

Challenges Confronting Saudi Arabia

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Saudi Arabia is at one of the most sensitive points in its history. The combination of the steep drop in oil prices since 2014 and the sensitive process of a generational transition in leadership that began in 2015 poses a heavy array of challenges to the kingdom. These are joined by subversion in Saudi territory by the Islamic State, the struggle against Iran in several arenas (with the struggle in Yemen at its doorstep), and a deterioration of relations with the United States. Together these factors paint rather pessimistic forecasts for the kingdom's future.¹ Even if it currently appears that Riyadh possesses adequate tools for coping with the challenges before it, it is quite possible that the political stability in the kingdom will be upset in the coming years.

The following is an analysis of the main challenges to the stability in Saudi Arabia, the kingdom's responses to them, an assessment of their effectiveness, and the consequences for the region in general and Israel in particular, if the royal house's grip on power loosens.

Dependency on Oil

The gravest threat to Saudi stability lies in the prolonged low level of oil prices. Income from oil exports accounts for a decisive majority of the kingdom's revenues. As a result of high oil prices over the past decade, Saudi Arabia accumulated substantial foreign currency reserves, which enabled it to channel large amounts of money to its citizens in the early stages of the regional upheaval. These reserves, however, are depleting, and foreign currency balances fell from \$724 billion at the end of 2014 to \$576 billion in April 2016.² The reserves are still large, but the pace of their depletion

and uncertainty regarding the duration of the lower oil prices require a cut in spending, which incurs risks. The large deficits are financed by withdrawals of money and the sale of assets, and even through debt. The International Monetary Fund warned in October 2015 that at the current level of oil prices, Saudi Arabia's reserves will be exhausted by 2020, if the depletion continues at the same rate.³

In April 2016, after decades of talk about the need to diversify the kingdom's sources of revenue, Saudi Arabia unveiled its ambitious plan, "Saudi Vision 2030." Prepared by external consultant agencies for Deputy Crown Prince, Minister of Defense, and Chairman of the Council for Economic and Development Affairs Muhammad bin Salman, the plan set an interim target for 2020 of creating additional budget resources with enormous growth in revenues outside the oil sector through spending cuts and taxes. The aim is to enable Saudi Arabia to escape the large deficits it is now experiencing, even in years in which the oil market is at a low point. The plan is also designed to foster employment, both to spur growth and to reduce unemployment. The official unemployment figure for Saudi Arabia is approximately 12 percent, but actual unemployment is much higher, especially among young people. There is also concealed unemployment. Many citizens who do not work enjoy exceptionally high salaries and benefits, while others do not wish to perform manual labor, which is relegated to foreign workers. Spending cuts in the budget have already begun, including cuts in subsidies for fuel (fuel prices were doubled on December 31, 2015), electricity, and water.⁴

Although the plan focuses on rescuing Saudi Arabia from dependence on oil, it appears that development of the oil and gas sector will continue intensively in order to maximize the revenues from it in the long term. There is also no change, at least for now, in Saudi policy in the global oil market. The kingdom has a significant interest in stabilizing oil prices at a higher level, but it is in no hurry to limit or cut back its production in the framework of an agreement between the oil producers, in whom it has no confidence. The worst scenario for Saudi Arabia is that the other oil producers will not adhere to their commitments (if an agreement is reached), and will take away some of Saudi Arabia's market share. A situation is liable to occur if oil prices do not rise as expected, and Saudi Arabia's oil revenues shrink. In addition, as a long term policy, Saudi Arabia does not support a very steep

price rise that is liable to prove temporary, because it fears that this will accelerate development of oil substitutes and expensive oil drilling, thereby increasing the supply of energy and pushing oil prices down still further. The plan for reducing dependency on oil is the only way Saudi Arabia can escape these long term dilemmas related to the oil market.

On paper, the Saudi plan reflects an array of targets and economically essential measures required for the kingdom's long term survival. At the same time, it is premature to assess the feasibility of the plan's implementation based on the material made public. It is particularly doubtful whether dependence on oil can be greatly reduced by 2020. If there is a renewed rise in oil prices, there will likely be increased public pressure to abandon the streamlining measures, and motivation for economic structural reform will fade. Evidence of this can be found in the similar plan formulated in 2000, following the slide in oil prices in the 1990s. The plan was abandoned in 2003 when oil prices resumed their upward trend. Furthermore, in the event of continued low oil prices, which is one of the plan's basic assumptions, the kingdom will have difficulty financing the investments necessary for accelerated development of the non-oil-dependent sector.

Yet the main challenges to implementation of the plan concern the need to develop Saudi Arabia's conservative and closed economy, and adapt it to the rules governing modern economies. A culture of entrepreneurship, which is essential for development of a private sector, is limited in Saudi Arabia, where the state traditionally pays salaries and supplies almost all the needs of the population. This state of affairs has led many Saudis to adopt a mentality of taking entitlement to services and income almost for granted. In other words, citizens no longer regard oil profits as temporary benefits from the rulers; they conceive of them as their rights as loyal subjects of the kingdom. Accordingly, if and when welfare decreases, loyalty among groups of citizens is also liable to decline.

Palace Infighting

Despite the media focus on the kingdom's foreign relations, especially its conflict with Iran in various theaters, internal threats, including a power struggle within the royal family, are a far graver threat to Saudi Arabia's stability. Since 2015, the generation of grandsons of Ibn Saud, the dynasty's

founder, has begun taking the reins of government. As expected, this process is accompanied by power struggles, mainly behind the scenes. Most of the dispute centers on the growing power of Muhammad bin Salman, the king's favorite and inexperienced son, at the expense of Crown Prince and Minister of the Interior Muhammad bin Nayef and other branches of the royal family. Bin Nayef, who was reported in 2016 to be ill, fears that the king will prefer bin Salman over him, even though he is the crown prince.⁵ The fact that bin Nayef has more experience and no sons of his own has earned him considerable support within the royal family.

Bin Salman was appointed to his various positions (Deputy Crown Prince, Minister of Defense, and chairman of the Council for Economic and Development Affairs) in 2015 by his father, while at the same time, the associates of the late King Abdullah were kept away from most centers of power, except for Prince Mutaib, who remained Minister of the National Guard. These appointments, and the assertive policy adopted by bin Salman in internal and foreign affairs, have lent the kingdom a more energetic and active image than in the past, and have added a dimension of uncertainty to its stability and aroused internal opposition. This was publicly expressed in 2015, an exceptional step for politics in Saudi Arabia, whose unwritten code requires consensus and the solving of disputes within the family and behind closed doors. In two letters distributed among the princes and published by *The Guardian*, one of the princes, who was not identified, called on the remaining sons of Ibn Saud to unite in order to depose King Salman.⁶ The letters – which criticized Salman's weakness (he apparently suffers from dementia) – claimed that a number of senior princes were involved in writing them and that their sentiments were endorsed by many among the public and by important tribal leaders. At the same time, in contrast to the past, it appears that ruling authority is concentrated in a restricted group of princes led by bin Salman. With the support of his father, he has fortified his position since taking office and accumulated critical experience. While there is opposition to him, he enjoys (to the extent that support can be measured in an absolute monarchy) backing among young people in the kingdom and from the current American administration (which initially preferred his uncle, Muhammad bin Nayef).⁷ It is likely that if bin Nayef does indeed

suffer from a serious disease, the road for bin Salman to inherit his father's crown will be open.

Terrorism at Home

Another challenge facing Saudi Arabia comes from the Islamic State, which denies the kingdom's political and religious legitimacy. In the preceding decade, Saudi Arabia was relatively successful in its struggle against al-Qaeda. Since 2014, however, it appears that the dilemmas posed by the Islamic State, which arose from within al-Qaeda, have become more serious. The Islamic State competes with the puritan strand of Sunni Islam as represented by the Saudi royal family – Wahhabism. Like the call by al-Qaeda leader bin Laden to overthrow the kingdom, Islamic State leader Abu Bakr al-Baghdadi is also calling for the “liberation” of Saudi territory, home to Islam's holiest places, from the control of the Saud dynasty. The organization first threatened to attack Saudi Arabia in an audio recording issued in November 2014, in which al-Baghdadi called for attacks against Shiites, foreigners, and the royal house itself, and announced the expansion of the Islamic State to the Arabian Peninsula (the Najd district).⁸ That same month, the organization began to launch suicide attacks in the eastern district of Saudi Arabia, where most of the Shiite population is concentrated. At the time of this writing, the last bombing offensive took place in the streets of the kingdom, including in the holy city of Medina, on July 4, 2016.⁹

The achievements of the Islamic State and its ideology are enthralling for many young people in the kingdom, who are liable to direct their anger against the Shiite population or against the royal house itself – certainly if it appears to be appeasing the Shiites. Note that the Shiites, who are also regarded in Saudi Arabia as an Iranian fifth column, have never challenged the kingdom's stability; those who have done so have been the extremist Sunnis. Furthermore, the royal house itself bears some of the responsibility for the tension, because it uses anti-Shiite rhetoric in order to bolster support for the regime and its goals in the struggle against Iran.

The Salafi jihadist threat to Saudi Arabia can be expected to persist in the coming years. Until now, the Islamic State has concentrated primarily on attacking Shiites, under the assumption that this will increase religious tension and destabilize the Gulf states, especially Saudi Arabia. At the

same time, the Islamic State has already declared its intention of attacking the regimes themselves. Targets for attack will include government assets, strategic installations, and senior members of the royal family.

The campaign against the Islamic State is focused on the attempt to undermine its economic resources in Saudi territory, an attempt to stop the flow of Saudi young people leaving the kingdom for other Islamic State theaters of conflict and later returning, and activity directed through the religious establishment, the media, and the law enforcement and penal system against the distribution of Salafi jihadist messages and propaganda. Another factor making it difficult for the royal house to cope with the growing tension between Saudi Arabia's Sunnis and Shiites is the incitement against Shiites by the Wahhabi religious establishment: any attempt to take strong action against this establishment is liable to undermine the very basis of the royal house.

Potential internal instability in Saudi Arabia is not limited to Sunni-Shiite tension. Several of the reasons for the protests in the "republics" in the Arab world, including economic distress, unemployment among young people, the desire for a just distribution of resources, and the aspiration for personal freedom are also present today in Saudi Arabia. This accumulation of internal challenges at a time of regional upheaval is liable to accelerate processes that will eventually severely shake the kingdom's stability and change its face. In any case, voluntary major political reforms are not expected in Saudi Arabia, as absolute rulers are not generally inclined to give up their influence. Furthermore, since the beginning of the upheaval in the Middle East, rulers in the region fearful of revolution, including the rulers of Saudi Arabia, have adopted a policy of harsh repression. Draconian laws have been enacted in the kingdom against terrorism and cybercrime, providing for the imprisonment of non-violent demonstrators and imposing restrictions on freedom of information and assembly. Efforts to include citizens in decision making processes have been few, limited, and accompanied by repressive measures, thereby eliminating their immediate practical significance, but not the latent revolutionary potential in the impatience among the kingdom's residents.

External Challenges

The immediate external threat facing Saudi Arabia, although not existential, is the ongoing war in Yemen. Despite the initial accomplishments of the regional coalition led by Saudi Arabia, the campaign is still far from achieving its declared goals, which include the disarming of the Shiite Houthis. The Houthis remain well established in most of the territory of “essential Yemen” – the areas under their control, which contain most of the country’s population, border Saudi Arabia, and contain vital resources – despite repeated air and land attacks by the coalition forces against targets belonging to the Houthis and their allies.

Even if the talks underway in Kuwait between the rival parties end in agreement, Yemen will be far from long term stability. After seven years of civil war that have fragmented the country’s delicate political fabric, it is difficult to envision any political or military force maintaining sovereignty and effective government in the country’s territory, and the Houthis themselves are expected to continue to pose a considerable threat to southern Saudi Arabia. For this reason, Saudi Arabia is likely to continue to play a key role in Yemen, which will remain an arena of conflict and competition for various regional and local forces.

Saudi Arabia also faces substantial challenges beyond the Yemeni theater. The nuclear agreement signed by the major powers with Iran in the summer of 2015 and the removal of sanctions against Iran aroused concern in Riyadh and other Gulf states that Iran would have resources enabling it to expand its subversive activity in the region. There has been no dramatic development in this direction, but it is feared that Iran’s regional policy will become more aggressive. If so, the Saudi Arabia-Iran confrontation could assume a more direct character that jeopardizes the kingdom. In any case, as long as the current game rules and limits are respected, the kingdom will prefer to continue to conduct wars against Iran by proxy and attempt to stabilize a broad Sunni front against the Iranian threat, even if this front currently appears rather fragile and far from the Saudi vision of a united Sunni Arab front.

At the same time, to the chagrin of the Saudi leadership, the United States continues to show signs of wishing to cut back on its defense commitments in the region. Over the years, the royal house has regarded the United States

as a stable defense prop, despite differences in interests and policy goals. During the Obama years, however, this conviction was undermined. The disputes between the parties grew sharper following the American policy vis-à-vis the Assad regime and the signing of the nuclear agreement with Iran, culminating in expressions of public criticism.¹⁰

At the same time, the set of challenges facing the royal house highlights for the United States its interest in maintaining the kingdom's stability. Despite the disputes, it appears that Washington prefers that the house of Saud remain stable, if only because of the possible consequences of its fall and the emergence of chaos in the kingdom, with the accompanying regional consequences. Like other regimes in the Middle East, the Saudi royal house is considering the future of American policy in the Middle East, and whether it constitutes the beginning of estrangement (and a "pivot to the Far East"), or whether the Obama administration's deviation will be corrected under the next administration. If the US continues to divert its attention from the region, the most significant challenge for the Saudi kingdom will be dealing with the consequences of a post-American Middle East. It appears that the Saudi royal house has begun preparing for such a possibility, as reflected in its adoption of a more assertive and independent policy than in the past, sometimes in opposition to the American interest, while trying to improve its relations with Russia and China.

Conclusion

Over the years the Saudi royal house has been able to cope with internal challenges, to a considerable extent due to its ability to achieve consensus among its decision makers, alleviate internal tensions, and buy external support with oil profits. Today, its deficit is growing, and it is becoming increasingly difficult to achieve a consensus among the princes. It has to a large extent become a one-man show of Muhammad bin Salman. In addition, the kingdom can no longer isolate itself from the wars surrounding it, as it did in the past. It is involved, often deliberately, in regional conflicts that likewise affect the internal scene.

Moving forward with the Saudi Vision 2030 constitutes a national challenge of the first order, as well as a personal challenge for Muhammad bin Salman. Rivals from within the royal house unhappy about his increasing power are

liable to stand in his way, as well as parties in the conservative religious establishment fearful about excessive openness, particularly in the social elements of the plan. At the same time, it appears that the prince is winning support among the young people of the kingdom eager for a change. The burden of proof is on him – as well as the bloody stalemate in Yemen. Failure of the economic plan will damage not only his personal reputation and his chances of inheriting the throne, but is also liable to send the kingdom into a downward – and destabilizing – economic and social spiral.

It is unpredictable when, if at all, the turning point will come. Decision makers in Israel and elsewhere must therefore understand the changes taking place in the kingdom, which may have consequences for the regional order in the Middle East and beyond. Along with the opportunities created by the many common interests with Saudi Arabia and the noticeable change in its attitude toward Israel, the risks and the degree to which expectations on cooperation are feasible should be taken into account. For example, the more internally vulnerable Saudi Arabia is, and certainly as long as the deadlock in the Israeli-Palestinian arena persists, the less the Saudi regime, anxious about public opinion at home, will be able to cooperate with Israel.

Notes

- 1 See for example Karen Elliott House, “Uneasy Lies the Head that Wears a Crown,” Senior Fellow Paper, Harvard Kennedy School, Belfer Center for Science and International Affairs, March 2016.
- 2 “Saudi Arabia: International Reserves and Foreign Currency Liquidity,” International Monetary Fund Country Notes, last updated on April 28, 2016.
- 3 “World Economic and Financial Survey, Regional Economic Outlook: Middle East and Central Asia,” International Monetary Fund, October 2015.
- 4 Shmuel Even and Yoel Guzansky, “Saudi Vision 2030: Preparing to Reducing Dependence on Oil,” *INSS Insight* No. 819, May 8, 2016.
- 5 Robert Windream and William Arkin, “U.S. Officials Fear Saudi Collapse if New Prince Fails,” *ABC News*, June 17, 2016.
- 6 Hugh Miles, “Saudi Royal Calls for Regime Change in Riyadh,” *The Guardian*, September 28, 2015.
- 7 “Powerful Saudi Prince to Meet Obama, Ban on US Visit,” *Reuters*, June 13, 2016.
- 8 “Islamic State Leader Urges Attacks in Saudi Arabia: Speech,” *Reuters*, November 13, 2014.

- 9 Ben Hubbard, "Suicide Bombings Hit 3 Cities in Saudi Arabia, One Near a Holy Site," *New York Times*, July 4, 2016.
- 10 For example, see Jeffrey Goldberg, "The Obama Doctrine," *The Atlantic*, April 2016, and Turki al-Faisal, "Mr. Obama, We are not 'Free Riders,'" *Arab News*, March 14, 2016.