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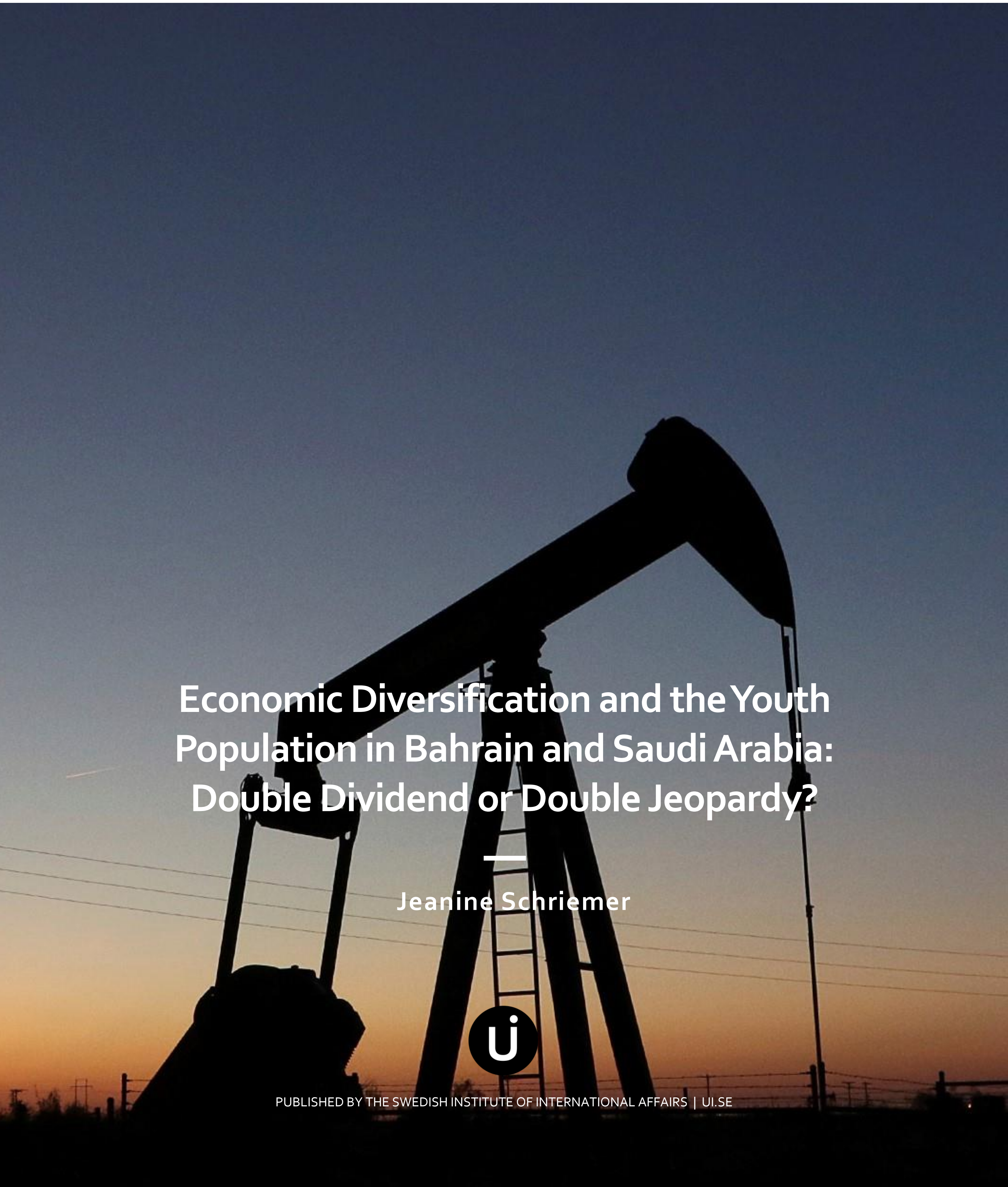

Economic Diversification and the Youth Population in Bahrain and Saudi Arabia: Double Dividend or Double Jeopardy?

Jeanine Schriemer

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brief

Jeanine Schriemer
Analyst at the Middle East and North Africa Programme at the Swedish Institute of International Affairs, UI.

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Language editing: Andrew Mash
Cover photo: TT NYHETSBYRÅN

Introduction

The six Gulf Cooperation Council (GCC) member states– Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates – have experienced rapid development and accumulated extensive amounts of wealth due to the discovery of oil. These states and their economies are therefore organized in relation to this oil wealth. Moreover, the social contracts in these monarchies allow their governments to undertake direct money transfers in exchange for political compliance, thereby enabling them to minimize and suppress societal discontent.[1]

Oil is not an infinite resource, however, and none of the GCC states can rely on oil as a sole source of income in the future. In addition, the volatility of the oil price and the economic effects of the COVID-19 pandemic have made it clear that, from an economic perspective, diversification away from oil is inevitable.[2] A growing youth population and soaring youth unemployment across the region mean that some GCC states will also face demographic challenges.

The economic transition among the GCC states should not be understood as merely reducing their reliance on oil. It is also about increasing labour productivity, reducing reliance on public sector jobs and expanding the private sector, the ending of subsidies and the introduction of new taxes.[3] Any economic transition on this scale would be inherently complex, but these are further complicated by the fact that institutions and social contracts are predicated on an oil revenue stream. This has entailed the provision of public sector jobs, food and fuel subsidies, and housing – practices that would probably not be sustainable in a more diverse economy.

A further complicating factor is the high proportion of young people in the population in the GCC states. This section of the population expects existing living standards to be maintained, but economic diversification will be essential in order to avoid the future socio-economic exclusion of young people.

Considering how oil has shaped the social contract between the state and its citizens, how will the transition to a more diverse economy affect state-society relations? In order to shed light on the main drivers of and obstacles to transition, this brief explores the economic transitions of two monarchies facing urgent pressure to reform – Saudi Arabia and Bahrain. The large youth population is of particular relevance and also the focus of this brief. It first explores the main reasons for diversification and provides an overview of the social contract and current trends in the economic transition in the two GCC member states. It then discuss youth and

[1] For a discussion, see Jessie Moritz, "Reformers and the Rentier State: Re-Evaluating the Co-optation Mechanism in Rentier State Theory," *Journal of Arabian Studies*, vol. 8, no. 1 (2018): 46–64.
[2] See Tim Callen, Reda Cherif, Fuad Hasanov, Amgad Hegazy, and Padamja Khandelwal, "Economic Diversification in the GCC: Past, Present, and Future," International Monetary Fund, December 2014: 1–32.
[3] Ibid.

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state-society relations in relation to economic diversification.

The need for urgent reform in Bahrain and Saudi Arabia

While it is often thought that the six GCC member states have considerable similarities, the GCC countries should not be viewed as homogenous, especially in their economic transitions away from oil. Even though all six monarchies must diversify their economies, each has a very different socio-economic reason for doing so. To illustrate the urgency of economic reform in Saudi Arabia and Bahrain, it is useful to reflect on these socio-economic differences across the GCC.

The GCC economies can be described as largely dependent on oil, meaning that all activities, revenues and exports are essentially related, and dependent on the production of oil.[4] Table 1 shows that fuel exports – of natural gas and oil – make up the majority of exports across the six GCC monarchies. In Bahrain and Saudi Arabia, fuel exports account for 53 percent and 77 percent of total exports, respectively. Saudi Arabia and Bahrain are not among the GCC member states most reliant on oil, but the two monarchies are less diversified than the UAE. The UAE is widely considered to be the most diversified monarchy in the GCC, although differences exist between the individual emirates.[5] While Abu Dhabi has most of the oil wealth, Dubai is a commercial and tourist destination experiencing strong economic growth and therefore leading the UAE's diversification efforts.[6] Thus, export data alone do not provide a complete picture of why Bahrain and Saudi Arabia need to reform their economies.

The monarchies will not be able to rely on high oil prices in the future. Figure 1 shows the crude oil price in US dollars per barrel. This figure has significant repercussions for all the Gulf economies. Oil markets continue to struggle following the recent oil price dispute between Russia and Saudi Arabia and the economic effects of the COVID-19 pandemic, and the oil price is expected to remain low, even during any economic resurgence that follows a post-pandemic recovery.[7] Based on the consensus that oil prices are likely to be unpredictable in the future, GCC governments will need to adapt their fiscal policies to "lower for longer" oil price expectations.[8]

It is also important to reflect on long-term trends, as the oil market is changing. There is an increased availability of oil linked to new technologies and suppliers, and a general movement away from oil due to concerns about climate change. Simply put, there will be greater higher supply but less

[4] International Monetary Fund, "Economic Diversification in Oil-Exporting Arab Countries," April 2016: 7.
[5] Samantha Gross and Adel Abdel Ghafar, "The shifting energy landscape and the Gulf economies' diversification challenge," Foreign Policy at Brookings (2019): 10.
[6] Ibid.
[7] Will Kennedy, "How the Pandemic is Changing the Outlook for Peak Oil," Bloomberg. Last modified July 3, 2020, https://www.bloomberg.com/news/articles/2020-07-03/how-the-pandemic-is-changing-the-outlook-for-peak-oil-quicktake
[8] Ibid.

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demand.[9] Given that the economies of Saudi Arabia and Bahrain are largely based on the export of oil (see Table), this fundamental change will cause wide-ranging problems in the long term in the absence of diversification. Organizations such as the International Monetary Fund (IMF), BP, the International Energy Agency (IEA) and the Organization of the Petroleum Exporting Countries (OPEC) all predict that the demand for oil will peak around 2040.[10] This peak could come earlier if stricter environmental policies are enacted worldwide.

[9] International Monetary Fund, "The Future of Oil and Fiscal Sustainability in the GCC Region," Middle East and Central Asia Department & Research Department, 2020: 7.
[10] Ibid, 10-13.

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Table 1: Socio-economic data for the GCC

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Fuel exports as % of merchandise exports[11]	53.4	90.9	75.2	93.8	77.3	74.8
Oil reserves in thousand barrels per capita[12]	0.18	72.34	2.16	82.24	12.82	90.15
Sovereign wealth US dollars (thousand) per capita[13]	15.65	421.92	9.58	1 042.86	42.13	1 084.99
Population (millions)[14]	1.57	4.14	4.83	2.78	33.70	9.63
Youth population (in millions)[15]	0.19	0.53	0.60	0.32	4.89	0.45
Youth population as percentage of national population[16]	17.8	19	17.4	18.7	18.6	19.8
Unemployment rate (% of total labor force)[17]	1.2	2.2	1.8	0.1	6.0	2.5
Youth unemployment rate (% of total labor force ages 15–24)[18]	5.3	15.4	13.7	0.4	28.9	7.2

Source Table 1: Samantha Gross and Adel Abdel Ghafar, "The shifting energy landscape and the Gulf economies' diversification challenge" Foreign Policy at Brookings (2019): 5–6; the World Bank, and Gulf Labor Markets and Migration.

[11] Data from the World Bank, "fuel exports (% of merchandise exports)", https://data.worldbank.org/indicator/TX.VAL.FUEL.ZS.UN: Data are the most recent available for each country: 2018 for Bahrain, Kuwait, Oman, Qatar and the UAE, and 2016 for Saudi Arabia.

[12] Data are from 2017 for all countries, see Samantha Gross and Adel Abdel Ghafar, "The shifting energy landscape and the Gulf economies' diversification challenge" Foreign Policy at Brookings (2019): 5

[13] Data are from 2017 for all countries, see Samantha Gross and Adel Abdel Ghafar, "The shifting energy landscape and the Gulf economies' diversification challenge" Foreign Policy at Brookings (2019): 6.

[14] Data from the World Bank, "population, total", https://data.worldbank.org/indicator/SP.POP.TOTL: Data are from 2018 for all countries.

[15] Calculated with data from Gulf Labour Markets and Migration, data from search "population by age group," https://gulfmigration.org/glmm-database/demographic-and-economic-module/: Data are the most recent available for each country: 2015 for Qatar and the UAE; 2017 for Bahrain and Kuwait; and 2018 for Oman and Saudi Arabia.

[16] *Ibid.*

[17] Data from the World Bank, "Unemployment, total (% of total labor force) (national estimate)", https://data.worldbank.org/indicator/SL.UEM.TOTL.NE.ZS?end=2012&start=2007: Data are the most recent available for each country: 2012 for Bahrain, 2016 for Kuwait, 2017 for the UAE and 2018 for Saudi Arabia, Qatar and Oman.

[18] Data from the World Bank, "Unemployment, youth total (% of total labor force ages 15-24) (national estimate)", https://data.worldbank.org/indicator/SL.UEM.1524.NE.ZS: Data are the most recent available for each country: 2012 for Bahrain, 2016 for Kuwait and Oman, 2018 for Qatar and Saudi Arabia, and 2019 for the UAE.

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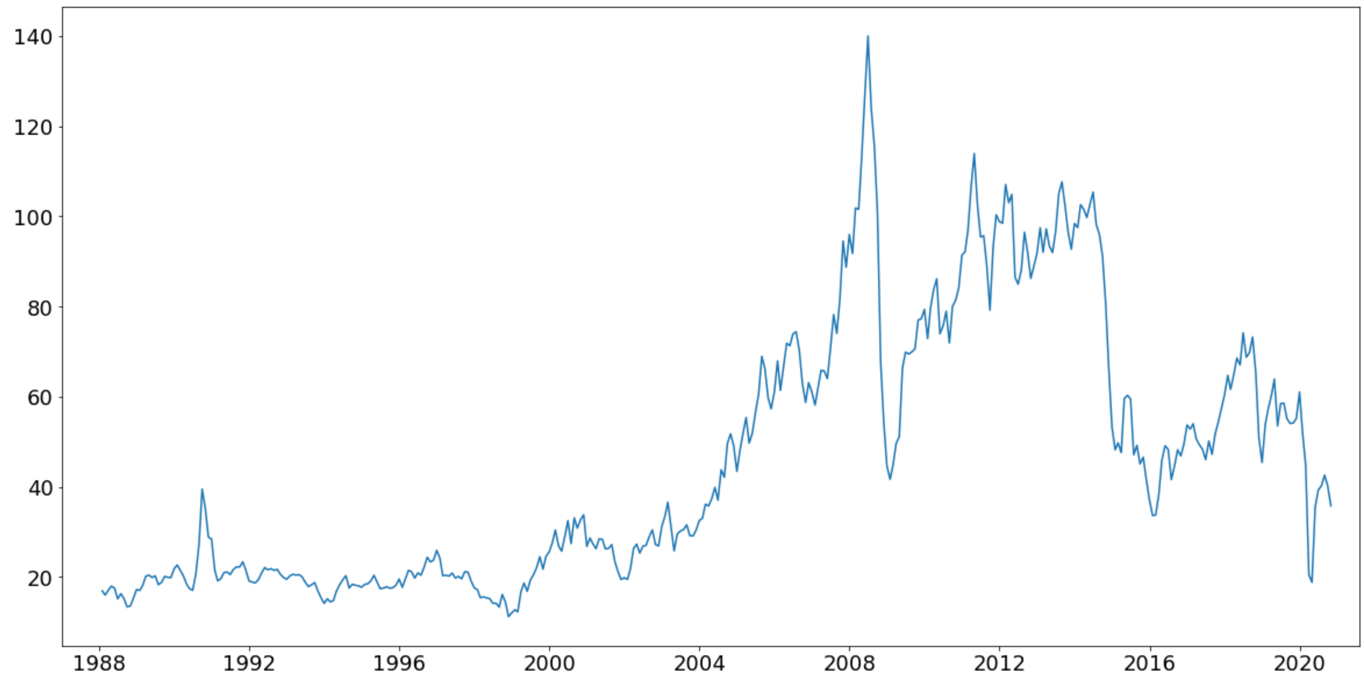
Figure 1: Crude oil price in US dollars per barrel



Source Figure 1: Calculated using data from Investing.com, Trading Economics and Yahoo Finance.

Table 1 shows that the oil reserves of Saudi Arabia and Bahrain place them in a less favourable position than most GCC countries. Bahrain is clearly in the most dire situation, especially compared to Qatar and the UAE. Bahrain's fuel exports as a proportion of its total exports are the lowest of the GCC but they do not have the ability to expand or even maintain fuel exports, as their oil reserves are running out fast. Put simply, Saudi Arabia and Bahrain will run out of oil faster than Kuwait, Qatar and the UAE.

At the same time, the sovereign wealth per capita of Bahrain and Saudi Arabia stand in stark contrast to that of Qatar and the UAE, which both have levels of sovereign wealth of more than US$ 1 million per capita. With sovereign wealth of around US$ 15,000 and US$ 42,000 per capita, respectively, Bahrain and Saudi Arabia are not in a position to fund their economies in the same way as they have been doing in recent decades without avoiding future budget deficits. In addition, continuing demand for natural gas gives countries with natural gas reserves such as Qatar and Oman – where the export of natural gas accounts for 75 percent and

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25 percent of their hydrocarbon revenues, respectively – a general advantage.[19]

Hence, a non-oil economy needs to be established in Bahrain and Saudi Arabia due not only to the short-term volatility of oil prices, but also to the long-term challenges linked to fundamental changes in the oil market, the state of their oil reserves and their levels of sovereign wealth. That said, the need for economic diversification is not solely based on economic factors related to the oil market. There are vast differences in the population structures of the GCC member states. While Bahrain has the smallest population, of 1.6 million, Saudi Arabia far outstrips all the other monarchies with a population of more than 33 million. All the GCC states have growing youth populations – defined by the United Nations as those aged between 15 and 24.[20] Saudi Arabia faces soaring levels of youth unemployment. An unemployment rate of 6 percent and a youth unemployment rate of close to 29 percent mean that Saudi Arabia faces the most pressing challenges of all the GCC states in this regard.

Thus, Saudi Arabia and Bahrain face more urgent pressures to reduce their reliance on oil, albeit for different reasons. While Saudi Arabia has the largest oil reserves in the region, its per capita oil reserves and level of sovereign wealth are lower than Kuwait, Qatar and the UAE, not least due to its large population. In addition, its youth unemployment rate – already the highest in the GCC – will worsen in future unless the country is able to provide meaningful employment, as a quarter of the population is under the age of 15.[21] However, reform is even more urgent in Bahrain as it is in the weakest fiscal position. Bahrain has the lowest per capital oil reserves and level of sovereign wealth in the GCC.[22]

The social contract in Bahrain and Saudi Arabia

For Bahrain and Saudi Arabia, reducing their reliance on oil will be both essential and unavoidable for the reasons mentioned above. In order to fully understand the current obstacles to and potential problems of such a transition, it is necessary to look at how the functioning of their oil-reliant economies has shaped state-society relations, especially in relation to the youth population.

State-society relations and social contracts are generally directly related to the duties and responsibilities that state and society have to each other.[23] Social contracts in the region can therefore be defined as "sets of formal and informal agreements between societal groups and their sovereign on rights and obligations toward each other".[24] Social contracts are not necessarily enshrined in

[19] International Monetary Fund, "The Future of Oil and Fiscal Sustainability in the GCC Region," 20.
[20] Mona Almunajjed and Karim Sabbagh, "Youth in GCC Countries: Meeting the Challenge," Booz & Company, 2011: 4.
[21] Gross and Ghafar, "The shifting energy landscape and the Gulf economies' diversification challenge," 10-11.
[22] Ibid., 12.
[23] Dylan O'Driscoll, Amal Bourhrous, Meray Maddah, and Shivan Fazil, "Protest and state-society relations in the Middle East and North Africa," SIPRI policy paper 56, October 2020: 1.
[24] Markus Loewe, Tina Zintl, and Annabelle Houdret, "The social contract as a tool of analysis: Introduction to the special issue on "Framing the evolution of new social contracts in Middle Eastern and North African countries," *World Development* (May 2020): 1.

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law or a constitution, and differ depending on the form of government. Thus, a social contract in an absolute monarchy will be shaped differently to a social contract in a republic or a constitutional monarchy. In the context of the GCC, Rentier State Theory (RTS) is often used as a lens through which to view state-society relations. RST stipulates that state-society relations in the absolute monarchies of the GCC – Saudi Arabia and Bahrain – are based on a rentier social contract in which governments distribute a proportion of oil revenues directly to their subjects as a socio-economic "gift".[25] In return, the theory states that absolute monarchies expect their subjects not to demand political rights, such as political representation and the right to protest.[26]

It is worth noting that both Saudi Arabia and Bahrain expanded government spending during the 2011 Arab Uprisings. During this period, civil protests spread across the region as citizens became dissatisfied with the social contracts in their states and demanded change. Based on their knowledge of previously established social contracts, both monarchies viewed an increase in social spending as a possible solution to prevent societal unrest from spreading to their countries.[27] This social spending included direct one-off payments to families, inflation allowances and an expansion of public sector jobs.[28] This illustrates that both states felt threatened by the potential for civil unrest, but were confident enough in high oil prices to act to prevent such an occurrence within their borders.[29] Even so, Bahrain was unable to avoid social unrest and was the only GCC member to face mass protests during the Arab Spring uprisings. During these protests, Bahraini citizens demanded political reform and an end to discrimination by the Sunni monarchy against the majority Shia population. Eventually, the GCC came to the rescue with an aid package to fund socio-economic policies. Protests in both Bahrain and Saudi Arabia have been highly suppressed ever since.[30] It is therefore important to note that the absence of protests cannot solely be explained by rentier social contracts. There must also be an acknowledgement that any opposition will be dealt with harshly.[31]

Under these rentier social contracts, the state is the dominant force in the economy and society. In general, a proportion of the oil wealth is usually distributed directly through money transfers to citizens and the provision of public sector jobs, and indirectly through investment in infrastructure and property, and the provision of education and healthcare.[32] Subsidies are also common, and the prices of fuel and electricity in the GCC are among the lowest in the world.[33] The public sector remains central to the economies of Saudi Arabia and Bahrain. Among the population, public sector jobs are generally seen as

25 Ibid.
26 Gross and Ghafar, "The shifting energy landscape and the Gulf economies' diversification challenge," 2.
27 Justin Gengler and Laurent A. Lambert, "Renegotiating the Ruling Bargain: Selling Fiscal Reform in the GCC," *Middle East Journal* 70, no. 2 (Spring 2016): 327.
28 Ibid.
29 Ibid.
30 O'Driscoll et al., "Protest and state-society relations in the Middle East and North Africa," 38-39.
31 Ibid., 45.
32 Callen et al., "Economic Diversification in the GCC: Past, Present, and Future," 6.
33 Gross and Ghafar, "The shifting energy landscape and the Gulf economies' diversification challenge," 3.

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more attractive than those in the private sector, as they offer higher wages, shorter working hours and better job security. Oil revenues have been used to finance an oversized public sector.[34] Subsidies and the prevalence of public sector jobs in both Bahrain and Saudi Arabia have created a society where the population is heavily dependent on the government.[35] As a direct result of the dominance of the public sector, the private sector is relatively underdeveloped: firms are largely state-owned and function in public-facing services. Attempts by the state to encourage private sector employment have not been successful, as working in the private sector is often resisted by nationals and private sector employers are reluctant to hire them.[36] Foreign labour is generally used in the private sector. According to the International Labour Organization, Saudi Arabia has the third largest migrant population in the world.[37] Foreign nationals also account for the majority of the population in Bahrain.[38]

As noted above, there has been rapid growth in the national, younger population in Bahrain and particularly Saudi Arabia. This "youth bulge" has put significant pressure on both economies, linked to the oil-dependent policies created over generations. The younger generation is largely reliant on public sector jobs, due to the above-mentioned sentiments, and a university education does not generally prepare them for those private sector jobs that are not taken by migrant labour. However, both governments are struggling to maintain their public sector job offering. The result is substantial youth unemployment, which is most visible in Saudi Arabia where, at close to 29 percent, youth unemployment is around five times the general unemployment rate. Even though youth unemployment in Bahrain is much lower, at 5.3 percent, the rate is still around four times the general unemployment rate.

As a result, the youth bulge will be either "double dividend or double jeopardy" for Saudi Arabia and Bahrain.[39] On the one hand, the youth bulge presents significant opportunities for the development of human capital, which could in turn foster economic growth. Failing to engage with this human capital, however, will lead to double jeopardy, in that "the economic and social exclusion of youth"[40] has the potential to "dampen growth and create social strife."[41] Without diversification, the economies of Saudi Arabia and Bahrain will not be able to sustain the youth's demand for public sector jobs. This could be problematic as increasing levels of youth unemployment are clearly linked to levels of

34 Ibid.
35 Luay M. Assidmi, and Erin Wolgamuth, "Uncovering the Dynamics of the Saudi Youth Unemployment Crisis," *Syst Pract Action Res* 30 (2017): 173.
36 Assidmi and Wolgamuth, "Uncovering the Dynamics of the Saudi Youth Unemployment Crisis," 173.
37 International Labour Organization, "Labour Migration," accessed November 2, 2020, https://www.ilo.org/beirut/areasofwork/labour-migration/lang--en/index.htm
38 Ibid.
39 Navtej Dhillon, "Middle East Youth Bulge: Challenge or Opportunity?" Brookings. Last modified May 22, 2008, https://www.brookings.edu/on-the-record/middle-east-youth-bulge-challenge-or-opportunity/
40 Ibid.
41 Ibid.

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dissatisfaction and civil unrest.[42] Indeed, a 2020 Stockholm International Peace Research Institute report found that protests across the Middle East and North Africa both during and after the uprisings were clearly driven by high unemployment, poor public services and high levels of corruption.[43]

Embarking on economic reform and changing fiscal policies, which would include expanding the private sector, reducing reliance on public sector jobs, diversifying exports, increasing labour productivity, reducing subsidies and increasing taxes, would put the existing social contract under significant pressure. Socio-economic rewards would no longer be guaranteed. This makes reform significantly more challenging, as it will require a recalibration of state-society relations in relation to the youth population. Finally, following the principle of "no taxation without representation", a fundamental question in relation to economic transition and the youth population in Bahrain and Saudi Arabia would be whether it will significantly reduce the economic benefits on offer, thereby causing the youth population to demand more political rights.[44]

Trends in the economic transition

Both Bahrain and Saudi Arabia have recognized the need to reduce their reliance on oil and engaged in diversification efforts. These efforts were accelerated following the fall in oil prices in 2014, but have been complicated by the financial repercussions of the COVID-19 pandemic.[45]

Reducing reliance on oil will require wide-ranging changes to the economy. According to the IMF, Bahrain and Saudi Arabia should focus on (a) encouraging nationals to seek private sector employment, thereby reducing reliance on public sector jobs; (b) reducing unemployment, and youth unemployment in particular; (c) growing the private sector; (d) reforming education so that it meets private sector preferences; and (e) export diversification.[46] Both Bahrain and Saudi Arabia have published plans on how they will implement these changes. At first glance, Bahrain's and Saudi Arabia's visions for 2030 are congruent with the proposed reforms laid out by the IMF. Saudi Arabia aims to increase women's participation in the workforce, reduce unemployment, increase the role of the private sector – including through the privatization of state assets, increase

[42] See O'Driscoll et al., "Protest and state-society relations in the Middle East and North Africa," and Karen E. Young, "The difficult promise of economic reform in the Gulf," James A. Baker III Institute for Public Policy of Rice University, September 2018: 8.
[43] O'Driscoll et al., "Protest and state-society relations in the Middle East and North Africa," vi.
[44] Jane Kinninmont, "Vision 2030 and Saudi Arabia's Social Contract: Austerity and Transformation," Chatham House Research Paper, July 2017: 4.
[45] Karen E. Young, "Mapping Economic Diversification Across the Gulf Cooperation Council." American Enterprise Institute, September 2019: 1; and Robert Mogielnicki, "G-20 Summit Signals Start of Challenging Decade for Saudi Economic Transformation," The Arab Gulf States Institute in Washington, last modified November 17, 2020, https://agsiw.org/g-20-summit-signals-start-of-challenging-decade-for-saudi-economic-transformation/
[46] See International Monetary Fund, "Economic Diversification in Oil-Exporting Arab Countries."

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foreign direct investment (FDI), focus on export diversification and invest in education.[47] Similarly, Bahrain is aiming to stimulate the private sector so that it is capable of driving economic growth independently by 2030, and to enhance productivity and skills, attract FDI and diversify exports through innovation and sustainability efforts.[48]

It is possible to identify several trends in connection with these objectives.[49] First, there is the implementation of new taxes and fees, increased tariffs, and reduced subsidies. Following the 2014 oil price crash, Saudi Arabia raised fuel prices and electricity tariffs,[50] and water prices increased by around 500 percent.[51] Bahrain also cut government subsidies, increased water and electricity tariffs, and raised the general level of taxation.[52] Second, as a customs union, the GCC has agreed on the introduction of a value-added tax, which both Bahrain and Saudi Arabia have successfully implemented, albeit that Bahrain delayed its introduction.[53]

However, this transition is less daunting and more straightforward on paper than in reality. According to the IMF, the required changes in economic policy are larger and more urgent than is apparent from existing plans, especially in the light of the economic effects of COVID-19.[54] However, the difficulty in achieving objectives in the 2030 visions lie precisely with the above-mentioned rentier social contracts. As Jim Krane put it, "for autocratic regimes which fund their national budgets with oil and gas export rents, the imposition of taxes and retraction of subsidies runs counter to social contract stipulations enshrined in the rentier literature".[55]

Thus, for a younger generation that is heavily dependent on the government, reforms that remove some of their benefits are unlikely to be welcome. As a result, both states have witnessed varying levels of opposition to the planned reforms. Consequently, a related trend is efforts to appease the concerns of citizens.[56]

While reform in Bahrain and Saudi Arabia is urgent, as outlined above, public sentiment has complicated diversification efforts in both countries. Following water price increases in Saudi Arabia, for example, Saudis clearly expressed their dissatisfaction. The water and electricity minister was subsequently fired and a cash compensation scheme was established to support low- and middle-income Saudis.[57] Bahrain's political climate is complicating political reforms, as the ruling family is Sunni while the majority of the population is

[47] See Kingdom of Saudi Arabia, "Vision 2030," 2018.
[48] See Kingdom of Bahrain, "From Regional Pioneer to Global Contender: The Economic Vision 2030 for Bahrain," 2008.
[49] Young, "Mapping Economic Diversification Across the Gulf Cooperation Council." 4-5.
[50] Gross and Ghafar, "The shifting energy landscape and the Gulf economies' diversification challenge," 11.
[51] Ibid.
[52] Ibid., 12.
[53] Ibid., 13.
[54] International Monetary Fund, "The Future of Oil and Fiscal Sustainability in the GCC Region," 2.
[55] Jim Krane, "Subsidy reform and tax increased in the rentier Middle East," in Michael Herb and Marc Lynch, "The Politics of Rentier States in the Gulf," Project on Middle East Political Science Studies 33, January 2019, 18.
[56] Young, "Mapping Economic Diversification Across the Gulf Cooperation Council." 4.
[57] Gross and Ghafar, "The shifting energy landscape and the Gulf economies' diversification challenge," 11.

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Shia. Political instability had already been visible during the Arab Uprisings, when mass protests took place against the monarchy. These were dealt with swiftly with the help of Saudi Arabia and the UAE, but future economic reforms are likely to see tensions rise again. Indeed, after the announcement of the above-mentioned measures, public discontent led parliament to demand a system of compensation for low- and middle-income nationals, similar to that in Saudi Arabia. As a direct result of this backlash, Bahrain faced a dilemma: either pay allowances to its nationals, putting more pressure on its budget deficit, or face down public opposition.[58] Consequently, Bahrain has been unable to implement reforms as quickly as it wished because of the need to avoid challenges from the opposition, and other Gulf states have had to help Bahrain with its budget deficits.

Finally, the economic repercussions of the pandemic, including a drop in oil prices, are likely to put a further strain on budget deficits and diversification plans. Saudi Arabia has implemented a lockdown in response and Bahrain has paid the wages of a large proportion of private sector employees for three months, introduced tax breaks and cancelled utility bills for all its households and businesses.[59] Consequently, both Bahrain and Saudi Arabia will now face additional challenges in the future: they must accomplish ambitious targets with significantly fewer financial resources.[60]

The youth and state-society relations

There are several observable trends in relation to the previously posed question of whether the planned economic transitions in Bahrain and Saudi Arabi, which will reduce the benefits supplied to nationals and thus to the youth population, will cause the younger population to demand more political rights.

First, unemployment continues to be the main concern among youth. Even before the oil price crash of 2014, close to 90 percent of GCC youth perceived unemployment as a major problem in their country.[61] Data from the 2019 Arab Youth Survey shows that 82 percent of youth in the GCC think their government is responsible for providing jobs.[62] Second, government-dependent attitudes remain in other areas. The survey shows that 80 percent of youth in the GCC believe their governments should provide energy subsidies, and 77 percent think their governments should be responsible for providing housing.[63] Thus, together with concerns about unemployment, expectations remain among the youth of Bahrain and Saudi Arabia that the government will provide jobs and benefits. The contradiction, however, is that reducing current youth unemployment rates will not be possible without economic reform.

58 Ibid., 14.
59 O'Driscoll et al., "Protest and state-society relations in the Middle East and North Africa," 51.
60 Mogielnicki, "G-20 Summit Signals Start of Challenging Decade for Saudi Economic Transformation."
61 Almunajjed and Sabbagh, "Youth in GCC Countries: Meeting the Challenge," 3.
62 ASDA'A BCW, "Arab Youth Survey 2019: A Call for Reform," 2019: 21.
63 Ibid.

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Consequently, it is important to once again underline that without reform, the youth will be marginalized at the socio-economic level, as youth unemployment is likely to increase even further in Bahrain and Saudi Arabia. Since economic grievances are a key cause of protests, further marginalization of the youth could cause social strife in the future.[64] Nonetheless, data from the Arab Youth Survey also show that cutting back on subsidies, wealth transfers and the availability of public sector jobs – which both Bahrain and Saudi Arabia have done – without providing alternative opportunities will not be a sustainable model either.

Moreover, it is also evident that Bahrain and Saudi Arabia cannot ignore public opinion and opposition. During the Arab Uprisings in 2011, before significant reforms were enacted in Bahrain and Saudi Arabia, around 63 percent of youth agreed that the government should "give young people increased access to [the] decision-making process and policy implementation at the local level".[65] Thus, there were increased demands for political rights even before the social contracts were put under pressure by fiscal reforms. While the visions of Bahrain and Saudi Arabia make no mention of political reform, the two monarchies have approached state-society relations in different ways. Under the leadership of Mohammed bin Salman, Saudi Arabia has reformed not only economically, but also culturally and socially. This has included: "lifting the male guardianship of women; allowing women to drive; demoting the once-powerful religious police; and ending capital punishment for minors and flogging".[66]

As a result, it is often argued that state-society relations in Saudi Arabia are changing somewhat, but it should be emphasized that the basic pillars of the previous social contract are still visible – and these changes do not include increased political rights or representation. In fact, suppression of any opposition continues and the state refuses to abandon its tight hold on the economy and the private sector.[67] For example, many arrests have occurred in recent years on the pretext of fighting corruption, but Mohammed bin Salman has been criticized for using corruption allegations to get rid of rivals or threats to his rule.[68] In addition, women's rights activists remain in detention even after Mohammed bin Salman has granted the rights for women that the activists were demanding.[69] In this sense, the main priority of, and challenge and contradiction for, Saudi Arabian policymaking seems to be to implement economic reforms while maintaining domestic stability based on the

64 O'Driscoll et al., "Protest and state-society relations in the Middle East and North Africa," 45.
65 Almunajjed and Sabbagh, "Youth in GCC Countries: Meeting the Challenge," 7-8.
66 O'Driscoll et al., "Protest and state-society relations in the Middle East and North Africa," 41.
67 Karen E. Young, "The Coming Economic Disorder: The Political Perils of Economic Liberalization in the Gulf," The Arab Gulf States Institute in Washington, last modified September 14, 2017, https://agsiw.org/coming-economic-disorder-political-perils-economic-liberalization-gulf/
68 "Saudi Arabia arrests 45 in latest 'anti-corruption' drive," Middle East Eye, last modified October 16, 2020, https://www.middleeasteye.net/news/saudi-purge-arrest-45-anti-corruption
69 "Saudi Arabia: Events of 2019," Human Rights Watch, https://www.hrw.org/world-report/2020/country-chapters/saudi-arabia

established social contract. Interestingly, 94 percent of youth in Saudi Arabia supported the anti-corruption measures in 2018, and 92 percent of youth were confident that Mohammed bin Salman's Saudi Vision of 2030 will be a success.[70] Finally, while the pandemic is likely to complicate the government's diversification efforts, youth have so far been supportive: 91 percent approve of the way Saudi Arabia has handled its response to the COVID-19 outbreak.[71] Based on these youth opinions, Saudi Arabia – and Mohammed bin Salman in particular – would appear to have the backing of the youth.

This contradiction is also present in Bahrain, but the situation is more serious there. As the only GCC state to have experienced mass protest during the Arab Uprisings, in combination with an already unstable political situation linked to oppression of the Shia majority, the social contract was already under extensive pressure. Thus far, Bahrain has rebuffed calls for wider form through the use of violence and with the help of other GCC states,[72] but opposition, including youth opposition, continues. The Shia youth movement known as the February 14 Coalition is the most influential. It is an anonymous youth movement formed during the Arab Spring uprisings that mainly uses the internet and social media to organize.[73] In February 2020, it called for civil disobedience and demanded that the Al Khalifah ruling family relinquish its strong hold on power and move towards a system that includes all Bahrainis. As a result, Bahrain has revoked the citizenship of a number of protestors, reinstated the death penalty, banned all independent media and dissolved all opposition groups.[74] Furthermore, 24 percent of youth respondents did not rule out the possibility of anti-government protests in the coming year, putting Bahrain in the top ten countries in the Middle East and North Africa.[75] Thus, while there are clear demands from the Bahraini youth for inclusive politics and political rights, Bahrain's monarchy thus far shows no signs of giving in to these demands, even though the economic pillars of the rentier social contract have been changed. That said, the source of youth opposition might not necessarily be the economic reforms as much as the repression of certain groups such as the Shia majority in Bahrain.[76]

Conclusions

Several conclusions can be drawn from the analysis in this brief. First, Bahrain and Saudi Arabia face more urgent pressure to reform compared to the other GCC monarchies. Bahrain is in the weakest fiscal position as it has the lowest per capital oil reserves and level of sovereign wealth in the

[70] ASDA'A BCW, "Arab Youth Survey 2018: A Decade of Hopes & Fears," 2018: 24-25.
[71] ASDA'A BCW, "Arab Youth Survey 2020: A Voice for Change," 2020: 27.
[72] O'Driscoll et al., "Protest and state-society relations in the Middle East and North Africa," 38-39.
[73] Kylie Moore-Gilbert, "Bahrain's February 14 Coalition: Deconstructing a Revolutionary Youth Movement," *Middle East Journal* 72, no. 3 (2018): 385.

[74] "Bahrain: Events of 2019," Human Rights Watch, https://www.hrw.org/world-report/2020/country-chapters/bahrain
[75] ASDA'A BCW, "Arab Youth Survey 2020: A Voice for Change," 20.
See Jessie Moritz, "Reformers and the Rentier State: Re-Evaluating the Co-optation Mechanism in Rentier State Theory," Journal of Arabian Studies 8, no. 1 (2018): 46-64.

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GCC. Saudi Arabia's main issues are high unemployment and its youth unemployment rate, and its per capital oil reserves and level of sovereign wealth are much lower than the other GCC monarchies. For both, the worsening economic climate linked to the COVID-19 pandemic makes reform even more crucial.

Second, both monarchies have encountered significant obstacles when implementing reforms related to their visions for 2030. Some of these obstacles arise from public opposition to reform. Citizens, including the youth population, expect a continuation of the benefits provided by their governments. These expectations are directly related to the existing social contract in Bahrain and Saudi Arabia, and include energy subsidies, housing and jobs.

Finally, an economic transition will affect state-society relations. The political calculation is that maintaining a level of economic growth that can keep the population content is necessary in order to avoid having to grant political rights. This level of economic growth will take time to achieve, however, and might be difficult to maintain as the economy diversifies away from oil.

While Bahrain and Saudi Arabia are both actively aiming to limit any increase in political representation and political rights, they are doing so in different domestic climates. The youth in Saudi Arabia are currently supportive of the monarchy, and Mohammed bin Salman in particular, in part because of the more liberal social atmosphere he has instigated. In Bahrain, political opposition primarily stems from the oppression of the Shia population.

The youth are mainly concerned about unemployment and future job security. At the same time, they wish to maintain the generous social contract, as is illustrated by the public opposition to reforms. The paradox is, however, that a way out of the youth unemployment crisis is highly unlikely without economic reform. As a result, the continuing economic exclusion of the youth has the potential to cause more social strife. For the foreseeable future, the economic transition in the monarchies will be a balancing act between enacting economic reforms in order to reduce unemployment and prevent the socio-economic exclusion of the youth, while avoiding public opposition to these reforms based on existing social contracts.

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The Swedish Institute of International Affairs
Visiting Address: Drottning Kristinas väg 37, Stockholm
Postal Address: Box 27 035, 102 51 Stockholm
Phone: +46 8 511 768 00
www.ui.se info@ui.se Twitter: @UISweden @ResearchUI