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Saudi Arabia and its Troubled Path to Reform

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Saudi Arabia has long been plagued by cycles of austerity and affluence. In large part this has been due to changes in the price of crude oil, which accounts for almost 90 percent of its income. Yet these cycles may also be attributed to a history of mismanagement, lavish government spending, lack of accountability and corruption, all of which add to the country's vulnerability. Since 2014, the Kingdom continues to face one of its worst downturns, with oil prices down by at least 70 percent to about US$40 a barrel. With a massive budget deficit (estimated at US$98 billion in 2015), it has been forced to liquidate some of its foreign reserves, and borrow from the international markets. There is also an ambitious plan, named Vision 2030, a mix of economic and educational reforms, whose principal aim is to end the Kingdom's addiction to oil. While the cycles of austerity and affluence are not new, the government's reaction has included some new recipes as well as repeating some old ones.

Added to the economic problems the country is currently facing is the increasing rivalry with Iran. This rivalry has been manifesting itself in proxy wars that cost Saudi Arabia a lot of money. From Damascus to Sanaa, both Iran and Saudi Arabia seem to be engaged in a new Middle East Cold War. While the Saudi economy adjusts to the new austerity measures, the rivalry does not seem to end soon. This article assesses the new Saudi economic outlook and explores the new foreign policies that are destined to put pressure on Saudi budgets at times of decreasing oil prices.

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The first oil boom came during the reign of King Faisal (1964-1975), with the spectacular rise in oil prices in 1973. The result was for the desert kingdom and its people to change beyond recognition. Oil prices quadrupled following the 1973 Arab-Israeli war and the subsequent Arab Oil Embargo. Since then periods have been common when oil prices have plummeted, for example during the 1980s. Saudis still remember the pristine but empty office blocks in Riyadh, parts of which resembled a ghost town. Many development projects were put on hold while others were abandoned all together. On the back of the oil crisis, in 1986 King Fahd sacked his famous oil minister, Sheikh Ahmad Zaki Yamani. King Salman has recently done the same. He sacked oil minister Ali al-Nuaimi, after twenty years in service.

Remedies for the current crisis go beyond sacking ministers, and the new economic Vision 2030, announced in April, raises important questions. It promises a new state capitalism with a trade and investment outlook. But what social changes will result from opening Saudi Arabia to outside finance with the scrutiny of global financial markets? Can Saudi Arabia educate the young generation for a new liberal yet statist economy so quickly? Is social change a precondition for the success of any vision of this kind? Will the Al-Saud continue to maintain a balance between their conservative clerics and the demands of economic reforms? In short, can a country have miraculous economic reform without political concessions to its citizens, who are now asked to tighten their belts, pay VAT and unsubsidized prices for energy, and expect less from the nanny state they have become used to?

Partially a result of the Saudi policy to hold on to their oil market share rather than cut production, current low oil prices could not have come at a worse moment for 80 year-old King Salman ibn Abd al-Aziz. His predecessor King Abdullah (died 2015) enjoyed an unmatched popularity as he ruled at a time when oil prices reached an unprecedented high at US$147 per barrel in 2008. Saudi citizens' income and spending capabilities rose dramatically and Saudis benefited from extensive welfare services. Unlike his predecessor, King Salman cannot lavishly distribute benefits and easily co-opt potential dissent due to a substantial decline in income.

Also constrained by his old age, the King has entrusted his youngest son, 30 year old Muhammad bin Salman with the task of finding light at the end of the austerity tunnel, to add to his already numerous jobs. The young prince is now Deputy Crown Prince, Second Deputy Prime Minister, Minister of Defense, Chief of the Royal Court and Chair of the Council of Economic Development Affairs. No other prince has ever held so many key positions at such a young age in the history of the Kingdom.

The young prince knows that throughout the history of the Kingdom, the consent of the population was dependent on the redistribution of oil rent, albeit partially, to a wide circle of beneficiaries. From Bedouins recruited into branches of the military, educated urbanites aspiring to be part of the new economic and political elite, poorly educated religious clerics employed to monitor people's piety and morality in the streets of Riyadh and Jeddah, and bright women with reasonable education, the Al-Saud badly needed to appease a diverse population glued together by oil. In the absence of any political representation in this centralized absolute monarchy, people's consent was dependent on getting some kind of benefits in return for loyalty. Many analysts believed that Saudis have only consented to the Al-Saud being totally in charge of politics and economics because of these benefits. This came to be known as the 'rentier state' model in which hydrocarbon rents are exchanged for political acquiescence.

The rulers of the Kingdom initially left social, educational and judicial matters in the hands of their partners in government, mainly the radical and puritanical Wahhabi clerics who were in charge of creating a depoliticized citizenry. In addition to overseeing education, the clerics controlled the judiciary. They passed long sentences on transgressors and dissidents. They also excelled in punishing people by lashing, beheading and stoning in the name of applying God's laws. During the Arab uprisings in 2011, the government instructed them to issue religious fatwas prohibiting peaceful protest and dubbing it a sin against God, the Prophet and King. With such outright repression at the hands of the clerics and the government, these actions proved an effective deterrent against protest.

The rentier state analysts paid less attention to the role played by those religious clerics. The latter occasionally challenged various kings not because they did not get a good reward from oil but because they sometimes saw their rulers deviating from the right path of Islam. Fearing a revolt by the clerics, the Al-Saud rulers had always insisted that they seek "development within an Islamic framework", a principle that proved almost impossible to implement without controversy and occasional armed confrontation between the government and its clerics. As the Kingdom plunged into consuming the latest gadgets of modernity, such as cars, televisions, and the internet, the clerics got worried about the future of Islam in the Land of the Two Holy Mosques, as the Kingdom is known. The rulers often appeased them but sometimes collided with them.

When King Faisal ignored their objections to the introduction of television in the early 1960s, the clerics protested and found an ally in Prince Khalid ibn Musaid, the King's nephew. King Faisal quickly suppressed this revolt and Prince Khalid ibn Musaid, who had supported their cause, was shot by the King's police force in his palace in Riyadh. Following this incident, in 1975 the slain prince's brother, also named Faisal and a young Colorado University graduate, returned to Saudi Arabia and shot King Faisal himself in his own palace in revenge for the assassination of his brother in 1964. Such an incident proved how problematic change was in Saudi Arabia, thus demonstrating the limits of "development within an Islamic framework". It also demonstrated that beyond the rhetoric of solidarity and unity among the royals, there is always a disgruntled prince who may challenge the status quo. Currently the persistent ban on women driving seems to be the last concession that the Saudi rulers are still prepared to offer the clerics in return for their support.

Prince Muhammad bin Salman faces a serious problem. Instead of carelessly distributing oil rent, he is now forced to draw on his country's foreign reserves (estimated at US$654.5 billion before the current crisis), accumulated during successive oil booms. He even needs to borrow more than US$10 billion to deal with the rising budget deficit. The country faced an embarrassment after the 2015 International Monetary Fund report predicted Saudi Arabia will run out of assets if it continues with its uncontrollable spending by 2020, in other word bankruptcy. Yet spending in the kingdom is sacred. Cutting spending means more than bankruptcy. It means nothing less than the gradual erosion of the Al-Saud's control over the country.

Hence early in 2016 came the prince's proposed solution. Vision 2030, the product of a detailed management consultancy study, was first announced to the Economist and Bloomberg. As is so often the case, the Saudis were the last to know. On the internet, Saudis criticised the decision to talk first to foreign media about the plan. The Prince finally appeared on Arabic television to explain Vision 2030, which was finally adopted by the Council of Ministers on 26 April 2016. Young rulers of the Gulf Cooperation Council states had already had their Vision 2030, for example in Bahrain and the United Arab Emirates. It was time for Saudi Arabia to follow suit, at least to boost morale at the time of a critical economic crisis and even a potentially political one, if things don't get better.

Vision 2030 is a combination of old and new promises. The old comes from buzzwords such as "Saudisation" (the gradual replacement of foreign workers by Saudis), "privatisation" (selling state assets), "diversification" (developing other non-oil sectors) and "cutting government spending". All of these strategies have been tried with mixed results. Since the 1970s, the centralised oil-based state capitalism of Saudi Arabia has been guided by so-called five year development plans. Each one of these plans promised to implement policies that create more employment for Saudis, privatise minor state assets, and diversify out of petrochemicals. At one time diversification promised agriculture in the desert as well as tourism. In a country where there is no such thing as a tourist visa, unsurprisingly tourism did not materialise. Apart from religious tourism associated with the annual pilgrimage, the government religious clerics have serious objections to visiting archaeological sites where once upon a time paganism had been the religion of the people, for example at Mada'in Salih, a famous site built by the ancient Nabateans in the North West of the country. The government itself has been active in destroying historical sites, especially those that are reminders of rulers of a bygone era. It destroyed an ancient Ottoman Fort in the Hijaz, the Western province where Mecca and Madina are located. In an attempt to create a kind of historical amnesia, the government prefers that history only begins with the Al-Saud. King Salman himself preserves Deriyyah, the ancient small town in central Arabia where the original pact between the Al-Saud and the founder of the Wahhabi movement was signed in 1744. This pact is still cherished, as it was central to the formation of the Saudi state from the eighteenth century to the present.

The new aspects of Vision 2030 stem from a plan that many Saudis find shocking. According to the Vision 2030 report, prepared by Mckinsey Consultants, the economy will benefit from floating 5 percent of the Saudi Arabian Oil Company, known as Saudi ARAMCO, initially an American oil company. Saudi Arabia gradually increased its ownership of the company and by 1980 it became totally Saudi. Today, it is believed that ARAMCO produces around 10 percent of world oil. Saudi ARAMCO is considered the most efficient state organization in the country but this is not hard, given that most ministries are run like mini-fiefdoms headed by an unaccountable lord with a huge budget. With the announced floatation, ARAMCO will have to shed its secrecy.

It is unlikely that such an unprecedented IPO will happen very soon as the prince announced. Many interested investors will have to wait for months and perhaps years before the project comes to fruition. Surely they want to know how much oil is still underground, who has the ultimate control over ARAMCO's operations and many other questions related to its finances that are currently top secret. It is unlikely that ARAMCO will be floated on the London and New York stock markets any time soon.

What complicates ARAMCO's floatation is the current tense US-Saudi relationship. This relationship has not fully recovered after 9/11 when 15 of the hijackers were Saudis. It got worse after the election of President Obama to office in 2008. The Saudis expected the US to honour its commitment to Saudi security and defend it against regional enemies. Iran became their main rival, after the 2003 American occupation of Iraq. The Saudis put pressure on the US to bomb Iran and destroy its nuclear programme. Instead, the US conducted secret meetings with Iran that resulted in the nuclear agreement and lifted many sanctions imposed on it by the US and other European nations. The Saudis were furious as they felt abandoned by their patrons in Washington. Moreover, the Saudis also asked the US to intervene militarily and depose Bashar al-Assad in Syrian and end Iranian expansion there. Barak Obama was reluctant to do so, hence contributing to further estrangement between the US and Saudi Arabia. Although Obama visited Saudi Arabia more than once during his presidency, the relationship did not seem to go back to the status quo ante when the US endeared Saudi Arabia, sold it enormous quantities of weapons and even sent troops to defend it in 1990 against threats from neighbouring Iraq. Mr Obama seems to have no tolerance for US allies whom he described as "free riders" in an interview with the Atlantic. The Saudis have yet to recover from a sense of abandonment and betrayal when it comes to their relations with the US.

But Saudi Arabia has huge assets in the US, currently it owns US$117 billion of US treasuries. On 17 May 2016?, Congress passed a bill that allows the families of the 9/11 victims to sue the Saudi government in US courts for any role in the terrorist plot. This may be the last nail in the coffin of US-Saudi relations. Surely if Obama signs this bill, Saudi Arabia will hesitate before it adds to its US assets, as these may be frozen during prolonged trials.

Another new aspect of Vision 2030 is the ambition to use oil revenues to create a US$2 trillion sovereign fund to be invested around the globe. This is believed to assist Saudi Arabia to "end its addiction to oil". Given that in Vision 2030 oil is still needed to create wealth, it is difficult to anticipate great success stories by 2020, the deadline for all these new initiatives. With the current stagnation of oil prices, it is unclear where else the funds will come from.

Vision 2030 promises too much and may deliver too late. Today's Saudi oil crisis is more serious and, unlike previous cycles, may have a long lasting impact on Saudi Arabia. On this occasion, the stakes are high on two fronts: the domestic and regional.

At home the Saudi government faces new demographics. Sixty percent of the 22 million Saudis are under the age of 30. Increasingly educated and with rising expectations, they want jobs, affluence and a middle class life style. This is the generation that has not experienced austerity like the previous ones. They have been socialised into a consumer economy, with shopping centres, electronic gadgets and connectedness thanks to the advent of the internet and social media. This generation has also reaped the benefit of the previous oil booms and has come to expect the state not only to offer them a job but also to pay for education, scholarships abroad, and welfare services. Although the quality of education has remained poor and insufficient to develop the skills necessary for a modern economy, being a graduate of even a local peripheral higher education college has raised hopes among the majority of young Saudis. Most Saudis aspire to a comfortable and well-paid white-collar job in the public sector, where almost 60 percent of Saudis find jobs. They prefer the relaxed and better-paid public sector jobs to the private sector where Vision 2030 wants them to gravitate. 80 percent of those working in the private sector are non-Saudis, despite successive Saudisation programmes.

Social change is already under way in Saudi Arabia, especially among the new generation that has benefitted from higher education. While Saudis are not allowed to have political parties and independent civil society, they nevertheless organise themselves informally to debate and discuss politics. They attend informal Salons (known as diwaniyya), hosted in the houses of intellectuals and professionals to discuss current affairs. Within days after Vision 2030 was announced, a group of young professional men gathered in the diwaniyya of Mr Muhammad al-Bughaili to listen to Dr Abdul Aziz al-Dakhil, an economist and previously a deputy minister in the Ministry of Finance. Dr al-Dakhil was highly critical of the current economic policies, corruption, and abysmal educational institutions in the Kingdom. He was also critical of the proposal to float 5 percent of ARAMCO, explaining that only with human development can Saudis lessen their dependence on oil. He was also critical of the so-called Islamic banking, as a solution to overcome the ban on interest in Islam. He told his audience that this kind of banking taken up by both domestic and international banks such as Barclays and HSBS is nothing but a trick to lure small and simple pious people to deposit their savings with these banks. He proposed a better solution-open debate about interest rates within Islam rather than open new banks raising the flag of Islamic banking. After the lecture, attentive young men asked him questions, all reflecting their current anxieties about their future. "Would you recommend I buy a house this year", asks one. "What are the obstacles to implementing the prince's vision?," asks another young man. Dr al-Dakhil was not optimistic. He clearly announced that economic visions need political reform to work. As the Salon event was recorded and made available on YouTube for a greater audience to watch, Dr al-Dakil called for accountability, political representation and transparency as pre-conditions for the success of any economic reform.

For outsiders, life in Riyadh may be dull. Time seems to be punctuated by successive calls for prayers during which shopping centres are forced to close their doors so that people can go to mosques. But these intellectual Salons that are regularly held in Riyadh, Jeddah and Dammam attest to a vibrant society engaged in current affairs and extremely worried about its future under the current leadership. Young Saudis come to international fame only when they engage in radical and violent endeavours such as the 9/11 attacks. But there is a growing nucleus of highly educated and very ambitious young men and women. They try to circumvent restrictions on freedom of speech and assembly without necessarily challenging the system altogether. As dissent is outlawed, many Saudis have got used to seeking change without direct confrontation with the regime. Those young men are no longer too worried about the identity of the state, whether it becomes more Islamised or Westernised; they are worried about whether they can find jobs, water and housing in a desert country with very cheap oil or no oil at all.

This is also the first generation of Saudis to witness the mass protest that swept the Arab world. In 2011, with the signs of a domino effect of these uprisings gradually encroaching on Saudi territory, the government quickly responded by distributing benefits worth US$130 billion, thus mitigating the contagious fever. Despite this largesse, pockets of protest started to erupt in the tranquil desert kingdom by February 2011 in various regions. While incomparable to those in Egypt, Tunisia, Bahrain and other Arab capitals, Saudis in the Eastern Province (ironically where the first oil well was dug up in the 1930s) took to the street. They happen to be Shia, a minority of approximately 2 million people has had a history of protest to demand equality and real benefits from the oil pipes that run under their houses in Qatif, Awamiyya and other small towns scattered in the oil zone. Others in the Central Province, the heartland of Wahhabi Islam and the hub of support for the ruling house of Al-Saud, also took to the streets, demanding freedom for detained dissidents, held on terrorism charges or simply for establishing civil and political rights independent associations. The current economic crisis seems to be more dangerous than previous periods of austerity.

Regionally, Saudi Arabia is currently engaged in an aggressive and costly foreign policy. Saudi propagandists coined the term Salman Doctrine, a foreign relations plan that involves halting Iranian expansion in the Arab world from Beirut to Sanaa. The doctrine also involves reversing the outcome of the Arab uprisings, especially the rise of the Muslim Brotherhood in Egypt. Both objectives have cost a lot of money.

The rivalry with Iran dates back to 1979, immediately after the Iranian revolution. As the Mullahs in Tehran aspired to export their Islamic revolutionary zeal, the Saudis felt nervous. Several clashes with Iranian pilgrims during the annual pilgrimage seasons had further poisoned relations with Iran. As an ally of the US, the Saudis could not accept Iranian pilgrims chanting "Death to the Great Satan" (US) during the pilgrimage or engaging in excessive rituals deemed by the Saudi religious authorities as heterodox and blasphemous.

From the Saudi perspective, Iran is now dominant in four Arab capitals: Beirut, Damascus, Baghdad and Sanaa. But the Iranians claim that they defend themselves and their Shia co-religionists from the tide of radical and sectarian groups like Al-Qaida and the Islamic State. They accuse Saudis of spreading an intolerant Wahhabi religious tradition and even sponsor terrorist groups determined to exterminate the Shia in Syria and Iraq. Saudis accuse Iran of doing the same. The end result is a greater rivalry between two regional powers that is contributing to further death and destruction in the region through proxy wars and sectarian militias.

Over a year ago, Saudi Arabia launched the war in Yemen against the Houthis, considered as Iran's clients in Saudi Arabia's backyard, and their supporter, deposed Yemeni President Ali Abdullah Salih. The king claimed that this is to defend Saudi borders from the Shia Zaydi Houthis. He also needed this war to enhance the credentials of his young son, Muhammad, the Minister of Defense. The war was domestically important for the king as it silenced all dissenting voices, especially the Islamists who wanted Saudi Arabia to defend Sunnis against Shia expansion, previously dubbed by Saudis as the rise of a Shia crescent. Saudi Islamists who had previously criticised the Saudi leadership for contributing huge funds to ousting the Egyptian Muslim Brotherhood by generously supporting General Abd al-Fattah El-Sissi immediately moved to confess loyalty to the regime after it launched the war in Yemen. The war so far has succeeded in containing Saudi domestic dissent.

Up North, in Syria, the Saudis have been supporting Syrian rebels against Bashar Al-Assad, also considered an Iranian client. After curbing Iran's expansion, Saudi Arabia hopes to emerge from these proxy wars as the undisputed arbiter of Arab regional affairs. Unfortunately, this foreign policy is both expensive and unrealistic. Several years after these efforts, Saudi Arabia seems to be engaged in wars that are impossible to win. It continues to pour subsidies in a bottomless pit, nowhere more so than in Egypt, Syria and Yemen. It certainly has earned more enemies than friends by antagonising one of the most prolific social and political movements of the twentieth century, namely the Muslim Brotherhood, a transnational Islamist movement with many followers inside Saudi Arabia itself. This policy may have also contributed to strengthening radical Islamists such as the Islamic State in Iraq and Syria IS.

The rivalry between Saudi Arabia and Iran is definitely delaying any peaceful resolution to the regional conflicts in both Syria and Yemen. In the former, this has resulted in a refugee crisis that has definitely become a European problem. As the Saudis insist on deposing Bashar al-Assad as a precondition for any settlement, a peaceful resolution has become almost impossible to imagine or reach. While Iran and recently Russia continue to support the Syrian regime and the Saudis and their Gulf allies support various rebels, some are affiliates of radical groups, Syria may never emerge as a unified country in the near future.

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The current overambitious plan for the transformation of Saudi Arabia suffers from serious omissions. It remains a neo-liberal project that had been tested elsewhere but with mixed results. It is doubtful whether such an economic revolution can truly materialise in an opaque absolute monarchy, lacking rudimentary institutions, political representation and an independent judiciary. Authoritarian states are not known to generate long-term social and economic transformations. The country itself resembles a secretive private corporation, with multiple senior princes as shareholders.

Entrepreneurial skills are not something one can simply acquire over a short period of time. In the twenty-first century even well-established benevolent dictatorships have had to give away some powers in order to survive. If a certain Chinese model, where economic prosperity sits comfortably with autocracy, lures the young prince, he needs to read more history to learn hard lessons. The Chinese Communists simply made their state capitalism more competitive and vigorous. Unlike the Saudis, they did not have to contend with a radical religious tradition that still prohibits women from driving or mixing with men in an office.

The Saudis cannot open up a vigorous economy while the education system is still averse to critical thinking, risk taking, and innovation, all preconditions for a successful economic revolution. However, the main obstacles are not only those conservative and religiously fanatical clerics but a coterie of powerful and secretive princes who control the kingdom and its resources.

A sinister scenario may emerge if Saudi Arabia's new Vision 2030 does not take off as quickly as possible or oil prices continue their downward slide. Social upheavals are bound to happen. This has already taken place as thousands of the dismissed workers of the Bin Laden Construction Company, the largest in the Kingdom- and yes it is owned by Osama Bin Laden's family that had been operating in Saudi Arabia for decades- demonstrated and set buses ablaze in Mecca. The workers had not been paid for several months and were eventually dismissed from their jobs. The company got rid of a total of 70 000 workers since January 2016. With the current economic stagnation, the company does not have any state construction projects. Like all the private sector in Saudi Arabia, this construction company depends on state contracts. To make things worst, King Salman ordered an investigation of the company in 2015 when its cranes around Mecca fell and killed more than 2000 pilgrims. The Bin Laden Construction company had always won contracts to enlarge the Mosque precincts in order to accommodate millions of pilgrims.

While a mass protest movement akin to that in Tunisia, Egypt and elsewhere in the region is yet to emerge, albeit it is unlikely in the short term, small-scale sporadic violence and terrorism may become more common. Once the regime loses its ability to appease the population with subsidies and welfare, many Saudis may rethink their loyalty to the regime. If it opens the country too much to outside finance and the lifestyles that come with it, the regime's loyal clerics may withdraw their support and challenge the regime.

Saudi Arabia's economic problems and potential future political upheavals will have serious consequences abroad too. Europe and Asia are highly dependent on Saudi oil. Any political turbulence there will definitely make oil prices shoot up. Among other countries, Britain and France continue to see their relationship with the Saudis through the prism of commerce and defense, with the two countries competing to sell Saudis more Rafale and Tornado jetfighters. These relationships have shielded the Saudis from outside scrutiny. So neither their corruption nor their abysmal record on human rights has ever been an issue for the realist foreign policy of their European partners. If Vision 2030 is implemented, a Pandora's Box will be opened and these issues will become increasingly visible and problematic for both the Saudi regime and its outside allies. Surely more expatriate businessmen, bankers, lawyers and consultants would worry about their security and safety in a country where stoning, beheading, and lashings are common punishment. While such primitive and punitive measures are often disproportionately applied on workers from poor Arab and Asian countries, Westerners working to open the Saudi economy to global finance cannot be totally immune from the excesses of the Saudi system. Opening up the economy will definitely bring about unexpected and embarrassing encounters with Saudi Arabia that its outside patrons cannot protect it from.

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