FROM PRIVATE SECTOR TO NATIONAL BOURGEOISIE: SAUDI ARABIAN BUSINESS

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The literature on the Arab states, and specifically on the state in the oil-producing countries, has insisted on the paramount role that the state plays, and its considerable autonomy with respect to society. This approach is still fundamentally valid: Saudi Arabia remains a rentier state, in which the state enjoys almost total fiscal autonomy, and is able to engage in distributive politics to ensure political support. However, this chapter will argue that the rentier development model followed by the Kingdom has also nurtured and allowed the development of a strong private sector, which has reached a stage where it is by and large itself autonomous from the state, and has turned into a national bourgeoisie. This means that there now exists a dialectic between the state and the national bourgeoisie, whose main object is the size and allocation of investment, and consequently the result in terms of economic growth.

The outcome of this dialectic—i.e. how much is invested, in which activities, how much growth is generated—is politically important. In this sense, the national bourgeoisie has acquired political leverage, and its actions, though normally non-political, end up acquiring political significance.

Definitional Problems: Bourgeoisie, Private Sector, Business Sector, Entrepreneurial Class

The first problem faced in discussing Saudi Arabia's 'private sector' is definitional. The expression 'private sector' currently used in the

Kingdom has a technocratic connotation, and is in tune with the Washington consensus with respect to privatisation and playing down the role of the state. Yet it is not neutral from the point of view of political analysis, and must be treated with caution.

As we engage in political analysis, the obvious primary alternative would be to speak of the bourgeoisie, i.e. the class of owners of capital. The main problem with this is that in several of the Middle East countries the private sector includes significant economic activities that are owned directly or indirectly either by the ruler or King, or by various members of his family. Bourgeoisie is normally understood in contraposition to aristocracy, but in this case the boundary between the two classes is problematic: whether or not a businessman is a member of the royal family, his interests will often be primarily related to his business activities—which arguably would define him as a 'bourgeois'.

Yet the problem lies primarily with considering the ruling families an aristocracy—because they do not share the characteristics of feudal aristocracy, i.e. that of being primarily a landed class. The ruling families of the Gulf may be said to be a (real or pretended) tribal or religious aristocracy, but they are not an aristocracy from the point of view of political economy. In fact, it is tempting to describe most or all of the ruling families as being essentially bourgeois, representing (and in some cases being themselves originally) merchants, nowadays capitalists and financiers. It is therefore not altogether clear why the concept of bourgeoisie has been so rarely used with reference to these states and Saudi Arabia in particular.[1]

[1] Robert Springborg is an exception. In his seminal article 'The Arab Bourgeoisie: A Revisionist Interpretation' (*Arab Studies Quarterly*, 15, 1 [winter 93]) he sets out to re-evaluate the role of the bourgeoisie in the Levant and Egypt before the wave of nationalist, etatist military regimes. Yet the article says very little about the bourgeoisie today: the case in favour of a prominent role of the bourgeoisie in the countries that Springborg has in mind is asserted but not fully made. Moreover, Springborg essentially ignores the Gulf states, which I would argue is where the Arab bourgeoisie is found today. Finally, he includes the landowners as part of the bourgeoisie, while they are probably more correctly considered a tribal aristocracy turned landed class (see Batatu on Iraq: *The Old Social Classes and the Revolutionary Movements of Iraq*, Princeton University Press, 1979, chapter 6), not primarily a merchant or capitalist class. Of course there are exceptions, and some merchants must also have been landowners—although industrialists more rarely so. The Gulf bourgeoisie is not a landed class: it is a merchant class turned industrialists and

In this chapter the term 'private sector' shall be used either in its statistical meaning (e.g. in national accounts), or to mean the initial status of the universe of business people in the Kingdom, which was characterised by dependence on government largesse and lack of political profile.[2] The chapter will argue that this universe has progressively transformed itself into a (cosmopolitan) national bourgeoisie, which is today largely autonomous from the State, increasingly class conscious and ready to play a political role.

A distinction should also be made between 'private sector' and 'corporate' or 'business sector'. In fact, the term 'private sector' is frequently used to mean the corporate or business sector, as it is defined to include economic activities that are corporatised or conducted on purely commercial criteria, yet are not private at all, but are either majority or wholly owned by the government. So, in the national accounts of Saudi Arabia, companies like SABIC or the National Commercial Bank are included in the private sector, although they are in fact controlled by the government. Some fundamental institutions of the business sector, such as the stock market, are therefore in fact dominated by state-owned interests: all the largest companies traded on the Saudi stock market are majority-owned by the government.

Nevertheless, 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. It is thus normally accepted that the telephone services sector has been privatised, in the sense that it used to be a section of the Ministry of Post and Telecommunications, and was first set up as a corporation, which was then partially floated on the stock exchange. Therefore, although the

financiers. In Saudi Arabia some of the major merchant families have benefited from the distribution of agricultural land especially in the Najd—see below.

2 Some of today's leading bourgeois families (Alireza in Hijaz, Qusaibi in the Eastern Province) had a significant political role when they bankrolled King Abd al-Aziz to the tune of hundreds of thousands of pounds before the oil riches kicked in. Muhammad Alireza was one the first commoner ministers (commerce) in the 1950s. Full state dependence most directly applies to the Najdi merchants through all of Saudi Arabia's modern history.

government still owns 70 per cent of the stock, a transformation has taken place. Politically, however, we would not include the managers of the majority state-owned enterprises in the national bourgeoisie.

Finally, the term 'private sector' is ambiguous because it includes genuine entrepreneurs as well as financiers and pure rentiers. The distinction should be clear enough, although at times the same individual/company may simultaneously possess all of these traits.

Entrepreneurs are individuals or companies that initiate the creation and establishment of new activities, be they large or very small, and be they in industry, commerce or services. They can do this independently or in joint venture with established international companies—as long as they are actively involved in the business they deserve to be called entrepreneurs.

Financiers, on the other hand, provide funding for business enterprises, but are not actively involved in the business. They were rare in Saudi Arabia until recently, because most business enterprises had only marginal recourse to outside financing, and business families were closely knit. But in more recent years companies have been established that have sought outside financing, and the original family business groups have witnessed a growing differentiation between managers and owners; in addition, the development of an active and buoyant stock market very much encouraged the emergence of financiers.

Thus the distinction between financiers and active entrepreneurs has until now attracted little interest or analysis, because the two aspects frequently coincided in the same person or, at least, family; but it is bound to become more important as successive generations follow the original founder of the family business, and roles become more diversified. As this process unfolds, the role of financial intermediaries is also likely to become more important than it has been so far, with some significant implications that will be discussed below.

Finally, the pure rentiers are those who cash in on their position as mere citizens or as citizens with variable degrees of *wasta* available to them, to extract revenue from expatriate workers, foreign companies, or more entrepreneurial fellow citizens. Several members of the ruling family would fit into this category, although you do not need to be a prince to carve out a rentier niche for yourself. Sponsors of immigrant labour, for example, may be very small fish: they frequently do not actually employ the worker, but receive an income stream for providing an *iqama* and holding the worker's passport (this of course being illegal, but frequent nevertheless). Conversely, not all business people from within the ruling family conform to the description of the pure rentier—in fact the best known among them certainly deserve to be considered real entrepreneurs and/or world-class financiers.

While the distinction between entrepreneurs, financiers and rentiers has become totally outmoded with reference to the industrial countries—where even hedge fund speculators are praised for their contribution to the proper functioning of markets—it is often referred to in the context of the oil-producing countries. Indeed the Saudi private sector is still often described, even at times within the country, as being peopled essentially by such parasites—but this is a blatant misconception.

Clearly, when we speak of the national bourgeoisie we mean the entrepreneurs. The pure financiers or rentiers may be wealthy, but they are neither economically nor politically part of the national bourgeoisie.

Obstacles to Knowledge

It is difficult to conduct serious empirical research on the private sector in Saudi Arabia—as indeed in most other Arab countries. The primary obstacle is that the process of corporatisation and transformation of the original family business groups into publicly traded companies is just beginning.

It is a common trait of Arab (and Mediterranean) culture that one does not boast about one's fortune.[3] In many parts of the world, openly discussing one's wealth only serves the purpose of attracting the attention of the taxman. Therefore, no privately held business group publishes financial or indeed industrial data that may allow estimating aggregate indicators of the private sector's capabilities and results. This may change with time, but it is to be expected that resistance to stringent disclosure rules will persist. For the time being, the best information is available from state-owned enterprises that are publicly traded on the stock market—but of course, as men-

[3] In this sense business people that are members of the ruling family stand out from the rest, being often atypically ostentatious.

tioned above, whether they should be included in the private sector is quite dubious.

Ownership is also frequently confused by the use of multiple trademarks—i.e. only some of the family business groups identify their activities by using a common name, either the family name or some other business name—or by the use of intermediaries and proxies. The latter is normal practice for royal and some princely interests—although of course not all.

Thus we have only incomplete knowledge of the interrelationship between political and economic power—this being the case, of course, not just in the Gulf countries but also in Jordan, Morocco and, for that matter, Egypt and Tunisia. Rumours abound, but to what extent should we allow such rumours to influence our scientific evaluation?

In addition, economic statistics in general are still highly inadequate in the Gulf countries, including Saudi Arabia. We have no proper and reliable series for industrial production, and investment figures are quite uncertain. Statistical coverage is improving, but the lack of a proper fiscal function—both direct and indirect taxes, corporate and personal—means the kind of consistency checks that help keep economic statistics on track are not possible or reliable in this environment. Therefore, we can not use economic statistics to check aggregations of corporate information either.

Generally business activity is gauged at the moment when a license is requested: we have information about the number of licenses granted, the authorised capital the expected number of workers etc. However, this information is a notoriously inaccurate picture of actual reality. Not only is some of the licensed investment in fact never turned into a working business; more important, with time those businesses that started working and have prospered will increasingly diverge from the parameters in their original license, which will soon become totally irrelevant.

Finally, but certainly no less important, we obviously lack information on Saudi investment abroad. As the argument unfolds here, it will become clear that this is a very significant limitation, because the importance of this investment is at the heart of the analysis.

So, how can we make any progress? There is no alternative to relying on the scant and insufficient information available, and making the best of it. The alternative to this very imperfect approach is to follow Wittgenstein: 'Whereof one cannot speak, thereof one must be silent' (*Tractatus Logicus-Philosophicus*, proposition 7)—and terminate here. Nevertheless, some observations on the private sector shall be put forward, with the hope that fresh research will in future improve our knowledge of this important element in the Middle East puzzle.[4]

Origins of the Private Sector: Representation, Land, Agriculture, Government Procurement

What are the origins of today's business families? Their wealth has largely been made possible thanks to the process of circulation of the oil rent, based on government expenditure. However, it is important to recall that some of today's prominent business families were prominent and active well before oil came to the fore. A number of merchant families, some with important international ties, were established in the Hijaz before the Saudi conquest. Indeed, some of them financed Abd al-Aziz even before the conquest, and welcomed his triumph over the Hashemites.

Historians have discussed the causes of the ascendance of the Al Sa'ud, and have interpreted Wahhabism and Saudi rule as an essentially urban movement aimed at establishing a state and means of control of the nomadic tribes.[5] In this sense Saudi rule has always aimed at protecting the settled population, i.e. primarily the merchants. The pro-business attitude of the Saudi monarchy is therefore deeply ingrained, and is the key difference in terms of political economy between the Saudi and other GCC (Gulf Cooperation Council) regimes on the one hand, and the military-revolutionary regimes of other Arab countries on the other: the latter destroyed or fundamentally weakened their respective national bourgeoisies, while in

[4] In addition to the sources listed, observations are based on close to two decades of direct engagement with, and in-country observation of, a wide spectrum of Saudi economic actors. Nevertheless, the evidence remains anecdotal even if extensive, rather than the truly systematic kind one would ideally need.

[5] See Abdulaziz al-Fahad 'The 'Imama vs. the 'Iqal: Hadari-Bedouin Conflict and the Formation of the Saudi State', *EUI Working Papers*, 11 (2002), Badia Fiesolana: Robert Schuman Centre, European University Institute, 2002.

the Gulf countries the objective always was to nurture a strong domestic private sector (see below).

The mechanisms through which the oil rent, initially accruing to the state, was transformed into private wealth are well understood and documented. It is possible to distinguish essentially five main channels:

(1) Representation of foreign companies;
(2) Land distribution and real estate speculation;
(3) Promotion of extensive agriculture;
(4) Government procurement;
(5) Government support to industry.

To say which was most important is of course impossible, but individual family fortunes are quite clearly linked to either one or the other.

Representation of foreign companies has possibly been the most widespread method. Initially, some of the major import deals were 'assigned' by the King to specific princes or merchants or bureaucrats, in order to reward them for their services and loyalty. However, the law simply stated that foreign enterprises needed a local partner to be in business in the Kingdom, a 'sponsor', not that the sponsor should be appointed by the King. This stipulation opened the door to a 'market for sponsorships', foreign companies looking for the best sponsor, and local business people looking for foreign companies that might succeed in the Kingdom, and whom they might attract and represent. This 'market' was only partially controlled by the state.[6]

The sponsorship business is extremely varied. Some local sponsors or representatives simply sign the required papers once a year or provide formal cover for a fee, and take no interest at all in the business. In a few notable cases, foreign companies have grown frustrated by the ineffectiveness of their local sponsors, and have divorced from original sponsors to seek new ones—although this is generally not at all well regarded.

[6] Strictly a Sponsorship is needed if a company wants to operate on Saudi soil. For exporting to Saudi Arabia a foreign company needs an 'agent'. Both sponsorships and agencies provide opportunities for local 'middlemen' to profit from the business.

But in several other notable cases the local importer has progressively established a significant business in its own merit, especially in areas which require after sale service, such as automotive, domestic appliances, machinery, computers and consumer electronics and so on. The local content of these business enterprises is quite significant: they have absorbed important investment, and accumulated significant managerial and technical know-how. In a growing number of cases they have begun manufacturing locally some components or segments of the product range, if the economic rationale for doing so exists. Thus, while it is certainly true that these companies are not truly independent, there is no reason to belittle their significance and capabilities: they are big businesses in their own right.

Land distribution and real estate speculation are extremely important sources of wealth creation, in a land in which population grows rapidly and the major cities are expanding relentlessly. Originally public land was granted by the ruler either to members of the ruling family (by far the most frequent case) or to individuals having acquired special merits. Whatever the original pattern of distribution, it is increasingly clear that what made the difference was the use that was made of the land. Some of the original owners simply quickly cashed in on their bounty, others have sat on their property without doing much with it (this being the origin of the empty lots of land, including in prime urban areas, that are such a striking feature of some Gulf cities); others, finally, have more or less successfully developed or redeveloped what they received or acquired.

Today real estate speculation is an activity that is no longer primarily dependent on the ruler's largesse, but animated by the initiative and intelligence of a vast number of entrepreneurs who buy and sell, develop or re-develop, rent etc. Thanks to the fact that foreigners are prohibited from owning real estate (a prohibition which only recently has started to be eroded[7]) the business of providing housing for expatriates, or offices for foreign companies, has always been very lucrative; but it also became increasingly competitive, as

[7] The new law regulating Foreign Direct Investment approved in 2000 allows companies investing in the Kingdom to own the land and real estate required for their own activities, including employee residences. See chapter by Malik Niblock in this volume. Individual foreign residents cannot buy property on their own, at least for the time being.

supply outpaced demand. Therefore, in this field as elsewhere, not everybody was equally successful, and success is not purely, and no longer primarily, a function of closeness to the government.

Promotion of extensive agriculture has been an important episode, which, however, has quickly ebbed and lost importance. The combination of subsidies for the digging of wells and the installation of pumps, subsidies for diesel, no charge for fossil water utilised, and subsidised prices for wheat and barley, led to a boom in agricultural production in huge agricultural estates in formerly desert land that was distributed by the state either to members of the ruling family or to others having acquired special merit.[8]

However, this pattern of extensive agriculture has proven unsustainable, and the government has reviewed or eliminated the various subsidies. Sooner or later limitations will be imposed on the use of fossil water, and only those agricultural businesses that will have managed the transition to new crops and more advanced technology will be able to survive. This selection process is presently underway, and may be expected to result in a substantial reduction of the size, and redrawing of the map of the agricultural sector. Of course incumbents resist the change, but they are fighting a losing rearguard battle.

Government procurement deserves special scrutiny as the most direct link between the oil rent and private-sector fortunes. In the early days of the oil boom, up until the mid-1980s, the urge to spend was such, and the government's ability to manage and control its spending so seriously strained, that contracts were easily handed out to 'politically' selected contractors, and allowed for the realisation of excessive profit margins on the part of both the local and the foreign

[8] Such land distribution occurred primarily in the Najdi heartland—which received the vast majority of agricultural funds, to the relative detriment of the country's traditional agricultural areas in the Asir and Tihama in the West, and in the al-Hasa oasis in the East. This is possibly the one aspect for which Chaudhry's interpretation—seeing rent circulation as a tool to favour an emerging Najdi business clientele to the detriment of the longer established Hijazi business families—is more relevant (Kiren Aziz Chaudhry, *The Price of Wealth: Economies and Institutions in the Middle East*, Ithaca, NY: Cornell University Press, 1997). In industry and finance, the Saudi bourgeoisie is national: although individual families obviously originate from somewhere, be it the East, Najd or Hijaz, an insistence on regional origin would be in most cases artificial.

suppliers. Some fundamental political targets were pursued in this period, most notably the rebalancing between the Hijazi and the Najdi business interests, which was achieved to a large extent through the shift of the capital from Jeddah to Riyadh.[9]

However, the situation has very much changed since those times. Funds available for so-called Chapter-4 expenditure have dwindled—as total expenditure has been constrained and a growing share of the budget has been eaten up by recurrent expenditure. Of course obtaining a contract with the government is still considered good business, like in almost all countries; and the various groups compete for this business. Of course proximity to government officials or individuals in power is considered to be an advantage in bidding for government business. And finally, there are certainly occasions in which corruption, i.e. the private interest of government officials, plays a role in determining the selection. Again this is true in almost all governments.

At the same time it is noteworthy that the government and the bureaucracy have reacted with increased vigilance and professionalism in the management of government procurement to the growing challenge of achieving results with limited means. As any contractor will confirm, government contracts currently on offer are not as 'fat' as they used to be. The better managed branches of public administration—especially such atypical or hybrid entities as Saudi Aramco and SABIC—run some very sophisticated and well-reputed procurement systems, based on competitive bidding from approved suppliers. The perception that the bids being offered were too high has led to the cancellation of several tenders—notably in connection with investment projects for which the government did not have sufficient funds and tried the BOT (build-operate-transfer) alternative.[10]

[9] This process has been studied and documented in detail by Chaudhry, *The Price of Wealth*: today one can see clearly that the Hijazi business community, although in a sense it may have been offered fewer opportunities to prosper, nevertheless remains in many respects important in the country.

[10] SABIC and Saudi Aramco are specific institutional islands, exceptions rather than the rule. Elsewhere in the system, procurement has not improved very much. Sometimes cost criteria are indeed adhered to rigidly, to the detriment of quality. Procurement methods are often archaic and prescriptive, with little performance orientation. Yet the example of SABIC or Saudi Aramco is very important.

It seems fair to state that a fundamental transformation has taken place, inasmuch as in the past contracts were allocated to parties that had no relevant know-how, and started acquiring or looking for the required know-how only *after* receiving the contract, while today most contracts are subject to competitive pressures, and although it may not always be the case that the best offer is accepted, at least incompetent bidders will hardly have a chance. This means that individual private sector actors must strive to acquire the knowledge and know-how, either directly or through partnership with foreign enterprises, to be able to successfully bid for government business.

There is little doubt that providing for the government's needs will continue to be an important avenue of business success, and on some occasions a tool for the government to reward key supporters, but the extent to which this is the case has drastically diminished relative to the past. The situation that exists at present is certainly far from the transparent and even playing field that the economic literature advocates. However, one gets the impression that the extent of non-transparency is not really under the control of the political authority, but increasingly used by middle and lower level bureaucracies to benefit other links—regional, kinship or plain friendship.[11] In this respect, the private sector feels freer to object to non-transparent procedures, and the holders of political power may conclude (and in some cases have) that they need to enforce transparency in order to re-establish their control.[12]

Finally *government support to industry* should be mentioned, though it has been of lesser importance in the nurturing and consolidation of the Saudi 'private sector'—not because it has not been generous enough, but because the various benefits available have accrued primarily to majority state-owned companies, such as SABIC. Nevertheless there are numerous smaller, genuinely privately owned industrial enterprises that have benefited of the ability to locate in one of the serviced industrial cities, to receive favourable loans from

[11] See the chapter in this volume by Steffen Hertog.

[12] The assessment of their ability to do so is to some extent subjective. On all major deals, which may attract the personal attention of the top political leadership, transparency will be enforced. Of course, when it comes to the myriad of smaller transactions, there is some merit to the argument by Hertog (this volume) that it may be harder to turn the desire for transparency into reality.

the Saudi Industrial Development Fund (SIDF), to enjoy competitively priced power. As the presence of private enterprises in petrochemicals grows alongside SABIC (see below), the availability of natural gas (methane) and NGLs as feedstock will also become increasingly important. Thus, if historically policies in support of industry have been a relatively minor pillar in the overall strategy of support to the private sector, they are bound to become increasingly important, compensating for the decline of promotion of extensive agriculture and the reduced importance of government procurement.

Not Everybody is Equally Rich: Some Prosper More, Some Less

The growing competitiveness of access to government procurement, the progressive closing down of the agricultural boom, the expansion of cities and growing supply of real estate and urban land, all point in the direction of the decreasing importance of governmental favour, and the growing importance of the managerial skills of the entrepreneur. While in the past it could be concluded that the only important condition for becoming wealthy was proximity to power, as time goes by a process of natural selection amongst those that initially benefited of the government's largesse is set in motion, and fortunes diverge. The more or less accidental origins of a company or family business group are progressively forgotten, and their ability to manage their own affairs and pursue growth becomes more important.

The initial largesse of the rentier state has benefited many whose names are entirely forgotten. Their families and descendants may be personally well off, but they are not active and recognised businessmen in any sense. We tend to notice and know only the very successful ones, who have masterminded the growth of their initial business and branched out into numerous successful parallel ventures. Sheer luck of course also plays a role—i.e. whether you happen to be the representative of a successful foreign product, whose quality and success is to a large extent independent of your efforts. But this is true in many situations in all parts of the world, not just in Saudi Arabia.

To underrate the savvy and business acumen that is required to make the best of the initial opportunity that may have been offered by the process of circulating the rent is a mistake. As time goes by and the business continues to grow, as the founders grow older and

die, as the management of the business becomes increasingly complex, we have some very clear cases of remarkable success; but there are also cases of people simply 'sitting' on their fortune and not making the best of it, and a few cases of mismanagement leading to (relative) demise.[13]

Today's Saudi business leaders certainly continue to value proximity to the government, and would only wish to have a positive relationship with the key power brokers in the royal family; but would not accept that their success is due exclusively to such contacts as they may enjoy.

The attitude has very much changed. Of course, if the government offers opportunities, they are sought after. But all major business groups know perfectly well that their prosperity and growth should depend less and less on the government, and more and more on their being able to serve markets competitively. They in fact complain constantly that the State, in order to defend state monopolies or bureaucratic privilege, is barring them from pursuing business opportunities that they believe would be highly profitable. Although the net balance of advantages and disadvantages that each business group derives from its various contacts with the government and the bureaucracy is likely to be positive in some cases and negative in others, if such a statistic could be compiled (profits realised vs profits foregone because of government regulations and procurement) it would almost certainly show a negative aggregate sign—or so at least the business community firmly believes.

The State as Protector of the Business Sector: From the Origins of the Saudi State to the Present

Nevertheless, the state remains, as it has always been, the protector of the business community—from the origins of the Saudi state itself. The urban origins of the power of the Al Sa'ud are clear, and their constant search for the support of the merchant community and

[13] Kahlid bin Mahfouz remains a very wealthy businessman but he lost control of the National Commercial Bank. The Maghrabi family lost very substantial assets due to infighting after the death of the founder—a case often referred to with respect to the need to corporatise—see below. More generally, there are plenty of unknown faces that simply never came to the fore, though they had their opportunity.

attention to the prosperity of the latter are unequivocal. The Saudi state—different from most other Arab states outside the Gulf, never sought to assert its power by curtailing the influence and wealth of the major merchant families; and did not have to deal with a foreign (non-Arab) bourgeoisie or colonial class as it existed in other Arab countries (where it was ousted after independence). In other words, the Saudi state never engaged in a process of destroying a pre-existing class order in order to open the door to a new one—it simply integrated and remoulded what it found. The business community integrated into its ranks several 'foreign' families or entrepreneurs, which in some cases had established themselves in Saudi Arabia from several decades before the formation of the Saudi state, and in other cases were attracted by the oil boom. Not all of the newer ones were granted citizenship and naturalised, but they were nevertheless allowed to prosper, in some cases accumulating very significant wealth.

The fact that the state progressively expanded its direct role in the economy is not due to the desire of limiting the role of private entrepreneurs, but rather to the wish of supporting the private sector by undertaking those investments, which it was felt the private sector could not undertake. There are some very clear episodes showing this: for example, the state did not nationalise the originally private electricity companies, but underwrote increases in their equity capital so that they could expand their generation capacity in line with demand; in this way it acquired the vast majority of the equity. Furthermore, because electricity was for several years sold below cost to check increases in the cost of living, the private equity holders were guaranteed a minimum return on their equity notwithstanding the fact that the companies may have been operating at a loss. Overall, it was a sweet deal for the original owners.

A reorganisation of the electricity sector has come only recently, with the formation of a national electricity company, SEC, purportedly as the first step towards privatisation of the sector. However, for the time being no second step has followed.

Especially in the 1970s, the Saudi state had to cope with multiple bottlenecks that threatened to choke economic growth and led to severe inflation. Ports, airports, roads, electricity, telephones, cement—everything had to be expanded in a hurry in order to accommodate the wave of investment made possible by the explosion of the oil

rent. In this phase the private sector was inevitably crowded out of many activities which the state undertook directly—frequently facing very high charges for implementation at emergency speed. The private sector benefited as the purveyor and contractor for the extraordinary appetite of the state. Hence the expansion of the state apparatus, far from being a move against the bourgeoisie, really greatly contributed to its enrichment and consolidation.

However, when the tide receded the opportunities for catering to the state decreased, and the private sector has so far found it difficult or unprofitable to enter sectors from which the state had crowded it out. But as subsidies are scaled down, prices are realigned, and excess availability of certain capital goods is reabsorbed, the private sector is again increasingly attracted to those activities that it had engaged in in the past, but had subsequently relinquished. The resistance to this re-privatisation is more bureaucratic than ideological, and does not presuppose a radical change of course for the Saudi regime.[14]

The Wealth of the Private Sector

Thanks to the various mechanisms for rent circulation discussed above, and to the benevolent treatment it has received from political power, the Saudi private sector has engaged in very significant investment abroad. It is hardly necessary to stress that the Saudi economy always enjoyed complete freedom of capital movement—not an indifferent consideration in international comparison. The Saudi business people and financiers have always had, and continue to have, a considerable attachment to their country, and one cannot speak of a 'capital flight' out of Saudi Arabia at any moment in time (occasionally, there have been runs on the Saudi riyal, but these have generally been short-term phenomena). Nevertheless, the size of available profits and the limited availability of investment opportunities at home has led to a natural desire for diversification, which has translated into massive investment in real estate and financial assets abroad; occasionally, specific industrial or service companies

[14] Increasing utility prices to the consumer is not an attractive course of action for the leadership, yet it is done if it is perceived as necessary—this is no different than in any other country. As elsewhere, the calculation changes when it is discovered that privatisation offers an opportunity for disengaging the political leadership from unpopular decisions.

have been acquired by Saudi entrepreneurs, but this has been the exception rather than the rule.

Once again we lack reliable statistical information on the extent of wealth accumulation abroad, and anything better than an educated guess is unlikely ever to be available. In part this is because of the sheer difficulty of estimating the value of all assets that are not publicly traded financial instruments. Nevertheless, we know that Saudi investors have bought prime real estate in the major cities of Europe and the United States (much of it in London), and have greatly benefited from the bull equity market of the 1990s. They may have seen a partial decline in the value of their assets since 2000, but their losses have probably been limited, because they were not seriously caught in the new-economy frenzy.

In this light, the generally convergent estimates that are put forward appear credible. For example, according to Abd al-Rahman Al-Jeraisy, chairman of the Council of Saudi Chambers of Commerce and Industry, 'Saudi investments abroad are estimated at between $800 billion and $1 trillion and most of these funds are concentrated in the United States and Europe.'[15] In 2003 I estimated that Saudi accumulated wealth abroad was probably at least $600 billion.[16] All such estimates probably undervalue real estate holdings, or ignore them altogether.[17]

Even if we assume a margin of error of plus or minus 30 per cent, our qualitative conclusion does not change. On such an asset base, the annual income accruing internationally to Saudi investors must be in the order of $30–35 billion at least. To put this figure in perspective, we may recall that in 2004, which was an extremely good year from the point of view of oil revenue, the Saudi Arabian Monetary Authority increased its total international reserve by $26 billion,

[15] *Arab News*, 10 November 2004.

[16] On the basis of an estimate of GCC assets held internationally put forward by international banking sources: my intervention at the SWP/EUROMESCO workshop 'Looking Ahead: Challenges for Middle East Politics and Research', convened by Volker Perthes in Berlin, 5–7 December 2003 (published as EUROMESCO, paper no. 29).

[17] The Institute of International Finance (IIF) estimates that between the beginning of 2004 and the end of 2005 the total foreign asset holdings of the six Gulf Cooperation Council countries will grow by at least $150 billion (*Arab News*, 23 February 2005). This presumably also includes official reserves.

to reach an accumulated $85 billion. Total government expenditure was about $79 billion. This means that, thanks to the rapid increase in oil revenue, the state has regained ground since 2000, but previously for some years had commanded financial resources smaller than those available to the private sector. In terms of accumulated assets, the private sector still by far surpasses the official government reserve.

Another interesting way to look at financial realities is to recall that in the course of the first eleven months of 2004 the increase in the value of stocks traded on the Saudi stock exchange created a wealth effect of $235 billion.[18] The state, being the largest owner of the stock of Saudi publicly traded companies, has in theory gained almost as much from this capital appreciation as from oil revenue. The private investors have of course also gained very substantially.

When we add all sources of income of the private sector, the returns on their international and domestic financial investment, the appreciation of real estate domestically and internationally, the profits made by the private companies, it becomes abundantly clear that the direct dependence of the Saudi bourgeoisie on the government's largesse is very much reduced. Clearly, if the government were to substantially decrease expenditure, this would precipitate the national economy in a recession, which would hurt the bourgeoisie—but this is a macroeconomic effect entirely different from having access to government contracts. Direct access to government spending, that is, to the primary injection of the oil rent into the national economy, today accounts for a fraction of the total financial resources available to the bourgeoisie.

It would therefore appear that the Saudi bourgeoisie has substantially ceased to be dependent on the state, and is now autonomous. Autonomous does not, of course, mean that it is indifferent, even less hostile—simply that it can survive and prosper independently of direct recourse to the state. The latter is required to maintain law and order, receive the oil rent and judiciously inject it into the economy, but it should not do so by competing with the private sector or shutting it out from profitable opportunities.

At the level of individual entrepreneurs this autonomy means that the state cannot undermine them, although it can selectively withdraw

[18] See the discussion of the stock market below.

favour. Of course it is always preferable to have an excellent relationship with political power; but you no longer need to be waiting at its door to be the first to capture the opportunity of the day.

The Private Sector Commitment to Investing in the Kingdom

The interesting aspect of the Saudi private sector is that, notwithstanding the very substantial accumulation of assets abroad, and the ease with which capital can be exported out of the Kingdom (or possibly because of it), Saudi investors appear to be strongly committed to investing in their country.

This is a very important trait, which distinguishes the Saudi situation from that of other Arab countries outside the GCC (and possibly to some extent some within the GCC as well) and many other oil-producing countries. It is a trait that results from the combination of a lack of complete trust in the level playing field offered by the international investment environment, coupled with a feeling of trust and confidence in the respect of property rights at home. Because of this attachment to investment at home and the development of their own country, the Saudi bourgeoisie deserves to be characterised a national bourgeoisie.

The lack of complete trust in the international investment environment was already present before September 11th and the deterioration in US–Saudi relations. Saudi investors generally shy away from playing the role of entrepreneurs in the major industrial countries. This is the reason why so few have established companies in the United States or in Europe, or acquired substantial stakes in existing companies. Even some of the major corporate investors, such as SABIC or Saudi Aramco, have been extremely cautious in acquiring foreign companies or downstream assets. The implicit or explicit fear is that they will not be allowed to effectively control their investment, because they are not truly acceptable investors to the host country. Of course this feeling is not entirely unwarranted: one only need recall that Kuwait was forced in 1988 to reduce its 21.6 per cent stake in BP to 9.9 per cent, and this by the most economically liberal of all governments, that of Margaret Thatcher.[19]

[19] See: The Monopolies and Mergers Commission, 'The Government of Kuwait and the British Petroleum Company plc.: A Report on the Merger Situation', London: HMSO, October 1988.

Consequently, Saudi entrepreneurs know that in the international arena they will be welcomed as prized clients of banks and real estate agents, as they will always be welcome to pay their registration fee and hotel room to attend the World Economic Forum in Davos, but this will not be enough to be regarded as first-rank players in the global business scene. Their political and business influence is closely tied to them being Saudi and major business players in Saudi Arabia, and Saudi Arabia being the largest exporter of oil in the world.

From this point of view, engaging in profitable investment worldwide is viewed by many Saudi business people (one is tempted to say: by most—but there may be many more who do not very much care and who are invisible to us) as second-best to establishing a prosperous business empire at home. It is their position as entrepreneurs in their home country, and the direct ties with major international companies that frequently come with that position, that determines their rank and influence.

Hence, Saudi entrepreneurs constantly complain that they do not find sufficient investment opportunities at home. The perceived need for the Saudi government to deliver a better economic growth record than has been attained in 1985–2000 is tied on the one hand to the growing number of unemployed youth, but on the other to the dissatisfaction and criticism coming from the business community. The Saudi national bourgeoisie commonly views the state's glacial decision-making process, excessive red tape, and penchant for control as the main obstacle to increased private investment at home and higher growth rates. The success of Dubai and other emirates, which compete with Saudi Arabia and have attracted substantial Saudi investment and business initiatives (the other GCC countries, followed by other Arab countries, being viewed as the second-best solution, after investing in Saudi Arabia itself), is an implicit indictment of Saudi government immobilism[20].

[20] See e.g. 'Riyadh Forum to Probe Flight of Saudi Capital', *Saudi Gazette*, 12 April 2005. 'Why are Saudis taking their capital out of the Kingdom and investing it in the neighbouring Gulf states? This will be one of the topics to be addressed at the Riyadh Economic Forum (REF), said Abdulrahman Al-Jeraisy, Chairman of Riyadh Chamber of Commerce and Industry (RCCI). (...) According to reports, around 4,000 Saudi investors have already left the Kingdom to set up their businesses in other Gulf states, where the investments laws are comparatively attractive. (...) RCCI has reportedly studied 126 obstacles to investing in

It is important to note that unemployment is not necessarily the main driving force behind seeking a higher rate of growth. In a country like Saudi Arabia, where the number of expatriate workers employed is vastly superior to the number of nationals unemployed, the temptation of solving the unemployment problem by 'Saudising' a certain number of expatriate jobs is obviously very strong. Saudi business people always strenuously resisted this solution, because it would increase their costs and reduce their competitiveness. Instead, they argue in favour of higher growth, which, however, is not at all certain to translate into more jobs for unqualified and sometimes unemployable Saudis.

Hence the national bourgeoisie, in its desire to find more numerous investment opportunities and invest relatively more at home, is simultaneously pushing for higher growth rates and for a selective retrenchment of the state, which may again leave to the private sector a long list of investment opportunities which the state occupied when all the money was in its hands and the private sector was weak, and which it has since been reluctant to relinquish.

In fact, the public sector, which was an essential promoter of growth in the 1970s and early 1980s, has today become an obstacle to, rather than a driver of, growth. This is not a necessary outcome: we have the example of other, admittedly smaller, Gulf countries in which the state continues to be the main promoter of growth, continuously creating opportunities for private sector profit. One could not rule out that the same might happen also in Saudi Arabia, and indeed to some extent growth requires a more entrepreneurially-minded state. However, again for the state to promote growth, greater strategic clarity and leadership at the top would be required. In the absence of these, the painfully slow decision-making process translates into long delays in the adoption of measures that are widely recognised as necessary, and growth is inevitably slowed down.[21]

Saudi Arabia and found that at least 14 of them can be done away with in order to motivate Saudis to keep their capital in the Kingdom.'

[21] I believe that the weak leadership resulting from an ageing and ill absolute ruler also facilitates the emergence of other degenerative phenomena such as the segmented clientelism which Steffen Hertog discusses in his chapter in this volume. If strong leadership came to the fore, this pattern could theoretically be reversed; in practice, however, that is not a very likely scenario.

An accelerated growth agenda therefore requires a considerable redistribution of assets and responsibilities from the government to the private sector, although the role of the state in the economy is bound to remain important. The issue is not so much availability of investment funds—although this will remain limited notwithstanding higher oil revenues—as the need to respond more promptly to market signals and competitive opportunities, in an economy, which is diversifying both nationally and regionally.

The national bourgeoisie not only favours a renewed growth agenda, but also knows that it is indispensable to its realisation. It views itself as a not fully utilised asset for national prosperity, stability and regional influence, and claims from the government that it should make better use of its potential. Thus the main expectation concerning the government has shifted: the focus used to be on the distribution of the oil rent—and the pursuit of development was simply a way to justify certain distribution channels; today, wealth accumulated in private hands, the bourgeoisie is conscious of its considerable capabilities, and national development is the prerequisite of its continuing prosperity and regional influence.

The Capabilities of the Bourgeoisie

The Saudi bourgeoisie consists not just of the very large families, each worth several billion dollars, and whose names are easily recognised, but also of a myriad of smaller entrepreneurs, businessmen and women, of considerable weight. The number of families whose net worth is above $100 million certainly runs into several thousand, and smaller entrepreneurs are very numerous indeed. The Saudi bourgeoisie as a class may now be estimated at well over 500,000, or 3–4 per cent of the population at the very least.[22]

By comparison to the average composition of the workforce in either developing or industrialised countries, Saudi society (i.e.

[22] A rough estimate of the numerical importance of the bourgeoisie can be based on the number of members of the Chambers of Commerce and Industry, which is in excess of 100,000 for the Kingdom as a whole (40,000 in Riyadh alone). This must be expanded to include their family members, leading to an estimate of the bourgeoisie as a social class well in excess of 500,000. But many smaller entrepreneurs probably do not bother becoming members of the Chambers of Commerce.

nationals, not including foreign workers) is characterised by the almost total absence of a national blue collar class; by the comparatively small size of the white-collar labour force employed in the private sector; and by the comparatively larger proportion both of those employed by the public sector, and of the self-employed or entrepreneurs; and frequently the two roles are simultaneously found in the same individual (i.e. the government employee also runs a private business).

The major business families, but also the second layer of families whose net worth may be above $100 million but below $1 billion, have frequently developed some remarkable capabilities. They have prospered because of their international contacts and are, comparatively speaking, very cosmopolitan and well equipped for understanding and participating in the globalisation process. These people are frequently very well travelled and have experience of how business is done in Japan and in Europe or the United States. The older generation did not always have an opportunity to acquire an international education, but certainly 'speaks better English' than their average equivalent in continental Europe or Japan. The newer generation frequently is issued from the best American or European schools, and is perfectly at ease in the environment of Global Big Business.

The combination of accumulated 'soft' assets with remarkable financial capabilities creates an environment in which entrepreneurs are constantly scouting for investment opportunities, and use the best consultants and business partners to guarantee the quality of projects they engage in. Indeed, sometimes the insistence on always having the best quality (the best product, the most established producer as partner) may become a bit of a self-limiting factor—but pragmatism is also on display.

The old idea, according to which the business community is composed largely of greedy speculators that will only invest in projects with very quick returns, and will not take any large or long-term risk, has increasingly proven totally unwarranted. Of course any entrepreneur will prefer a high rate of profit and quick return of his invested capital, but this does not necessarily mean they are unwilling or unable to invest in more substantial ventures.

This is shown very clearly by the fact that private companies have recently entered the field of petrochemicals with several large-scale

projects, requiring investment of the order of billion of dollars. The Saudi International Petrochemical Company (SIPC), the National Petrochemical Industrialization Company (NPIC), the Saudi Chevron Phillips Company and the Sahara Petrochemical Company among others, stand for the increasing know-how and capabilities of private investments in downstream chemicals and other value-added products.[23]

In 2004 the Sahara Petrochemical Co. evolved from the former Al-Zamil Petrochemical Co. The aim of the company is 'to invest in industrial projects, especially chemical and petrochemical ones, to produce propylene, polypropylene, ethylene, polyethylene and other petrochemical and hydrocarbon products.' It will also 'own and carry out projects necessary for meeting the company's demand for crude

[23] The following list may be instructive:

- The Saudi International Petrochemical Company (SIPC) has been initiated by the Zamil Group in 1999 as a Saudi joint stock company to produce and market Maleic Anhydride (MAN), Butanediol (BDO) and Methanol through three limited liability companies being established through joint venture agreements with international partners.
- The National Petrochemical Industrialization Company (NPIC) was established by the National Industrialization Co. (NIC) in 2000 as a joint stock company. NIC owns 51 per cent of NPIC, while other private Saudi and Gulf investors hold the remaining shares. NIC is part of the Kingdom Group of Prince Al-Walid bin Talal.
- The Saudi Chevron Phillips Company is owned jointly by Chevron Phillips Chemicals and the Saudi Industrial Investment Group, a consortium of leading Saudi businessmen and several Saudi public joint-stock companies, which is focused on industrial investment in the petrochemical industry in Saudi Arabia.
- The Saudi Formaldehyde Chemical Company Ltd. (SFCCL) began operations in 1991 already and has since developed into a major producer and international supplier of Formaldehyde and derivative products. SFCCL is a private sector enterprise developed and financed by a group of industrialists from the GCC countries.
- In 1986 XENEL Industries Group (family of Alireza) founded the SAFRA Co. Ltd., a producer of aliphatic and aromatic solvents (110,000 t annual capacity) located in Yanbu, being the first privately owned petrochemical plant in the Middle East. XENEL Industries and Alujain Corp. are major shareholders in the National Petrochemical Industrial Co. (NatPet) building the 'TELDENE' polypropylene project in Yanbu with a planned capacity of 420,000 t/year, scheduled to come on stream by late 2006.
- In early 2004 the Gulf Farabi Petrochemicals Co. promoted by the Al-Rajhi Group commissioned the building of a plant to produce n-Paraffin and Linear Alkyl Benzene.

resources and facilities,'[24] and market its products inside and outside the Kingdom. The founders have underwritten 80 per cent of the shares, and the remaining 20 per cent were offered to the public.[25]

In June 2004 the IPO of Sahara Petrochemical Company 'made history in shares flotation when it raised a record amount of over SR37.5 billion (US $10 billion), with its shares oversubscribed 125 times'.[26] In March 2005 NPIC, Sahara and Basell (a joint venture of Basf and Shell Petrochemicals) jointly undertook a project worth $1.6 billion in Jubail.

The outstanding success of the launch of the Sahara Petrochemical Company is significant in many respects. First, it shows how the ability of the private sector to undertake larger projects is enhanced by the transformation of family businesses into corporations, some of which are beginning to be publicly traded. The transformation of an informal family business into proper corporations is encouraged by the difficulty of maintaining a loose and informal structure in the face of the progressive disappearance of the founding fathers of the business, and enlargement of the families. As is natural, it becomes increasingly difficult to maintain the unity of the family in the face of sometimes divergent interests as families grow bigger and bigger. Corporatisation is therefore a tool to prevent possible family squabbles that may have disastrous consequences on the busi-

[24] *Middle East Economic Survey*, 47, 35, 30 August 2004, p. A12.

[25] The first Board of Directors of the company included: Abd al-Aziz al-Zamil (former Minister of Industry) chairman; Abd al-Rahman al-Zamil; a representative of the General Organization for Social Insurance; a representative of the General Establishment for Retirement; Rashid al-Gharir (representative of al-Jazeera Petrochemicals Company); Sultan ibn Khalid ibn Mahfuz; Sa'd al-Za'im (representative of Riyadh Cables); Sa'id al-Aisani; Abd al-Rahman Sa'id; Tariq al-Mutlaq (representative of al-Mutlaq Group); and Fahd al-Zamil (managing director).

[26] *Arab News*, 5 June 2004. The article quoted Abdulaziz al-Dukheil (head of the firm that managed the flotation of shares), who underlined that a 'distinctive feature of the flotation was the transparency in the flotation process, with datewise subscription details available to the shareholders.' At the same time, he pointed out, the overwhelming subscription underlined the acute shortage of investment channels for the huge liquidity in the private sector. 'This phenomenon should engage the attention of the Saudi Arabian General Investment Authority (SAGIA) in opening up the market to investors,' he said. The CCFI chief also underlined the need for curbing the monopoly of some major shareholders.

ness. In other cases it has been a tool for the qualitative transformation of the business, as when the al-Rajhi network of moneychangers was transformed into a proper bank, and more recently a group of smaller moneychangers have been encouraged to merge and form the Al Bilad Bank,[27] whose initial public offering (IPO) was even more successful than Sahara's.

In these and in other cases, the corporatisation and flotation of new or existing business enterprises has allowed the original owner or initiator to realise some very considerable capital gains. This constitutes a very powerful example and precedent for all Saudi business families, and we may expect a rapid process of progressive transformation of the existing businesses, especially in areas in which there is greater potential for expansion, and therefore need for capital strength.

The Ascendance of the Stock Exchange

The transformation of Saudi capitalism has been encouraged by the equity market boom (not just in Saudi Arabia: in other GCC countries and in Egypt as well), and in turn the equity market benefits from the increasing supply of attractive assets.[28]

The extraordinary upturn in the major Arab equity markets is commonly attributed to the desire of regional investors to diversify their portfolio out of the United States, following the 11 September 2001 terrorist attacks. The extent of actual divestment of American

[27] The Al Bilad Bank was formed in November 2004 from the merger of eight money exchange businesses. The owners of the original money exchange companies retained 50 per cent of the capital of the new bank, while the rest was floated in an IPO in March 2005. The eight founders are: Muhammad Abdullah Ibrahim Al-Subaie Company (42%); Al-Muqairen Money Exchange (18%); Al-Rajhi Commercial Foreign Exchange (16%); and Al-Rajhi Trading Est. 14%; Muhammad Saleh Sairafi Est. (5%); Injaz Money Exchange (Yousuf Abdul Wahab Niamatullah Company) 3%; Abdul Mohsen Saleh Al-Amri Est. and Ali Hazza Partners for Trade and Money Exchange, 1 % each. The IPO of Al Bilad was an extraordinary success: a total of 8.3 million subscribers bought shares (i.e. 50 per cent of the Saudi population, including infants), contributing 7.51 billion riyals one day before the closure of the offer.

[28] The pace of IPOs accelerated in 2003–4. It remains well below potential, and the UAE market has been more dynamic in this respect. The recent trend will have to be sustained to make a real difference, but this is likely to be the case.

assets is unclear: some shifting of balances from the United States to British and European markets must have occurred, motivated also by the persistent weakness of the US dollar relative to the Euro. More likely, what has taken place is simply a redirection of additional flows: the previous regular outflow of liquidity from the GCC countries has been reduced or possibly even reversed, and profit is not reinvested in the United States. This would be sufficient to create a run in the Gulf equity markets, whose size is relatively small.

The increase in the price of oil may have contributed to the positive results, creating a climate of optimism, eliminating the government's need to borrow, and finally also increasing government expenditure, which, however, has been much smaller than the increase in revenue. All in all, in 2003 and 2004 all indicators have encouraged the bull run.

The Tadawul All Share Index (TASI) rose by 84.9 per cent in 2004, outperforming the growth of 76.2 per cent recorded in the previous year. The increase continued in the early months of 2005, soliciting mixed comments from analysts.[29] Obviously, if the stock market were to crash, investors' confidence might be seriously undermined and the process of transformation of the Saudi bourgeoisie temporarily stopped.

[29] TASI started 2004 at 4,450 points, only to almost double its value by the end of the year, closing at 8,206 points. It crossed the 10,000 points mark in March 2005. TASI's capitalisation, which was around $140 billion at the beginning of 2004, has also more than doubled to reach $375 billion. Some analysts saw the increase as fully justified, others warned that the price/earnings ratios of major Saudi stocks appeared to be high, and thought a correction inevitable.

It should however be noted that the Saudi companies have been very profitable. The combined net profit of 72 out of 74 listed companies rose by 45.4 per cent in 2004 (the two missing companies are Sahara Petrochemical and Etihad Etisalat, which have not been in existence for the entire year). The strongest performance in 2004 came from Saudi Basic Industries Corp. (SABIC), which declared a record 112 per cent increase in net profit to SR14.2 billion, making it the most profitable petrochemicals firm in the world. According to a Market Review and Outlook report prepared by the National Commercial Bank in April 2005, the combined cash dividend payments alone are estimated to have totalled SR24.78 billion, on a total market capitalisation which touched a new high of SR1.47 trillion in March 2005. NCB's Chief Economist Dr Said Al ash-Shaikh said 'Profitability growth among the Saudi listed companies has been a key reason for the steamy Saudi equity market last year and during the first three months of 2005.' (*Arab News*, 11 April 2005).

However, a virtuous scenario is also possible, in which the rapidly increasing liquidity is absorbed by the flotation of new companies or the progressive sale of existing companies currently owned by the government. Indeed, the current state of the market constitutes a golden opportunity for the acceleration of the process of privatisation, especially with respect to assets that have long been targeted for sale by the Saudi Government. In May 2005 the flotation of the National Commercial Bank, which the Government took over from the Mahfouz family, after Khalid Bin Mahfouz stepped down from the chairmanship in 1999, appeared to be imminent. The major question is whether finally the Government will sell some of the 70 per cent of the stock it owns in SABIC, a move that was announced already in the Fourth Development Plan in the second half of the 1980s but never implemented; or some of the 70 per cent that it owns in the telecommunications company STC, as well as an initial tranche of the electricity company SEC.

Why, notwithstanding these favourable circumstances, is privatisation proving so difficult? The answer points to one of the important fault lines in Saudi society. It is easy to say that the slow pace of privatisation, in the face of an officially proclaimed policy, is due to bureaucratic resistance—but this is not enough. Bureaucratic resistance is substantially reinforced by a current of thought insisting that a few private 'sharks' should not be allowed to benefit from the entrepreneurial capacity of the state, which created such jewel companies as SABIC. The idea is that if these companies are privatised, a few major private sector investors will be able to accumulate large participations, even if in the beginning the flotation is conducted in a transparent and 'democratic' fashion. Furthermore, it has been said (although this argument has probably lost ground in the light of the recent increase in share prices) that SABIC shares were undervalued and should not be sold at such a bargain price. Finally, it has in the past been informally suggested that a flotation would not be conducted in a transparent manner, and, specifically, that some princes might take advantage of the circumstances to achieve substantial capital gains.

In other words, there is a (political/intellectual) current in the country, which we may term vaguely populist, that defends state ownership against what is perceived as the excessive greed of the major business characters, or of some members of the royal family. This is why the transparency and wide participation in some of the recent

IPOs is extremely important to establish the credibility and acceptability of any privatisation process.[30]

More generally, the transparency of other key state-business transactions also is worth noting, and has contributed to establishing a new business climate in the Kingdom. In the early stages of the so-called gas initiatives, international oil companies were invited to visit the Kingdom and present their proposals for involvement in the oil and gas sector. When one after the other did so, the visiting delegations were received by the Crown Prince, who explicitly and directly recommended that they should abstain from seeking allies or partners within the Kingdom.[31] When, after various vicissitudes, three gas exploration and production concessions were granted in early 2004, the Saudi authorities made a point of publishing the bids of all companies, including the losers, to prove that the process had been impeccable. The same procedure was followed in other important cases, notably for the adjudication of the second mobile telephone concession: in the latter case, eleven international consortia entered the field, many including prominent princes among their partners, and six were invited to submit bids. The cynical talk of the town was that one of the princes would necessarily win the concession, but in the end that proved unfounded. The consortium led by the UAE's Etisalat won by a significant margin,[32] and included no member of the royal family.[33]

[30] One should also not forget the IPO of Ettihad Etisalat, the second mobile telecommunications network, which was fifty times oversubscribed; on the first day of trading the company's shares rose five-fold, from 50 to 300 SR; one should also mention the IPO of the National Company for Cooperative Insurance, which had a more moderate impact because of Islamic reticence with respect to the insurance business.

[31] The author was present at one such 'admonition', and was told that the same message had been given to all companies.

[32] The Etisalat Consortium offered SR12.21 billion ($3.25 billion), followed by the consortium including South Africa's MTN, which offered SR11.05 billion ($2.94 billion). Egypt's Orascom (Sawiri family) came third, offering SR9.8 billion ($2.61 billion); the consortium including Kuwait's MTC was fourth, at SR9 billion ($2.4 billion); the Samawat Consortium (Telecom Italia Mobile) was fifth, at SR8.7 billion ($2.32 billion). The consortium in which Prince Al-Walid bin Talal bin Abd al-Aziz partnered Spain's Telefonica Moviles made the lowest bid at SR6.7 billion ($1.78 billion).

[33] Etisalat's Saudi partners in the consortium are the General Organization for Social Insurance (a Government agency), Riyadh Cables Company, Abdul Aziz

In July 2004 the government also moved to improve the governance of the equity market, by establishing the Capital Markets Authority to overlook trading. One thing is very clear: by now the attention and interest that the stock market receives in the country is such that the Saudi state cannot afford to be indifferent to its continued growth and stability. Preserving a healthy equity market has certainly become one of the key testing grounds for the government's performance and legitimacy—just as preserving monetary stability has been for a long time. For two decades the Saudi government has insisted that it wanted to protect the country from a repetition of the Suq al-Manakh crisis (1982), which seriously undermined the credibility of the Kuwaiti state and ruling family. Managing the equity's market boom and piloting a soft landing will be no trivial challenge, but the steps required are clear: offer government-owned equity on the market, encourage corporatisation and IPOs of family enterprises, enforce better transparency and information requirements, widen the ownership base by allowing access to foreign investors (Qatar did so in April 2005). All of these steps are frequently advocated in the press and failure to take them would be reproached to the government if it resulted in a collapse of the market. At the same time taking the required steps for managing a soft landing will radically transform the relationship between the Saudi state and private sector.

The Politics of the Saudi Bourgeoisie

There is little point in trying to identify political convictions of the Saudi business leaders as a class: just as elsewhere, and given that this is a relatively numerous group encompassing very diverse interests and life experiences, there are all sorts of political opinions among Saudi business leaders. A more meaningful question is whether and how businessmen are active in politics; and on which issues they are likely to converge and be motivated by their class interests.

Certainly a majority of the business leaders have no political profile, but the exceptions are interesting. In some rare cases, they take

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Al-Sughayyer (industrial) Group, Al-Rana Investment Company and two groups—Al-Jomaih and Bin Zager—with both industrial and commercial arms.

side on issues of political importance; more frequently they engage in 'political games', i.e. in behaviour that, while not immediately political per se, nevertheless has clear political undertones and symbolism.

Two contrasting cases may be used in illustration. The first is Prince Al-Walid bin Talal, individually the most powerful and visible businessman in the country, and one of the richest men on earth. Al-Walid is in theory in the line of succession to the throne, but in practice his chances of getting there by virtue of simple seniority are very small. He is number five on *Forbes*' list of global billionaires in 2005, with an estimated net worth of $23.7 billion. *Forbes* categorises billionaires according to how they got there, and Al-Walid is listed as 'self made'.

Al-Walid has called his business group 'Kingdom'. He has built the tallest tower in Riyadh, visible from all sides of town, and has called it Kingdom Center (the Arabic may just as well be understood to mean the Center of the Kingdom) from where he conducts his business as the 'CEO of the Kingdom'. In addition to such obvious symbolism, he is constantly in the news with his activities and political meetings. He visits heads of states and governments abroad and receives those that call on him in Riyadh—and the news is announced just as if he were a high government official.[34] He displays royal behaviour, primarily by being generous and giving publicly to several worthy causes.[35] One month after the 9/11 attack he travelled to New York and publicly presented Mayor Rudolph Giuliani with a $10 million donation to a September 11th relief fund. At the same time, in a written statement circulated by his office, he declared: 'At times like this one, we must address some of the issues that led to such a criminal attack. I believe the government of the United States of America should re-examine its policies in the Middle East and

[34] See for instance the report in *Arab News* on 2 January 2004 on his visit to Palestine and Palestinian officials.

[35] *Middle East Intelligence Bulletin*, 4, 9 (September 2002) has a good summary of Al-Walid's charity activities. A more recent example appears in a long article on poverty in Saudi Arabia published in *Saudi Gazette*, 30 January 2005, where it is said: '...Custodian of the Two Holy Mosques King Fahad donated SR50 million at the beginning of a major fundraising campaign. In a separate move, Crown Prince Abdullah also set aside SR200 million for emergency housing for the country's poor. Prince Al-Waleed Bin Talal pledged to donate 10,000 houses over the next decade.' No one else is mentioned.

adopt a more balanced stance toward the Palestinian cause.'[36] In reaction, Giuliani returned the donation. Later, Al-Walid blamed Giuliani's decision on 'Jewish pressures'; although apparently a blunder, the whole episode probably enhanced his political stature in the Kingdom.

He manifested his desire for political recognition when he bid to replace Rafiq Hariri as Prime Minister of Lebanon (he carries a Lebanese as well as a Saudi passport, being half-Lebanese on his mother's side: his grandfather was Lebanon's first post-independence prime minister, Riadh al-Solh).[37] In 2002 Emile Lahoud attempted to play the card of Al-Walid bin Talal to undermine Hariri. The possibility of Al-Walid replacing Hariri continued to be mentioned intermittently until in September 2004 he declared to a group of Lebanese businessmen in the presence of Lahoud that the Lebanese opposition (which was resisting the extension of Lahoud's mandate and advocating international pressure for the withdrawal of the Syrians) 'oversteps the limits' and should be 'brought to heel'.[38] This provoked a wave of criticism from various sources. Following Hariri's assassination, and the turn of events in Lebanon, Al-Walid's bid to take the Prime Minister's job may have been forgotten.

Al-Walid's stance in Lebanon contrasts with the position that he has taken in Saudi Arabia, where he has publicly advocated direct election of the *Majlis* based on universal suffrage.[39] He has also advocated women rights, notably the right to drive; and in a *coup de theatre* in November 2004 he hired the first Saudi woman pilot to fly the private planes of Kingdom Holding.[40] He has attacked the Govern-

[36] *Middle East Intelligence Bulletin*, 4, 9 (September 2002).

[37] See *ibid*.

[38] 'Lebanese Opposition Cries Foul over Saudi Prince's Remarks', *Agence France Presse*, 10 September 2004.

[39] *New York Times*, 28 November 2001. More recently he was quoted as saying the decision to hold municipal elections had put Saudi Arabia in the company of developed countries that have adopted universal suffrage.(...) 'Municipal elections are stepping stones for major elections,' he added, calling on all potential voters to register vote (*Arab News*, 5 December 2004).

[40] *Saudi Gazette*, 24 November 2004: 'In a historic move, Prince Alwaleed Bin Talal announced that he has hired Hanadi Zakariya Hindi, the first female Saudi pilot, to fly the company jets of Riyadh-based Kingdom Holding, the multi-billion-dollar company he chairs. I'd like to see Saudi ladies working in all fields, Alwaleed told the Saudi Gazette (...). Step by step, for sure I'll hire more female

ment's oil policy and the conduct of Oil Minister al-Naimi in unusually harsh terms, accusing him of mismanaging the gas initiative originally launched by Crown Prince Abdullah.[41] He has advocated reform of the education system and has invested in model schools of excellence.

Although he has invested in the National Industrial Company (NIC), which is active in industry including petrochemicals, his business interests are concentrated in banking, in real estate and hotels, in the media and in large-scale retail trade. His assets are abroad as well as in Saudi Arabia: the jewel of the crown is his participation in Citicorp, but his investments are also in Europe and in several Arab countries (Dubai, Kuwait, Lebanon, Syria, Palestine...).

The profile of his investment is not so different from that of many other Saudi business families or individuals (Al-Walid is a business individual, not part of a family), he certainly cannot be considered as representative of the Saudi bourgeoisie. This is so not just because of his flamboyance and very public profile, which no other Saudi bourgeois would imitate, but also because of his ambiguous position as a businessman and member of the royal family. On the one hand his profile is that of a pure businessman, having by all accounts made very little use of his royal lineage to enhance his business success;[42] he is, as *Forbes* says, a self-made man, more so than many other businessmen of his age that have inherited a family business established by their fathers. Yet at the same time he is a royal and behaves like

121

Saudi pilots, he said, hoping that the national carrier, Saudi Arabian Airlines, would follow suit. And about women not being allowed to drive in Saudi Arabia, Alwaleed said: I hope the campaign will begin in the air, women in the air are safe and they will be found safe on the ground as well.'

[41] On 11 November 2003 *Gulf News* reported that Al-Walid had 'launched a virulent attack on the kingdom's oil minister and state-owned Saudi Aramco, accusing them of torpedoing a multi-billion-dollar gas deal and undermining the country's credibility,' and described the cancellation of the $25 billion original Gas Initiative early this year as a farce that would scare off other foreign investors: 'Frankly, it was obstructed by Aramco as it represents the oil bureaucracy in the kingdom...I mean that the oil minister and Aramco have wasted this deal,' damaging 'Saudi industry which is in a bad need of products provided by gas...don't forget the thousands of jobs which could have been provided to our youth.' No similar item was published in the Saudi press.

[42] Not everybody agrees with this assessment: *The Economist* has repeatedly attacked him.

one, meaning that he would never pass as a representative of the bourgeoisie. In this he suffers from the same limitation of other princes that are very distant from the top of the succession line, are good technocrats, yet nevertheless have little chance of being appointed ministers in 'technocratic' ministries—i.e. those other than the *sulta* (political power) ministries—since the rule in the Kingdom is that those are given to non-royals who can be dismissed.[43]

That said, he is an asset for the Saudi bourgeoisie, just like the other less visible businessmen princes, because he guarantees that the ruling family will never turn against business, and there will always be a continuity of interests between the bourgeoisie and political power.

The second example is Dr Abd al-Rahman al-Zamil, a spirited older man who runs the al-Zamil group from an unassuming two-storey building in a formerly fashionable and now much rundown section of Riyadh,[44] in association with his brother Abd al-Aziz, formerly Minister of Industry and Electricity, who as the head of the family normally plays the role of Chairman and stays out of the limelight. Abd al-Rahman is probably the most important industrial entrepreneur in the country, in the sense that his interests are primarily in various branches of manufacturing industry, as opposed to finance or real estate.[45] Abd al-Rahman al-Zamil is also quite out-

[43] This applies less to princes from minor branches of the family (who can be more easily dismissed), but these are unlikely to be given senior ministries in any case. An example of a prince closer to the centre of the family would be Prince Abd al-Aziz bin Salman, the Deputy Minister of Petroleum, who is unlikely ever to become the minister. On the other hand, *sulta* ministries like Interior, Foreign Affairs Defence or Intelligence, do go to princes—who then invariably build a fiefdom of their own. In this sense Saudi Arabia differs from the other GCC states.

[44] The main headquarters of the Zamil group are in Dammam.

[45] In 2004 Zamil Industrial Investment Company (ZIIC) announced a rise in its net profits by 39.7 per cent to SR70.2 mn ($18.7 mn), after Zakat contributions. ZIIC posted a turnover of SR1.96 bn ($523 mn), a 25.6 per cent increase over 2003. The company's exports increased by 62 per cent, reaching SR889 mn ($237 mn) and amounting to 45 per cent of the company's annual turnover. In 2004 the Sahara Petrochemical Company was added to the list of petrochemical companies and joint ventures owned by ZIIC. (*MEES*, 48, 4).

ZIIC was founded in 1998. It employs about 5,000 people in fifty countries. ZIIC exports to more than seventy-five international markets and derives 35 per cent of its revenues from outside Saudi Arabia.

spoken, and, as a member of the *Majlis al-Shura*, frequently expresses his views on a variety of issues. Nevertheless the style is entirely different from that of Al-Walid.

On issues of corporate governance, the Zamil group has pioneered corporatisation, and Dr Abd al-Rahman has made public statements to point to the fact that the old guard in the group has passed the responsibility of day-to-day management to the younger generation. One of the members of the younger generation, Abdullah al-Zamil, has taken up the role of chief operating officer of Zamil Industrial Investment Company (ZIIC). Speaking at the *Leaders in Dubai* conference in November 2004, Abdullah al-Zamil insisted on the need to benchmark corporate governance to international standards.[46]

Dr Abd-al Rahman is Chairman of the Saudi Export Development Center (SEDC) of the Saudi Council of Chambers of Commerce and Industry, a position that recognises the pioneering role of Zamil Industries in promoting non-oil exports. As such he has been arguing in favour of the establishment of a Supreme Commission for Exports Promotion and for other measures for export promotion, but has also blasted Egypt for its trade with Israel and been threatening implementation of the boycott to Egyptian products.[47]

When the Ettihad Etisalat IPO was launched, the al-Zamil group offered loans to its employees to facilitate the purchasing of shares, a clear statement in favour of 'popular capitalism' in the Kingdom.[48]

In a strong speech at the *Symposium on the Long Term Vision for the Saudi Economy* convened by the Ministry of Economy and Planning in November 2002, Dr Abd al-Rahman criticised Saudi Aramco for the delay in developing the Kingdom's gas resources, which was blocking further investment in petrochemicals (including for the projects that later were undertaken by Sahara).

[46] 'A large proportion of Arab businesses are family-owned and many have become formidable forces over the years. In today's global economy it is essential for them to conform to the new ways in which businesses across the world are now expected to operate. This means providing effective leadership to implement the measures necessary to adopt a level of corporate governance that is on a par with international counterparts and in particular, competitors.' Abdullah Al-Zamil became a member of the board of directors of ZIIC in May 2004. He was appointed chief operating officer in January 2004, responsible for Zamil Air Conditioners, Zamil Glass Industries and Corporate Shared Services.

[47] *Arab News*, 7 January 2005.

[48] *Arab News*, 23 October 2004.

More recently he has been expressing himself on more strictly political matters. Thus for example he praised Bashar al-Asad's decision to withdraw from Lebanon.[49] And on the eve of the March 2005 Algiers Arab Summit he expressed the hope that the creation of a pan-Arab Parliament would become a reality.[50] At the same time he has opposed an enhanced role for women in business, attracting criticism from male and female businesspeople.[51]

There are several other cases of members of the bourgeoisie expressing themselves in politically significant ways, which space does not permit to be listed here. But at least the case of Lubna Ulayan must be mentioned, who has been the CEO of the Ulayan group for several years, but initially took a very low profile, so that the wider public was not necessarily aware of the fact that the Ulayan group had a woman as top executive. Lately, however, she has very much been in the news, especially since she took the podium at the Jeddah Economic Forum in January 2004, unleashing a storm of major proportions and attracting the virulent condemnations of the conservative *ulama*. Yet political intent need not be so blatant to be evident. For example, the implicit political message of Al-Walid investing in Citicorp is clearly quite different from that of Salah Kamel or Abdullah and Muhammad al Faisal establishing, respectively, the Dallah al Baraka Islamic Bank and the Faisal Islamic Bank (both *outside* Saudi Arabia because they never received a license to operate inside), or of al-Rajhi promoting Islamic banking within the Kingdom.

The bourgeoisie is not a political party, and there exists no political formation that can be said to be its 'class expression'. Yet the major Chambers of Commerce and Industry (in Riyadh, Jeddah and Dhahran) have large memberships and run democratic, hotly contested elections to appoint their respective leaderships. Chambers of

[49] *Saudi Gazette*, 7 March 2005.

[50] 'What is now required [for the Arabs] is confidence-building measures by being frank and honest and by genuinely discussing the root causes of their problems, Zamil said. He appealed for a comprehensive and practical mechanism on Arab reforms to be included in the final communiqué. We should concentrate on how much our [Arab] nation can benefit, he said, doubting the possibility of consensus on political issues because of the external pressures on the summit. We should concentrate on the requirements of the Ummah.' *Saudi Gazette*, March 22 2005.

[51] *Gulf News*, 22 April 2005.

Commerce are service structures, and will not take openly political positions; nevertheless both the Jeddah and the Riyadh chambers organise Economic Forums that are opportunities for wider-ranging and non-technical statements by Saudis as well as carefully selected non-Saudi speakers. Leaders of the Chambers are co-opted in more political positions: for example, Amr Dabbagh, who was the organiser of the Jeddah Economic Forum, was appointed to head the Saudi General Investment Authority (SAGIA) in 2004; and Adel Faqeeh, Chairman of the Jeddah Chamber of Commerce and Managing Director of Savola, was appointed to the delicate position of Mayor of Jeddah briefly before the first partial municipal elections took place in the city in 2005.[52]

In the partial municipal elections several businessmen were candidates,[53] but none had great success. This points to the fact that the bourgeoisie may experiment with democratic ways in the Chambers of Commerce, and promote the democratisation of the Saudi state, but is very unlikely to win the elections.

Conclusions: Reform and the Bourgeoisie

A silent transformation has taken place in Saudi Arabia in the long aftermath of the first oil boom (1973–82). While the state was retrenching in order to survive the long slump in oil prices and production, and the considerable regional political and military turmoil, the private sector dependent on the government's largesse has mutated into a national bourgeoisie whose financial assets outstrip those of the government, whose capabilities are remarkable by international standards, and whose class consciousness (expressed primarily in the contraposition with the bureaucracy and the latter's instinct for imposing all sorts of controls) and assertiveness is clearly increasing. There is no opposition between, on the one hand, the state and ruling family—whose power is based on access to an oil rent that remains very large and has been growing again—and, on the other, the bourgeoisie. The two are very closely intertwined in a variety of

[52] *Arab News*, 7 March 2005.

[53] In Riyadh several real estate entrepreneurs (or speculators, depending on the viewpoint) ran some very visible and equally unsuccessful campaigns; in Jeddah the candidates included members of prominent business families, such as Batterjee and Jamjoum: they too did not get elected.

ways, and tied in a continuum of interests; yet they are distinct and engaged in a dialectical relationship. The state must take into account other corporates[54] in the Saudi society, and sometimes resists the demands of the bourgeoisie; nevertheless the bourgeoisie is needed to deliver economic diversification, growth and quality jobs, all of which are essential to the legitimacy of the system.

Democracy may or may not be a priority for the bourgeoisie. One suspects that as long as the system delivers what the bourgeoisie needs on the basis of a system of *shura*, the issue of democracy will continue to be pursued in slow motion. Well-known entrepreneurs have been candidates in the recent partial municipal elections, with very uneven success, showing that the bourgeoisie does not enjoy automatic popular support. However, the situation might change if the bourgeoisie saw its interests seriously threatened—for example by a mismanagement of the financial markets, or a break-up of the GCC, or repeated episodes of opaque management of state-business relations. But fundamentally the bourgeoisie is patient: to the extent that it will not get what it wants from the Saudi system, it will get it from neighbouring countries: the game of competition in governance is very clearly on. The bourgeoisie remains attached to, not trapped in Saudi Arabia.

On other issues, one can only speculate. The Saudi bourgeoisie has extensive investment in the United States, so it will probably favour maintaining good relations notwithstanding the hostility it might have towards specific US policies, notably towards Israel. The bourgeoisie also has extensive investment in the other GCC and Arab countries, so it is keen on closer integration, firstly within the GCC then in the pan-Arab dimension. It is obviously keen on privatisations, and fundamentally also on trade liberalisation, although on the latter point attitudes are more nuanced.

On issues like the role of Islam in politics and the economy, attitudes are more likely to be divided. It is interesting to note that, to the extent that certain traditional ways of political expression, such as notably charity giving, are becoming more difficult in the aftermath of 9/11, the bourgeoisie may feel the incentive for more open and direct political expression.

[54] See Steffen Hertog, 'Building the Body Politic: Emerging Corporatism in Saudi Arabia' in Abdelhadi Khalaf and Giacomo Luciani (eds.), *Constitutional Reform and Political Participation in the Gulf*, Dubai: Gulf Research Center, 2006.