The Social Contract in the GCC

11–12 January 2016
Introduction

This is a summary of discussions that took place during workshop sessions at Chatham House in London on 11–12 January 2016. The discussions brought together academics, economists, policy-makers, journalists and civil society representatives from various Gulf Cooperation Council (GCC) countries as well as from the UK. Their aim was to evaluate the ways in which the social contract – the implicit or explicit bargain between citizens and the state – is evolving in the GCC countries.

Key points that emerged from the discussions included:

• A new generation of Gulf leaders and citizens are examining the social contract at a time of significant political, social and economic upheaval in the region.
• The economics of the social contract are coming under increasing strain as oil prices fall and the youth population grows rapidly. The GCC countries have to impose fiscal restraint, which will present a significant challenge since the citizens of those countries are accustomed to government largesse.
• Countries such as Bahrain and Kuwait – where citizens have sought to make the social contract explicit through constitutional and parliamentary mechanisms – have experienced setbacks, raising questions about the effectiveness of such methods.
• The extent to which religious authority impacts on the social contract varies from state to state. In Saudi Arabia, where political legitimacy and religious authority are closely intertwined, reshaping the social contract will require taking that authority into consideration.
• The goals of nation-building, developing national identity and strengthening security have assumed more urgency in an increasingly insecure environment. How those goals are achieved may be increasingly contested by the ruled, on the one hand, and the rulers, on the other, as the social contract evolves.
• As GCC governments respond to the challenges of falling revenues and the need to diversify economies away from hydrocarbons, the impact of those responses on the social contract will require new strategies of consulting and communicating with the various domestic stakeholders and managing public expectation.

The discussions were held under the Chatham House Rule and the views expressed are those of the participants. The following is intended to serve as an aide-memoire to those who took part and to provide a summary of what was discussed for those who did not.

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1 When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.
Day 1

Session 1 – Social contracts and ruling bargains

The concept of the social contract refers to an implicit or explicit bargain between rulers and the ruled. It has its origins in the European Enlightenment, but has also been seen by some in the Gulf region as relevant to understanding the ‘ruling bargain’ between sheikhs and citizens in societies that have only limited elements of democracy, but which have deeper-rooted expectations about the obligations of the ruler and the necessity of consultation.

There is a widespread narrative that suggests that the social contract as applied to the Gulf can be understood only within the narrow context of the ‘rentier state’ or, indeed, the ‘resource curse’. Yet the contract between the Gulf ruling families and the people took root before the discovery of oil. The pre-oil contract was a process whereby, it is argued, there was more negotiation and a balance of power, particularly between the rulers and the merchant class. Unquestionably, political and social outcomes would have been different without oil. In return for the economic benefits that oil enabled them to provide, the ruling families became significantly more powerful.

The concept of the social contract in the Gulf context has undergone what one workshop participant termed dramatic change. The countries of the region have enjoyed an oil boom since 2003 that has only recently come to an end. Long-stalled plans to diversify economies and reduce the economic dependence of citizens on the state now need to be implemented in a more comprehensive manner and with greater urgency than was previously the case. The younger generation of Gulf nationals may not be able to rely on the state to provide them with jobs, services such as free education and free healthcare or heavily subsidized fuel and water. Unlike their parents – but like their grandparents – they will have to pay taxes; and this development will inevitably change the way younger citizens relate to and engage with their governments. But there is no mechanistic relationship between taxation and representation in this context. As resource dynamics force a change in the economic aspects of the social contract, various actors in the GCC countries will contest, and seek to negotiate, its non-economic aspects, including security provision, political participation and consultation, relations with religious authorities and the use of national identity – as well as using elements of coercion and repression to maintain their power.

Thus far, the changes to the economic contract that have taken place since the oil price began to fall in 2014 have focused on subsidy reduction. For example, in September 2015 Qatar doubled electricity and water prices overnight; however, Qatari nationals were exempt from the sudden price hike – an acknowledgement of the difficulty and the risk of forcing significant subsidy cuts on Gulf citizens.

A survey conducted by Qatar University’s Social and Economic Survey Research Institute (SESRI) confirmed that picture. Asked ‘to what extent do you think that nationals should pay for [water and electricity] utilities’, on a scale of 1 to 10, two-thirds of respondents replied ‘zero’ – i.e. they did not want to pay at all. One participant in the workshop sessions at Chatham House noted the enormous amount of discussion and questions from [Qatari] students about the social contract and how the relationship with authority is changing as they realize they may be asked to contribute more.

The fluidity of the social contract in Saudi Arabia was discussed in this context. One participant argued that the Saudi social contract is tripartite, between the clerical establishment, the rulers and the people. However, the clerical establishment continues to play a dominant role: ‘King Abdullah was unable to enact the reform he wanted to because the clerical establishment held him back.’ At the same time, the point was made that ‘the social contract in Saudi Arabia varies according to the regions. KSA [the
Kingdom of Saudi Arabia] is on a completely different scale from the other GCC states. It is a country but not a nation. It has different regions with different attitudes towards the central government. Some regions have missed out on wealth distribution and therefore have little loyalty to the ruling family.

One participant said that in Oman the social contract is already being renegotiated in the wake of the response of Sultan Qaboos to the events of 2011. For example, the Shoura Council felt sufficiently empowered in 2015 to propose taxing expatriates’ remittances, which, in itself, is a reflection of the gravity of the economic situation. The government initially threw out the proposal, but a few months later it leaked a package of reforms that included taxing those remittances. This was a significant win for the council.

The example of Bahrain and the removal of meat subsidies was cited by another participant. The government had made available the equivalent of $13 per month to eligible Bahraini households in compensation for the measure, but the message was unmistakeable: consume less, or spend more. The participant deemed this intervention in the social contract unprecedented, as it ‘opens the door to lifting subsidies in other sectors of the economy’. The point was made that the government had discussed the lifting of subsidies before the political crisis that broke out in 2011. The crisis put the subsidy question on hold; but once the government felt that it was in full control of the situation, it introduced the meat subsidy cut.

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The GCC country that has been most forward-looking on economic reforms is the UAE. It has led the GCC debate on VAT, and has notably taken an extremely gradual approach towards the introduction of this tax.  

Kuwait has already experienced strong resistance among its nationals to changing subsidy arrangements – especially when it comes to water, electricity and basic foodstuffs. One participant suggested an ‘optimistic scenario’ that would involve initially introducing taxes on non-essential items such as cigarettes and later imposing a levy on essential ones. It was considered that under Kuwait’s constitution, and with a relatively powerful parliament, Kuwaitis feel they have a say in the social contract and how it is interpreted, and this ‘makes Kuwait very different from the rest of the GCC’.

Expatriates – on whom the GCC states rely very heavily as a source of labour – are affected by the changes too. Where and how do migrant workers get involved in the issues that impact on them, and what effect will that have on the social contract?

Session 2 – The economics of the ruling bargain

Going forward, the ruling families in the Gulf region will be guided by both the desire and the need to insulate the local populations – and particularly the poor – from major negative impacts. At the same time, they must address growing deficits and consolidate their budgets in a fiscally responsible manner. The need to do so is most urgent in the KSA, Oman and Bahrain.

One participant noted that fiscal reforms would affect different social groups in different ways. Several participants took the view that rather than having a single social contract with ‘the people’, the Gulf ruling

2 The UAE has said it will introduce a VAT rate of 3–5 per cent in 2018.
establishments should have multiple social contracts with the various social groups. Faced with the choice of cutting spending or imposing taxes, Gulf governments would have to decide whom they would privilege and whom they felt they could afford to target. Similar choices would have to be made as regards labour reform, for example: in Bahrain, plans to reduce unemployment among Bahrainis were watered down because of opposition from the merchant elite. In general, the business community would be likely to lobby against any attempts to change an economic model that ensured low-wage labour, cheap energy and high levels of government spending on infrastructure and services projects for which contracts would be available.

In Saudi Arabia a younger-generation leadership is seeking to present radical economic changes as positive for the country’s development. There is talk of a ‘Thatcher revolution’ involving market-based models to drive economic reforms: the privatization of Saudi Aramco has even been proposed, although it is unclear if and how this drastic measure would be implemented. It seems that, for the first time, the government is determined to shed most non-essential functions through privatization. As noted by one participant, there is a revolution of new ideas and physical consolidation now under way. New terms are being used by ministers: public-private partnerships, social services coupons, charter schools. The ministers themselves are being held accountable in ways not previously witnessed: ‘Ministers tell me that there are meetings every two weeks and they are being told “you have to cut”. They are freaking out because they are part of a bureaucracy that never thought about cuts.’

The Saudi government had already trimmed its budget in 2015 by as much as 20 per cent compared with 2014. But budget cuts need to be balanced with the imperatives of wealth distribution and job creation. A VAT on luxury goods will be an important component of non-oil revenues; however, VAT in general will account for only a small part of overall fiscal adjustment. Subsidy cuts will need to be offset by direct transfers to those who will be hardest hit, because when expenditures are slashed by 20 per cent there is a knock-on effect on real income. For this reason, localization policies to insulate the population from negative impacts and compensate for the cutbacks through job creation are a crucial element of the reform project. Moreover, there is a pressing need to reform labour markets, to make it easier to hire and fire people and to make wages reflect supply and demand more closely so that the cost differential between nationals and expatriates can be gradually narrowed.

While the ruling families are undoubtedly faced with daunting challenges, one participant warned against assuming that their ‘end is nigh’, noting that such a view underestimates the huge leeway the governments have. While it is true that the fall in the oil price has complicated many issues, it is worth remembering that in the previous cycle the increasingly high oil price itself proved a complication in the KSA because at that time Crown Prince and subsequently King Abdullah was fully committed to pursuing privatization. The Saudi government had not considered the possibility that the price would increase and had not known how to respond. As a result, it engaged in what the participant called ‘wasteful projects that did not make any significant difference to the well-being of the people’, whereas in the 1970s it had spent money on roads, water or electricity. The projects that are currently under way, including the much-vaunted economic cities in various regions of Saudi Arabia, have only marginal benefits for citizens. They have not increased support for the government, nor have they helped integrate the poor into the social contract. At the same time, the extent to which subsidies generate goodwill has been greatly exaggerated. Subsidies are ‘regressive’, in the view of this participant; ‘it is only the rich that truly benefit from cheap electricity, gas, water’.

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One participant said that the GCC states were altering the terms of the social contract through subsidy cuts and sending their citizens to fight in Yemen without ‘reciprocal steps being taken to include the people’. Another raised the question of accountability and transparency with regard to the revenues raised by VAT and the savings realized from subsidy cuts: ‘What happens with this money? How would you like the money we are taking from you to be spent? How will you involve us?’

Several participants remarked that the social contract in the Gulf remains resilient, perhaps much more so than is generally assumed. This resilience can be explained in part by the geopolitical realities of the region. During times of conflict and political instability, as is now the case, people are more willing to accept taxes and cuts. In contrast with the period of the Arab uprisings, many people avoid making more demands on the government because they think there is no alternative to the existing political elite – at least for the foreseeable future.

Session 3: Political compacts, constitutions and parliaments

The political malaise evident in both Kuwait and Bahrain puts these countries at odds with the other GCC states. Indeed, the reluctance of the latter to develop parliamentary models may be because the former serve as a cautionary example. In the countries where parliaments do exist, will these bodies remain the centre of political life? Will they provide credible legislative oversight? Will the Kuwaiti constitution continue to be a source of political unity?

In Bahrain the successor to the first emir (who died in 1999) had decided that the relationship with the people should be put on a new footing. In the words of one participant: ‘It was a transaction – you make me king and I will give you a parliament’. The 2001 National Action Charter was a ‘social contract’. It was an agreement between the people and the ruling family under which the parliament, which had been suspended since 1975, was reinstated with an elected lower house and an appointed upper house. The latter, appointed directly by the king, was intended to have only consultative – i.e. no legislative – powers. However, in 2002 King Hamad promulgated a new constitution that gave the upper house both a veto and legislative powers. None the less, the constitution enshrined the principle that sovereignty and constitutional power reside with the people. Given this anomaly, it is not surprising that by the mid-2000s there was an upsurge in extra-parliamentary political mobilization that led to counter-movements pushing for change through street action and other forms of protest – all indications of growing scepticism about the role of the parliament. Following the government crackdown on the rising tide of protest in 2010 came the events of February and March 2011, when a popular uprising was crushed using force. In response to the imprisonment of political opposition leaders and activists, opposition groups began a boycott of elections which continues to this day.

One participant noted that parliamentary oversight in Bahrain had slackened over the last decade and ‘really undermined the ability of parliament to function’, while the crackdown had weakened opposition political groups. The situation was exacerbated by the prosecution of former parliamentary deputies, which had set a tone of intimidation that discouraged political engagement. And while some parliamentary powers had strengthened in Bahrain, the opposition viewed this with scepticism, regarding it as a way to entice people back into the parliament at a time when, broadly speaking, freedoms of speech and assembly had been weakened.

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4 The National Action Charter of Bahrain, proposed by King Hamad bin Isa Al Khalifa, brought to an end a period of unrest and returned the country to constitutional rule. It was approved in a national referendum in 2001, at which 98.4 per cent of eligible voters endorsed the document.
Another participant commented that ‘if you go back 800 years, parliaments have always developed from taxation. Those same forms of authority and legitimacy don’t exist in the same way in the Gulf. Parliaments in the West were a means to an end, while in the Gulf they’re almost seen as an end in itself.’ The ability to account for how the people’s money is spent constitutes a major source of legitimacy for parliaments if they are able to achieve this. One of the main issues in parliaments in the Gulf is the relative absence of political organization, since political parties are prohibited across the region. Moreover, many people in the Gulf appear unfamiliar with the concept of ‘loyal opposition’, with the effect that that opponents of the government risk being branded as traitors to the nation in at least some of the Gulf countries.

While the Kuwaiti parliament has significant powers, one participant cast doubt on its productivity, calling it a ‘staccato form of representation’, given the repeated dissolutions of the body. The question was raised of whether politicians had used the powers they had been given effectively. For example, the parliament won the right to question the prime minister, but there was a general feeling that the government had made this concession because it knew that it would win the ensuing votes. So there have been no strategic gains, only tactical ones; and this has led to the view that the parliament has failed to prove itself indispensable either to the government or to the people.

However, the point was made that despite the difficulties facing the parliaments in Bahrain and Kuwait, it is important that these bodies do exist. And even if they have failed to live up to many expectations, it is clear that no parliament in the world ever does succeed in that respect – expectations always exceed results.

Finally, it was noted that since the Gulf states are now altering the social contract, there will be a push for more accountability. Citizens will press both for a greater say and for shared sovereignty in systems where power remains firmly in the hands of the ruling families. ‘Parliamentary sovereignty needs to be taken, it won’t be given’.

**Session 4 – Religious discourses on political legitimacy**

This session focused on the discourse of the Muslim Brotherhood movements in the Gulf, which represent just one example of the diverse range of Islamist movements to be found in the region today. Social and economic justice is a top priority for all movements concerned with Islamic principles of government; but few of the self-styled Islamic or Islamist movements have produced detailed definitions of what constitutes social and economic justice or drawn up policies for improving it.

Some branches of the Muslim Brotherhood prioritize social programmes, while others focus on political reform. The response of GCC governments has varied from country to country: co-option in Bahrain and Qatar; hands-off in Kuwait; crackdown in the UAE; co-option, then crackdown and then co-option again in the KSA; and dismissed as largely irrelevant in Oman.

The Brotherhood was welcomed into the Gulf in the 1950s. Today, however, it has been proclaimed a terrorist organization by the KSA and UAE, where it is seen by the governments as a transnational movement that challenges their legitimacy and threatens state security. The response of other GCC states is nuanced, which tends to strengthen the argument that the Brotherhood is localized rather than transnational. One participant noted that in Bahrain the movement is ‘co-opted to the degree that it is believed the Bahraini ruling family bankrolls some of it. The president is a member of the ruling family’. Al Menbar (the political wing of the Al Islah society) distinguishes itself from other opposition branches in the region and has consciously uncoupled itself from the international movement of the Muslim
Brotherhood. The political arm of the Brotherhood in Kuwait, the Islamic Constitutional Movement, has taken an anti-corruption stance and has called for political reform. It boycotted the last two parliamentary elections while forming coalitions and alliances with pro-democracy and secular oppositionists and thereby showing a willingness to set aside political differences.

The branch of the Muslim Brotherhood in Oman was the target of a government crackdown in 1994. Today it lacks institutionalized capacity, largely because there is no Sunni activism in Oman, and is largely viewed as irrelevant. In Qatar the Brotherhood dissolved itself in 1999 and its members have since focused on social policy rather than political reform. It continues to exist as ‘a tendency and not a movement’, in the words of one participant, and does not appear to harbour any ambitions beyond intellectual and theological pursuits that have the limited aim of persuading the government to adopt more conservative social policies.

The Muslim Brotherhood was welcomed into the KSA in the 1950s and 1960s and became influential in that country’s education system as well as functioning as a grassroots organization. However, all that changed in the early 1990s with the arrival of US troops. The Brotherhood was now seen to be leading a sahwa (awakening) against the presence of foreign soldiers on the Arabian Peninsula and was held responsible for protests against the ruling family. By 1995 the organization had, in effect, been crushed, but it was subsequently rehabilitated when the House of Saud needed strong Sunni support in the 2000s. Fears resurfaced within the ruling family in the context of the Arab Spring – when the Brotherhood called for political reform and 56 sheikhs condemned the removal of President Morsi in Egypt in 2013 – and in March 2014 the Brotherhood was declared a terrorist organization. Such fears notwithstanding, the extent to which the Brotherhood remains important for the ruling elite was demonstrated in February 2015, when the then (now late) Saudi foreign minister, Saud al-Faisal, announced that the government had ‘no problem with the Muslim Brotherhood’. It was also evident later that year when the leading Brotherhood cleric Sheikh Yusif Al Qaradawi was welcomed to the kingdom from Qatar.

The UAE affiliate of the Muslim Brotherhood (Islah), which was founded in 1974, pushed for Islamic education, the restriction of alcohol sales and censorship of Western influences, and developed a political agenda alongside this programme. In the mid–1990s the government moved to quash Islah before it became too influential; however, the organization continued its activities until 2012, when it was forcibly dissolved. In 2013, following mass arrests, 94 Emiratis, many of whom were Islah members, were charged with plotting the overthrow of the government. Islah denied the charges, stating that it was a pacifist, civilian and moderate organization. As a result of the crackdown, what Islamist activity remains in the UAE takes place not through organized groups but rather through informal networks. Essentially, it has been pushed underground, which reinforces the government narrative that Islah is a covert threat to national security.

It was argued that despite the ups and downs experienced by the Muslim Brotherhood in the Gulf, the last 30 years have witnessed what one participant called clear wins for political Islam. The same participant went on to argue that: ‘We can’t talk about religious discourse without talking about the role of Islamist parties in shaping politics in the region.’ Acknowledging the role that the KSA plays in shaping the debate, another participant commented that Saudi Arabia is a unique construction of a ruling class that is Sunni, tribal, Arab, and a particular strain of Sunni Islam. A ruling- and a religious-class legitimacy in

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5 As an example of the sometimes fractious differences within the GCC over the Muslim Brotherhood, Saudi Arabia, Bahrain and the UAE recalled their ambassadors from Doha in March 2014 in what at the time was an unprecedented move. The three countries accused Qatar of undermining their domestic security through its support for the Brotherhood. The rift was repaired only eight months later. See http://uk.reuters.com/article/uk-gulf-summit-ambassadors-idUKKCN0J00Y220141116.
combination create a ‘negative legitimacy’. Both the ruling class and the religious authorities use this negative legitimacy to support their argument that they should remain and continue to prosper. This unofficial pact works because, for the people, the alternative to the existing undemocratic regimes is regimes that would be extremely religious and equally undemocratic, if not more so.

Session 5 – Nation-building, identity and security

Nation-building and allegiance to the ruler
Participants discussed the concept of *bay’ah* (allegiance to the ruler), which confers certain obligations on the ruler.

*Bay’ah*, which also functions as a source of legitimacy, has developed over time in Saudi Arabia. Since 1932 it has been a basis for relations between the rulers and the tribes and different regions. While the approach to *bay’ah* is rather conservative in Najd, a more flexible stance can be seen in other parts of the country. Whenever there is a call for national unity and national solidarity, it is in the religious context of binding everyone to Islam and the *Sunna* and showing obedience to the rulers.

A second source of state legitimacy is the economy – or, more precisely, the role of economic factors in securing political loyalty in return for the provision of services. Every time there is a political problem, the Saudi government uses the economy to support its legitimacy. For example, in the wake of the emergence of the Arab Spring in 2011, King Abdullah introduced a $110 billion social welfare fund for programmes to build new houses and create new jobs as a means of heading off protest action.

The third dimension of state legitimacy is politics, used mainly to reinforce the social contract. The period after 9/11 saw the creation of the National Dialogue Forum in Saudi Arabia, under the auspices of then Crown Prince Abdullah. Municipal councils were introduced, and the first municipal elections took place in 2005. Moreover, a human rights body was created. Thus the legitimacy of the ruling family was enhanced through an increase in public participation in the political process.

Indeed, it is a combination of such measures that has helped the Saudi state in its gradual nation-building. But the turmoil in the region has meant that the need has arisen to utilize all sources of state legitimacy. According to one participant, there is now a major security threat that is causing people to question the legitimacy of the government, while growing sectarianism is challenging national unity and national identity. In addition, there are economic problems resulting to a large extent from the low oil price. The most common response to these emerging threats has been what the participant described as a tendency to be ‘affiliated with a closed circle, be it tribalism, sectarianism or regionalism’.

The tug of war over the national identity agenda

The idea of national identity has become very important in the KSA, where a National Day was introduced just a few years ago, another participant argued. GCC governments and the ruling families have recognized the importance of having something for people to rally around, and this is increasingly becoming a reality in the region, especially as people are developing ‘rogue’ identities for themselves which may not be in keeping with the power structure. This is, in fact, ‘the tug of war in nation-building, as national identities evolve organically with changes in the nationals and the non-nationals, whereas political elites often want to cement these identities’.

At the root of the struggle for national identity is the question of who, ultimately, controls the national identity agenda. Those who are in control of the education curriculum, the media and the heritage narrative – that is, the ruling elites – want to cement an identity that legitimizes their position. Usually,
that identity is of a tribal and Arab heritage, although, as one participant noted, ‘many of the GCC countries’ citizens who have been nationals for a century or more were not necessarily purely Arabs from the peninsula but also Persians or Baluchis’.

In the UAE, as elsewhere in the Gulf, national identity is closely tied to the identity of the ruling family and its ability to control how the country is seen from a national and international perspective. The late Sheikh Zayed enjoyed huge popular affection, but it is harder for the new rulers to maintain a ‘personality cult’ in a digital age in which people are more inquisitive and more open to questioning established norms, and when rulers can no longer be the ‘strong and silent type’. People expect to hear the ruler’s voice, and there is only so much PR agencies can do to control that voice.

Citizens now want to hold their rulers to account, one participant noted: this means not only financial transparency but also whether social justice and security are provided. The same participant pointed out that such accountability is closely linked to the issue of corruption: ‘I like the idea of having a young ruler sitting with his ministers and saying you need to cut spending, but are his ministers telling him his diwan needs to cut spending too?’

The ‘weaponization’ of identity
National identity is usually defined within the context of folklore and festivities. But in the context of the security challenges facing the Gulf states, the ‘weaponization of identity’ has emerged. In the view of one participant: ‘We need to look at national identity not only as a means to solidify the community or obtain legitimacy, but also as a line of defence.’ The UAE, for example, has elevated national identity to be a long-term goal in its ‘Vision 2021’ strategy, each of the four pillars of which emphasizes the unity of the nation. Various ministries, such as those of culture and education, place ‘national identity’ at the centre of their strategic visions. The following question is constantly being asked: What are the values on which our identity is based?

Commenting on the war in Yemen, one participant noted that observers had thought the conflict would result in a backlash. But that has not been the case: ‘Our martyrs were celebrated, even at my kids’ school. There was this sense that we can do this, we can spill blood for the country. No one was talking about spilling blood for Yemen! But there was this sense of what the UAE was gaining. The war itself did not create solidarity – the people accepted the war and the casualties because of the solidarity of the community.’

Day 2

Session 6 – Gulf policy trends in 2016: Budgets and economic reform

‘If we want things to stay as they are, things will have to change’
This line, from Giuseppe Tomasi di Lampedusa’s novel The Leopard, set at the time of the 19th century Risorgimento, captures the dilemma among ruling families concerning how to alter the social contract while maintaining legitimacy. In an attempt to resolve this dilemma, the KSA embarked on a set of comprehensive, consultancy-driven multi-stakeholder studies, under the leadership of Mohammed bin Salman, that asked Saudis about their visions and aspirations, civic engagement, national identity and changing values – both core and new ones. It is safe to say that the depth and breadth of the studies is unprecedented in the kingdom. Study participants were questioned on topics including wasta (nepotism),

\[8\] Zayed bin Sultan Al Nahyan is considered the pivotal figure in the establishment of the UAE. He became ruler of Abu Dhabi in 1966, and was the first president of the UAE from 1971 until his death in 2004.
entitlement, boredom, education, corruption, civil rights, unemployment, the extent to which they felt empowered, women’s rights, privatization and pension reform. Focus groups were conducted across the country, and included representatives of all groups in Saudi society – meaning that members of sects, expatriates and women were all part of the process. Some of the key takeaways were concerns about the increased cost of living, the importance of communicating about subsidy reform, and uncertainty about national identity and what it means to be a citizen.

One workshop participant noted that while there was widespread engagement in the studies, questions remain about the extent to which the process has penetrated wider society. It was acknowledged that change must be coupled with labour market reform and an end to ministry infighting: ‘communication, coordination and capture are the key’.

Short-term gains versus long-term solutions
One outcome of current economic thinking has been to blame both the public and the private sector for today’s economic woes, leading to calls for a ‘Thatcher-style’ revolution. But is the private sector ready for such a revolution? Labour-market distortion and wage discrepancies remain largely in place. Education budgets have been cut, while the private sector is being urged to undertake more training. Neither the brain drain nor the flight of capital has been sufficiently analysed, nor has there been a rigorous qualitative analysis of government spending. Rather, there has been a tendency to blame regional turmoil for domestic economic woes. Perhaps, it was suggested, the squeezing of the private sector could be framed as the government encroaching on its social contract with the merchant elite in order to avoid revising its contract with the broader population.

A lack of both transparency about and scrutiny of public-sector assets, especially sovereign wealth funds, has left many questions unanswered, although the work of some external consultants has led to more information being available in the public domain. Could this information be used to push for greater wealth distribution? What is the role of the local banks? What pressure will there be to invest domestically some of the funds that are not invested abroad? How should long-term investments be addressed? What do nationals think about these assets? Does military spending offer short-term gains rather than long-term benefits?

On the plus side, ministers and bureaucrats are increasingly being appointed from the private sector, which should help in areas such as making access to credit easier for small and medium-sized enterprises (SMEs). At the same time, the private sector is being held to greater account, more so even than the public sector. Meanwhile, the tax on undeveloped urban land – so-called white land – is an example of a bold progressive reform that may well overcome the strong inertia that has persisted, despite repeated calls for change.

In 2015 both demands and pressures on global markets increased, as did the pressure for domestic investment. One of the key reforms has thus been the development of local equity and debt markets. So another question going forward will be how government funds can be taken out of foreign markets and used in domestic ones.

It was concluded that this ‘mixed bag’ of unanswered questions and positive steps forward, mingled with blame-framing, has exacerbated, at least for the time being, a climate of uncertainty that has fuelled private-sector insecurity and impacted on foreign direct investment.

7 The 2016 Saudi budget, released in December 2015, is the first ever to include a line about defence and security spending; set at $56.95 billion, this is the largest single item in a budget of $224.6 billion.
The Social Contract in the GCC

Session 7 – Gulf policy trends in 2016: Societal relations amid regional tensions

The GCC countries are acutely aware that they are surrounded by insecurity. There are two failed states to the north, one to the south and a ‘nuclear neighbour’, one participant said, with reference to Iraq, Syria, Yemen and Iran. This is an awareness that the West often overlooks.

At the same time, GCC leaders preside over highly educated and growing populations, and are expected to be more responsive to overlapping complex demands and major decisions at both the regional and national level. In the KSA, there is a sense that the Abdullah years were years of policy inaction at a time when US diplomacy was beginning to withdraw from the region. Current policies can thus be seen as reactions to previous inaction, and as moves to return the kingdom to a position of leadership. At the same time, there is fear about the rise of Islamic State of Iraq and Syria (ISIS). Given all of the above, it is not surprising that a more aggressive approach has emerged. The Saudi leadership is trying to respond to an increasingly demanding population, and to what it perceives as regional threats. In the view of this participant: ‘there is a tendency to conflate into decision-making things that have come out of causal events. Not everybody has a real plan.’

Another participant noted that the KSA has long harboured the idea to project influence regionally but has been (and remains) frustrated that it has never been able to do so successfully. Observers and analysts got used to geriatric, ineffective Saudi decision-makers, but the change since the Abdullah years (Mohammed bin Salman is quite young still) has taken everyone by surprise and spurred more active decision-making, such as launching the war in Yemen and the decision to execute 47 people as terrorists.

It was noted that the KSA had in the past tried to invest in political relationships with moderates in Iran, such as Rafsanjani. What had come of it? ‘There were many good years but it all went sour after the US invasion of Iraq.’ The arson attack on the Saudi embassy in Tehran following the execution of Sheikh Nimr al-Nimr in January 2016 surprised many people in Saudi Arabia. There was a perception in the GCC that Iran had its house in order and that it would be a regional player. But was that really the case? ‘Does Rouhani have the power to speak on behalf of Iran, and how powerful is the IRGC [Iranian Revolutionary Guards Corps]?’, one participant wanted to know.

It was argued that, given these developments, the foreign policy of the GCC states had changed ‘over the past few weeks’. Those countries had shown that they had an independent foreign policy by taking action against Iran (i.e. by withdrawing their ambassadors from Tehran). It was suggested that the Saudis had to react aggressively to what had happened in the Iranian capital in order to send a message to Iran that the KSA has a strong military presence in the region. This, it was suggested, would lead to more confrontation in the coming years. There was a bleak assessment that ‘hopes that the Rouhani administration would turn things around have vanished’, that neither leadership has much room to acquiesce, and that the only hope of a decrease in tension would be ‘when there is a sense of economic security that pervades both the KSA and Iran’.

One participant made the case that a number of grave strategic mistakes had been made by the Gulf states over the past year. These countries had survived the Arab Spring and had ‘managed to establish hegemony over the entire Arab world, with the Maghreb states becoming dependent on them’. The GCC states had been seen as guarantors of stability and had escaped serious criticism of their role in Syria for a long time. Since the Yemen intervention, however, the mood had shifted in the Western media and among

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8 The Army of the Guardians of the Islamic Revolution, which is a branch of the Iranian armed forces.
Western policy-making circles. ‘Sometimes one gets the impression that the Saudis think they can get away with anything’, one participant commented.

Several participants aired their views on the extent to which US diplomacy has disengaged from the Gulf. Most thought that the United States was indeed making a historic, albeit nuanced, shift away from the GCC states. One participant argued that although the Obama administration may be tilting foreign policy towards China and the Far East, the United States still had a very significant military presence in the Gulf and this was unlikely to change. Another commented: ‘it feels at the moment that the US backing out of the region is, in part, driven by the scrutiny of Gulf policy by the Western media and the fact that Washington, unlike its predecessor administration, is not backing the Gulf states on all aspects of their policy’.

The next topic of discussion was Yemen and the Saudi-led war against the Houthis. The case was made that if the KSA is going to be a regional player, it needs to be more responsive in the context of a US vacuum. The war in Yemen would ‘decide the fate’ of Mohammed bin Salman, who has ‘pinned his reputation on a clear-cut military victory’, and who is already faced with much discontent from the royal family – exacerbated by the proliferation of, it was said, some 22,000 princes. Other participants argued that the question was not whether the KSA should have gone to war, but whether – as Mohammed bin Salman has said – it waited too long to do so. The Saudis had been, in the words of one participant, ‘caught on the back foot. No one expected the Houthis to take Sana’a as quickly as they did’. In this respect, the intervention had been too late: ‘It would have been more effective to intervene when the Houthis started going south because then the Saudis would have had more leverage to influence a political settlement.’ Moreover, Riyadh should perhaps have sought talks with the Houthis before beginning the bombing campaign and tried to reach a diplomatic solution, especially as the KSA’s international image will be significantly affected by the outcome of the war.

Participants also discussed the extent to which sectarianism was increasing tensions between Iran and Saudi Arabia. It was agreed that both sides had played the sectarian card, but that such an approach was being ‘pushed by society as much as by policy actors’. Sectarian perceptions seem to be on the rise in the GCC, where media are depicting the war in Yemen as a battle against Iran and the Shi’ites. But such a view largely reflects what the majority already believe. Open dialogue and freedom of speech do not in any event thrive in war situations; and for this reason, it was stated, there is an urgent need to ‘better educate the public to broaden the discourse and discussion to change perceptions among both the people and policy-makers’.

Finally, the UK’s role in the Gulf was seen to have shifted towards exercising soft power. One participant described its foreign policy as commerce-led, noting that there are a lot of services exports to the Gulf, as well as remittances from the UAE in particular. The UK has played a significant role in Bahrain since 2011: its construction of a new base in that country points to a re-emerging role for Britain in the Gulf.

**Concluding comments**

There will be significant economic changes in the Gulf countries. Processes are already under way that will lead to a major revision of the role of the state in the economy, irrespective of what happens to the oil price. Rulers and their governments have had diversification plans in place for many years, but political and social concerns combined with high oil prices have often complicated the implementation of those plans. Wealth distribution remains an issue: there are tough choices facing the Gulf states on labour reform, expatriates, empowering the private sector, and realizing policies that will encourage the growth of SMEs and entrepreneurship.
Besides economic reform, there will be a need for the ruling establishments to address the non-economic elements of the social contract. They are likely to pursue a multi-dimensional reinvention of the social contract, which could include elements of participation, representation and consultation, but may also focus on the upholding of national identity, and the provision of security against a range of perceived external and internal threats. Elements of repression and ‘divide and rule’ strategies will also be retained. It was also noted that while an era of scarcer resources could erode the legitimacy of GCC governments, this would not necessarily translate into more democratic outcomes. Indeed, in a post-Arab Spring environment of regional insecurity, the fear of instability, combined with the weakness of any apparent alternatives to the ruling regimes, is one of the main reasons why demands for political change are limited. This sense of there being no alternative may allow governments to feel more comfortable about reducing the economic role of the state. But the economic changes are long-term, and, combined with other factors, are likely to lead to future generations not feeling politically beholden to their governments and ruling families in the way their parents and grandparents might have done.