indicators such that Saudi Arabia seemed more developed economically than its social and political indicators suggested. For modernization theorists, Saudi failure to grow is explained by its unusual acquisition of wealth. The Saudis did not follow the typical path of

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[12] Ibrahim A. Elbadawi, "Reviving Growth in the Arab World," *Economic Development and Cultural Change* 53 (2005): 293.
[13] Peter N. Stearns, "Modernization and Social History: Some Suggestions, and a Muted Cheer," *Journal of Social History* 14 (1980): 189.

Western development – one of mass mobilization, industrialization, specialization, and mass consumerism – that gradually transforms society from the bottom-up; instead, they stockpiled profits from two oil windfalls, and government leaders attempted to use those profits to modernize the entire country from the top-down in a span of thirty years. The process was as unnatural as it was ineffective, and the Saudi economic "success" story has proven incomplete. Oil revenues, as the past two decades have shown, are no longer the sole answer to Saudi problems, and the Royal Family is using new solutions to approach its decades-old problem of sustainable development. The government is now seeking a more conventional path of modernization, and with it a rise in private sector development, to diversify its economy and create steady economic growth that necessitates a transformation in both social and political values that promote stability. The Saudi path to modernization – a story thus far of short-term economic success and long-term economic uncertainty – conforms to the main arguments of the modernization concept.

While individual modernization theories have experienced their fair share of criticism, this paper is meant neither to prove nor disprove the validity of modernization's universal claims. Its purpose is, however, to examine why the Saudi government has experienced so many obstacles in its goal to achieve consistent economic growth and why the country is facing its current crisis of economic sustainability, especially after it received all the capital it needed to create sustainable growth after the 1970s oil shocks. In light of the recent hurdles Saudi society has faced after the government's massive development projects, this paper also proposes potential paths for future development based on the interconnectedness of various aspects of Saudi society. While the modernization concept may not be completely accurate in describing all forms of national development at all points in time, it is consistent in describing Saudi progress, or the lack thereof, from the country's founding in 1932 to the present.

Laying the Foundation: the Modernization Concept

Since the end of the Second World War, studies of "modernization" and "development" have been at the forefront of the social sciences, and much of this work has guided research in economics, sociology, political science, and social anthropology. In an attempt to chart the economic development in Third World countries that were allied with American capitalism during the Cold War, American economist Walt W. Rostow popularized the modernization concept in his 1959 work "The Stages of Economic Growth." In that work, he laid the basic claims of his modernization theory: Western countries were the most developed, and the rest of the world, consisting mainly of former colonies of the imperialist West, were in earlier stages of development but would eventually acquire similar characteristics as the Western world. Although Rostow's modernization theory has received intense – albeit justifiable – criticism since its formulation, its basic presuppositions have yet to receive their "definitive academic burial."[14] These basic presuppositions form the cornerstone of the modernization concept: national development is both linear and unidirectional, meaning that they progress exclusively from traditional to modern societies, and stability is dependent upon the ability to adapt to gradual, continual change.[15]

At the very heart of its attempt to organize commonly experienced phenomena into some coherent pattern, the modernization concept encapsulates the interconnectedness of social organizations, economic institutions, and political structures. Although all modernization theorists do not all agree on the specificity of development, there is general agreement that modernization is a type of social change that is both transformational in its impact and progressive in its effects. It is also so extensive in scope that it reaches virtually every institution of society in such a way that transformations in one institutional sphere produce complementary changes in others.[16] Accordingly, modernization is generally understood as "a multifaceted process involving changes in all areas of human thought and activity."[17]

Throughout its evolution as a development paradigm, various authors have put forth a number of distinct modernization theories that vary in their focuses on the economic, social, or political spheres as the main points for change. These specific theories have been the subject of widespread criticism from all types of social scientists and economists because of their uses of the modernization concept to construct specific frameworks that have proved easily refutable. The early formulators of the concept were so naively American that they assumed their form of modernization theory provided a checklist that in fact describes whether a non-Western society is becoming more Western or not.[18] Likewise, other theorists use the term 'modernization' so loosely that that it becomes a "catchall, meaning little more than that as human and social behaviors have neared the present, they became more modern," or a commonly misunderstood causal statement – thus-and-such happened because *society* modernized.[19] With such criticism,

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[14] Stearns 1980: 189.
[15] W.W. Rostow, "The Stages of Economic Growth," *The Economic History Review* 12 (1959): 2.
[16] Dean C. Tipps, "Modernization Theory and the Comparative Study of Societies: A Critical Perspective," *Comparative Studies in Society and History* 15 (1973): 208.
[17] Samuel P Huntington, *Political Order in Changing Societies*, New Haven: Yale Univ, 1968. 52.
[18] *Ibid*: 189.
[19] *Ibid*: 189.

the fact that the modernization concept exists at all in academic literature must be "a tribute to the seeming inescapability of the conclusion that something like modernization occurred."[20] And, in fact, the true modernization concept incorporates a set of descriptive categories meant to organize experiences into coherent patterns.[21]

At least one historian notes that ideas of modernization lead to a flexible conceptual framework that, when applied to a particular society, offers an historical perspective to analyze the interconnectedness of economy, society, and politics.[22] It is this interrelatedness that makes the framework of modernization applicable to non-Western as well as Western societies, not its emphasis upon one universal historical evolution. This conceptual framework consists of five points, which describe the social focal points that provide the impetus for modern change. They include (1) the establishment of categories that describe the organization of society or important segments of it, (2) the broad definition of the direction that change can be expected to have within these single categories, (3) the hypothesis that change within one category will be related in varying degrees to change in the others, (4) the assumption that various social groups will participate in, adapt to, or resist changes in the categories most relevant to them, and (5) the identification in these terms of new or changing patterns of social organization and behavior.[23] This framework, properly applied to a society "undergoing fairly rapid and self-conscious change," is useful in describing the social, economic, and political barriers in Saudi Arabia that have prevented leaders' efforts in their stated goal of creating sustainable economic growth.[24]

That is not to say, however, that the modernization concept has not received valid criticisms that offer ways it can be improved. First, critics argue that the modernization concept should be applied to economically poor countries with the utmost discretion, since "traditional" society, from which modernization emerges and is contrasted with, is not constant, nor does change necessarily assume a single direction. However, the last two centuries have witnessed remarkably similar worldwide developments, in demographic, economic, and political forms, and one may still be able to use common trends of Western development as a way to predict the issues confronting non-Western countries in their development experiences. Second, critics note how modernization is too teleological by portraying Western development as necessarily good and an end in itself to social problems. However, in today's academic literature, the term

[20] Stearns 1980: 189.
[21] *Ibid*: 190.
[22] Raymond Grew, "More on *Modernization*," *Journal of Social History* 14 (1980): 182.
[23] *Ibid*: 182.
[24] *Ibid*: 183.

'modernization' is made neutral by examining both the favorable and unfavorable effects – in a cost-benefit analysis – that modernization has had on Western society. The corresponding results then allow one to analyze the value, in terms of gains and losses, of modernization's effects. Accordingly, even in its most abstract terms, modernization is much more than simply an "onward-and-upward historical model"; it embraces the "tensions among values and between values and institutions that allow a complex dialectic to emerge."[25] Third, critics say modernization is too static and, once the preconditions for change exist, the society is on an inevitable path for modernization. While the modernization concept posits these developments as typical trends of the modernization process, it does not predict the exact rate or extent of change, nor does it neatly replace traditional societies with an unexamined periodization of progress.[26] Modernization, conversely, is an interrelated process that describes the integration of structures that become modern society. Lastly, critics argue that the last two centuries have been filled with major social and economic transformations, and to group all socioeconomic development into one scientific concept is as absurd as it is vague. What these findings fail to suggest is that the modernization concept is complex, despite its superficial simplicity, and as an integrating device, it traces the transformation of national structures and public belief along similar trends of development to reveal the increasing interrelatedness of economy, society, and politics.

With this framework in mind, the modernization concept posits trends of development that progress from traditional to modern. Traditional society is depicted as static, with little differentiation or specialization, a predominance of mechanical division of labor, and a low level of urbanization and literacy. In contrast, modern society is portrayed as possessing a very high level of differentiation, a high degree of division of labor, specialization, urbanization, literacy, and exposure to mass media; it also possesses a continual drive toward progress, an idea founded in modernization's notion of consistent economic growth as the means of stability. In the political realm, traditional society is seen as based on elites ruling by some "mandate of Heaven," while modern society is based on wide participation of the masses who do not accept the traditional legitimization of rulers and hold these rulers accountable in terms of secular values of justice, freedom, and efficiency.[27] Above all, traditional society is conceived as bound

[25] Stearns 1980: 191.
[26] Grew 1980: 183.
[27] Rostow 1959: 7.

by its inherited cultural horizons, modern society as culturally dynamic and oriented to change and innovation.[28]

At the intellectual level, modern society is characterized by the tremendous accumulation of knowledge about man's environment and by the diffusion of knowledge throughout society by means of literacy, mass communications, and education.[29] In contrast to traditional society, modern society also involves much better healthcare, longer life expectancy, and higher rates of occupational and geographical mobility. In the cultural sphere, the process of modernization has been characterized by a growing differentiation of the major cultural and value systems, such as religion, philosophy, science, the spread of literacy and secular education, and a more complex institutional system for the cultivation and advancement of specialized roles based on intellectual disciplines.[30] These developments are made available by expanding media communication and wider participation in cultural activities by the population as a whole.[31] Economically, there is a diversification of activity as a few simple occupations give way to many complex ones; the level of occupational skill and the ratio of capital to labor are much higher than in traditional society. Politically, modern polity is characterized by a rationalized authority, differentiated structure, mass participation, and a consequent capability to accomplish a broad range of social and economic goals.[32]

This divide between tradition and modernity notes the similar changes that have occurred in individual societies – in demography, modes of production, technology, urbanization, communication, political mobilization, *et cetera* – and so it has been with Saudi Arabia. Modern Saudi history, beginning with the ascendancy of the Al Sa'ud clan in 1902, continually repeats the theme of cultural evolution from the traditional to the modern. This progression, not surprisingly, has been the goal of Saudi leaders since the country's founder Abdul Aziz foresaw economic modernization as the Saudis' hope for the future, according to Saudi historian Madawi al-Rasheed.[33] It is at this point that the modernization concept becomes applicable to both the Saudi past and present; the country, it seems, has been fighting a continuous battle for sustainable growth for the last half-century, and King Fahd's 1999 address made it abundantly clear that oil revenues, despite their seeming splendor and worth, were not the ultimate solutions

[28] Samuel P. Huntington, "The Change to Change: Modernization, Development, and Politics," *Comparative Politics* 3 (1971): 286.
[29] Joseph S. Szyliowicz, "The Prospects for Scientific and Technological Development in Saudi Arabia," *International Journal of Middle East Studies* 10 (1979): 356.
[30] David C. McClelland, "Does Education Accelerate Economic Growth?" *Economic Development and Cultural Change* 14 (1966): 258.
[31] S.N. Eisenstadt, "Studies of Modernization and Sociological Theory," *History and Theory* 13 (1974): 226.
[32] Zehra F. Arat, "Democracy and Economic Development: Modernization Theory Revisited," *Comparative Politics* 21 (1988): 22.
[33] Madawi al-Rasheed, *A History of Saudi Arabia*, Cambridge: Cambridge Univ. Press (2002), 39.

Saudi leaders had hoped they would be. The modernization concept, with its goal of stabilizing economic growth, thus becomes pertinent when analyzing the key questions regarding Saudi development: why has the massive influx of oil revenues failed to create a modern economy and society capable of maintaining sustainable economic growth, how has the country reached this current crisis of development, and what impact has the country's recent reforms had on the prospects for future long-term development?

SECTION I

Saudi History

Throughout the last century of Saudi history, the theme of linear economic development can be seen in the progression of the country's institutions. Chapter One outlines the basic history of Saudi culture, whose effects are still widely seen today, and discusses the process of state formation that transformed the tribes of the Arabian Peninsula into a nation-state. Chapter Two analyzes the international conditions leading to the 1970s oil shocks and discusses the source of Saudi wealth. This wealth, modernization theorists note, was not the result of a natural linear progression likely two be repeated in the future, but two economic anomalies that served to benefit the Kingdom of Saudi Arabia's government; that wealth, as will be proved in Section II, proved unsustainable without corresponding changes in the country's economy and society, proving the claims of the modernization concept.

Chapter One: From Tribal Groups to Desert Kingdom

Setting the Stage: Saudi Arabia's Early Historical Background

A relatively high level of material wealth characterized civilization in southern Arabia beginning in ancient times. In 1000 B.C.E., the region was evolving rapidly as trade routes across Eurasia brought steady contact from the outside world, and the region's abundance of frankincense and myrrh funneled wealth onto the Arabian Peninsula. A thousand years later, a war between the Persians and the Romans for control of the Near East benefited Arabic society from increased trade and the exchange of ideas that accompanied camel caravans. Serving as a land-bridge between Egypt, the Roman Empire, and the Far East, southern Arabia progressed rapidly despite its arid climate and continual wars among rival clans. With the birth of the Prophet Muhammed in Mecca in A.D. 570, the region experienced its first semblance of unity and peace. Muhammed taught monotheism – the existence of only one God, of whom he was a prophet – and was consequently expelled from Mecca, the religious center of the Arabian peninsula, by leaders who benefited from pilgrims traveling to the city to worship its many idols. Muhammed's flight to Medina became known as the *hijra*, the flight, and is regarded by Muslims as the first year of the Islamic calender. He soon became master of Medina, converted many of the inhabitants of the city, and expelled those residents who refused to accept the revelations he offered them. He then waged war on the leaders of Mecca, and after a long struggle, the Meccans relented and accepted Islam. Muhammed then revealed the tenets of Islam in *The Pillars of the Faith*, which served to unify the region through common behavior and belief and included daily prayers, a public statement of faith, a pilgrimage to Mecca, fasting during the month of *Ramadan*, and obligations to give alms to widows, orphans, the poor, and the needy.[34]

Until the seventh century, the peninsula's tribes had fought a destructive series of wars for control of the region. The situation had changed dramatically by the time of Muhammad's death in A.D. 632. Muhammad, as well as his political successor Abu Bakr, enjoyed the loyalty of almost all of Arabia. Abu Bakr used force and coercion to form an even stronger alliance of Arab tribes and demanded conversion to Islam from followers of old polytheistic religions. Upon Muhammed's death, Abu Bakr instituted the caliphate, a system designed to organize the Islamic community by creating a clear-cut leader. Through this system, the Islamic community,

[34] Seyyed Hossein Nasr, *Islam: Religion, History, and Civilization*, San Francisco, CA: Harper (2003), 40.

largely based in present-day Saudi Arabia, expanded as one of the dominant powers in the region.[35]

Throughout the Middle Ages, Islamic tension and tribal conflicts fractured Islamic unity and halted the region's expansion. Although the caliphate remained largely intact until the tenth century, continuing theological differences and religious strife forced many Muslim scholars out of southern Arabia. As a result, the Islamic center of power began to shift from Mesopotamia and southern Arabia to Egypt, Turkey, central Asia, and India, where scholars were welcomed. At the same time, the system of the caliphate began to break down; Islamic sub-groups began to disagree on caliphs' successions, and the region was consumed by civil conflicts. Two distinct sects of Islam emerged in southern Arabia during the tenth century: the first was centered in the western city of Hajiz and developed a cosmopolitan quality because of the foreign traffic that continually moved through the city; the second was based in the eastern city of Najd, an important link between Baghdad and Mecca, and was more conservative because of the city's isolation. The city of Najd would later become crucial in the emergence of the Saudi state because of the initial rise of Wahhabi Islam there and, with it, the Al Sa'ud clan.[36]

The Al Sa'ud family emerged as the dominant factor in Saudi Arabia's modern history beginning in the eighteenth century. The rise of the Al Sa'ud coincided with that of the Muslim scholar Muhammad ibn Abd al Wahhab, who wrote and preached against leaders and traditions that he deemed contradictory to the idea of a unitary god. In 1744, Wahhab swore a traditional oath with Muhammad ibn Sa'ud to work together in order to establish a state ruled according to Islamic principles. From 1830 to 1891, the Al Sa'ud maintained power and protected Arabia's autonomy by playing the British and Ottomans against one another.[37] Foreign threats were largely repelled, but internal strife plagued the Al Sa'ud throughout much of the century. Infighting and constant civil war ultimately led to the decline of the Al Sa'ud and the rise of the rival Al Rashid family.[38] In 1891 Abd ar Rahman and the remainder of the Al Sa'ud were driven out of the city-state of Riyadh and forced to take refuge in neighboring Kuwait.

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[35] U.S. Library of Congress, 2005 *Federal Research Div.*, <http://lcweb2.loc.gov/frd/cs/profiles/Saudi_Arabia.pdf>.
[36] Al-Rasheed 2002: 30.
[37] U.S. Library of Congress (2005).
[38] Al-Rasheed 2002: 39.

The Emergence of a Nation: 1902-1932

Abdul Aziz, the eldest son of Abd ar Rahman, began laying the groundwork for the modern state of Saudi Arabia while exiled in Kuwait. In 1902 he took the Al-Rashid garrison in Riyadh, successfully gaining a foothold in the conservative eastern territory of Saudi Arabia. From there, Abdul Aziz stressed his Wahhabi connections and established himself as the Al Sa'ud leader and Wahhabi *imam*, or Muslim cleric. By forging agreements with tribes around Riyadh, Abdul Aziz strengthened his position and, over the next 25 years, gradually extended his authority as the Al-Rashid clan fought against the Central Powers in the First World War and depleted themselves of military strength. After the First World War, Abdul Aziz organized his military strength around radical *ikhwan* forces, Wahhabi desert warriors who eagerly fought non-Wahhabi Muslims, and waged war on the weakened Al-Rashid clan.[39]

With victory achieved, Abdul Aziz set out to consolidate the Arabian tribal groups into a nation by maintaining a delicate balance between religion, upon which he based his legitimacy, and modernization, which he saw as the future.[40] In the Wahhabi idea of the state, Abdul Aziz found a "conceptual framework crucial for the consolidation of his rule."[41] The ruler was granted legitimacy from Wahhabi clerics as long as he continued to champion the cause of ritualistic Islam, and his legitimacy sprang from the recognition of *shari'ah* law, a divine law above man and independent of his will. As long as Abdul Aziz allowed himself to be ruled by this law and the way it was interpreted by the Wahhabi religious leaders in Riyadh, he was able to rule absolutely. Such concepts of authority and power "were crucial for promoting ambitious leadership."[42] By the country's formal founding in 1932, Abdul Aziz had become a significant leader for all Islamic peoples, but he faced immediate problems of economic development as the Great Depression placed severe constrictions on the country's meager resources throughout the 1930s.[43]

The Source of Development: The Discovery of Oil and the Birth of a Nation

From 1932 until Abdul Aziz's death in 1952, state formation and the continual increase in wealth dominated Saudi development. At the time of the formal founding of Saudi Arabia in 1932, Abdul Aziz desired to create a system of stable succession by formalizing his direct descendants into a royal lineage to provide continuity at the level of leadership. Abdul Aziz

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[39] U.S. Library of Congress, 1992 *Federal Research Division*, <http://rs6.loc.gov/frd/cs/satoc.html>.
[40] Al-Rasheed 2002: 39.
[41] Al-Rasheed 2002: 40.
[42] *Ibid*: 51.
[43] *Ibid*: 55.

achieved stable succession by creating an aristocracy out of the great number of his direct descendants; the leader is rumored to have had hundreds of children from dozens of wives, although he limited himself towards the end of his life by only taking on two new wives per year and maintaining only four at a time.[44] Three generations later, the Royal Family consists of thousands of princes, all who have a direct claim to Abdul Aziz as father, grandfather, or great grandfather. Abdul Aziz was able to accomplish this by placating his political rivals; he often intermarried between faction clans and intermingled birth lines to such a degree that few clans could call the King an enemy without condemning several of their own family members.

By the early 1930s, Abdul Aziz had a considerable debt of over ₤300,000, largely because of his royal lavishness and the military expenditure required to pacify his *ikhwan* forces after the country was consolidated. This led him to grant a major concession in 1933 to the American oil company Standard Oil of California (SOCAL) to begin the exploration of oil and water. In 1938, SOCAL hit oil at well Dammam No. 7, which began to produce crude in commercial quantities in 1939. Oil from Saudi wells increased from 0.5 million barrels in 1938 to 21.3 million barrels in 1945.[45] The discovery of oil had dramatic effects on the country as a whole. Wealth, at first in minute amounts, began to trickle into the country. ARAMCO, the Arabian American Oil Company formerly known as SOCAL, began extensive projects designed to improve the country's infrastructure to facilitate oil extraction and shipment to overseas markets. Roads, railways, power and water capabilities, ports, airports, and pipelines were constructed in oil regions; schools, hospitals, and state administration agencies were added to more underdeveloped parts of the country. The process of modernization had begun. State revenues, in inflated terms, increased from 13.5 million dollars in 1946 to 212 million dollars only six years later.

This first influx of wealth, which became more common and more pronounced as oil production increased, sparked development projects by the central government. Abdul Aziz, before his death in 1953, first used these increased revenues to build up Saudi Arabia's military, build new palaces for himself and his family, and timidly expand his government. The ministries of Foreign Affairs and Finance were established in the 1930s and 1940s, respectively, and five new agencies were created in the early 1950s: Interior, Health, Communication, Agriculture, and Education. Through his use of oil revenues to spark modernizing reform, Abdul Aziz initiated a precedent that would be imitated by Saudi leaders throughout the next five decades:

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[44] Al-Rasheed 2002: 52
[45] Library of Congress (1991).

improving the population's well being, according to Western trends of modernization, through development projects funded by excess oil revenues. The extent of that modernization, however, was just beginning to be realized.[46]

TABLE I[47]

Government Revenues 1946-1952	
Year	**Revenues (in inflated dollars)**
1946	$13.5 million
1950	$113 million
1951	$165 million
1952	$212 million

[46] U.S. Energy Information Agency, 2005 *Federal Research Division*, <www.eia.gov>.
[47] Figures obtained from Al-Rasheed 2002: 94.

Chapter Two: The Source of Wealth

OPEC and the Beginnings of Oil Wealth

"We attached little importance to it because we believed it would not work. OPEC did not really exist."
-Howard Page, a Standard Oil executive at the founding of OPEC[48]

In the late 1950s, oil-producing Arab countries were growing weary of Western corporations artificially depressing oil prices by overproducing. The countries met in Cairo in 1959 in the first Arab Petroleum Congress to decide upon a strategy to implement should Western corporations continue to keep oil at an artificially low price. When the price of oil had only marginally increased by 1960, Saudi oil minister Abdullah al-Tariqi established the Organization of Petroleum Exporting Countries (OPEC) in September of that year to protect oil-producing countries from the energy glut that had driven down oil prices. In an attempt to prevent a total collapse in oil prices, oil companies cut production to maintain their profits, which in turn negatively affected the economies of oil-producing nations. With the creation of OPEC, Al-Tariqi envisioned the organization playing a leading role in stabilizing world energy markets, in preventing economic waste, and in conserving oil as an irreplaceable resource. Consequently, while al-Tariqi was oil minister, Saudi Arabia gave its full support to OPEC; the organization, however, fell far short of fulfilling the oil minister's visions. Instead, the organization became a tool in the hands of the oil companies, who held concessions to the oil located under Middle Eastern lands.

Despite OPEC's minimal power, the 1960s became a decade of unprecedented affluence in the Kingdom of Saudi Arabia. Slowly increasing oil prices and high production levels led to increasing government revenues. Growing wealth, however, was not synonymous with social progress, and by the time that King Faysal inherited the throne from his older brother Sa'ud in 1964, Saudi Arabia, from the Western perspective, was markedly underdeveloped. Faysal, long considered a modernist in Saudi history books, sought to use oil revenues to build up the country's infrastructure and make it capable of sustainable economic growth.[49] In 1965, Faysal consolidated central economic planning into the Central Planning Organization, which later became the Ministry of Planning. The ministry's purpose was to maintain slow, stable GDP growth through five-year economic plans, the first of which was meant to create and develop the country's material infrastructure and the government's social services. The construction of roads, airports, ports, electricity, and communication became priorities, as did the establishment

[48] Qtd. in Daniel Yergin, *The Prize: the Epic Quest for Oil, Money, and Power*, Free Press: New York (1991), 523.
[49] Al-Rasheed 2002: 121.

of schools and hospitals. Faysal's promotion of education in general, and particularly female education, made his name "synonymous with modernization amidst a climate of political conservatism."[50] His wish to continue developing the country's infrastructure was reinforced by rising oil revenues, although no one foresaw the extent of price increases in the early 1970s that would shape the Saudi Kingdom for decades to come.

Treasure Unleashed: the First Oil Shock

"This is a moment for which I have been waiting for a long time. The moment has come. We are now masters of our own commodity."

-Saudi oil minister Ahmed Zaki Yamani at the enactment of the 1973 oil embargo.[51]

Since the end of the Second World War, Western powers recognized the potential of military conflict in the Middle East to disrupt the supply of oil to international markets. The 1956 Suez Canal crisis, when Egyptian leader Gamal Abdel Nasser nationalized the Suez Canal Company, choked world oil shipments, and provoked a military response from France, Britain, and Israel, proved that fear all too real. The first impetus for oil-producers to use "oil as a weapon" occurred during the 1967 Arab-Israeli War.[52] Frustrated by Israeli success in the Suez Canal crisis, Egypt's Nasser reiterated his calls for the "liquidation" of Israel.[53] In May 1967, Nasser instituted a blockade against Israeli shipping in the Gulf of Aqaba, cutting off its southern port of Eilat and threatening to interrupt its supply of petroleum. He also sent Egyptian troops marching back into the Sinai Peninsula, while King Hussein of Jordan put his armed forces under Egyptian command. When Iraq and Syria adhered to the new Jordanian-Egyptian agreement on June 4, Israel, faced with military might on all sides, felt the noose tightening quickly. The next morning, June 5, Israel responded. Answering the Arab military build-up, Israel launched a preemptive offensive attack and succeeded in destroying the entire air forces of Egypt and other belligerent states while they were still on the ground. With local air superiority assured, Israeli forces pushed back those of Egypt, Jordan, Syria, and Iraq in a matter of days. By June 8, the Israeli Army had crossed the Sinai, destroying 80 percent of the Egyptian military in the process, according to Nasser himself.[54]

In response to impending military defeat, Arab oil ministers met on June 6 and called for an all-out embargo of the United States, Britain, and, to a lesser degree, West Germany. By June 8, the flow of Arab oil had been reduced by 60 percent. The situation grew more threatening in

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[50] *Ibid*: 122.
[51] Quoted in Yergin 1991: 606.
[52] *Ibid* 1991: 524.
[53] *Ibid*: 554.
[54] *Ibid*: 555.

late-June and early-July when civil war broke out in Nigeria, one of America's leading oil-suppliers, and oil output in that African nation dropped sharply. Despite high anxiety and uncertainty among Western leaders, the problems proved less severe than might have been expected, and the domestic tension in the Arab countries soon ebbed. Arab oil-producers dropped their production to a maximum loss of about 1.5 million barrels of oil per day, an amount that the U.S. was able to replenish with its stockpiles and additional production elsewhere. By late-July 1967, merely a month after the Six-Day War, it was clear "that the 'Arab oil weapon' and the 'selective embargo' were a failure.'"[55] The biggest losers, ironically, turned out to be the countries that instituted the embargos; they gave up substantial government revenues to no obvious effect. Arab oil-producing nations, however, would not make that mistake again.

Although the Middle Eastern oil flow stabilized from 1967 to 1973, Arab relations with Israel remained strained. Eager to make up for their poor military performance in the Six-Day War, Egypt planned a 1973 surprise attack on the holiest day of the Jewish calendar: Yom Kippur. Feigning military build-ups throughout 1972 and 1973, the October 6 attack caught Israel completely off-guard. Finding themselves unprepared for war, the Israelis fell back before the Egyptian and Syrian onslaught, while those two nations scored massive victories. The Israelis, running low on supplies, faced a quick defeat and requested immediate American assistance.

OPEC seized the opportunity to unilaterally demand Western oil companies raise the price of oil 100 percent. Western companies, fearful of allowing OPEC sole authority in setting oil prices, did not respond to the organization's demand. On October 16, the delegates of the Gulf states announced a 70 percent increase in the price of oil to $5.11 a barrel, which brought its oil prices in line with those of the world market. The next day, Arab oil ministers, eager to capitalize on their recent success, agreed to an embargo, cutting production 5 percent each month until their objectives were met and agreeing that the United States be the country most severely affected. By the time that American President Richard Nixon publicly proposed his $2.2 billion military aid package for Israel on October 19, the embargo was already in full effect. The next day Saudi Arabia announced it had gone beyond the rolling cutbacks and had cut off all oil – every last barrel – destined for American soil. "The oil weapon was now fully in battle – a

[55] *Ibid*: 557.

weapon, in Kissinger’s words, ‘of political blackmail. And now, all hell has broken loose.’”[56] The very public nature of the American re-supply to Israel had a polarizing effect on many Arab countries; “not to have acted, some Arab leaders thought, could have put certain regimes at the mercy of street mobs.”[57]

While Nixon and Kissinger fought for a military cease-fire and an end to the all-out embargo, international markets experienced a new world of oil prices. After much hard discussion in December 1973, Arab states agreed to set the price of oil at $11.65 a barrel, a four-fold increase in price from the $2.90 a barrel oil cost in mid-1973.[58] Because oil was so vital to countries at the time, the demand for oil dropped only marginally with severe increases in price, demonstrating its inelasticity as a commodity. The quadrupling of prices triggered by the Arab oil embargo and the exporters’ assumption of complete control in setting prices brought massive changes to every corner of the world economy.[59] The combined petroleum earnings of oil exporters rose from $23 billion in 1972 to $140 billion by 1977.[60]

FIGURE I[61]

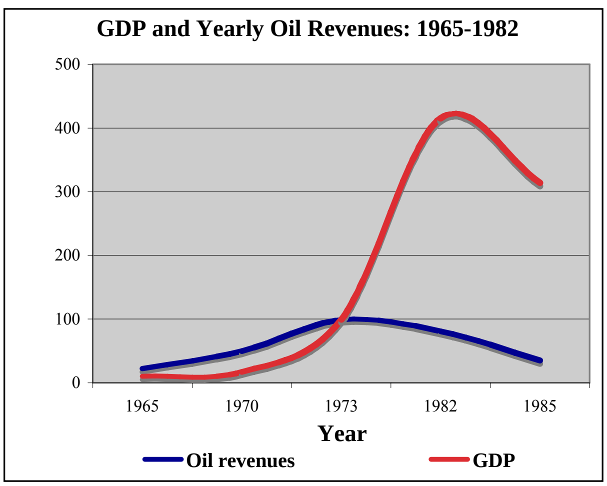
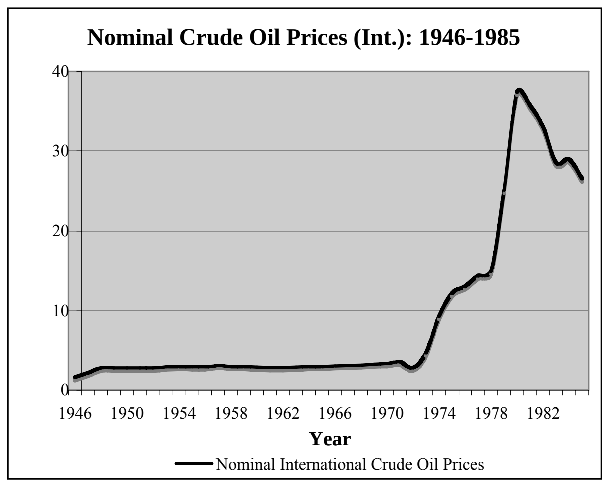


FIGURE II[62]



Figures I and II demonstrate the dramatic effect increased oil prices had on the Saudi Arabian economy. The continual rise in nominal oil prices beginning in 1971 had a pronounced effect on the country’s GDP beginning that same year. Yearly oil revenues fueled more than a ten-fold increase in the Saudi GDP during the 1970s, giving the government all the funds it needed to pursue its modernization goals. The Saudi government built up such large financial surpluses, in fact, that their unspent money created grave concern for the world’s bankers and

[56] *Ibid*: 608.
[57] *Ibid*: 608.
[58] *Ibid*: 608.
[59] *Ibid*: 633.
[60] Al-Rasheed 2002: 128.
[61] *Ibid*: 120, 149.
[62] Figures from U.S. Department of Energy (2005) and the Energy Information Agency (2005).

economic policymakers; the unspent tens of billions, sitting idly in bank accounts, could spell serious contraction and dislocation in the world economy if they were not spent. Bankers' fears, however, proved unmerited. The oil exporters, finding themselves amidst a sudden wealth greater than they could have dreamed, embarked on "dizzying programs" of spending.[63] With the influx of wealth, expenditures increased accordingly, ports were clogged far beyond their capacity, and ships waited weeks to be unloaded. "Everything was for sale to the oil producers, and now they had the money to buy."[64]

Panic at the Pump: the Second Oil Shock

"Today we face a world crisis of vaster dimensions than Churchill described half a century ago – made more ominous by the problems of oil. There is little, if any, relief in prospect. . . . The energy future is bleak and is likely to grow bleaker in the decade ahead."

-U.S. Secretary of Defense James Schlesinger in the summer of 1979[65]

While oil-producing nations now had unprecedented wealth to spend on anything that they desired, world oil markets were far from stabilized. The influx of oil revenues destabilized Iran as the shah embraced massive reform efforts and encountered vicious domestic backlash from religious conservatives. The petrodollars, spent on extravagant modernization programs or wasted through corruption, were generating economic chaos and sociopolitical tensions throughout the country. By 1976, the shah himself recognized Iran had "acquired money it could not spend."[66] Money, he had to admit, was not the sole answer to his country's problems. Meanwhile, reform programs had polarized the population into pro- and anti-shah factions, and the shah's lack of success in stabilizing the chaos undermined his political support. The rural populace was flowing into the already-overcrowded cities, and inflation had seized control of the economy. Iran's inflexible infrastructure could not cope with the pressure suddenly thrust upon it, and every system – from electricity to traffic to communications – broke down. The political situation in the country deteriorated, and the shah refused to publicly wage war against revolutionaries led by Ayatollah Khomeini. The Iranian oil industry degenerated into chaos. Export oil production dropped from 4.5 million barrels per day in January 1978 to under one million by November to none in January. The shah's installed military government was unable to halt the growing revolution, and on January 16, 1979, the shah left Iran, in effect abdicating the throne.

[63] Yergin 1991: 634.
[64] *Ibid*: 634
[65] Quoted in *Ibid*: 698.
[66] *Ibid*: 644.

The fact that the Iranian revolution led to a shortage in oil supply was no surprise. Iran was, after all, OPEC's second largest producer of oil at the time, behind only Saudi Arabia.[67] However, the drop in supply was much more minimal than the world anticipated. Saudi Arabia increased its oil output from its self-imposed ceiling of 8.5 million barrels per day to 10.5 million barrels to accommodate demand. Other OPEC countries did the same, and actual shortage was no more than four to five percent of the worldwide demand of 50 million barrels a day. Prices, however, did not match the minimal drop in supply, as the world, already fearful of its dependence on Middle Eastern oil, panicked. The four- to five-percent loss in supply resulted in an immediate 150 percent increase in demand on world markets. Buyers, fearing that the Iranian Revolution, fueled by its religious fundamentalism and fervent nationalism, would spread to neighboring Arab states, focused on building up stockpiles of oil inventories. By the time the panic subsided, the outbreak of the Iraq-Iran war, as well as Iraq's bombing of the world's largest oil refinery at Abadan, shook the oil market. Prices increased from $14 a barrel in 1979 to $40 in 1980. By the time the dust had settled in 1982, Saudi Arabia's GDP, like most other oil-producing nations' GDPs, had increased in inflated terms from 40.5 billion Saudi riyals in 1971 to 415.2 billion in 1982, while inflated government revenues jumped from $4.3 billion to $101.8 billion between 1973 and 1980. The financial capital needed for development was now in Saudi hands, although exactly how the Royal Family would use that excess money remained to be seen.[68]

[67] U.S. Energy Information Agency (2005).
[68] All figures from this paragraph were obtained from Yergin 1991: 634-685.

SECTION II

Applying the Modernization Concept

By the early 1970s, the Saudi economic outlook had changed significantly. The Saudi Royal Family, which had been plagued by budget constraints since the country's founding in 1932, now had the wealth needed to modernize its economy. Government efforts to reform, however, proved more difficult than Saudi leaders imagined. Funds that were designed to facilitate self-sustained economic growth failed to provide sufficient economic payback, and the Saudi balance of payments declined from a cumulative surplus of $163 billion in 1983 to a $138 billion deficit by 1992. The reasons for this failure are explained by the modernization concept's notion that self-sustained economic growth occurs through natural economic and social evolution that occurs from the bottom-up. To analyze how Saudi Arabia did not follow typical Western trends, this section is divided into three chapters that analyze the country's economy, society, and polity. Each chapter is subdivided into three subsections, the first of which discusses government policy, the second analyzes the undermining effects that the massive influx of oil wealth had in creating sustainable economic growth, and the third section explains how and why Saudi modernization efforts differ from typical Western trends. Additionally, the key to understanding Section II of this paper lies in distinguishing the interconnectedness among the economy, society, and polity; the Saudi government, for example, self-proclaimedly plays the defining role in creating a robust economy that benefits the Saudi people, yet the country as a whole remains a society of contrasts torn between Western development and its Islamic past. Few explanations of the interconnectedness of these three facets of Saudi Arabia are more insightful than the Library of Congress's: "The economic philosophy of the Saudi Arabian Royal Family has not changed since the reign of Abd al Aziz, but the economic role of the government has grown tremendously. The stated goal of Saudi rulers has been to improve the economic conditions of the country's citizens while retaining the society's Islamic values. Imbedded in this social contract, however, is the issue of political control. The Al Sa'ud recognized that the key to political power in the Kingdom lay in replacing the old economy with lucrative new economic opportunities for the country's citizenry."[69]

[69] U.S. Library of Congress (2005): 2.

Chapter Three: The Quest for Sustainable Economic Growth

Government Policy-making: Coping with Success

"The quadrupling of prices triggered by the Arab oil embargo and the exporters' assumption of complete control in setting those prices brought massive changes to every corner of the world economy. . . . Oil exporters built up very large financial surpluses, and they, suddenly wealthy and certainly far richer than they might have dreamed, embarked on a dizzying program of spending: industrialization, infrastructure, subsidies, services, necessities, luxuries, weapons, waste, and corruption. . . . This massive spending ensured that their financial surpluses would soon disappear. And disappear they did., completely."

-Daniel Yergin in his 1991 work The Prize[70]

In the early 1970s, the Saudi economic situation had changed dramatically. The Royal Family, which had operated under severe budget constraints since Abdul Aziz ascended to the throne in 1932, had watched the trickle of oil revenues in the 1950s increase to an abundance in the 1970s. Saudi Arabia's revenues per barrel of oil skyrocketed from $0.22 in 1948 to $10 in 1974 to $34 in 1980, and the government was facing increasing pressure on what to do with that money.[71] Factions developed inside the Royal Family between those eager to promote modernization programs and those fearful of the social consequences rapid economic transformation could bring. The underlying issue facing policy-makers became whether to limit oil production to a level that was adequate to meet limited economic and social development or to allow for a production scheme that would fluctuate to meet the world's crude demand.[72] By 1974, the choice had been made; the Saudis pledged to keep oil flowing at moderate prices, arguing, in the words of the Al Sa'ud, that the "'Kingdom was as dependent on the stability and prosperity of consuming nations as those nations were on Saudi oil.'"[73] From the very beginning of its oil prosperity, therefore, Saudi policy-makers did not allow its domestic needs to govern its external oil policy.

The question confronting policy-makers then became simple: how were the country's oil export earnings best put to use? By 1974, the Royal Family had settled upon an answer: the government would fund a massive development project aimed at transforming Saudi Arabia into a first-world economy and society.[74] Between 1973 and 1980, government oil revenues jumped from $4.3 billion to $101.8 billion, and these higher oil revenues "at last gave Saudi officials the

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[70] Yergin 1991: 634.
[71] U.S. Library of Congress (1991).
[72] Yergin 1991: 622.
[73] Quoted in Library of Congress (2005).
[74] Obtaining a first-world economy and society, in this context, refers to the modernization concept's notion of creating a diversified and self-sustaining economy supplemented by a society that is characterized by low unemployment, high GDP per-capita, low levels of poverty, high levels of education and literacy, and longer life-expectancies. The First World, then, refers to Western countries such as the U.S., Canada, the E.U., Japan, Korea, *et cetera*.

means to make major structural changes to the country in a massive development effort."[75] To accomplish that goal, Saudi leaders promoted industrialization and improved the country's social and economic infrastructure. To industrialize, the government planned to invest in processing plants that used the country's hydrocarbon resources to refine oil and produce natural gas. This policy meant a decade of substantial investments to build the plants and necessary infrastructure, such as a gas-gathering system, the pipelines for gas and crude oil that would bring the raw material to the main industrial sites – Al Jubayl and Yanbu al Bahr, and building the industrial sites themselves. To develop the country's social and economic infrastructure, the government made huge financial commitments to completely overhaul the country's electricity, water, sewage, desalination, telecommunications, and transportation systems. These efforts, which were designed to support future domestic consumption, were also supplemented by subsidies designed to encourage growth in the non-oil private sector and improved educational opportunities and health services for all Saudis. These commitments proved so costly, however, that as government revenues increased exponentially in the early 1970s, budget expenditures rose comparably. OPEC's $67 billion surplus in 1974, for instance, had turned into a $2 billion deficit by 1978. Meanwhile, the cumulative costs for the government's massive development project totaled more than $500 billion, in inflated terms, by the mid-1980s.[76]

Table II[77]
Saudi Arabia's macroeconomic indicators in 1973 and 1980

	1973	**1980**
Real GDP (total)	$99.3 billion	$149 billion
Nominal oil prices per barrel	$3.27	$32.27
Nominal oil revenues	$4.3 billion	$101.8 billion
Nominal GDP per capita	$6,625	$20,900

As oil revenues increased substantially, leaders hinted at using government revenues to spawn future economic growth and improve the plight of Saudi citizens. To oversee those aims, King Faysal established the Central Planning Organization in 1965, which drafted the country's first five-year development plan to be enacted from 1970 to 1975. This draft, which became known as the First Development Plan, sought to increase the country's real GDP by 9.8 percent per year and spur growth in the country's non-oil sectors. The planned budget was $9.2 billion over five years, 45 percent of which was to be spent on capital projects of defense, education, transportation, and utilities. The unanticipated increase in crude oil prices, however, led to rapid

[75] Library of Congress (2005).
[76] Figures from this paragraph were obtained from the Library of Congress (1991).
[77] Figures obtained from United Nations (2006) and World Bank (2006).

economic growth far beyond the planners' expectations. As oil revenues grew, the Royal Family more than doubled the plan's initial budget, committing $21 billion to development projects.[78]

The Second Development Plan, from 1975 to 1980, recognized the dramatic transformation the Saudi economic outlook had undergone only five years earlier. Although it had similar social and economic goals as the first, the Second Development Plan estimated government expenditures at $142 billion, more than fifteen times the planned expenditures only five years before. The largest share of government expenditure, 23 percent, was allocated for continuing the development of roads, ports, and airports. The expansion of industry, agriculture, and utilities received 19 percent of the plan's budget, and defense and human resource development, mainly education, received 16 percent each. The plan contained numerous social goals, including free medical service, free education and vocational training, interest-free loans, extended social security benefits, and support for the needy. Economically, the plan aimed to spur a 13.3 percent per year increase in the non-oil sector of the economy and a 9.7 percent increase per year in the oil sector. Additionally, the plan included development of the capital Riyadh, largely a sentimental and political decision, which, in reality, required large government expenditures to bring water, electricity, communications and housing inland, far away from the true economic centers of the country.[79] Oil revenues continued to rise throughout the 1970s, capped off by the 1979-81 oil shock. Fueled by overall real GDP growth of 9.2 percent per year, actual government expenditures exceeded $200 billion, approximately forty percent above the initial government estimate and almost ten times the actual expenditures in the first plan. Nevertheless, the Saudi economy, continued to expand at a rapid pace, notching *per annum* growth rates of 14.8 percent in the non-oil sector and 16.6 percent in industrial production over this time period.[80]

The Third and Fourth Development Plans curbed government spending at roughly $240 billion over each five-year period, but the government quickly felt the increasing constraint falling oil revenues were placing on the Saudi budget. The commercialization of new oil reserves in Mexico and the North Sea in the early 1980s, coupled with decreasing worldwide demand for crude and increasing non-OPEC oil production, stabilized, then depressed, oil's international price quickly. Saudi oil revenues fell from $119 billion in 1981 to $36 billion in

[78] Al-Rasheed 2002: 121.
[79] Library of Congress (2005).
[80] U.S. Department of State (2005).

1984 to $26 billion in 1985.[81] The collapse of the OPEC pricing cartel in 1986, and with it oil's subsequent overproduction, continued the commodity's downward price spiral to $12.52, only five years removed from its $35.10-high in 1981.[82] Meanwhile, the Saudi government, reeling from increasing domestic pressure to halt the secularization of society, sought to slow the rapid pace of development and limit domestic inflationary pressures. The economy, which had become dependent on heavy government subsidies funded by oil revenues, went into recession as a result. Real GDP declined 1.5 percent per year from 1980 to 1990 compared with an estimated annual growth rate of 1.3 percent.[83] Policy-makers, attempting to foster growth in The Fifth Development Plan from 1990-95, found their options limited due to depressed oil prices and the government's increasing domestic debt. Commitment to civilian programs fell from $150 billion in the previous plan to $102 billion in the Fifth.[84] Meanwhile, the development of the private sector also became a priority, and the government allowed individual investors to buy shares in its nationalized companies. Additionally, there was greater emphasis on financial sector reform through the establishment of joint stock companies and a stock market that could trade shares.[85] However, these reforms failed to spark significant growth while oil revenues remained stagnant, and the economy's real GDP in 1995 remained below its 1981 level.

Undermining the Future Economy

"Please excuse the comparison, but the history of the crisis is similar to that of a pregnant wife. . . . The crisis started just like a normal pregnancy – with passion and joy. At this moment other members wanted us to raise the price of oil even higher despite our warnings of the negative consequences. Moreover, everyone was getting massive financial revenues and rushing into development projects as if this financial revenue would continue to rise forever. . . . We were consumed with our moments of pleasure. Now, the consequences must be faced."

-Saudi oil minister Ahmed Zaki Yamani in 1983, the year that real oil prices started their two-decade decline[86]

Beginning with the huge rise in expenditures in 1973, the government anticipated problems related to development. The first ones seemed trivial enough; a flood of imports in 1974 overwhelmed the transportation system, and bottlenecks at the country's ports kept ship containers from being unloaded for months.[87] Then came the acute housing shortages in the country's rapidly expanding cities, skyrocketing construction costs, and the short supply of labor that drove up wages exponentially by 1976.[88] Stable oil prices, however, kept the underlying economic problems at bay, and renewed government financial commitment to maintain social

[81] Yergin 1991: 747.
[82] Figures from U.S. Departments of Energy, Commerce, and Labor (2004).
[83] Library of Congress (1991).
[84] *Ibid.*
[85] *Ibid*.
[86] Quoted in Yergin 1991: 720.
[87] *Ibid*: 720.
[88] Library of Congress (2005).

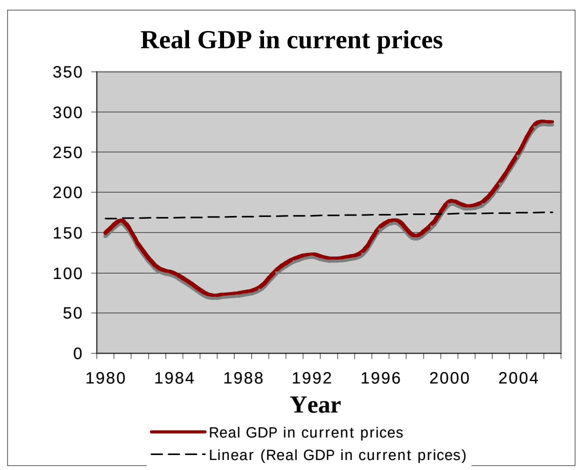
and economic cohesion in 1979 glossed over the true economic situation of the country. As long as oil prices remained high, the government had the revenues to continue funding development projects.

But oil prices did not remain high. Beginning in 1981, real oil prices began a two-decade decline with the sole exception of the 1990-91 Iraqi invasion of Kuwait that drove up oil prices for a ten-month period, but even that price hike was offset by the conflict's $59 billion price tag, an amount – $23 billion of which was paid by the Saudi government – that dwarfed the high oil export earnings for the 1991 fiscal year.[89] More important, however, a two-decade decline in the real price of crude oil revealed the unsustainable manner in which the Saudi government had approached its modernization efforts. Large government subsidies that spurred growth in the non-oil sectors of the economy during the oil boom of 1973-1984 disappeared over the next decade. The hydrocarbon and natural gas industries, which the Saudi government had hoped would help diversify the economy, proved more inefficient and less profitable than the government anticipated.

FIGURE III[90]
Oil's Real Price per Barrel: 1970 to 2006

QuickTime™ and a
TIFF (Uncompressed) decompressor
are needed to see this picture.

FIGURE IV[91]
Saudi Real GDP from 1980 to 2006



By 1985, the government found itself with little control over expenditures and spending billions of dollars on projects that did not offer comparable economic paybacks. The sudden easing of financial constraints in the mid-1970s permitted the consideration and approval of development projects that, realistically, were too lavish and too large, such as the combined $8.2 billion spent on the airports in Riyadh and Jiddah.[92] By 1990, it had become evident that

[89] Figures obtained from Library of Congress (1991)
[90] Graph obtained from Pierre Lemieux, "The Oil Price Mirage," and figures from U.S. Bureau of Labor (2004).
[91] Figures obtained from UNICEF (2006).
[92] *Ibid*.

maintaining some of the investments made in the 1970s lacked direct financial paybacks, and the government, which had extended social services in the 1970s through indirect subsidies, found itself hard-pressed to reduce those services without harsh social backlash. It had also become clear that the government had failed in its attempts to provide an adequate infrastructure for the future – one that it defined as properly promoting private sector investment and supporting future domestic consumption. With increasing financial constraints and a population that was growing rapidly, Saudi Arabia's per-capita real GDP decreased by a yearly average of 1.2 percent from 1970 to 1990 and by 0.5 percent from 1990-2000.[93] Accordingly, the country is the richest in the world, in terms of overall GDP, that has experienced a decrease in real per-capita wealth from 1980 to the present. The country has also suffered from astonishingly high unemployment rates; comprehensive figures on unemployment were not published by the Royal Family in the past, but 2005 estimates range from official government figures of 9 percent to the World Bank's and U.S. government's 30 percent.

The explanation for this economic recession resides in the impact oil revenues had on the economy. When the oil shocks drove up the price of oil twelve-fold from 1973 to 1981, oil's percent make-up of the country's government revenues, GDP, and export earnings reached high levels for a country hoping to achieve sustainable growth through diversification and specialization. Comprehensive statistics comparing oil's past percentages of government revenues, GDP, and export earnings are not available, largely since oil was Saudi Arabia's only major profitable export from 1932 to 1973. By 1981, however, oil comprised 67.6 percent of the country's GDP and more than 95 percent of the country's export earnings.[94] Even after the country's two-decade-long project aimed at developing the country's infrastructure, fostering growth in the country's private sector, and diversifying the economy, oil still accounts for more than 90 percent of the country's export earnings, 75 percent of state revenues, and 40 percent of the country's GDP.[95] With the drop in real oil prices from 1983 to 1999, it is no surprise that the country experienced an annual real GDP growth rate of 0.5 percent over that same time period. It is safe to say, then, that oil has served as the main engine behind Saudi economic growth for the last three decades. Figures III and IV illustrate the relationship between real oil prices and Saudi Arabia's real GDP over the last quarter century. Immediately after real oil prices peaked in 1981, Figure IV shows, they began a two-decade decline that reached their nadir in 1999; it is

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[93] Human Development Index Report (2005).
[94] *Ibid*: 3.
[95] International Monetary Fund (2006).

no surprise that Saudi real GDP also climaxed in 1981 and did not surpass that mark until 2000, when oil prices began their ascendancy once again.

Oil profitability also deterred private sector investment in the non-oil sector of the economy. Two sets of data support this claim. First, unlike Western countries with diversified, specialized economies, the Saudi economy maintains a private sector that tends to move in a "pro-cyclical fashion" in relation to increased government expenditure, supporting the notion that economic growth, even through diversification efforts, is dependent, either directly or indirectly, on oil revenues.[96] Private businesses, which depend on government or private investment, are partly protected from international competition by 20-percent Saudi tariffs, and they come to rely on these protectionist measures to survive. When oil revenues started their decline in the 1980s and persisted into the 1990s, government expenditures, especially in spawning economic diversification, leveled off, as did their corresponding impact on private sector involvement. Since 1984, the relative share of non-oil GDP has fallen from 75.8 percent of overall real GDP to 67.4 percent in 1990. This fall in non-oil GDP share resulted from a fall in government subsidies to the private sector and an increase in crude oil production, natural gas production, and higher refinery output.[97] The construction and service industries noted the biggest falls in their GDP shares, from 14.3 percent in 1984 to 9.0 percent in 1990 and from 66.8 percent to 62.4 percent, respectively.

It has also been argued that oil profitability creates a "psychological condition" in the individual that has profound consequences on the labor force and productivity.[98] Through the dispersal of oil revenues by the central government, many contracts are awarded as an expression of gratitude, social status, and kinship rather than Western economic rationale, commonly thought to reward the most productive and efficient individual actors in an economy. This economic behavior by the Royal Family has a dramatic impact on the Saudi labor force. Many of the brightest Saudi citizens abandon the idea of starting new businesses in the hopes of winning lucrative government projects; the best university graduates become civil servants to take advantage of the only stable source of income in the Saudi economy – government revenues. That leaves foreign workers to run the private sectors of the Saudi economy, creating

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[96] Wilson 2002: 16.

[97] The Library of Congress notes that measuring the changing structure of the economy has been difficult because of the lack of consistent data on the GDP structure, so statistics must therefore be understood in proper context. After the 1986 price crash and the shift from the use of the *hijra* calendar as the basis for government fiscal year accounting, national accounts data were revised and were generally not comparable to pre-1984 data. Moreover, the base year used was extremely important: if the base year were 1980, when oil prices were at peak levels, the non-oil sector in 1986 accounted fro 50 percent of real GDP; if the 1970 base year were used, non-oil GDP was closer to 75 percent of total output.

[98] Yates 1996: 22.

a dependency that has increased as the number of foreign workers in Saudi Arabia has risen from 3.52 million in 1985 to over six million today. For every one Saudi in the private workforce, there are four expatriates.[99] Ordinary Saudis, meanwhile, suffer from an unemployment rate around 30 percent compared to the 0.8 percent unemployment rate for expatriates. Annual labor productivity among domestic Saudis, likewise, has faired poorly, falling by 0.1 percent per year from 1990 to 1999 compared to positive rates of 5.5 percent, 2.1 percent, 1.2 percent, and 0.7 percent in East Asia, the United States, Europe, and Latin America, respectively, during that same time period.[100]

Finally, oil revenues entrenched state rule over economic policy-making and created a dependent culture and workforce. The Royal Family, which had been fractured by tribal disunity in the 1930s, was consolidated into a cohesive hierarchical group united "by real economic interests rather than vague genealogical and blood links" by 1975.[101] This power of patronage allowed generosity "to surpass the regular feast of lamb and rice and the occasional gifts of cloth, dates, and weapons"; instead, the Royal Family grew to be an elite ruling class that funneled oil wealth to its constituents, becoming the "gatekeeper that mediated the existence of all citizens."[102] Ordinary citizens benefited from commissions, extra hidden payments that accompanied all development projects, and the construction boom. The state paid its citizens directly and became the country's largest employer. By 1980, the government had nationalized the country's two largest companies: ARAMCO and SABIC (Saudi Basic Industries Corporation), as well as the Saudi Telecom Company, National Company for Cooperative Insurance, and the banking sector. Additionally, princes who were excluded from the state political machinery or had no political ambitions found an economic niche with great material rewards. The Royal Family became accountable to no one, as old taxpayers now escaped the burden of *ad hoc* taxation and the first wave of the middle-class – bureaucrats, technocrats, professionals, and merchants – had no bargaining power against the redistributive power of the state. The bottom strata of society, meanwhile, became indirectly dependent on oil revenues through free social services while suffering from high inflation and high levels of unemployment.

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[99] Kevin Taecker, "Myths and Realities about Unemployment in Saudi Arabia," *Saudi-American Forum* (2003): 10; figures according to the Library of Congress (1991) and British Broadcasting Corporation (2006).
[100] Taecker 2003: 11.
[101] Al-Rasheed 2002: 126.
[102] Al-Rasheed 2002: 126.

Despite their undermining nature, oil revenues did have positive effects on the country. Prior to the 1970s, although the Kingdom was politically unified, "economic transactions between the regions and the cities were limited."[103] However, the creation of a technologically sophisticated infrastructure that linked cities, towns, and markets by 1990 changed all that. The Saudi economy grew into the largest in the Arab world, nearly twice the size as those of Israel or Egypt. The country's 374,000 university students were second only to Egypt, and the country maintained high levels of literacy and health care, far above the Arab average. A wide range of successful industries catered to the domestic market and the wider GCC market, from food processing to pharmaceutical products to construction supplies.[104] The major achievement of the oil era was "the creation of a national economy for goods, services, and capital, and to a much lesser extent labour."[105]

Struggling to Find Sustainable Growth

"Perhaps one of the more crucial problems that needs to be studied is why the oil exporting countries, in spite of the extraordinary resources that are available to them, have not been among the fastest growing countries in the world."

-British economist Hussein Mahdavy in 1970[106]

In the early twentieth century, Saudi Arabia exemplified the traditional economy that modernization theorists discussed as the origins of development. The Kingdom, not yet officially unified, consisted of a populace that was still largely nomadic, traded only at the local level, and had no organized industry of any kind. This traditional society constituted an economy that was static, possessed little differentiation or specialization, and had no mechanical division of labor, since none was needed.[107] The people had no central means of communication, so their lives played out, almost exclusively, on the local level. Society had no continual drive toward progress and, above all else, was "bound by its inherited cultural horizons."[108] It was not that Saudi society lacked inventiveness and innovation, but, as did other traditional societies, it did lack "a systematic understanding of its physical environment capable of making invention a more or less regular current flow, rather than a stock of *ad hoc* achievements inherited from the past."[109] Consequently, agricultural farmers, or in Saudi Arabia's case nomadic herdsmen, absorbed much of the workforce, and any high proportion of

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[103] Wilson 2004: 3.
[104] *Ibid*: 2.
[105] *Ibid*: 2.
[106] Quoted in Douglas A Yates, *The Rentier State in Africa*, Trenton, New Jersey: Africa World Press (1996): 15.
[107] Alexander Gerschenkron, *Economic Backwardness in Historical Perspective*, Cambridge, Massachusetts: Belknap Press (1962), 42.
[108] Rostow 1959: 7.
[109] *Ibid*: 7.

income above minimum consumption levels was spent on low productivity outlays, like religion and wars.

Typical trends of Western development, as noted in the modernization concept, include the preconditions for industrialization, industrialization, consumerism, and post-consumerism. Using Western development as a model for how sustainable development *could* occur in non-Western countries, the modernization concept notes the stages of socioeconomic change that culminate in an economy capable of sustaining itself. It should be stated here that the modernization concept is not meant to serve as a roadmap for non-Western countries to become more Western, but it is useful in stressing how this Western *path* of development created a society and economy that were able to adapt to gradual, stable change. And so this path is emphasized here, not to allude to which stage Saudi Arabia is in at the present, but to contrast the path of Western development with the path that Saudi Arabia took from the 1960s to the present.

The first stage of this growth notes the radical changes in three non-industrial sectors that typically occur before industrialization: (1) the buildup of social overhead capital, especially in the realm of transportation, that allow the government to effectively foster trade; (2) a technological revolution in agriculture that allowed fewer workers to have more overall output, thus resulting in a massive migration to urban areas to find work in cities; and (3) an increase in foreign trade, especially imports, that facilitate market expansion and new raw material inputs needed for industrialization to occur. The second stage is industrialization itself, which is contrasted with earlier industrial surges in that the application of modern industrial techniques are "self-sustained rather than abortive."[110] This sustained growth occurs because the sources of capital are institutionalized in such a way that the economy can suffer structural shocks and capital can be reallocated to other investment resources that resume economic growth. As industrialization is taken to its logical conclusion, the work force becomes differentiated and specialized, productivity levels skyrocket, and within the urban population the proportion of semi-skilled and white-collar workers increases. The third stage is that of consumerism, when society turns the attention of its mature economy to providing increased social welfare through the state, to enlarging private consumption on a mass basis, and to seeking enlargement or maintenance of that nation's power on the international stage. The final stage integrates the transformational economic changes within society, noting how increased consumerism and

[110] *Ibid*: 7.

social welfare results in declining birth rates, reduced dependency ratios, and other social changes.

Saudi Arabia, however, has taken a markedly different path of development. With a predominantly traditional society and economy at the country's founding in 1932, Abdul Aziz foresaw "the country's only hope as modernization," but Saudi Arabia had neither the capital nor the impetus for change.[111] The discovery of oil, however, changed all that. With money now at their fingertips, Saudi leaders had both the capital and successful Western examples to bring their people, literally, out of the desert and into modern economic wealth through massive development projects. The transition, they hoped, would be smooth and seamless. So the leaders spent money – huge sums of money – to transform their nation into a modern nation-state that put one of the most technologically advanced and well funded infrastructures in the world at society's disposal. Continued projects in the 1980s envisioned a modern economy that perhaps would have made even Rostow proud: a very high level of differentiation, a high degree of division of labor, urbanization, literacy, and, above all, an economy that could sustain itself. Saudi leaders hoped for a level of occupational skill and ratio of capital to labor that would encourage increased specialization and efficiency. Simply put, they hoped – and enacted certain policies – that fostered the development of a modern economy.

Unfortunately, the transition was not as quick, nor as smooth, as the Royal Family envisioned. The very oil revenues that the government was using to create its modern economy were actually undermining it. Instead of developing the characteristics of a modern economy, most notably in terms of self-sustained growth, Saudi Arabia was actually developing into a rentier one, a condition where economies are predominantly occupied with "renting" their natural resources to foreign entities. The four defining characteristics of rentier economies are that rent situations predominate the economy, the rent must come from outside the country, only a few are engaged in the generation of rent, while the majority is involved in its distribution and consumption, and the government must be the principal recipient of the external rent in the economy.[112]

For countries that fit this mold, like Saudi Arabia, classical economists describe how difficult and counterproductive development can be. For oil-rich countries, external rent liberates the state from the need to extract income from the domestic economy, allowing the government to embark on large public expenditure programs without resorting to taxation and

[111] Al-Rasheed 2002: 125.
[112] Hazem Beblawi, *The Rentier State in the Arab World*, New York: Croom Helm (1987), 3.

without being held accountable for its decisions. The economy, meanwhile, becomes dependent on rent-based revenues and becomes highly susceptible to price fluctuations. The countries' sources of wealth, therefore, illustrate the key difference between rentier and non-rentier economies; rentier economies spawn governments that become allocation states, with the state itself as the primary source of revenue, and non-rentier economies spawn governments that are production states, which rely on the income from its domestic economy through taxpayers, who become involved with government decisions since they are the ones supporting them. Consequently, "unearned" government revenues in Saudi Arabia are not the basis of sustainable growth because they are the subject of "chance and situation" more than "the result of work" that is likely to be mimicked in the future.[113] In Saudi Arabia's case, rentier theory explains how modernization efforts, designed to create a diversified economy built upon innovation and hard work, failed because the government used massive development projects not as the means to an end but as the end in itself. Countries like Saudi Arabia, therefore, in the most fundamental way represent a break in economic behavior "in that it fails to embody the work-reward causation."[114]

[113] Yates 1996: 21.
[114] *Ibid*: 21.

Chapter Four: Finding Social Identity

Describing Social Change

"The ten years of the oil boom were a period in which education levels soared, when a principally agricultural and nomadic population became rapidly urbanized, when tribal and regional divisions were muted by a sense of nationalism, and when traditional values running the gamut from religion to the work ethic came under attack. At the same time, a people who had always prided themselves on their independence and freedom from authority became tied to an economic system dependent on the distribution of oil revenues by the central government."

-*Sandra Mackey in* Inside the Desert Kingdom[115]

Beginning with the commercialization of oil in the 1940s, Saudi society has experienced an influx of Western cultural influences. The Kingdom, having escaped foreign domination throughout its history, was "finally colonized during the oil boom."[116] Only this colonization did not occur in the form of military conquest or economic imperialism, it came through Westernization funded by the government's massive oil revenues. This cultural infusion, meanwhile, created a great deal of confusion in ordinary Saudis, who found themselves unable to differentiate the worth between Western material benefits and their own traditional values. Western superiority in materials, technology, and economic institutions, it seemed, endowed the West with superior power, and Saudi efforts to imitate the West instilled in them "Western standards of organization and technical know-how" that only magnified their own weaknesses.[117] It was as if the Saudis "imported criteria by which to judge their own impotence."[118] The effects of the Saudi oil boom, therefore, have produced a society of indicative progress and underlying contrast.

The first major Western cultural influences were felt when SOCAL struck oil in 1938. The company, intent on improving the country's social infrastructure, established transportation and communication systems in the oil regions and paid for schools and hospitals in the more underdeveloped, non-oil regions. Those cultural influences increased correspondingly with rising oil revenues, and by the 1950s SOCAL had provided the government funds to create government agencies designed to protect the rural poor. As oil revenues skyrocketed in the 1960s and 1970s, the Royal Family committed itself to providing a social infrastructure, based on Western standards, capable of supporting a modern economy. The two oil shocks gave the government the means to provide its citizens with all they could possibly need, and early on they decided to do just that.

[115] Mackey 2002: 384.
[116] *Ibid*: 384.
[117] *Ibid: 384.*
[118] *Ibid*: 384.

Table III[119]
Saudi Arabia's Social Indicators in 1970 and 1990

	1970	**1990**
Population – Total	6.2 million	14.9 million
Population – Foreign	*NA*	5.3 million
Education – Adult literacy of indigenous population	8.5 percent	64.1 percent
Education – School attendance of total population	12.5 percent	69.6 percent
Health – Infant mortality rate	118 per 1,000	35 per 1,000
Urbanization – Population in cities	26 percent	73 percent
Demography – Indigenous population under 18	*NA*	59 percent
Work Force – Men/Women	*NA*	82/18 percent

Throughout the last three decades, education has been one of the chief beneficiaries of Saudi development efforts, and beginning in 1970 the government began to offer free general education – which consisted of kindergarten, six years of primary school, and three years of intermediate or secondary school – to all Saudi citizens. All instruction, books, and health services were provided free of charge to Saudi children, and the government committed $73.9 billion – or roughly twenty percent of its annual GDP – to education from 1985 to 1995 to more fully develop its citizens' human resources. Education has been a primary goal of Saudi leaders since the initial spread of Islam in the eighteenth century, when the Wahhabi movement encouraged the spread of Islamic education for all Muslim believers. But because the purpose of basic religious learning was to know only the contents of the Quran, the ability to read Arabic was not a priority, and illiteracy permeated all parts of the Kingdom. In 1970, three years before the first oil shock, only 15 percent of men and two percent of women were literate in Saudi Arabia.[120]

But oil revenues gave Saudi leaders the means to educate their people through free schooling. In 1951, the government initiated its first extensive network of publicly funded secondary schools; three years later, the Ministry of Education was established; and, in 1957, the government founded the first university not dedicated exclusively to religious studies in Riyadh University. Crown Prince Faisal and his wife Iffat began primary public education for girls in 1960, a year that saw only 22 percent of boys and 2 percent of girls attend primary schools. Within a few years, however, public perceptions of education changed dramatically, and the general population became very supportive of secular schooling for both sexes. By 1980, school enrollment, which was not compulsory anywhere in the Kingdom, had risen to 81 percent of

[119] Figures from UNICEF (2006) and U.S. Department of State (2005).
[120] Library of Congress (2005).

boys and 43 percent of girls. A mere decade later, enrollment consisted almost equally of girls and boys, and the education system had more than 14,000 institutions, including seven universities and eleven teacher-training colleges in addition to schools for vocational and technical training, special needs, and adult literacy. The system expanded so rapidly from 1988 to 1989 that the government established 450 new schools to lodge 400,000 new students.[121] Today, the government accommodates 650,000 new students every year.[122]

Healthcare has also been a major recipient of government funding over the last thirty years. Health benefits for Saudi citizens, consequently, have risen sharply since the First Development Plan in 1970. In the wake of the first oil shock, the government, concerned with financing the construction of healthcare facilities and obtaining the most modern medical equipment available, gave every Saudi citizen access to unlimited, free medical care. From 1970 to 1990, the government spent roughly 4.6 percent of its GDP on health care expenditures, roughly $591 per person per year. That funding has translated into vastly superior health benefits for Saudi citizens over the last 25 years. In the early 1980s, infant mortality rates were alarmingly high at 118 deaths per 1,000 live births. However, increased health coverage over its population reduced that number to 21 deaths per 1,000 live births in 1999. Death rates have similarly declined from 20 per 1,000 in 1965 to 7.6 per 1,000 in 1990. Although the Saudi government does not release comprehensive health statistics, the World Health Organization estimates in 2006 that there are 1.7 doctors and 2.3 hospital beds per 1,000 persons, and nearly the entire Saudi population has access to sanitation, clean water, and affordable essential drugs. The same could not be said of the predominantly rural, Bedouin population forty years before. Additionally, cholera, plague, yellow fever, and polio have been eradicated from the Kingdom, and malaria, which plagued 4.2 percent of the population in 1980, now affects less than one percent today. Life expectancy, meanwhile, has increased from 47 years in 1970 to 72 years in 2004.[123]

The country's population has been equally affected by government efforts to modernize the economy and society. Because massive development efforts were concentrated in cities, Saudi society experienced a massive urbanization movement from 1970 to 1990. In the early 1970s, an estimated 26 percent of the population lived in urban centers; in 1990, that figure had risen to 73 percent. The capital Riyadh grew from 666,000 in the 1974 census to roughly 1.8

[121] All figures obtained from the Library of Congress (1991).
[122] Figures from IMF (2006).
[123] Figures obtained from the Library of Congress (1991), UNICEF (2006), and the World Bank (2006).

million ten years later, and the urban population grew 7.6 percent per year from 1970 to 1990. This movement allowed for the rapid expansion of education and health care to nearly all Saudi citizens, now that they were mobilized into easily accessible central areas. The population as a whole, meanwhile, continued to grow. The total population, an official 6.2 million in 1970, exploded to 9.4 million in 1980, 14.1 million in 1990, and 20.8 million in 2000. The population growth rate from 1970 to 1990 stood at a robust 5.2 percent, and the total fertility rate stood at 6.34 children born per woman in 1990.[124]

Any analysis of Saudi social changes would not be complete without discussing the role Wahhabi Islam has played in helping Saudis define their Arab identity. This religious movement, which began in central Arabia in the eighteenth century, grew out of the scholarship and preaching of Muhammed ibn Abd al Wahhab, a scholar of Islamic jurisprudence who returned to Najd to preach his message of Islamic reform. Wahhab became concerned with how the people of Najd engaged in practices he considered polytheistic and the laxity of professing Muslims in adhering to Islamic law. To ensure that the community of the faithful "enjoined what was right and forbade what was wrong," Wahhab empowered moral enforcers known as the *mutawwiin*, literally meaning "those who volunteer or obey."[125] Pursuing their duties in Jiddah in 1806, the *mutawwiin* were observed to be "constables for the punctuality of prayers . . . with an enormous staff in their hands, [who] were ordered to shout, to scold, and to drag people by the shoulders to force them to take part in public prayers five times a day."[126] Initially, Wahhab's preaching encountered opposition, but his association with the Al Sa'ud clan ensured the endurance of the movement that, by the 1970s, consolidated domestic resistance to the government's modernization efforts.

Through massive development projects, Saudi leaders radically transformed their society's education and health levels and fostered rapid urbanization. As far as its power stretched, the government, in effect, assumed the Westernized role of a welfare state, and major social indicators began aligning with Western norms. However, the government, intent on creating a modern society capable of supporting a self-sustained economy, did not succeed in re-defining the true Saudi identity in purely secular terms, and the country's Islamic traditions began to stand in increasing opposition to the government's modernization efforts. How that opposition would take form in the 1980s and 1990s remained to be seen.

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[124] Figures in this paragraph obtained from Library of Congress (1991) and UNICEF (2006).
[125] Library of Congress (1991).
[126] *Ibid*.

Struggling with Reform

"Some countries have sacrificed the soul of their culture in order to acquire the tools of Western technology. We want the tools but not at the price of annihilating our religion and cultural values."

-Bakr Abd Allah Bakr, Rector of the University of Petroleum and Minerals in Saudi Arabia

Beginning with the huge rise in government expenditures in 1975, the government anticipated problems related to the development of the economic and social infrastructures. Massive oil revenues had brought unprecedented wealth to the Kingdom, but that affluence certainly came at a price. The dilemma facing government leaders from the very start was how to acquire a Western style economy while maintaining the values that were central to Saudi Arabia's Islamic past. The answer proved difficult to find, as policy-makers underestimated how deeply rooted religious conservatism was to Saudi identity. This conservatist backlash, as well as the stratifying effects oil revenues had on Saudi society, characterized the effects government policies had on Saudi citizens.[127]

First, modernization projects, fueled by massive oil revenues, created new social classes and exacerbated the socioeconomic difference between the urban and rural populations. Although the Kingdom does not publish official figures on income inequality, the impact oil revenues have had on the extremes of the population can be observed. During the reign of King Abdul Aziz in the 1930s, there was only a small degree of wealth and income disparity. Income was so equal, in fact, that "even the Royal Family lived fairly frugal lives."[128] The richest strata of society were the merchants of the Hejaz, who continued to live modest lives, and position, rather than wealth, determined social status. The defining characteristic of Saudi society continued to be Wahhabi Islam, which stressed the significance of spiritual values more than material goods. Oil revenues, however, changed all that. Political members of the Royal Family became economically united and separated themselves from the rest of society. Non-political princes and friends of the Royal Family, meanwhile, found their niche in an economy that rewarded personal relationships, as is the Islamic custom, more than productive efficiency. The country's growing populace, however, was not so lucky, and the government's inability to create jobs for Saudi citizens created a large class of economically unemployed who relied on government benefits for day-to-day survival. This social contrast was starkly characterized in the division between urban and rural areas; in 1991, Saudi Arabia was described as having "one foot firmly placed among the most highly developed nations of the world" and the "other foot remaining very much in the Third World." Free social services did not reach extensively into the

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[127] William Ochsenwald, "Saudi Arabia and the Islamic Revival," *International Journal for Middle Eastern Studies* 13 (1981): 271-286.
[128] Mackey 2002: 217.

Arabian Peninsula, and approximately one-quarter of the population lived in areas that lacked basic electricity, water, and schooling services.[129]

Second, the creation of an oil-dependent economy resulted in a social disaffection with the existing economic system in the 1980s, when oil prices started their two-decade decline. During the rapid expansion of the 1970s, employment in the public sector was virtually assured for Saudi citizens with technical skills and for those with a Western education. By the end of the decade, however, those positions, especially in education and in the ministries, came under pressure from increasing numbers of university graduates with rising expectations that no longer could be fulfilled in public sector employment. Unemployment figures rose to alarming levels, as the country's burgeoning economy could not create jobs for its rapidly growing population. In addition, in the 1990s, a growing number of young men educated in Islamic colleges and universities were unemployed; their acquired knowledge and skills were becoming more irrelevant to the demands of the economy and bureaucratic infrastructure, even within the judiciary where traditionally Islamic scholarship was most highly valued. By 2000, Saudi unemployment was estimated to be 25 percent of the eligible population and a robust 60 percent of Saudi males between the ages of 18 and 24.

Third, efforts at modernization resulted in a rise of cultural conservatism. In Saudi Arabia, the 1960s and 1970s had been years of explosive development, liberal experimentation, and openness to the West. Until 1979, government efforts to modernize Saudi society went unchecked, but the Grand Mosque attack in Mecca and the Iranian Revolution shocked the Saudi population and reminded the government of the sobering consequences modernization could have on traditional society. Although the mosque siege was carried out by a small band of zealots whose violent actions inside the mosque appalled most Muslims, their call for less ostentation on the part of Saudi rulers and a halt to the West's cultural inundation of the Kingdom struck a deep chord of sympathy across the country. At the same time, the call to overthrow the Al Sa'ud by the new Iranian leader, Ayatollah Khomeini, was a direct challenge to the Royal Family's legitimacy as custodian of Islam's two holy places.

As the effects of the government's modernization efforts hit mainstream society, the forces of change and conservatism became increasingly evident. Secular education, population mobility, the breakup of extended family households, and the employment of women chipped away at the cherished institutions of family and society, and religion became a refuge and source

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[129] Library of Congress (1991).

of stability. Massive urbanization and the altered economic situation fueled new social groups – students, technical experts, educated young women, and a vast corps of foreign workers – that favored economic modernization, while other groups found themselves rooted in religion-based conservatism that only strengthened as modernizers called for a quicker pace of economic change. In the 1980s, the conservative revival became apparent in literature, government policies, official and unofficial relations with foreigners, mosque sermons, protest demonstrations, and censored television and radio programming.[130] Reacting to the revivalist mood to institutionalize Islamic laws and social principles, government officials responded by empowering the *mutawwiin* – through increased state funding – to control social behavior perceived as non-Islamic. Religiously sanctioned behavior, once thought to be the responsibility of families, was being increasingly enforced by government institutions. The *mutawwiin*, at first primarily responsible for enforcing men to attend prayer times, began to publicly enforce the abstinence of eating, drinking, and smoking among both Muslims and non-Muslims. Men and women faced increased pressure to dress in modest clothing that covered their arms and legs; neither could men give women a ride home in cars unless the two were related.

As Saudi leaders liberally embraced modernization efforts, Islamic clerics incited ordinary Saudis to more adamantly oppose Westernization. Saudi modernization efforts, it seemed, had reached a social bridgehead. According to one prominent Wahhabi scholar, modernization had succeeded only in "disrupting family life, making women restless in their traditional roles, corrupting the devout, and subjecting the society to the disdain of a large Western work force."[131] It was thus the job of the *mutawwiin* to preserve the true Islamic culture while it was still salvageable. Examples of Islamic rules' enforcement are shocking to most Westerners. Women, who were able to travel or study abroad with ease until 1982, now found themselves unable unless their father, husband, or brother accompanied them. In November 1990, a group of 47 educated women staged a demonstration to press their claim for the right to drive; the government responded by confiscating the women's passports, and those who were employed as teachers were fired. Likewise in 1991, when a Saudi citizen gave a foreign female coworker a ride home and was sentenced by government courts to a public flogging; his female coworker was subsequently deported. Non-Muslim religious services, even those exclusively attended by foreigners, became subject to repressive measures by the *mutawwiin*, who broke up a 1991 Christian church service in Riyadh and arrested a number of participants, including foreign

[130] Library of Congress (1991).
[131] Mackey 2002: 396.

children. Saudis, it was becoming increasingly apparent, had reconciled their material wealth with a conservative Islamic society that opposed any sort of Western cultural influence.

A Society in Transition

"Saudi education ceased to be training in the Quran. Instead, the scientific approach to problem solving, a concept absent in Arab culture, became the method by which Saudis were taught. The further a Saudi went in the educational process, the further he became separated from those Saudis who dealt with the Westerners only in the marketplace. And the more an educated Saudi came to live with Western culture, the more acute his sense of internal division became. The well-to-do spent months each year in London or on the Riviera and then returned to resume life under the dictates of Saudi culture. The middle class went West to earn degrees in technological subjects created by the West and then returned to manage Saudi Arabia's Western-built infrastructure with Western-style management techniques that are inappropriate to Saudi culture. The marginal Saudi was irresistibly attracted to Western culture while at the same time fearing and despising it."

-Journalist Sandra Mackey in Inside the Desert Kingdom

The result, at least for the Saudi people in 2006, is a society of contrasts. After decades of intense modernization, the country's urban infrastructure is highly developed and technologically sophisticated. Excellent hospitals, clinics, schools, colleges, and universities offer free health care and education to all Saudi citizens. Shopping malls have the latest Parisian fashions; supermarkets sell vegetables flown in from The Netherlands; and amusement parks "are so numerous they dot the urban landscape."[132] However, modernization has ironically turned Saudi society "upside-down, leaving a people deeply committed to their traditions awash in a culture they no longer understand."[133] As a result of the effects of modernization, Saudi men have acquired the characteristics of a 'marginal' man "because emotionally he is unable to identify with either of the two cultures that surround him" – one culture which has been instituted through forced government projects designed to mimic the West, and the other from the deep-seated religious conservatism that has characterized Saudi society for centuries.[134] But this was not always the case.

In the early twentieth century, Saudi Arabia embodied Rostow's "traditional society." The country consisted of Bedouins who were separated into tribes and predominately nomadic, rural, illiterate, and hierarchical. Additionally, they were culturally homogenous and deeply religious, maintained a high population growth rate, and, based on present Western standards, subjugated the role of women in society. The only institutionalized schooling that existed in Saudi society at the turn of the century was Islamic education in the Quran. Healthcare consisted of local practitioners treating common problems with a variety of techniques: exorcism for mental illness, herbal remedies for physical ailments, and cauterization of wounds with a red-hot

[132] Library of Congress (2005).
[133] Mackey 2002: 396.
[134] Raphael Patai, *The Arab Mind*, New York: Charles Scribner's Sons (1976), 190.

nail for coughs, abscesses, and convulsions.[135] The culture's values resided in the tribal-family unit and were largely based on the Islamic religion as expressed through the local preacher, or *imam*.

Economic growth, however, offered Saudi leaders the opportunity to transform Saudi society to the indicative standards of their Western counterparts. Western trends suggested that the country would experience a series of social changes stemming from the country's economic transformation. Technical developments in the preconditions for industrialization stage would result in (1) a willingness to allow the national government to extend its authority to effectively moderate trade policy and build up social capital, (2) the possibility of widened markets, and (3) the prospect of longer lives for themselves and their children, new ranges of consumption, new devices of productivity, and higher levels of welfare. Society would further change during industrialization, when those who would modernize the economy achieved irreversible transformations over "those who would cling to traditional society or seek other goals."[136] These transformations typically entail a massive urbanization movement, drastic rises in average education levels, and dramatically-improved healthcare. The consumerism stage would increase the proportion of semi-skilled and white-collar workers and raise real income per head on a mass basis, leading to a declining birth rate as families no longer needed to be large to survive and an expansion of the population would result in the lateral extension of society's resources. In the post-consumerism stage, the pursuit of food, shelter, clothing, and durable consumer goods would no longer dominate people's lives. In addition, the individual would feel more relation to the state than he or she did with his or her locality, and traditional values would be supplanted, or at the very least accommodated, by modern ones that stressed knowledge and tolerance.[137]

However, throughout the 1980s and 1990s, Saudi Arabia did not experience this series of social changes, largely because the country's source of wealth did not foster economic transformation. Instead of empowering the individual through the personal accumulation of wealth based on work-reward causalities, modernization efforts in Saudi Arabia were centralized from the very beginning through massive government projects. Individuals in society were not forced to redefine their values as their Western counterparts did; instead, Saudi citizens continued their way of life while their leaders used oil revenues to improve the country's social infrastructure while also preserving society's traditional Islamic heritage. Consequently, oil

[135] Library of Congress (2005).
[136] Rostow 1959: 7.
[137] Gerschenkron 1962: 42.

revenues benefited society through improved education and healthcare, but society itself did not change, instead bypassing the modernization concept's stages of social progression since individuals were not being empowered through the country's economic transformation. Therefore, the Saudi tale of modernization must be understood as such; instead of a bottom-up, 150-year progression through steady economic transformation that has the individual as its most basic unit, Saudi society has seen its changes come over the last 40 years as a result of forced government projects implemented from the top-down.

Accordingly, Saudi society has changed insofar as the government can wield its 'modernization' power. The levels of urbanization, institutionalized education, and government-sponsored healthcare have reached distinguishable levels, but – and the question must be asked – do these indicators demonstrate a true change in Saudi society? Birth rates have remained alarmingly high, averaging 5.2 percent from 1970 to 1990, and the Saudi people, rather than benefiting from rising levels of real GDP per capita, have suffered from the reverse.[138] Likewise, unemployment rates have only increased during Saudi efforts to modernize. The value system of the society as a whole remains steeped in religion, as evidenced by the rise of cultural conservatism and the incorporation of the *mutawiin* and *shari'ah* law into the government's political structures, rather than in knowledge as are other Western societies. Not surprisingly, the Arab world is lagging behind in the global digital revolution, with only 11.7 million Internet users out of a total population of 316 million, a 3.7 percent penetration rate, compared to the Group of Eight leading industrial nations' combined 429 million Internet users.[139] The proliferation of television sets and mobile phones in the Arab world are also well below the world average, ahead of only sub-Saharan Africa. Saudi society seems to be in transition, resenting their 'backward status,' according to Western social indicators, yet relishing the barriers that keep them there. It can no longer be thought of as a purely traditional society, but neither can it be considered modern.

[138] UNICEF (2006).
[139] "Arabs lag behind in digital revolution," Arab Free Press: 2006.

Chapter Five: Battling Political Complacency

The Extent of Royal Family Rule

"The political system of Saudi Arabia is based on the Islamic faith, which lays down laws, constitutions, and regulations. Islam guarantees the exercise of democracy; it disapproves of inertia and imitation. We believe neither in socialism, nor in communism, nor in any doctrine outside of Islam; we believe only in Islam. Some people consider the Western democratic regime as an example to be followed, a system which destiny leads all people to accept. We would have acknowledged this willingly when Western democratic systems were flourishing, but after their scandalous failure to deal with the problems of the individual as well as their own political failures, we could not consider these systems as the only way to guarantee the general welfare."[140]

-Deputy Prime Minister Prince Fahd in a November 1974 issue of Le Monde

Saudi Arabia is deemed Islam's holiest land after the Prophet Muhammed's religious ascendancy occurred at the Mosques in Mecca and Medina in western Saudi Arabia. Politics and religion in Arab states, consequently, have been closely associated since the Prophet Muhammed and his political successor Abu Bakr became the first to unify Arabia in the seventh century. It is no surprise then that Saudi Arabia has followed this theocratic role of the state. Beginning in the eighteenth century, the Al Sa'ud's claim to political legitimacy was directly tied to protecting and adhering to Islamic customs. The emergence of the "original religio-political movement," as many Saudi scholars have termed the Al Sa'ud and Wahhabi coalition, allowed Abdul Aziz the support he needed to assert his dominance over the Arabian Peninsula in the twentieth century. The implicit social contract that the Al Sa'ud accepted upon the family's rise to power was the duty to preserve Wahhabi culture and protect Islam's two holiest places, the Mosques at Mecca and Medina. The King's official title – the Custodian of the Two Holy Mosques – recognizes his true purpose for governance. Likewise, according to Articles 33 and 34 of the 1992 Basic Law of Governance, the state has the responsibility to "build and equip the Saudi armed forces to defend the Islamic faith, the Two Holy Mosques, the society, and the homeland," while "defending the Islamic faith, the society, and the homeland shall [also] be the *duty* of each and every citizen."[141] Both the Royal Family and Saudi society have dismissed the notion that separation should exist between church and state, laying the foundations for a theocratic state that exists "with a mandate from heaven."[142] Any explanation, therefore, of Saudi government in purely secular terms would not properly attribute the Royal Family's claim to political legitimacy, nor would it recognize religion's permeating influence on government institutions, even in their most basic functions.

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[140] Quoted in Ghassane Salameh and Vivian Steir, "Political Power and Saudi State," *MERIP Reports* (1980): 7.
[141] Saudi Arabia Ministry of Foreign Affairs, "1992 Basic Law of Governance," Articles 33 and 34, Available at <http://www.mofa.gov.sa/>.
[142] Rostow 1959: 4.

In dealing with the country's basic structure of government, the Saudi Arabian King exercises very broad powers and is one of the world's last absolute monarchs. The King is both head of state and head of government, and his power extends into the executive, legislative, and judicial branches of governance. Executively, the King is both the prime minister and the commander-in-chief of Saudi Arabia's armed forces; accordingly, he appoints all cabinet ministers, senior government officials, regional governors, and ambassadors and, as head of the military, has supreme control of Saudi Arabia's armed forces and appoints all military offices above the rank of lieutenant colonel in order to limit the possibility of a *coup d'etât*. All government legislation is enacted either by royal or ministerial decree, both of which must be sanctioned by the King. In addition, the King acts as the final court of judicial appeal and has the power to pardon his subjects. To maintain contact with the Saudi people, the King regularly holds *majlis*, meetings designed to provide ordinary Saudi citizens with an opportunity to make personal appeals for redress of grievances or assistance in private matters.[143] Only direct descendants of the country's founder Abdul Aziz are eligible to become King, and the line of succession beyond the First and Second Deputy Prime Minister is unclear.[144]

In the legislative branch, the King is assisted by the Council of Ministers, a legislative body founded in 1953 that serves as the principal executive organ of the government. The Council of Ministers has authority to issue ministerial decrees, but it has no power separate from the King, who must approve all the Council's decisions. It consists of the King, the Crown Prince, three royal advisers who hold official positions as ministers, five other ministers of state, and the heads of the twenty government ministries. Additionally, the governors of Saudi Arabia's four most important regions – Mecca, Medina, Riyadh, and the Eastern Province – as well as the governors of the Saudi Arabian Monetary Agency and General Petroleum and Mineral Organization serve on the Council's board. To consolidate Royal Family political control, the government expanded its social powers beginning in the 1970s in order to employ the country's educated – and potentially most dangerous – populace. Accordingly, the number of civil service employees in Saudi Arabia increased dramatically to over 400,000 persons by 1992, all of which are trained at the Institute of Public Administration in Riyadh.[145]

The judicial system is based on the *shari'ah*, a moral code of conduct based on the Quran. *Shari'ah* law is divided into two main sections governing acts of worship and human

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[143] Royal Embassy of Saudi Arabia, Washington, D.C, Available at <www.saudiembassy.net>.
[144] "Economic Impact from Saudi Arabia's Succession," American Middle East Info, Available at <www.ameinfo.com>.
[145] Library of Congress (1991).

interactions; whatever is deemed non-Muslim is also illegal. *Shari'ah* applies to judicial matters in emphasizing that the testimony of women should not be given equal weight as the testimony of men, and the judge has the right to throw out the testimony of non-Muslims. In 1928, King Abdul Aziz decreed the organization of the court system and the procedures to be followed. Subsequent decrees in 1936 and 1952 for the Civil Procedures Rules, and in 1955 for the establishment of the Board of Grievances enabled the judicial system to better deal with the country's needs as it continued to develop. King Faisal established the Ministry of Justice in 1970 in order to unify the Kingdom's vast system of courts and judges, and five years later he also created the Supreme Judicial Council, which assumed the task of overseeing the court system and approving all death, amputation, and stoning sentences. These forms of punishment have decreased, as of 2006, but they remain a part of Saudi Arabia's legal code. The King may grant pardons at his discretion, except to felons convicted of killing another individual, in which case he must gain the approval of victim's next of kin. In contrast to its legislative branch, the judicial branch operates mostly independently of the King, as stipulated in the 1993 Basic Law of Governance. Members of the Royal Family, however, are exempt from appearing before the courts, and allies of the family have received preferential treatment from judges in the past. All courts are mandated to use the Quran and *sunna* as the basis of judgments.[146]

At the local level, the Saudi government was reorganized after a 1993 royal decree divided the Kingdom into 13 provinces, and the next year subdivided those provinces into 103 governorates. Before 1993, the King directly ruled over all areas of the Arabian Peninsula. Each region was placed under the jurisdiction of a governor, usually a prince or close relative of the Royal Family. Four times ach year, each governor meets with his provincial council to evaluate the province's development and make recommendations to the Council of Ministers regarding the province's needs. Each provincial council is composed of a minimum of ten private citizens who are experienced in their respective fields, and their report is submitted to the Ministry of the Interior and passed on to the appropriate government ministries and agencies for consideration.[147] In October 2003, the King announced that 178 municipal councils would be created to advise the provincial governors, and that one-half of the new municipal council's members would be elected through universal male suffrage, with the other half appointed by the central government. Those elections, the first ever in Saudi Arabia, took place between February

[146] "Arab Judiciary," *Programme on Governance in the Arab Region*, United Nations Development Programme 2000, Available at <www.pogar.org>.
[147] Royal Embassy of Saudi Arabia, Washington, D.C.

and April 2005 with more than 1,800 candidates competing for 592 seats. The municipal councils are designed to work in concert with tribal and unofficial local leaders to address regional concerns, and those in the country's major cities, including Mecca, Medina, and Jiddah, will carry out the resolutions passed by the Council of Ministers at the local level. Until 2005, localities often voiced an opinion on who should represent them on the provincial councils but had little choice but to accept the appointments made by the King.[148]

Wahhabi Islam plays a key role in Saudi politics other than merely providing the Royal Family's claim to legitimacy. Saudi Arabia is a theocratic unitarian state, and its national ideology is based on the strictest school of Sunni Islam. The King's role fits into preserving the Islamic faith, and, accordingly, he has to respect the Wahhabi *ulama*, a group of religious scholars designed to preserve Islamic traditions in Saudi society. The *ulama* is comprised of the country's highest religious authorities who act as consultants to the King, but their role as supreme interpreters of Islam – an interpretation that the King must adhere to – makes them the "dominant power in Saudi politics."[149] Their power is such that, arguing that Western cultural influences did not have a place in Islamic societies, they forced the King to postpone the introduction of radio and television into mainstream society and ruled cigarettes to be illegal for a short time in the 1940s.[150] The *ulama* exercise their power through two official channels: their weekly meetings with the King and their control of the *mutawwi'in*, and the religious group rejects reinterpretation of the Quran and *sunna* in regard to issues clearly settled by early Islamic jurists, seemingly putting the country's religion at odds with its increasing Western cultural infiltration. However, ample scope for reinterpretation remains for Wahhabi jurists in areas not decided by the early jurists, as demonstrated in King Fahd's repeated calls in the 1990s for scholars to engage in *ijtihad* – or personal decisions based on intellect – to deal with new situations confronting Saudi attempts to obtain a modern economy.[151]

The Royal Family, comprised of direct male descendants of Abdul Aziz, dominate the country's basic structures of governance. The personality and uncontested authority of Abdul Aziz enabled him to maintain tribal unity and consolidate political power around his direct descendants. Nevertheless, the tribe persisted as the basis of power in the country's social and political spheres throughout the 1930s and 1940s. By the mid-1950s, however, when oil

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[148] *Ibid*.
[149] Alexander Bligh, "The Saudi Religious Elite (*Ulama*) as Participant in the Political System of the Kingdom," *International Journal of Middle East Studies* 17 (1985): 40.
[150] Ray Mabus (Visiting Professor), Lectures at the University of Mississippi (October 2005).
[151] Bligh 1985: 40.

revenues started to increase substantially, the Royal Family began to dominate the Saudi political scene. In 1970, the main family consisted of hundreds of sons and grandsons of the country's founder, and those descendants occupied all the government's most important posts: first and second deputy prime minister, Defense and Aviation, Public Works and Housing.[152] The Royal Family still experiences the same type of influence today. Outside the inner ring of power, Royal Family nepotism is only amplified; a series of supreme councils, including Education, National Security, Universities, Oil Affairs, Youth, Pilgrimage, and Industrialization, formerly headed by non-Saud officials is under the direct control of the Royal Family.

Today, the government maintains a strong influence over the economic and cultural spheres of Saudi society. Outside of their burgeoning civil service, the government owns the country's largest-employing businesses, including Saudi ARAMCO, SABIC, and the General Electricity Corporation. In addition, the government subsidizes private sector development through the Saudi Industrial Development Fund, which provides money for aspiring entrepreneurs. The 1993 passage of the Basic Law of Government, which outlined the powers and purpose of each branch of government, gave the central government broad powers over society as well. The media's role, according to the King, is to educate and inspire national unity, with the result that most popular grievances go unreported. Newspapers are privately owned but subsidized and regulated by the government. Although self-censorship continues to be a method of self-preservation for the nation's print media outlets, government censorship has decreased since 1980, especially on journalistic inquires into crime and terrorism. The government owns and operates the radio and television companies in Saudi Arabia. Censors remove objectionable material deemed offensive by Islamic standards. Legal access to the Internet must be via local servers, which the government monitors to prevent its citizens from accessing pornography, politically offensive material, or anti-Islamic websites. Despite these controls, Saudi Internet users have been able to access most sites they wish to visit by simply connecting through alternative servers.[153]

[152] Salameh and Steir 1980: 8.
[153] U.S. Department of State (2005).

Battling 'Well-Oiled' Complacency and Internal Tensions

"The short-lived oil embargo led to dramatic increases in oil prices, allowing Saudi Arabia to enjoy an unprecedented affluence, which . . . strengthened the ability of the regime to extend services, enforced state control over the population, and created dependency on its own resources. . . . During the affluence of the 1970s and the austerity of the 1980s, one theme seemed dominant in Saudi politics; a deep-rooted vulnerability, itself a product of demographic/economic factors, development factors, and the responsibilities of geography that made the Saudi regime the guardian of the two holy mosques."

-Madawi al-Rasheed[154]

Beginning with the huge rise in government expenditures in the early 1950s, from $13.5 million in 1946 to $212 million in 1952, the state took on an increasing role in the social and economic lives of its citizens. The creation of seven new ministries – Foreign Affairs, Finance, Interior, Health, Communication, Agriculture, and Education – by 1955 signaled that the Saudi government was expanding its domestic and international role. Further increases in oil prices led to corresponding increases in government revenues, and by 1970 the number of Saudi ministries had increased to fifteen. Oil revenues, it was becoming increasingly apparent, were having their effects on the Saudi political structure. But the very nature of that oil wealth transformed Saudi Arabia into an allocation state, which succeeded in entrenching Royal Family rule, expanding the central government's power, and exacerbating social and religious tensions that only served to constrain leaders' future modernization efforts.

First, oil revenues entrenched state rule over the population by creating a new socioeconomic ruling class in the Royal Family. Dating back to the Al Sa'ud's rise to power in the eighteenth century, there were no major distinctions between social classes. Privileged classes, even in the days of the country's modern founder Abdul Aziz, had been unknown. The first palace of Abdul Aziz was constructed of sun-dried mud bricks, the same material that peasants used. Shaykhs – tribal leaders in society – and bedouin herdsmen – commoners which formed the pillar of the Saudi populace – called each other by their first names, and the clothing of both the rich and poor was quite similar.[155] Beginning in the 1950s, however, oil revenues created a stark class distinction between those in power and those who were not. Sons and grandsons of Abdul Aziz began using oil revenues to build lavish palaces for themselves. Currently, the King alone has 38 palaces throughout the Arabian Peninsula, the smallest of which is over a million square feet.[156]

Citizens were becoming more and more aware of the dual culture emerging in the country. Dissatisfied with the low wages of the growing labor force, Saudi citizens began

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[154] Al-Rasheed 2002: 135.
[155] Library of Congress (1991).
[156] Mabus (2005) lectures.

relying on the government for the development of public works projects, educational institutions, job creation, and direct subsidies. The Royal Family, meanwhile, exclusively wielded the distributive power of the country's oil wealth, deciding with whom to do business and making the country's business elite and middle class dependent on Al Sa'ud consent, the former because they relied on huge government contracts and the latter because they were technocrats or civil servants employed in nationalized sectors of the economy. Members of the Royal Family used 'the carrot and stick' to gather support, rewarding loyalty with bureaucratic jobs or government contracts and punishing dissidence with economic excommunication and direct violence. In this manner, oil revenues helped to build the Royal Family into an elite ruling class.[157]

Second, oil revenues undermined government attempts at economic and social modernization by over-consolidating the central government's power exclusively in the hands of the Royal Family. Due to increased pomp and luxury, the Royal Family, which had succeeded in unifying the Arabian peninsula only four decades before, was now becoming a polarizing factor in Saudi society. The family, therefore, came under increasing domestic criticism that only grew more poignant with time. By the 1960s, the social clamor over the lack of development projects forced the government into action, but the Royal Family –marked by its "well-oiled complacency" – proved reluctant to willingly abdicate power, even to its own citizens.[158] "By reinforcing authoritarian regimes, oil wealth ironically becomes a barrier to good governance and development even as it provides the material wealth capable of funding development projects."[159]

Rather than embracing reformers' calls for government accountability, which came mainly from liberal princes and the sons of the rising middle class educated abroad, the government attempted to discourage the formation of critical attitudes and rewarded its supporters without addressing any of its opponents' fundamental concerns. College students abroad were forbidden to major in law, political science, or related areas. Government workers were forbidden to strike or criticize the government under the penalty of dismissal. Meanwhile, Kings Faisal and Khalid clarified the Saudi government's responsibilities to provide its citizens with suitable economic opportunities and free education, healthcare, and unemployment benefits while maintaining the country's role in preserving Islamic culture. The emergence of a group of middle-class professionals in the 1960s and 1970s – a group that generally resented the lack of

[157] Al-Rasheed 2002: 175.
[158] "A Long Walk," *The Economist* 378 (Jan. 2006): 3.
[159] Clement Henry, "A Clash of Globalizations," *Harvard International Review* 25 (2003): 2.

opportunities for the average Saudi and sought popular sovereignty as a means of ensuring socioeconomic development – threatened the absolute monarchy's stability. Beginning in the 1960s, many of the Saudi middle-class professionals tried to pressure the monarchy into creating an elective representative assembly, but the Royal Family resisted demands for political liberalization by strengthening its ties with the *ulama*, which tended to distrust the notion of popular government because of the implicit assumption that manmade legislation could be equal to sacred law.[160]

Finally, the domestic convergence of political power exacerbated social tensions, especially for religious conservatives, and seriously undermined the country's ability to modernize its social and economic infrastructure. Throughout the 1980s and 1990s, the theme that permeates Saudi polity is the Al Sa'ud clinging to power. Despite the Royal Family's attempts to curb opposition within its society, criticism persisted from both extremes in the country's religious conservatives and liberal modernizers. The physical manifestation of that criticism in the form of violence with the 1979 Grand Mosque takeover proved to be a harsh check on the government's domestic policy-making power, especially in its approach to modernization. Saudis, already infuriated by the American alliance with Israel, began to view the permeation of Western culture with distrust. Notions of the 'secular West' and 'Islamic Saudi Arabia' became mutually exclusive, and government efforts at modernization always had to be accompanied by the religious *ulama*'s full support, which became more and more difficult.

The chasm between Royal Family rule and its support grew further apart with the 1990-91 First Persian Gulf War. Immediately after Iraq's occupation of Kuwait, it became clear that Saudi Arabia, which had spent 20 percent of its GDP in the 1980s on military defense, could not face Iraqi forces alone.[161] Within days of the Iraqi invasion, King Fahd requested U.S. protection, and more than 540,000 Allied troops from 34 countries entered Islam's holiest land. The social backlash resulting from Fahd's request fomented the Royal Family's opposition for nearly a decade. Two petitions calling for a restructuring of the government appeared on King Fahd's desk within the year, and religious scholars sparked a debate centered on whether any government that has to resort to non-Muslims in order to defend itself can be considered a legitimate Islamic government. Meanwhile, physical violence from dissatisfied Saudi citizens rocked the social landscape. In 1995, a car bomb killed five Americans and two Indians at the offices of the Saudi National Guard in Riyadh. A year later, 19 American soldiers were killed

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[160] Library of Congress (1991).
[161] *Ibid*.

and 372 others were wounded when the Khobar Towers apartment complex was hit by a large truck bomb. The first attack on Saudi citizens themselves came in May 2003, when a suicide bombing on the Vinnell Compound in Riyadh killed 35 Saudis and wounded over 200. Since then, the country has been victim to no fewer than 25 terrorist attacks, and Saudi-born Osama bin Laden's claim for *jihadists* to overthrow the Royal Family has only exacerbated the soociopolitical scene. In this turmoil, efforts at modernization – and modernization's association with the West in the minds of ordinary Saudis – have been hindered.[162]

By the time it became apparent that the conditions of the Saudi society and economy were unsustainable, real oil prices had begun their two-decade decline. The government, eager to pacify its critics through oil revenues, found its funds limited, as evidenced in the country's two decades of budget deficits from 1983 to 2002. The Royal Family, however, proved unwilling to surrender power, spurning at least three written requests each by conservative religious leaders and leading intellectuals calling for government accountability to its citizens.[163] With its means of building political support inhibited and the country facing an impending crisis, Saudi leaders had to act, thus the passage of the 1992 Basic Law of Governance and the 2005 municipal elections – the two most important and most democratic political developments in the last three centuries. By the time those political changes were first enacted in the early 1990s, however, the country had lost its opportunity for obtaining self-sustained economic growth, and the Royal Family became consumed with dealing with critics who, left unchecked, could threaten the family's own absolute rule.

The Struggle for Reform

"We are confident that the system, with the grace of God, will be beneficial in the achievement of the well-being, progress, and prosperity of the Saudi citizen, his country and his Islamic and Arab community. The Saudi citizen is the main pillar of the development and progress of his country, and we shall spare no effort to achieve his happiness and welfare."

-King Fahd after the enactment of the 1992 Basic Law of Governance[164]

Throughout the early part of the twentieth century, Saudi Arabia embodied Rostow's traditional government. Tribal leaders controlled rural, isolated territories by exerting their power over the families under their control. The rise of the Al Sa'ud clan in the late nineteenth century resulted in the consolidation of the whole Arabian Peninsula and the concurrent spread of Wahhabi Islam. Since Islam is such a pervasive social and political force in Saudi Arabia, the two factions' inseparable linkage resulted in the creation of a theocracy in 1932. From the very

[162] U.S. Department of State (2005).
[163] Library of Congress (1991).
[164] Quoted on website of Royal Embassy of Saudi Arabia, Washington, D.C.

beginning, the ruling Al Sa'ud family acted as an absolute monarchy, with its only check coming from the government's close association with the *ulama*, a body of Wahhabi scholars that provided religious legitimacy for Al Sa'ud rule. Meanwhile, the King was not constrained by a written constitution, a legislative assembly, or popular elections. The country had no written legal justice system; instead, they operated under *shari'ah* law. Saudis considered the Quran, the holy book of Islam, to be their constitution, and they did not require the government to forge a contract that guaranteed the basic rights of citizens, like the freedom of belief, expression, assembly, or political participation. Simply put, in the Saudi political realm in the middle of the twentieth century, the government was ruled by a hierarchical elite based on a "mandate of Heaven."[165]

The modernization concept, however, stresses the effects economic growth has on the political institutions of traditional society. Trends suggest that in the first stage of development – the preconditions for industrialization – society undergoes a definitive political transformation. The government extends its effective role to harness the national energies, talents, and resources around the concrete tasks of economic growth. In the industrial stage of development, government typically creates the matrix for sustained industrial growth by building up social overhead capital, agriculture, and trade. During this stage, society begins holding their leaders accountable according to secular standards of success. The consumerism stage results in a rising per-capita GDP and, with it, a growing middle class who becomes more interested in political participation. The government, now managing production states, relies on taxation of the domestic economy for its income; the taxpayers, meanwhile, stay involved with government decision-making because they are supporting them with onerous taxes. In the post-consumerism stage, the political institutions become cemented, and the government typically redistributes excess tax revenues to the rest of society through social services designed to help the poor.[166]

The story of twentieth-century political development in Saudi Arabia is not what did happen but, conversely, what did *not* happen. Three decades ago, oil revenues succeeded in entrenching Al Sa'ud influence over the Arabian Peninsula and consolidating political control of the country. Since then, the government has proved unwilling to return that political power, even after numerous petitions to check the Royal Family's absolute power had been sent to the central government. In May 1991, more than 400 men from the religious establishment and universities, including Saudi Arabia's most prominent legal scholar Shaykh Abd al Aziz ibn Baz, petitioned

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[165] Rostow 1959: 4.
[166] *Ibid*: 4-15.

the King to create a Consultative Council that participated in government decision-making. In a follow-up petition, a number of the signatories wrote letters stating that funds for religious institutions were being cut back, their passports had been confiscated, and they were being continually harassed by security personnel even though "they had committed no other crime that giving advice to the Guardian."[167]

Since the 1980s, Saudi Arabia has stood distinct from the rest of the Arab world in that the government and legal system have never lost their status as purely Islamic in nature. That is not to say that other Arab states have no role for the Quran, *sunna*, or *shari'ah*, all which play dominant roles in state governance in Saudi Arabia. Instead, those states developed hybrid systems that incorporate Islamic traditions through special constitutions but maintain separate secular codes of conduct. Traces of this religio-political fusion is found in the Saudi political structure, but on the whole the Saudi order is predominantly Islamic-based.[168] Although all Gulf countries followed the Saudi model of central planning and state capitalism in the 1970s, most of them have been "faster to abandon it, quicker to diversify away from oil, and nimbler in attracting foreign investment."[169] Saudi leaders' reluctance to reform prompted an editorial by *The Economist* that stressed how "the cure for oil addiction is known," but many in the Royal Family find the political answer "unpalatable."[170]

Nevertheless, low oil revenues forced the Royal Family to make some reforms. The ruling monarchy announced the adoption of Basic Law in 1992, which declared the basic form and scope of Saudi government. It stated that Saudi Arabia is a monarchy ruled by the sons and grandsons of Abdul Aziz, that the Quran is the constitution of the country, and that the population is governed on the basis of *shari'ah*. It also outlined the Saudi system of governance, stating that the checks on the King's powers are that his decrees must conform to the Quran and the *shari'ah*, and he must retain a consensus of the Royal Family and the *ulama*. In addition to the adoption of Basic Law, the King issued several decrees in 1992 that outlined the basic statutes of government and codified for the first time the procedures concerning Royal succession. The creation of the Supreme Judicial Council, composed of 12 senior jurists, and the Consultative Council in 1992, which has only advisory power, also signals increasing hints of popular representation in the Saudi government. Since Crown Prince Abdullah's 1998 speech in which he plainly stated that the oil boom was over, reforms have gathered steam. Privatization,

[167] Library of Congress (1991).
[168] Nathan J. Brown, "Arab Judicial Structures," *The United Nations Development Program*.
[169] "Beyond Oil," *The Economist* 362 (March 2002): 17.
[170] *Ibid*: 16.

tariff reductions, municipal elections, increased transparency, and World Trade induction demonstrate the slow – and I stress the word *slow* – convergence of the Saudi system of governance to modernization trends. Yet an enormous amount of work remains to be done.

SECTION III

The Future Kingdom

After two decades of depressed oil prices, the Saudi Kingdom was in crisis by the late 1990s. Continual budget deficits, falling oil revenues, and a huge decrease in per-capita GDP caused the country to reach a critical juncture in its development. Chapter Six outlines this crisis, examines Saudi leaders' reforms, and comments on the immediate prospects of future development policies. This chapter also offers a contemporary outlook of the Saudi economy, society, and politics, and analyzes how recent reforms conform to the modernization concept.

Chapter Six: Upholding the Modernization Concept

The Current Crisis

"The country is at a critical juncture. It can coast along without radical changes for only one or two years, maximum."

-The manager of a regional investment fund group in September 2002

A quick glance at book titles on contemporary Saudi Arabia reveals a hodgepodge of subject matter that suggests the Kingdom has reached a critical juncture in its development: John Bradley's *Saudi Arabia Exposed: Inside a Kingdom in Crisis*, Matthew Simmons's *Twilight in the Desert*, and Laurent Murawiec's *Princes of Darkness: The Saudi Assault on the West*. Additionally, recent publications on Saudi Arabia in some of the West's most prominent magazines portray a country on the verge of collapse: *The Economist's* articles entitled "A Long Walk," "Adapt or Die," "The Suffocating Limits of Reform," and "Beyond Oil"; *Time's* "Enemy from Within," "An American Murdered, a Kingdom under Siege," and "Wahhabism: Toxic Faith?"; *Newsweek's* "Saudi Storms," "The Saudis' Trap," and "Like a Virus that Spreads"; *The Harvard International Review's* "A Clash of Civilizations"; and *Atlantic Monthly's* "The Curse of Oil Wealth." The consensus, at least among those in the press, is that the country is in desperate need of reform, and the Kingdom's lack of sustainable economic growth, coupled with the "end of the oil era," as Crown Prince Abdullah noted in a 1998 speech, has caused the country to reach a crisis of development.[171]

Problems related to Saudi development are as easy to identify as they are difficult to overcome. Economically, the country's per-capita GDP has declined in real terms from $18,000 in 1980 to $8,000 in 2004, and Saudi citizens' standard-of-living has suffered as a result.[172] The small growth in GDP from 1980 to the present – a yearly average of 1.5 percent – must now support a population that has averaged 4.2 percent yearly growth from 1975 to 2003, and economists predict that the Saudi economy must grow at a *per annum* rate of 6 percent to keep unemployment in check.[173] Only in 2003, as Figure VIII illustrates, has the linear regression of real GDP growth exceeded that of the population growth rate, a shift driven by three consecutive years of real GDP growth, the first time that has occurred in a quarter-century. Before that shift, the population grew faster than the country's wealth, meaning that individuals in society were becoming increasingly poorer.

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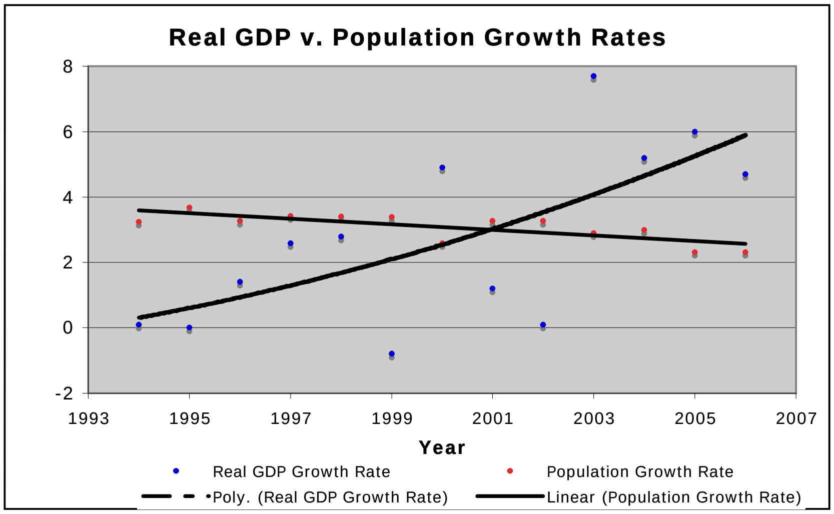
[171] "Beyond Oil," *The Economist* 362 (March 2002): 17.
[172] Digby Lidstone, "A Clear Objective," *Middle East Economic Digest* 49 (2005): 50.
[173] Human Development Reports, "Saudi Arabia: Country Sheet," *United Nations Development Programme* (2005), Available at http://hdr.undp.org/statistics/data/countries.cfm?c=SAU>.

FIGURE V[174]



The country's rapidly growing population has also created new pressures on the country's costly infrastructure. Demand for electricity is expected to rise by 250 percent over the next 20 years, and for desalinated water by 300 percent. Meanwhile, the economy is still dependent on oil as the main engine for growth, although oil's share of the GDP has fallen to 40 percent in 2005 from 85 percent in 1974; this decline is attributed to the two-decade decline in oil prices, the government's use of oil revenues to build up non-oil industries like petrochemicals and refinery output, and growth in the country's private sector.[175] If the price of oil drops by one dollar in a given year, the Saudi government loses approximately $2.5 billion in export revenues. Consequently, the country's GDP is dominated by oil, and a breakdown of the GDP structure, as Figure V shows, demonstrates that the majority of Saudi wealth comes from industry, which employs only one-quarter of the workforce and generates over half the country's wealth. Meanwhile, the majority of the workforce is in services, where foreign workers comprise over 90 percent of that sector's labor force.[176] These figures show that most domestic Saudis are employed either in industry – three-quarters of which is crude oil production – or agriculture, neither of which are indicative of post-industrial, diversified economies that rely on services for their wealth.

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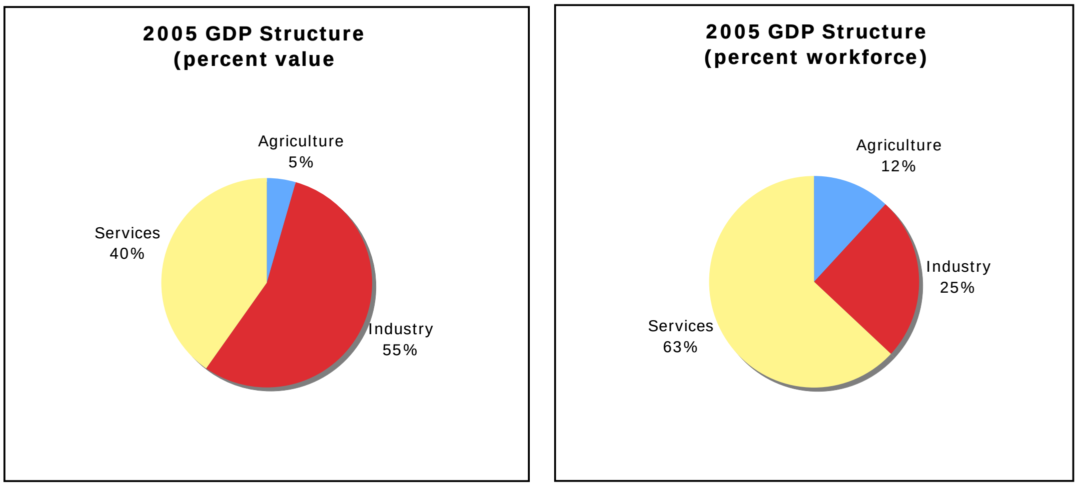
[174] Figures obtained from the U.S. *Federal Research Division* (2005) and *Bureau of Near Eastern Affairs* (2005).
[175] Official website of SABIC, Available at <http://www.sabic.com/>. These statistics reflect the 1984 change in Saudi accounting standards that define oil's share of the GDP as simply crude oil production, rather than anything related to the oil industry. Petrochemicals, despite the use of oil in its production, is still considered a non-oil industry, as is oil refining, which is considered manufacturing and thus encompasses 27 percent of the country's entire manufacturing output.
[176] World Bank Group (2006).

TABLE IV[177]



Oil's effect on the rest of the economy is still strongly felt. "When oil prices fall it tends to be investment expenditure rather than government spending on salaries that is affected the most. Ironically, it is the investment in diversification and in achieving self-sustaining, non-oil-dependent development that suffers, while what can be classified as consumption through public sector wages is maintained." This claim is supported by the behavior of the private sector when oil prices reached their lowest level in the past three decades in the mid-1980s; from 1984 to 1990, oil revenues fell sharply, and the government limited funds to promote private sector growth. As a result, by 1990, the private sector had receded at a faster rate of growth than oil revenues, and the relative share of non-oil GDP fell from 75.8 percent of overall real GDP in 1984 to 67.4 percent in 1990, demonstrating oil's adverse affects on the rest of the Saudi economy when prices are relatively low. Oil revenues declined to such a degree in the 1980s and 1990s that the country went from a budget surplus of \$28 billion in 1974 to a \$176 billion domestic public debt by 2003, which comprised 95 percent of the country's GDP. The country's foreign reserves, meanwhile, have evaporated to only \$22.6 billion from \$100 billion in 1980.[178] Saudi Arabia's current account balance, the difference in goods and services that the country has exported rather than imported, stood at negative \$181.3 billion from 1983 to 1998, with the only years of positive trade coming in 1996 and 1997, when the country averaged a \$0.5 billion surplus compared against an average *per annum* loss of \$13.0 billion during deficit years.

Socially, in the early 2000s, the country was torn between its entrenched religious establishment and efforts at reform. This divide was never more evident than a March 2002

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[177] Figures obtained from the World Bank Group (2006).
[178] *The Economist*, "Economic Data 2006."

school fire in Mecca, where 800 pupils were attending class when a fire broke out, and *mutawiin* were seen beating several girls who attempted to escape while wearing neither their government-required headscarves nor *abayas*. *The Saudi Gazette* reported that *mutawiin* physically hindered efforts by firemen to rescue the girls, saying that it was "sinful to approach them."[179] The fire claimed the life of fifteen girls and injured more than fifty others, evoking outrage from both domestic and international media outlets. Response to the tragedy was divided among the country's radical religious establishment and its liberal middle-class professionals.

In addition, cinemas are still banned, as is music in public places; companies are even forbidden from playing music while placing customers on hold. St. Valentine's Day is expressly forbidden by authorities, who regard the holiday as being "pagan Christian," and 200 Bangledeshi and Burmese workers were arrested in 2004 for dancing and drinking despite the edict. Satellite television is also illegal, although available to an estimated 80 percent of the population, and the government blocks approximately 30,000 Internet sites that it deems not suitable for Muslims.[180] Demographics is also hindering prosperity, as an estimated 60 percent of the indigenous population is under the age of 20. Unemployment rates, although no one can agree on a figure, range between 9 and 30 percent, and it is particularly rife among recent university graduates, 50 percent of which are unable to find jobs within a year of graduation.[181] As Saudis become more educated and cosmopolitan, many of them, especially professionals, resent the country's isolation from the modern world, the power of clerics to control their social life, and the ability of the Royal Family to limit their influence in public affairs.

These social problems are manifesting themselves into political ones. Although the Royal Family is still stably in power, terrorism has become an increasing issue. Fifteen of the 19 hijackers for the September 11 attacks on the United States were Saudi, and this social phenomenon contributed to the approximately 15,000 Saudis participating in the Afghanistan *jihad* movement to oppose American occupation beginning in 2002. Attacks on Saudi Arabia itself began with the 2003 Riyadh bombings, and the government carried out 158 raids on suspected terrorist elements in 2003 alone. Nevertheless, the *jihadist* cause lives on. Osama bin Laden enjoys a semi-celebrity status among the nation's extreme religious establishment, prompting one Western European ambassador to quip in 2004, "If there were an election today,

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[179] "Schoolgirls die in Mecca stampede," British Broadcasting Corporation (11 March 2002).
[180] U.S. Department of State, "Country Reports on Human Rights Practices," *Bureau of Democracy, Human Rights, and Labor* (2004), Available at <www.state.gov>.
[181] *Ibid*. It should be noted here that the Saudi government estimates this figure to be 34 percent; however, nearly every international agency believes Saudi estimates to be underestimated, prompting the Bureau of Near Eastern Affairs (2005) to come up with its own estimate.

bin Laden would win by a landslide."[182] His admirers are said to reside mainly on university campuses and among the rising number of unemployed.

These economic, social, and political problems in Saudi Arabia are made even more difficult by entrenched obstacles that stand in the way of reform. The Royal Family is unwilling to surrender power, even to its own citizens. However, the country's growing middle class, consisting mainly of professionals and government technocrats, generally resent their lack of participation in public affairs. "The Royal Family is one of the main obstacles to reform in Saudi Arabia," Dr. Jean Francois Seznec remarked in a telephone interview for this paper. "Its members, as a whole, are corrupt and are leeches on society. They will never give up power as long as they have access to the country's $25 billion defense budget, which is all open to corruption."[183] The country's religious establishment also stands in the way of progress by opposing any sort of liberal change. Islamists, as they have become known, have dominated the public's attention and are, by far, the most coherent, powerful, and organized social force in Saudi Arabia. The issue of women, meanwhile, is becoming an increasingly heated debate, as they comprise more than half of the country's university students and only an estimated 18 percent of the country's workforce.[184] The restraint is clear; for women to enter the workforce in large numbers necessitates a complete social transformation away from the established religious elite. In discussing these potential reforms, the country's social divide is clearly seen; Islamists demand for a return to conservative society following the path of the Prophet Mohammed, and they are countered only by modernizers, who view the central problem of Saudi Arabia as forging its socioeconomic future, not reconnecting with its religious past. According to one Western-educated, middle-class Saudi, "The problem here is not Islam. The problem is too many young men with no job and no university education and nowhere to go except to the mosque, where some [radical preachers] fill their heads with anger for America. Every home now has two or three not working. This is the real problem."[185]

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[182] "Adapt or Die," *The Economist* 370 (March 2004): 43. The same articles notes of bin Laden's popularity: "It is, of course, difficult to judge the popularity of Mr bin Laden--or indeed of anyone in the kingdom, given the absence of elections, the muzzling of the media, the reluctance to talk openly about politics and the dearth of opinion polls. A survey carried out last July for the Arab-American Institute, an American lobby, found barely 8% of respondents praising the al-Qaeda leader--perhaps unsurprisingly, given Saudi awareness of the risks of dissent. It seems likely, anyway, that his popularity has dipped since the November attacks."
[183] Dr. Jean Francois Seznec (Professor – Columbia University), Telephone conversation with author (2 April 2006).
[184] World Bank Group (2000).
[185] Quoted in Thomas L. Friedman, "The Saudi Challenge," *New York Times* 20 Feb. 2002, A22.

Finding Solutions for Dialectic Development

"Saudi economists, businessmen, and even government officials know quite well what is wrong, and what is needed to fix it, yet an enormous amount of work remains to be done. . . . The cure for oil addiction is known, but some find it unpalatable."[186]

-The Economist *in March 2002*

The exact extent of the Saudi crisis is still being debated, but few scholars disagree that the country is in desperate need of some degree of reform. "Unambiguously, the country is facing a crisis," Dr. Rachel Bronson of the Council on Foreign Relations said in a telephone interview for this paper. "It has been experiencing a revolution in slow motion for the last two decades. The optimism that many experts have is that at least Saudi leaders now recognize they have a problem. For decades, you couldn't even get them to do that, but things have changed now. Having said that, the country is still experiencing a crisis of development that many countries in the region have, and if changes don't occur, then it won't last as we now know it."[187]

Crown Prince Abdullah was the first to advocate reform when he began running the day-to-day operations of the Kindgom after King Fahd, his older brother, suffered a debilitating stroke in 1995. Abdullah, who has commanded the National Guard from 1962 to the present, has had the main responsibility of ensuring domestic stability for over forty years, and his complex understanding of the domestic sociopolitical environment has led him to believe that economic prosperity and self-sustaining growth are the only preconditions for Saudi stability. However, Abdullah's first speeches advocating change – a 1998 speech in which he declared that the oil era had come to an end, and a 1999 speech in which he emphasized the increasing need to achieve self-sustaining growth through increased international trade – had few actual results. By 1998, the country had a public debt of more than 120 percent of its GDP, and any efforts to reform were fiscally constrained by the government's continual budget deficits. "In 1999, Saudi leaders publicly recognized that they had a problem, but they couldn't do anything about it."[188] However, on the back of record-high oil prices in the early twenty-first century, the Kingdom recorded three consecutive years of public budget surpluses for the first time in its history. Surpluses of $12 billion in 2003, $26.1 billion in 2004, and $57.1 billion in 2005 have once again handed Saudi leaders the tools for reform.

Changes have inundated the country since Abdullah first made public his desire to create sustainable economic growth in 1999, and Saudi leaders have increasingly begun to remove the country's underlying barriers to reform while addressing its impending social, economic, and

[186] "Beyond Oil" (2002): 16.
[187] Dr. Rachel Bronson (Fellow at Council on Foreign Relations), Telephone conversation with author (4 April 2006).
[188] *Ibid*.

political problems. The former Crown Prince has checked the power of the Royal Family and the religious establishment in very subtle ways. First, in 1999, he created the Supreme Economic Council, a royal advisory body designed to foster sustainable development, and in 2003 appointed expert civil servants rather than Al Sa'ud princes to head the Ministries of Commerce and Industry, Finance, and Economy and Planning. Likewise, the government no longer employs royal princes at Saudi ARAMCO, and SABIC, the world's seventh largest company, has only one prince who serves as a figurehead and exercises no real power. Abdullah has also sought to shift the country's public opinion away from religious conservatism and towards economic prosperity by restraining the *mutawiin* through a decrease in government funding and defining their roles with regards to society. After the 2002 school fire that claimed the life of 15 Saudi girls, Abdullah responded by moving girls' education out of the Ministry of Religion and into the Ministry of Education. "King Abdullah is making an enormous effort to solve the country's problems. By limiting the power of the Royal Family and the religious establishment, Abdullah is empowering the civil service to run the country. They are the ones behind the country's enormous industrialization effort, and what's happening is they're developing the country so quickly that they're marginalizing the religious establishment."[189]

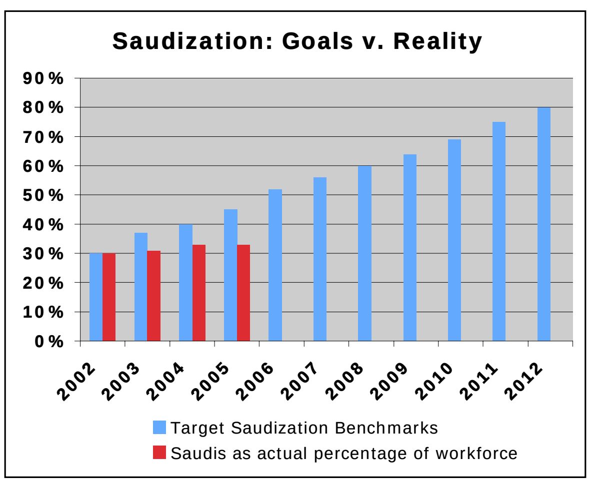
Abdullah has also implemented certain programs to alleviate specific economic, social, and political problems. The reduction of tariff rates from 20 percent to 5 percent in most sectors and 15 percent or less in the agricultural sector, the lowering of the corporate tax rate from 45 percent to 20 percent, and a string of private sector initial public offerings have injected momentum and liquidity into the Saudi economy. The implementation of the Capital Market Law in July 2004 has created a vastly improved foreign direct investment regime, and the IMF projected Saudi Arabia to have an influx of foreign direct investment for the first time in the country's history in 2005. Offshore assets of 80,000 of the country's high net worth citizens are estimated at $700 billion in 2005, approximately 220 percent of GDP, among the world's highest capital flight ratios. However, Abdullah's economic liberalization efforts have created lucrative investment opportunities in gas exploration and development, the mobile phone industry, communications and technology, power-generation and distribution, insurance, petrochemicals, and private healthcare insurance. The rapid growth of the country's securities market prompted the general manager of Saudi Oger, a major private holding company with diverse interests in Saudi Arabia in telecoms, power, and construction, to say, "The economics make sense, as the

[189] Seznec interview (2006).

oil prices go up and the stock markets in the West and the US go down. There is a huge potential for investment here. Look at the Saudi economy and the government plans for privatization of the water utilities, electricity, and the telecoms sector. In electricity, the government will spend something between $30 billion and $40 billion over the next seven years. In water utilities, it's a similar figure. We have a growing population that needs those services. These areas are ripe for investment."[190] If these areas of the economy could attract a return of Saudi foreign assets of only 5 percent per year, it could inject tremendous capital inflows into the securities market that could spark domestic consumption and development to replace oil as the main engine behind economic growth.[191]

To alleviate the growing social problem of high unemployment, Abdullah has begun to enforce the policy of Saudization, a program set up twenty years ago to force Saudi companies to replace their large numbers of foreign workers with qualified Saudi citizens. The goal of the policy, once the government decided to enforce it around the turn of the millennium, was to have 70 percent Saudi employment by 2010. As of December 2005, however, Saudi Arabia's workforce consisted of just 33 percent of Saudi nationals, compared to 67 percent – or roughly six million – foreign workers.[192] As Figure VII illustrates, the disparity between Saudis in the workforce and the government's Saudization goals have only grown with time, revealing how much social change, most notably in education, is required for domestic Saudis to contribute to their own economy.

FIGURE VI[193]



[190] Moin Siddiqi, "The Rise and Rise of an Equity Culture," *Middle East* (Nov. 2005): 45.
[191] Brown 2000.
[192] Figures obtained from U.S. Department of State.
[193] Figures obtained from Shura Council, Saudi Ministry of Employment (2002).

The magnitude of the foreign workforce, which has actually risen since the implementation of Saudization, should provide some perspective to the casual observer just how mammoth a task the government faces in providing jobs for its citizens. Over the last two decades, businesses seeking to survive in the international market have found it easier to hire foreign workers – who typically have better job skills, a better work ethic, and will work for lower wages – than domestic Saudis. Consequently, Abdullah has enacted new laws that fine companies of more than twenty workers to lie to the government on their Saudization progress, and, more importantly, he has begun to address the real problem behind the country's unemployment: education. Since taking over in the late 1990s, Abdullah has poured money – 25 percent of the government's entire budget, to be exact, – into education to provide Saudi youths with marketable skills for its expanding economy. "They're investing very heavily in education. Twenty-five percent of a budget devoted to education is incredible, but they have to spend that much since their education system is horrendous. Kids can't find jobs at home, and what's really hurting them is that they can't find jobs abroad either. No one is going to a hire a Saudi who typically has a bad education and a bad work ethic."[194]

The former Crown Prince has also culminated 12 years worth of accession talks to join the World Trade Organization, becoming that organization's 149th member in December of 2005. Accession according to one senior Saudi economist is "an important milestone in the Kingdom's history." Membership will allow for countries to take up to a 75 percent stake in Saudi service companies, up to 100 percent in privatized firms, and 51 percent in retail companies. That could spell trouble for the economy's private sector, which will be most affected by the influx of foreign competition and the lowering of tariffs. However, the banking, insurance, and telecommunications sectors stand to gain enormously. More importantly, the Saudis will now have WTO protection to export petrochemicals, an industry that wields a significant comparative advantage over its competitors because of Saudi Arabia's low oil production costs, without fear of foreign tariffs. The future of the petrochemical industry is so bright now that Saudi Arabia is a member of the WTO that it prompted one leading authority on the country to predict Saudi Arabia will be the world's biggest producer of petrochemicals by 2015. "People are investing like crazy in the petrochemical industry, and their production is going to increase from 45 million tons to 100 million tons in the near feature. In a decade, the

[194] Bronson interview (2006).

country will be as dominant in that sector as it is in oil now."[195] Although not complete diversification, steady growth in the petrochemical industry through private investment is at least a first step towards hedging the Saudi economy away from oil revenues and rentierism, while also providing increased employment opportunities for Saudi university graduates.

Underlying its direct economic effects, accession to the WTO will also have important consequences on the country's social and political environment. King Abdullah is locked in a battle to decide the country's future path of development, and his empowerment of the country's civil service has served as a counterbalance against the religious establishment's dominance of the social discourse over the last twenty years. There is no doubt among scholars that Abdullah sees the civil service as the future and the entrenched religious establishment as a barrier to growth. However, the true test will come when Abdullah's successor, who will not be as sympathetic to the civil service, takes over. "There's no question that Abdullah is empowering members of the civil service to counterbalance religious conservatives, but their real test will occur with the next King. Abdullah has succeeded in giving power to this class of people, but will these people have the political power to push back against the next King who opposes them? That's the real question."[196] The WTO provides a way for Abdullah to solidify his current reforms and provide accountability for future Saudi leaders. "There certainly was a strong political rationale for accession to the WTO, especially in the political umbrella that the WTO provides over Saudi leaders." Membership in an international organization also allows future Saudi heads of state an excuse when they must reform against the wishes of their own people. This will be particularly useful to Abdullah in implementing future reforms in the near future.

These reforms, coupled with persistently high oil prices, have brightened hopes for the immediate future of the Saudi economy, as even conservative budget estimates based on artificially low oil prices are projecting a $14.6 billion surplus for the 2006 fiscal year. Awash with liquidity, the Saudi stock market has become the Middle East's largest by far after growing by 100 percent in 2004 and 57 percent in 2005. Real GDP grew by 7.7 percent in 2003 and 5.2 percent in 2004, and is estimated at 6.0 percent in 2005 and 4.7 percent in 2006.[197] Non-oil growth hit a twenty-five year high of 5.7 percent in 2004, and the IMF estimates non-oil growth to be even higher at 6.25 percent for 2005. The government has used surpluses to unshackle

[195] Seznec interview (2006).
[196] Bronson interview (2006).
[197] IMF (2006).

itself from fiscal constraints, reducing its public debt from $174 billion dollars and 95 percent of its GDP in 2003 to $126.7 billion and 60 percent of its GDP only two years later.[198]

The Path to Modernization: Sustainable Development

After two decades of depressed oil prices and budget deficits, Abdullah's latest reforms have rekindled hopes for modernization, despite the religious establishment's ardent opposition. The impetus behind these reforms and the sense of urgency that is now tangible among Saudi leaders can be attributed to the country's underlying problems that have sent the economy and society teetering on the brink of collapse. King Abdullah has replaced Saudi leaders' 'well-oiled' complacency with economic liberalization, and he has wrestled the social and economic discourse away from the religious establishment and towards the country's growing civil service, a body that would see the creation of sustainable economic growth and increased participation by the Kingdom in world affairs. The country's latest reforms and its economic performance over the last five years suggest that the preconditions necessary for sustainable economic growth are finally being developed. It has succeeded, at least to some degree, in hedging economic performance away from oil and towards a more diversified range of sectors, and the immediate future for the non-oil economy looks bright. His push for Saudi accession to the WTO has also helped to create political accountability for future Saudi rulers. Abdullah has devoted funds to education designed to prepare Saudis in the workforce, rather than for religious training, and he has shifted schooling for girls to the Ministry of Education from the Ministry of Religion. Likewise, he has begun to ease restrictions in public forms of speech and allowed the country's first municipal elections in 2005. Over the last five years, Saudi Arabia has experienced Western development, and the country's economy has seen considerable growth.

These reforms demonstrate that, for the first time in the government's modernization efforts, leaders are passing the impetus for reform from the central government to the individual. The last two decades of poor economic performance, culminating in a crisis of development at the turn of the millennium, have demonstrated how the government's approach to modernization through massive development projects in the 1970s and 1980s has proven insufficient in achieving the fundamental social, economic, and political changes necessary to create sustainable growth. Modernization, unlike Western trends that portray change as arising from the bottom-up due to an increasingly productive workforce, occurred in Saudi Arabia from the top-down through projects funded by massive oil revenues. This subtle distinction has enormous

[198] Figures derived from IMF (2006) statistics.

consequences for the prospects for long-term development; the government transformed society and the economy as far as its reach extended, but it did not address the individual's proper role in the economy and in society, nor did it transform the majority's socioeconomic values. The government's modernization efforts, therefore, failed to create institutions in the economy, society, and polity capable of creating consistent economic growth. Accordingly, the country's latest reforms should be understood as an admission that Saudi leaders' allocation approach to modernization has been ineffective in achieving one of the stated goals of Saudi leaders for the last fifty years: sustainable economic growth. King Abdullah understands this to be true, as evidenced by the liberal reforms that have occurred under his rule, and he is empowering the country's middle class to lead the Saudi Kingdom into the twenty-first century.

Future reforms also have favorable economic implications. The government is poised to begin an employment drive designed to increase the number of women in the workforce, a group which currently comprises more than half of the Kingdom's university population but has less than twenty percent of the jobs. "The Saudi government is desperate to have women work. Everyday in the press people are talking about women employment. It's become clear that the country needs women to keep its economy growing. Of course there will be a religious backlash, but changes there always do."[199] If these types of economic, social, and political changes continue and business leaders become convinced that Saudi society has obtained stability and possesses a continual drive towards progress, the country could thrive from an influx of foreign direct investment that could bring Saudi development more in line with the modernization concept, and this multifaceted process of development could become increasingly prevalent in Saudi society.

That is not to say, however, that the long-term future looks bright. Few of these latest economic, social, and political reforms have been permanently institutionalized, undermining one of modern society's fundamental preconditions: a *continual* drive towards progress. In addition, there is uncertainty regarding who will replace Abdullah, who turns 82 this year. This future King will go a long way in determining the course of Saudi development, and the country's civil service, which is behind the nation's rapidly expanding industrialization, could be suppressed in favor of traditional religious elites. The increasing secularization of the economy and social institutions related to it has initiated a battle in the hearts and minds of ordinary Saudis. If economic liberalization cannot alleviate unemployment – the fundamental problem

[199] Seznec interview (2006).

that is plaguing Saudi society – before Abdullah's death, then the certainty of future reforms designed to create sustainable economic growth becomes uncertain. "Scholars are cautiously optimistic about Saudi development at the moment. But it is certainly premature to say that the country is on an irreversible path towards progress. Right now, the big question concerning future development – outside of how long Abdullah lives – is whether Abdullah's reformers can gain enough ground and collect enough power to oppose the next King who will oppose them. Are these reforms solving enough of the population's problems to absorb them into the system? That's the real question."[200] In this sense, the country has reached a critical juncture in its development; it now has the revenues to continue promoting change, but if these reforms are ineffectively implemented, then they could all be reversed – save Saudi Arabia's accession to the WTO. "Saudi leaders have to maintain their sense of urgency to correct society's underlying problems," Bronson stresses.[201] If they don't, then the latest hike in oil prices could just serve as another undermining influence in an already volatile country.

[200] Bronson interview (2006).
[201] *Ibid*.

Conclusion

Although W.W. Rostow is a controversial figure in today's academic literature, his modernization theory provides some explanation why Saudi Arabian leaders, despite all their efforts and pots of money, failed to change society at the most fundamental level. Through the Saudi government's top-down approach, oil wealth neither motivated individual citizens to work hard nor pushed them to possess a continual drive towards progress. As a result, Rostow's economic stages that manifest themselves through the interrelatedness of the economy, society, and polity never progressed. The modernization concept, which Rostow and his contemporary Alexander Gerschenkron inspired, only applies when modernizing change is achieved with the individual as the most basic unit of change.

As the concept would have it, Saudi Arabia failed in its modernization efforts *because* it deviated from Rostow's progression of socioeconomic change. The very nature of Saudi Arabia's oil wealth transformed the country into an allocation state that distributed government funds to its populace rather than a production state that harnessed its citizens' productivity. This distinction, although seemingly subtle, has a 'trickle down' effect on modernization efforts, which have proven unsuccessful because they force change upon individuals rather than encourage them to reconcile their traditional values with a secular economy that rewards change with material benefits. Consequently, the massive influx of oil wealth resulted in poor economic decision-making by the Royal Family and discouraged growth independent from the government. Meanwhile, Saudis came to resent the liberal changes that emerged in society as a result of Royal Family policies and embraced religion – the one area that the Saudi King had no control over and the one area on which Saudi identity was built – as a means of stability. Instead of the slow secularization of society as a result of economic change, society became more entrenched in religion as government revenues imposed culturally liberal changes on individuals.

Was Rostow therefore mistaken in his view of modernization because he presupposed cultural change would occur with steady economic growth? This does not appear to be the case for Saudi Arabia. Rostow emphasized that non-economic change, which occurs as economies develop and modernize, was the result of work-reward causalities – thus there is a fundamental difference between production economies of the West and rentier economies like Saudi Arabia. He assumed this economic progression would radically alter non-Western societies as it had done in the West. What Rostow perhaps failed to appreciate was how the 'trickle down' process could spark a rise in cultural conservatism, and how theocracies like Saudi Arabia, whose governments' sole legitimacy to rule is based on the preservation of religion and society, support religious tenets like Wahhabi Islam that present distinct problems to the liberal changes necessary to support a modern economy. For Saudi Arabia to succeed in its modernization efforts, as later critics of rentier economies have pointed out, the country must pursue more classical development models. The masses have to work, their traditional social values must be individually transformed, and the economy must revert back to the economic foundation of work-reward causation.

Perhaps Rostow would not completely blame Saudi leaders for their ineptitude in creating sustainable economic growth through modernization; indeed, Saudi policymakers attempted to mimic Western patterns of social advancement and economic wealth with an economic system that, in its very essence, was neither Western nor sustainable. It was only a matter of time, then, before Saudi leaders had to confront their traditional economy, society, and polity given their stated goals of creating a modern economy. King Abdullah is now trying to emulate more classical modernization processes by hedging the economy away from oil revenues, improving the education system, pushing for gender equality, and, relatively speaking, sharing power with individual citizens in certain political structures. Joining the World Trade Organization and empowering the country's industrial middle-class has also sparked a more classical modernization movement, and if these policies last long enough to absorb many of the country's disaffected, then Saudi Arabia could experience more of a bottom-up type of modernization.

Reforms by King Abdullah that are empowering the individual – not the central government – have initiated a more Rostowian development paradigm, but uncertainty regarding his length of stay in power has raised into question the long-term stability of the country. These reforms have only been made possible by two decades of relatively low oil revenues that have removed other leaders' 'well-oiled complacency,' yet an enormous amount of work remains to be done if Saudi Arabia is to shape its economy into a self-sustaining one. Nevertheless, Abdullah's speeches and recent policy shifts have made it abundantly clear that the Kingdom is now pursuing a different path towards development than it did in the 1970s, 1980s, and 1990s, and the economic prospects for the immediate future are promising.

Should these social and political reforms occur, and Saudi leaders succeed in their efforts to modernize economically, the country could reap the benefits of a whole new era of stability and wealth. A stable Saudi Arabia could play an important role in soothing already volatile international oil markets, since the Kingdom possesses more than one-fourth of the world's proven oil reserves and produces more oil and natural gas liquids than any other country in the world. Additionally, the country would be a stabilizing influence in an already troubled Middle East, as well as show other Arab and Islamic states that modernity and Islam – even Islam's most conservative sects – are not mutually exclusive. Domestically, a commitment to Rostowian development could avoid increased domestic tension in a country with more than twice its 1980 population and could ground Saudi public opinion in international ones so as to further isolate religious extremists. Finally, continued reforms could have dramatic effects on the country's economy, with increased foreign direct investment, higher levels of domestic employment, and diversification away from the oil industry. With that in mind, the country has clearly reached a crossroads in its development paradigm, and the next few years will go a long way in determining what the future Kingdom of Saudi Arabia will look like.

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