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Institut d'Études Politiques Paris

Essay

Politics and Business in Saudi Arabia: Characteristics of an Interplay

Hannah Linnemann
- 100057990 -
M.A. International Public Management

The Political Sociology of the State in the Contemporary Arab World
Stéphane Lacroix

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1 Introduction

"Despite the economic crisis, there is an abiding willingness to delegate responsibilities to business. But states are still leaders of the economic reform process, while business is too often incapable of forward-looking collective action " (Luciani & Hertog 2010: 1).

In Saudi Arabia, the state has driven economic development in the 2000s, supported by an oil-led boom (cf. Hertog 2013). Nonetheless, business groups have had increasing influence in shaping economic policies. Similarly, they were able to oppose austere economic reforms by the government already in the 1980s, despite the state having "crowded out" essential private business activities at times of the oil boom (Luciani and Hertog 2010: 5). The paper at hand seeks to shed light on the complex state-business relations in Saudi Arabia by examining in particular the degree of independence of the two over time. After a short excursion into relevant theory of state-economic relations and dynamics of the rentier state, the lineages of the state and the private sector in Saudi Arabia will be investigated. The evolution of business-state relations shall be further explored in order to address the following questions: How has it come that today mostly the strong forces of business are capable of significant interest aggregation (Hertog 2006a: 253)? And "What makes business special?" (Hertog: 2006b: 74).

Finally, it shall be discussed whether recent openings for the business elite in economic policy-making could provide grounds for further political opening as well.

Overall, the essay will take a more structural approach to analyzing the Saudi political economy rather than a technical one. It is aimed to investigate state-economy relations, thus, whereas overall economic performance is thereby crucial to consider, the technical specificities of policies and regulations are of secondary nature and should be consulted elsewhere.

2 Theoretical Excursion: State - Economy Relations and the Rentier State

When analyzing state-economy relations, it is useful to consider relevant theoretical approaches as guiding grounds. In the following, essential theory shall hence briefly be introduced that is relevant for discussing the relation of state and economy in Saudi Arabia including relevant social dynamics and the role of resources (Niblock & Malik 2007[1]: 4f.).

[1] Niblock & Malik (2007: 4-21) provide a very useful overview of the most useful literature. Their remarks will hence be used as a main source in this section of the paper.

State-sponsored capitalism

State-sponsored capitalism defines state models that pursue strong intervention in economic matters in order to promote rapid industrialization. Niblock & Malik (2007: 7f.) refer to Robert Wade's (1990a; 1990b) remarks on East Asia and particularly Taiwan as classic case study of state-sponsored capitalism. Governments engaging in state-sponsored capitalism have economic development[2] as their target, for which a "good and supportive" relationship with the private sector and wider capitalist class is needed (Niblock & Malik 2007: 8). As exemplified in the East Asian cases, states sponsoring capitalism are oftentimes 'hard' or 'soft' authoritarian states that attend corporatist relations with the private sector, entwining governmental policies with central business interests (ibid.).

In Taiwan, industrialization policies including productive investment fostered the creation of technologically advanced and competitive industries with strong future potential. Government policies towards that end included[3]: "land reforms, (…) the management of prices (…) the creation of major state enterprises[4] (…) state-ownership of the banking system (…) control of foreign competition through selective protectionism, the promotion of exports as well as "the promotion of technology acquisition from transnational corporations" (Niblock & Malik 2007: 9)

Embedded autonomy and the developmental state

The decision by a state to pursue a given economic strategy is also rooted in the social dynamics which it is exposed to. In a 'predatory state', for example, "everything is for sale" and personal interests undermine state autonomy as "the appropriation of unearned income via rent-seeking has become endemic and structural" (Niblock & Malik 2007: 12). Essentially, it is a healthy balance of state autonomy and consideration of private sector interests what Niblock & Malik (2007: 12) call the "most productive relationship" of the state and the private sector. Building on Peter Evans (1995) remarks on "embedded autonomy", they describe a model where the state can act autonomously in planning and guiding the industrialization process while the actual decision-making process is "embedded in the sectors of the private sector critical to rapid economic development" (Niblock & Malik 2007: 13). Such embeddedness takes the form of consultative committees or contacts which influence

[2] Rather than the per se maintenance of a free market. For a contrasting juxtaposition regarding liberal economic ideologies and the Asian cases see also Yu (1997) for example.
[3] Non-exhaustive list that suits the purpose of this essay, as found in Niblock & Malik (2007: 9f.).
[4] Their share would eventually decrease from 56 percent of industrial production in 1952 to under 25 percent in the 1980s, yet "the role of state enterprises remained significant" (Niblock & Malik 2007: 9).

policy-making through a process of negotiations between the state apparatus and critical private sector investors (ibid.).

As Peter Evans (1995: 60) asserts, "most developing states offer combinations of (…) predation and (…) "embedded autonomy" ". He calls those "intermediate states", presenting India and Brazil as two exemplary case studies (ibid.). In fact, Niblock and Malik (2007: 13) observe that minimal distortions in the relations of the state and the private sector in the end don't completely disable industrial development. While an expansion of the private sector is generally well-viewed in the personal opinion of businessmen as well as state officials, both sides don't necessarily favor a reduced role of the state. In reality, both sides benefit from state intervention:

> "State officials retain the power to channel favors to those who serve their personal or family interests, and private businessmen with government contracts are able to limit the competition from others" (Niblock & Malik 2007: 13).

Rentier-state dynamics[5]

An analysis of the Saudi Arabian political economy is not possible without considering the central role of its powerful resource-endowment. As Robert Bates put it:

> "Those in resource-rich economies tend to secure revenues by extracting them; those in resource- poor nations, by promoting the creation of wealth. Differences in natural endowments thus appear to shape the behavior of governments" (Bates 2000 as cited in Isham et al. 2005: 142).

Building on Beblawi and Luciani (1987) as well as contributing authors such as Abdel-Fadil (1987), Niblock and Malil (2007: 14f.) identify six dynamics of the rentier state:

1. Centrality of the state as "main intermediary between the oil sector and the rest of the economy" (Abdel-Fadil 1987: 83 as cited in Niblock & Malik 2007: 15).
2. Autonomy of the state as defined by Theda Skocpol (1985: 9)[6], referring to the fact that, in theory, rentier states do not depend on any social group or other as they are not depending on resources (such as taxes) from their citizens; rather, society highly depends on the state for resource distribution within its function as "major employer of labor, the source of the most lucrative business contracts and the provider of subsidies and handouts" (Niblock & Malik 2007: 16). At the same time, Steffen Hertog asserts

[5] A rentier economy can be defined after Hazem Beblawi (1987:11) as "an economy substantially supported by the expenditure of the state whilst the state itself is supported by the rent accruing from abroad".

[6] Skocpol refers to state autonomy as the position a state finds itself in when it „formulates and pursues goals which are not simply reflective of the demands or interests of social groups, classes or society" (Skocpol 1985:9, as cited in Niblock & Malik 2007: 15).

that “state autonomy of rentier states seems to decline overt time”, criticizing ‘static’ rentier theories that don’t consider the centrality of early institutional decisions at the time of state building (Hertog 2007: 541).[7]

3. Society adapting to rentier practice as “citizenship becomes a source of economic benefit” and citizens are growing accustomed to receiving ‘unearned income’ (Beblawi 1987: 53 as cited in Niblock & Malik 2007: 16).
4. Rentier economies marginalize industrial and agricultural production which is subsidized and not internationally competitive. Depending on the size of the resources, there is a “strong dynamic against production” while the tertiary sector grows unproportionally (Niblock & Malik 2007: 17).
5. ‘No representation without taxation’ in the sense that political representation is not granted or enabled as the state can act autonomously with society depending on it (see 2).
6. The high amount of expatriate labor in a rentier economy which is essentially required in the Gulf states not at least due to their small populations. While salaries of citizens are a product of political bargaining (see 5), salaries of expatriate laborers are competitively determined and thus very low. Representation of any kind is not granted or enabled.

Niblock and Malik (2007: 18-21) include in their remarks an extensive critique of rentier state theory. As this essay is not focusing on rentier state theory per se, their points of critique cannot be deliberated at this stage of the essay, yet some factors will be discussed as relevant at a later point.

3 State and Business in Saudi Arabia

3.1 Defining the Saudi “private sector”

Saudi Arabia’s economy is characterized by blurred lines between the public and the private realms; defining the Saudi private sector is thus a difficult task. Building on Giacomo Luciani’s remarks on the ambiguity of defining the Saudi private sector (2005: 144ff.), the term “private sector” for Saudi Arabia as utilized here shall also imply key state-owned

[7] Similar critique is brought forward by Niblock & Malik (2007: 19), referring to the “air of determinism” that is often inherent in rentier theory.

entities[8] in order to allow for a comprehensive analysis. The complex interconnectedness of the Saudi state and business is discussed below.

Saudi Arabia is the largest economy in the Gulf Cooperation Council (GCC) with a GDP (current) of $748.4 billion in 2013. In the last year, over 90 percent of fiscal revenues as well as 80 percent of export revenues came from the sale of oil, accounting for roughly 35 percent of the GDP while the private sector has continued to contribute relatively little in comparison with other countries in Saudi Arabia's income class amounting to approx. 30 percent of GDP in 2010 (Alshahrani & Alsadiq 2014:5; Al-Darwish et al. 2015: 1; Hertog 2013: 8; World Bank n.d.).

Privatization[9] has slowly increased since the 1990s, seemingly contributing to stronger economic performance. However, during the 2000s economic boom, state spending remained high across the GCC and in particular in Saudi Arabia. At 75 percent in 2008[10], Saudi Arabia registered the highest increase in the share of state-spending in non-oil GDP between 2000 and 2008 compared to the other five GCC countries (Hertog 2013: 5).

Hence, the notion of private business driving economic growth is heavily contested for example by Steffen Hertog (2013), who underscores the role of the state in Gulf business development[11]. He asserts that "although Gulf business has largely moved beyond the stage of pure rent-seeking, it is still far from autonomous from local states either economically or politically, and its contributions to economic modernization and reform have been modest in international comparison" (ibid.: 2).

Rentierism yet plays an important role also in the non-oil private sector. As businesses generate little to no tax income, they solely depend on the government continuously driving demand. Government spending is mainly financed through resource revenues, further, non-oil business activities depend on cheap energy provided by the state. Moreover, public wages are much higher than those of the private sector, stimulating needed consumer demand. (Hertog 2013: 2ff.; 6; 13). Finally, while business in Saudi Arabia is now more involved in formerly state-controlled sectors like education, health and telecoms, the country's biggest corporations

[8] As Luciani reasons: "to overlook the difference between the logic and behaviour of a business corporation, albeit state-owned, and that of the bureaucracy would be a mistake. In this sense it may, depending on the context, be appropriate to speak of the private sector and also include in it certain state-owned entities" (Luciani 2005: 146).
[9] For an overview and discussion of privatization processes in Saudi-Arabia see Akoum 2009 for example.
[10] The peak in 2008 needs to be seen in the context of the financial crisis of course where in the Gulf, liberal government expenditures supported the economies (Luciani & Hertog 2010: 8).
[11] See Hertog (2013) for a detailed analysis of the private sector in the Gulf Region.

are yet partly state-owned, essentially in strategic parts heavy industries[12]. Diversification of the economy hasn't been, so far, autonomously led by the private sector but is essentially driven by successful state-owned enterprises[13] (SOEs) (ibid.: 2f.; 23; cf. Hertog 2010).

Steffen Hertog (2013) thus paints a rather grim picture of actual private sector capabilities. In order to be able to fully interpret the role of the private sector in Saudi Arabia, however, one needs to understand how state-business relations have evolved over the years from a political perspective[14] (Luciani & Hertog 2010: 5).

3.2 The evolution of state-business relations

As Kiren Chaudhry (1997: 7) asserts, "once government becomes involved in governing the economy in direct, intrusive ways, it becomes entwined in mediating economic and social relationships". How did this take place in Saudi Arabia, a state in which the discovery of oil gave absolute power to the regime?

Saudi Arabia's political economy has a pro-business and capitalist-oriented history. The origins of the private sector are found in the pre-oil era, when powerful merchant families undertook local business, providing "community services and infrastructure that were beyond the capacity of the embryonic states, furthering the businesses' social standing and independence" (Hertog 2013:37). The families had established themselves in the Hijaz[15] well before the creation of Saudi Arabia; some of them even provided funding to Abd al-Aziz before his conquest. They hence disposed of bargaining power that they used in a collective manner to negotiate with local rulers over public services, regulations and tariffs (ibid.; Luciani 2005: 150)[16]. Support by the monarchy for business activities is thus "deeply ingrained" as the rulers protected the merchant elite from the beginning (Luciani 2005: 150)[17].

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[12] Again, though, the private-public differentiation refers to the Saudi context where SOEs can be private corporations with the state as the major shareholder. One example would be the Saudi Basic Industries Corporation (SABIC), a company that "alone accounts for almost three quarters of all foreign earnings of all publicly listed companies" (Hertog 2013: 23; cf. Hertog 2010; Luciani & Hertog 2010: 5).

[13] For an analysis of the underlying factors of success of SOEs in the Gulf see Hertog 2010 for example.

[14] The paper at hand follows a political perspective; for an economic analysis of state-business relations see for example Luciani & Hertog 2010.

[15] In the West of the Arabian Peninsula, home to the ancient merchant towns of Mekka and Medina (Ochsenwald 2012).

[16] Kiren Chaudhry further describes this pre-oil boom bargaining between the Hijaz and the new Saudi bureaucracy from Najd which became more stable with the consolidation of political power of the regime (Chaudhry 1997: 13f).

[17] Luciani (2005: 150) also mentions the need to further consider the characteristics of Saudi rule and Wahhabism in the face of an essentially nomadic, tribal population. Unfortunately, this can't be touched upon within the framework of this essay; further research can start with Al-Fahad (2002) for example as recommended by Luciani.

In the 1950s, oil revenues from exports had started to flow into the country. The government was still in its infancy though and economic development remained limited as patronage grew. The society was geographically fragmented without political tradition, further, no public space existed for social groups to form and voice demands. Politics - and clientelism[18] - took place on a local level and most of the society came hardly in touch with the state administration (Hertog 2007: 542; 545; Niblock & Malik 2007: 33; 36).

The government was built in a top-down approach based on family ties with family members receiving ministries and posts according to their ranks. Merchants were drawn into patronage which grew stronger with increasing oil revenues. The rent income granted the Saudi polity full autonomy in distribution and institutional design, making Saudi Arabia at that time the classic rentier state as described by Luciani & Beblawi (1987). As resource distribution by the state replaced earlier forms of taxation, the merchant elite gradually lost their independent political status. They were further weakened by the emergence of a middle class that had better access to education and the administrative apparatus (Hertog 2007: 545f.; 2013: 38). While the latter can be found in several GCC countries, the Saudi case is particular in the sense that economic autonomy also allowed the state to systematically create its "own" bourgeoisie based on kinship, favoring the families from Najd over the Hijazi merchant families. As Chaudhry explains,

> "There was never a direct and decisive conflict between the precapitalist guilds and merchants of the Hijaz and the Najdis that dominated the central state. The power of the old merchant classes was eroded instead through the state's sponsorship of an alternative middle class" (Chaudhry 1997: 13).

Chaudhry sees in the rise of the Najdis an attempt by the government to create a national bourgeoisie in its favor, purposely undermining the Hijazi families' status through "intrusive policies" that served Najdi private capital accumulation (Chaudhry 1997: 6)[19]. Giacomo Luciani argues however that as the Saudi state was never faced with a foreign bourgeoisie or colonial class, it never saw the need to intentionally undermine the status (and wealth) of the influential merchant families: "In other words, the Saudi state never engaged in a process of destroying a preexisting class order in order to open the door to a new one - it simply integrated and remoulded what it found" (Luciani 2005: 158).

[18] 'Clientelism' here is used as defined by Hertog (2005: 116), referring "to unequal, exclusive, diffuse and relatively stable relationships of exchange and mutual obligation, both on micro and macro levels"
[19] Further elaboration on that matter can also be found in Niblock & Malik 2007: 89

Intended or not, Riyadh became home to a powerful and centralized administration that consisted to a large part of Najdis. Further, under King Fahd[20], banks moved to the Saudi capital and the state eventually also took control of the *hajj* and the *umrah* which had previously been regulated in the Western part of the country (Thompson 2014: 51f.; cf. Craze 2006). As characterized by Craze (2006), the Najdis became the Saudi bourgeoisie that was "co-opted by the government and dependent on the state's benevolence".

The tables turned from the mid-1980s onwards when oil prices declined, leaving the Saudi state dependent on deficit spending – and on the support of the private sector. While the private sector had initially been supported by the government in line with its pro-business orientation, state intervention in formerly private activities superseded private efforts during times of booming oil revenues. As the state engaged in economic activities in order to accelerate growth, profitable private domestic investment was hindered[21] (Luciani & Hertog 2010: 5). The private sector thus invested abroad, gaining substantive capital. All at once, when in the mid-1980s oil revenues harshly decreased, the government's policies needed private sector support. In particular, three lines of policies were pursued in order to adapt to the economic losses: Firstly, the government relied on deficit spending in hoping that oil prices would climb back up; the expenditures were supported by the sale of foreign assets and international loans. Secondly, overall expenditure was sought to be reduced, and thirdly, the state was to count on an increase in private-sector investment to replace falling public-sector investment. Since the option of increased prices eroded with time, the other two policy options were to be exceedingly pursued (Niblock & Malik 2007: 94f.).

As for example Chaudhry (1997: 9) describes, liberalization policies were to be introduced by the Saudi government in its effort to reform the economy and the private sector in particular. The emphasis thereby laid on: "taxation and (…) cutting budgetary outlays by withdrawing consumption and production subsidies. Income and corporate taxes were introduced (…) New labor regulations were introduced to force the private sector to replace cheap foreign labor with Saudis and assume the burden of social security payments previously covered by the government" (ibid.).

[20] King of Saudi-Arabia from 1982-2005

[21] Luciani & Hertog (2010: 5) call this a „constant dilemma for the pro-business rentier state": „As the rent accrues to the state, it is the state that has the financial resources required to fuel growth, and if the state engages in productive investment the private sector is inevitably crowded out."

These first reforms “failed immediately” (ibid.: 10). In the eyes of Chaudhry (1997) and Craze (2006), the government’s clientelistic politics became its undoing as the entrepreneurial elite had support within the bureaucracy to oppose all reforms that would affect them. Linked by the above described notion of kinship, “bureaucracy and business worked in alliance to oppose any government restructuring and to try and work towards an equitable rent distribution” (cf. Craze 2006). In the end, only those policies survived that affected poor consumers or expatriate laborers (Chaudhry 1997: 10).

The 1991 Gulf War further hurt the Saudi economy and polity, for that matter. In 1991, a Memorandum of Advice was addressed at King Fahd in which almost fifty religious scholars demanded political reforms such as the creation of a legislative council, anti-corruption measures and a more equal distribution of Saudi Arabia’s income among its citizens (Hamzawy 2006: 3f.). The signatories were initially harshly prosecuted, however, in 1992, the *majlis al-shura* was established, followed by other “minor reform measures” throughout the 1990s which Hamzawy sees as ways “to quiet growing popular dissatisfaction” (ibid.).

In this opposition of government reform, Joshua Craze (2006) sees state and society working together against the royal family, undermining rentier theory in a sense that state and society are linked beyond economic interests but “through a series of identities not determined by the state” (ibid.). Apart from the Memorandum of Advice, which is clearly part of a religious identity, the question remains though whether the workings of an entrepreneurial elite and their links to the bureaucracy can be understood as state and society working together. As outlined by Steffen Hertog (2013: 39f.) in referring to Michael Herb (2009), a state-sponsored private sector in a non-taxing environment creates a “zero-sum” game for citizens and business, hence fragmenting society in a way. While business yet somewhat benefits from higher public wages through stimulated demand, citizens don’t gain income from business activities (except for high-ranking private sector employees, naturally). Further, businesses don’t contribute to much-needed national employment, and at the same time, expatriate workers’ incomes often bypass national citizens as remittances are send back to their home countries (ibid). Hence, Herb (2009 in Hertog 2013: 39) asserts a “fundamental tension” between citizens and business which renders the situation more complex as originally outlined by Joshua Craze (2006).

During the 1990s, business grew strong in Saudi Arabia, partly “overtaking” the State at times of fiscal austerity. Nevertheless, as Luciani and Hertog (2010: 8) analyze and as is partly already described in 3.1 of this essay, private business today is again in “a situation in which it is (…) very much in the hands of governments, while private investors have suffered major losses”; “from 1999 to 2009, the pendulum [of power between state and business] swung all the way [back]”. The oil-fed boom of the 2000s has played into the cash-registers of the state, with the private sector being hit by the stock exchange bubble (2003-2004) and the financial crisis in 2008 (ibid.).

Still, business in Saudi Arabia today has not gone back to being as dependent on the state as it was during times of the first oil boom. The boom of the 2000s has not marginalized the private sector as much, further, it does contribute more to the GDP than over the period of the 1970s and 1980s. Moreover, in the last years, the pressure for a diversification of the economy has steadily increased with the government still pushing for a stronger role of the private sector (Luciani & Hertog 2010: 9).

4 Discussion: How have state-business relations changed, and why?

In terms of state-business relations today, economic policy-making has overall become more transparent and accessible for the private sector. As a matter of fact, as one of the only groups in the country, the strong forces of business are capable of significant interest aggregation. While chambers of commerce and industry have been in place for a long time[22], they are nowadays increasingly formally included in economic policy-making through diverse consultation mechanisms. Even though the chambers have a history of exercising vetoes on economic policy through informal channels, and were, as such, also heavily involved in the opposition of reform in the 1980s, their input on policies today goes beyond the pure resistance of certain measures (Hertog 2006a: 254; 263). Drafts of economic legislation are officially circulated to the chambers and subject of debate in its committees. Further, the Supreme Economic Council includes an advisory body which has appointed several private actors and also invites business representatives for hearings; the same counts for the *majlis al-shura* which also consults upon businessmen in its specialized committees (ibid.). At the same time, a business-friendly, well-educated elite of Saudi technocrats has found its way into key ministries as well as the big Saudi corporations. Senior professionals are thereby granted direct access to the high ranks of Saudi political leadership and decision-making, thus gaining direct influence as their advice and technical expertise is highly valued (Thompson 2014: 42). This new constituency of well-educated Saudi technocrats disposes of several access points to

[22] More on the creation of the chambers of commerce and industry can be found in Hertog (2006a).

the influential circles through the Saudi Confederation of Chambers of Commerce, Industry and Agriculture (SCCCIA) or the *majlis al-shura*, in turn promoting these institutions' influence (Thompson 2014: 42; referring to Hertog 2004: 18).

As Hertog (2006a: 255) asserts, "the representation granted to business (…) exceeds that of any other societal interest group". In this way, the private sector has had influence on recent laws such as the Foreign Investment Act, tax laws, and trademark and anti-dumping laws. Further, it is exceedingly granted membership (i.e. sectoral representation) in functional bodies that specialize on certain economic issues, like the board of the General Investment Authority for example (ibid.).

As after 09/11 and the 2003 Ryiadh bombings the socio-political pressure on the government grew, one could easily classify the opening of economic policy as one of several measures by the regime to carefully introduce liberal reforms[23] to soothe state-society relations (Hertog 2006a: 295; Thompson 2014: 58). It is not that simple however. As Hertog (2006b:74; 2006a: 263) points out, business is "special" in terms of its influence and while other, newly introduced forms of dialogue such as "professional associations and (…) the National Dialogue[24] have a similar potential to feed into policy-making in their respective fields", they "have been too anemic to function as effective conduits for information".

But why is business different?

Two factors can be considered in analyzing the special role of business: first, the historical development of the private sector as described above and second, the state of the economy today.

As has been shown above, the private sector elite was from the beginning supported by the state and backed by pro-business policies. It was hence left room for development while being tied to the regime through patronage. Yet, even though the inflow of rents crowded out the private sector to some extent, it was relied upon again at times of fiscal crisis. As Hertog asserts (2006b: 74f.), "the Saudi private sector has possibly reached the highest stage of economic maturity in all of the Middle East". The business elite, though largely nurtured by the state in its early years, has been able to develop "its own dynamics and capacities" (ibid.).

[23] On the „opening of the state" see Hamzawy (2006) for example.
[24] Thompson (2014) has dedicated a book to political change in Saudi Arabia, in particular dealing with the establishment of the National Dialogue (see p. 58ff. for example).

While clientelism has led to a fragmentation of society and, to some extent the private sector, the higher ranks of business were much freer in their development than other parts of the society (Hertog 2006a: 267).

Further, improved state-business relations have become more important due to the changing needs of the economy. One the one hand side, as the economy has grown more and more complex over the years, it needs equally advanced managerial and production structures (Hertog 2006b: 74). Markets are becoming multifaceted and competitive while industries and services are growing. There is thus an increased interest in economic regulation since "the more complex production structures of Saudi businesses in principle require more predictability, responsiveness, and solid legal and infrastructural services from the state. (Hertog 2006a: 262)". On the other hand side, the Saudi economy is under constant pressure for diversification. Efforts so far have been slow and the state continuously relies on its oil income even though diversification has been on its agenda since the first oil-boom years. Saudi Arabia is suffering from high unemployment with an average unemployment rate of 10.5 percent over the last ten years (Alghamedi 2014: 58)[25]. In the long term, the state needs a strong partnership with Saudi business in order to be able to increase employment in a sustained manner (Hertog 2006a: 262)[26]. It thereby needs to attract private investment through serious opportunities, as "Saudi capital has an implicit or explicit exit option", being present on international markets and financing regional investment projects in other Middle East countries for example (Hertog 2006b: 74). Luciani (2005: 166) further elaborates on these capabilities of the Saudi bourgeoisie which he sees today as building blocks for the their independence from the state. Niblock & Malik (2007: 226) likewise emphasize the crucial role of the bourgeoisie's wealth that is independent from the state.

Looking at the role of the business elites from these two angles, it becomes clear that through increased consultation mechanisms the state is relying on a self-nurtured negotiation partner at times where this partner is strongly needed (Hertog 2006a: 267). Hence, state and business are strongly intertwined with mutual interdependencies.

Taken together, if we believe Steffen Hertog (ibid.), the Saudi model today is one of embedded autonomy where, "although the government still has the last say on all economic

[25] Callen et al. (2014) provide a useful overview for the challenges of diversification present in the GCC today.

[26] For an analysis of the Saudi state pursuing to establish a Knowledge Economy see Al-Filali & Gallarotti (2012) for example.

laws, Saudi business is listened to more seriously than any other modern group". Niblock & Malik (2007: 226) go further, asserting "a takeover of state institutions by the leading elements of the private sector". They contend however that this "takeover" is accepted by the state in order to achieve the much needed economic development. Hence, as both pursue the final objective of economic development, Niblock & Malik don't necessarily see a contradiction between the Saudi model and the theory of "embedded autonomy", even though the latter looked much different in the Asian case.

Finally, if state and business are so heavily intertwined, can business drive political change? Hertog (2006b: 267) asserts that "segmental" corporatism[27] prevails in the Saudi state, further underscoring the notion of state-sponsored capitalism as above. By "segmental", he refers to the fact that the regime is approaching and incentivizing different social groups in a different manner. Hence, as also seen above, private sector elites only gain access to specific, business-related institutions "in clearly delimited policy areas" (ibid.). Political opinion is only expressed on business-related subjects, and only in a careful manner.

So far, lobbying by business groups as made possible through consultative measures and else has taken reactive rather than proactive forms. Visible economic policy lobbying has been aimed at defending existing regulatory privileges and limiting reforms aimed at increased national employment in the private sector (Hertog 2013: 35). Further, in spite of the small institutionalization that has taken place, business groups don't take on an organized form in order to promote policy initiatives but rather pursue individual objectives. As Hertog (2013: 34) asserts: "Policy initiatives often still come from individuals, and state and business rarely engage in sustained, encompassing negotiations. Instead, exchanges are often ad hoc and business input is more often than not limited to asking for the preservation of existing privileges".

In sum, even though business groups could exercise a function of accountability in the long run, playing out link between economic and political reform, they are not yet acting in an organized, proactive manner and formal processes of negotiation are still in their infancy (Luciani & Hertog 2010: 14).

[27] See Hertog (2006b: 240ff.) for a detailed definition of corporatism.

5 Conclusion

The paper at hand has tried to shed light onto the complex state-business relations in Saudi Arabia. While business elites have traditionally been strong in the Kingdom, going back to pre-oil times and the initial foundation of the country in 1932, rentierism after the inflow of oil revenues distorted state-business relations (cf. Luciani & Hertog 2010; Chaudhry 1997). Private sector efforts were crowded out by the state and patronage grew as the regime distributed resources. Giving initial preferential treatment to the Najdi population, the state expanded with its support to build up a strong and centralized administration in Riyadh. As the oil price declined and Saudi Arabia suffered from severe financial problems, the power balance shifted and the state came to depend on the private sector for its support (Luciani & Hertog 2010; Craze 2006). Building on Steffen Hertog's notion of "segmented clientelism", we have seen that in these early phases of state-building and rentierism, important stakes were created which still play out today: the historic development of the business elite is one factor that determines its effective veto power and the range of issues it can voice its opinion on (Hertog 2005: 112; Hertog 2013: 36). Secondly, the Saudi economy today has become more complex and is in dire need of economic reform to meet its citizen's needs. The state hence depends on the private sector more than ever in order to provide sustainable employment and long-term investment. While, after the oil-led boom in the 2000s it is again the state who depicts the major player in the Saudi economy, arguably pursing a form of state-sponsored capitalism, the government has still become increasingly dependent on business also with regards to future diversification needs.

Whether an increased role for business in economic policy-making can play out as a driver for broader political change remains to be seen in the future. So far, business and the state have remained too heavily intertwined for business elites to bring forward proactive demands in an organized manner (Luciani & Hertog 2010: 14). Finally, one has to remember the dividing lines of the business elite and the Saudi citizens which results in an unusually stark opposition of business interests and those of the citizenry at large, further impeding the role of a political force for business (Hertog 2013: 1).

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