

## Saudi Arabia: Historic Changes, Old Challenges

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### *Executive Summary*

The rapid ascension to power of Crown Prince Mohammed bin Salman bin Abdulaziz al Saud is unprecedented in the modern history of the Kingdom of Saudi Arabia. Through a series well-coordinated and determined moves Crown Prince Mohammed (better known as MbS) has isolated his rivals one by one, ensuring that there is no one left in the Al-Saud family to challenge his authority. Princes with decades of experience, and respect both domestically and internationally have found themselves simply swept aside by the ambition of the 32 year old Crown Prince. At the same time MbS has been in a hurry to use his new found powers to instigate radical social reforms alongside a wide-ranging set of measures to reform the country's stagnating economy in a project he has termed Vision 2030. Long seen as closed off, austere and conservative, the Kingdom has faced a number of challenges; a rising youth population with increasingly high levels of unemployment, a budget deficit triggered by years of lower oil prices, and an increasingly insecure threat environment on the Kingdom's borders have all resulted in the Saudi coffers haemorrhaging money, leading to alarming predictions from analysts close to the Prince that economic disaster was only just around the corner. Whether these changes will be enough to maintain Saudi Arabia's stability and the primacy of the House of Saud are difficult to assess. These are uncertain times, and the breadth of MbS' vision for the Kingdom, as well as his total desire to control all aspects of the change leave many worried that he has bitten off more than he can chew.

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## Economic Change

From the outset of his rise MbS identified the Saudi economy as a critical problem that must be fixed if Saudi Arabia was to remain a stable country. Still overly reliant on oil and a highly centralised state to redistribute wealth to its citizenry, Saudi has been left highly vulnerable to the consistently lower oil prices which emerged at the end of 2014. This severely damaged the Kingdom's finances, leading to a \$102bn or 15% drop in GDP in 2015. Drastically reduced state incomes led to MbS putting in place a programme for urgent reform and budget restrictions. Alongside tough austerity measures, the introduction of VAT, public sector wage freezes and significant reductions in state holiday allowances, MbS launched his Vision 2030, a massive programme for weaning the country off oil, diversifying the private sector, and changing the social fabric of the Kingdom.

MbS has set about trying to drum up support for his vision across the world. This year a series of high profile trips to the United Kingdom, the US, France and Spain to "sell" Vision 2030 to the world, and secure investor support for his reforms have dramatically raised the profile of the man, and increased the desire for investors to look more closely at the Kingdom's financial structures and transparency. MbS faces two major challenges; while great emphasis is placed on the role of the Saudi people in bringing about change in their country, it is a simple fact that Saudi Arabia will not turn a corner without significant foreign investment, and support for economic diversification. However to do this the Crown Prince has to increase Saudi Arabia's attractiveness as a place to invest, both socially and financially.

One of the major problems in bringing new business into the Kingdom has been the opaque way in which business is conducted. Many foreigners and Saudis alike do business under the distinct impression that the best way to obtain a business license or win a government contract is have contacts into the House of Saud and the Royal Court. This has led to years of shady business deals, and kickbacks to Princes to secure business deals, producing a culture of corruption in Saudi Arabia that is widespread.

In November 2017 MbS took action, dozens of the country's wealthiest men including senior members of the Royal Family were rounded up in the 5 star Ritz Carlton in Riyadh, and effectively jailed until they cut deals or signed over key business interests to the state. The son of the previous King, Prince Mitab bin Abdullah, is rumoured to have paid \$1bn to secure his release. The anti-corruption drive has proven popular with rank and file Saudis, who after three years of austerity measures, were more than happy to see a few fat cats getting their just deserts. Yet this brazen move appears to have backfired in the international arena, with investors becoming nervous that MbS is too keen to interfere in the world of business, and is using the anti-corruption drive as an excuse to remove political rivals, rather than change the culture of endemic graft among the business elite. As a result, MbS' recent tour to western countries has focused heavily on re-instilling confidence in Saudi Arabia, and its efforts to become more open and transparent place to do business.

Saudi Arabia announced its highest ever budget for 2018, indicating growing confidence that the major restructuring needed to bring the economy back to a position of growth is working. Saudi economists posit that in six years the days of multibillion dollar budget deficits will be gone and the Kingdom will once again return to surplus. This seems optimistic, higher oil prices in 2018 will be a boon for the Kingdom, but the Saudi public sector still drives the economy. Following three years of austerity, confidence remains fragile and the Saudi tadawul (or stock exchange) is often prone to shocks. Outside of a wealthy elite, every day Saudis have been feeling the pinch. Most have borne the lean years with good grace, with the understanding that something had to be done to turn the Saudi economy around. However the onus is now on MbS to secure a place for Saudi Arabia in the emerging global economy. High profile meetings with Facebook and Google executives, show that the Crown Prince has a penchant for moving high-tech industries into Saudi, but it will require more than the creation of an Arab silicone valley for Saudi Arabia to be competitive on the world stage.

## Social Change

In social matters the Crown Prince has had to tackle the overriding impression that Saudi Arabia is a conservative country, governed by an austere form of Islam that enforces draconian laws upon the population, and in particular women. It is here most of all that MbS has torn up the play book. Tackling issues that touch upon the very core of the Kingdom's identity, and the role of the Al-Saud as the Custodian of the two holy mosques. Yet it is precisely because these issues have been so sensitive that MbS has trucked no compromise with anyone standing against him. In September 2017 dozens of senior clerics and academics were arrested, some of whom like Salman al-Awda, and Awad al-Qarni hold quasi pop star status. As with his political opponents, MbS has shown little sympathy for those who oppose him, and clerics who continue to stand in his way may well face a long stay in jail.

MbS has overturned decades of social taboos by allowing women to drive, and relaxing restrictions on their right to travel unaccompanied. To the outsider this might simply be "the right thing to do", but in the context of Saudi Arabia it is truly remarkable. Up until now, Saudi Kings had always tended to go slow with such measures, fearing social backlash from entrenched conservative interests and constituencies in the Kingdom. But MbS has ignored previous logic and pushed ahead with a dramatic package of reforms, opening cinemas, allowing pop concerts, and increasingly allowing men and women to mix in public spaces.

His concerns are partly driven by economic necessity. Saudi women are projected to make up 30% of the labour force by 2030, they regularly outscore their male counterparts in standardised testing, and are a vital asset for the Kingdom's economic health. Quite simply, restrictive social laws prevent women from participating more fully in Saudi economic life, and so are best done away with. But more importantly the young Saudi population has been growing restless. MbS appears to have understood that something needed to change, before young tech-savvy Saudis began pushing for change themselves. Social norms were changing organically in the Kingdom anyway, and MbS understood that alienating a large sector of the population who would have begun to leave the country in droves, was a bad idea. It is this sector of the population upon whom MbS relies to drive through the changes of Vision 2030 and to turn the Kingdom's flagging economy around. Not everybody is happy, large numbers of conservative Saudis and some members of the Al-Saud are confused at the pace of change and believe MbS is going too fast for society to catch up. Some grumbling was always to be expected, but the scale of disillusionment is impossible to measure because the fear of punishment has led to many Saudis preferring to keep their counsel, and sucking it up. It is doubtful that MbS' rush to change Saudi society will make the country less stable, but it should be noted that it has not been to everyone's liking. There are limits to the amount of change that can be forced through, and Saudi Arabia will never fully be able to change its values and traditions, a fact that MbS knows well enough, and is sensitive to.

## Foreign Policy and Security

Saudi Arabia's foreign policy under the guidance of MbS has become increasingly hawkish. Characterised by aggressive positions on Iran, the Muslim Brotherhood and "terrorist organisations", a term which appears highly skewed to reflect Riyadh's current policy priorities. A growing sense that the West, and particularly the US has grown less interested in the region has driven Riyadh to increasingly seek its own path. As a consequence Riyadh has become more diplomatically assertive, more prone to using the military instrument, and more active in engaging with new regional actors such as Russia and China in an attempt to forge a Middle East region that is more attuned to its concerns. MbS has embarked on a comprehensive strategy to roll back Iranian influence from the region, even going so far as to warm ties with Israel to constrain Iranian regional moves. Antipathy toward the Islamic Republic is widespread among Saudi elites, and so MbS' hawkish positions toward Iran's regional activities are not all that unusual. What is unusual is the style in which he has chosen present his policies. Describing Iran's Supreme Leader, Ayatollah Ali Khamenei as "worse than Hitler", MbS has dramatically broken from the tone used by previous Saudi monarchs who largely refrained from criticising Iran in public, instead preferring to express their worries in private.

But for all MbS' talk of a regional roll back strategy, the Kingdom's record in taking the fight to Iran is chequered, and characterised by major policy blunders. For example, in an attempt to pressure Lebanese Hezbollah, a stalwart Iranian ally, Saudi Arabia forced Lebanese Prime Minister Saad Hariri, (a dual Lebanese-Saudi national) to resign in a bizarre series of events that led to Lebanon's fractured sectarian landscape to join together to roundly condemn the Saudi action and boost Hariri's popularity domestically. In May 2017 the Saudis - alongside the UAE, Egypt and Bahrain- committed another blunder by instigating an economic and political blockade against neighbouring Qatar, accusing it of funding terrorism, and interference in the affairs of other Arab states. In their desperation to survive the diplomatic onslaught, the super-rich Qataris dug deep into their pockets and began importing staple goods from Iran, while Doha's closest ally Turkey quickly stepped in to help ease the pressure. Western states looked on with a mixture of bemusement and anger as the crisis quickly turned into a stalemate which threatened to break the Gulf Cooperation Council permanently, and drive the Qataris into Tehran's open arms. Previously a defensive bulwark against Iranian interference in the Gulf, the GCC was viewed by Western states as a stable security zone in which Iran's activity was limited, and highly unlikely to fall victim to Iran's successful strategy of mobilising sectarian non-state actors in the weaker states of the Levant and Iraq.

Most notably of all, Saudi Arabia's war against the Houthis in Yemen has proven both arduous and unsuccessful. Three years of conflict has reduced areas of the country to rubble, and resulted in at least 10,000 civilian deaths, as well as widespread outbreaks of famine, Cholera and Diphtheria. Yet for all Saudi Arabia's billions of dollars spent, and high intensity of air strikes, the Houthis remain unmoved in the Yemeni capital of Sanaa, and have even begun to strike back deep into the heart of the Kingdom using Iranian supplied missiles that have reached the outskirts of Riyadh. It is an unwinnable war that has drained Saudi coffers, placed strain on their military resources, and proven deeply unpopular in Western capitals closely allied to Saudi Arabia. This despite the understanding in Washington, London and Paris that Saudi Arabia has legitimate border security concerns.

Riyadh's clumsy foreign policy is not entirely their own fault. Saudi Arabia needs the help of Western actors for its own strategy to be successful, and that has not truly been forthcoming. With the UK consumed by Brexit and largely beholden to the US on matters of regional strategy, and France a capable power but unable to take on the role of regional policeman, much has fallen to the Trump administration in Washington to up the ante. MbS held out high hopes for an end to the US-Saudi tension which had built up over the Obama years, during which the US not only engaged Iran diplomatically, but sought to encourage Riyadh to "share the region" with it. This was an anathema for Saudi Arabia, and a source of bitter resentment and anger. Much hope had been laid at the feet of the Trump who has consistently displayed a high level of antipathy for Iran, and voiced disdain at the JCPOA agreement which has capped Iran's nuclear enrichment activity. Yet for all its anti-Iranian bluster the current administration has struggled to do anything to really turn the tide against Iran's regional activity, and barely put into a place a strategy that can contain Iran effectively. On the issue of Qatar, Trump's initial enthusiasm for Saudi and Emirati actions quickly faded, and was replaced by a more cautious approach which

Given that US leadership has proved so inconsistent, Riyadh has had to work harder at its diplomacy to woo other regional actors to its cause. Or, at the very least, ensure such actors are not entirely in the sphere of Iran. Here there have been some successes, most notably with Iraq, Israel and to some extent in the horn of Africa. Saudi efforts to reengage Iraq after 26 years of diplomatic strain have borne fruit, the borders between the two countries are once again open, and Saudi business delegations are now a frequent sight in Baghdad. In February this year, the Saudi national team played a friendly match against Iraq in the southern city of Basra, a known strong hold of Shia militia activity. Iraqis welcomed the Saudi team with open arms, the match was a joyous occasion and went some way to repairing the many years of tense relations between the two countries.

With Israel, relations appear to be quietly developing behind the scenes. The main focus of cooperation is Iran, but Riyadh has also made the bold statement of allowing flights from India to Tel Aviv to pass over its airspace, a small but not insignificant step. The main sticking point however remains the issue of Palestine, and the moribund peace process. MbS appears genuinely interested in trying to provide a solution to the Israeli-Palestinian dispute. But it is doubtful that his influence will be enough to convince Palestinian President Mahmoud Abbas that the current deal on the table is worth taking. Israel for its part appears to want to do as little as possible to move the process forward, which places Saudi Arabia in an awkward position. Recent flare ups in Gaza have elicited almost no reaction from the Saudis, but should violence escalate it will be almost impossible for Riyadh to stand idly by and say nothing. Saudi's position as an Arab and Islamic country means that it cannot abandon the Palestinian issue, simply because of its fear of Iran. In the horn of Africa Saudi Arabia has maintained a successful policy of ensuring Iran does not gain too strong a foothold on its western borders. Saudi money has ensured governments in Djibouti, Eritrea and Ethiopia all acknowledge Saudi concerns, Somalia likewise understands Saudi concerns even if President Farmajo seems to prefer the Qatari riyal over the Saudi riyal at present.

## Implications for the UK

The Crown Prince's recent visit to the UK in March elicited a huge amount of heated discussion in the media, parliament and on social media. The PR war was in full swing, protestors and defenders did their best to make their voices heard, with London festooned with adverts both for and against the Crown Prince, alongside pages of adverts in all the major broadsheets. The debate broadly split between those fiercely critical of the UK relationship with Saudi Arabia, a warmongering ally with a terrible human rights record, and those who extolled the importance of Saudi as a regional ally Saudi Arabia, as well as noting the timely reforms that MbS has undertaken. This is not altogether surprising, Saudi Arabia is not Sweden, and its values and traditions are difficult for many British people to accept, or identify with. Additionally, Britain's close defence relationship with the Kingdom has tied it into an increasingly fruitless and tragic conflict on Saudi Arabia's southern flank, and been viewed as an enabler of the Kingdom's regional bellicosity. However, despite the raucous nature of the debate both for and against the visit, the the UK government has embraced MbS and his agenda for change.

MbS is a young man without political rivals and is likely to be at the helm of Saudi Arabia – the Arab world's most powerful country - for decades to come. For the UK government the need to establish a solid foundation in its relationship with MbS is therefore vital. The risk of alienating the Kingdom for decades, risks the UK's security interests, but more importantly its economic interests. The diversification of the Saudi economy championed by MbS is particularly attractive to the UK at a time of great economic uncertainty following the Brexit vote. Indeed, the Saudis have tried to position themselves as an attractive new market for Britain, drawing equivalence between their Vision 2030 reforms, and Brexit as joint moments of national change that could bring benefit to both sides. This ties into pre-existing UK policy, which has been governed by the 2015 Gulf Strategy, in which the UK has sought to advocate "shared prosperity" as the lynchpin of a deeper and long lasting relationship with all six Gulf States over the coming thirty years. The Gulf Strategy was not written with MbS in mind, nor indeed Brexit. Yet both the Brexit vote and the meteoric rise of MbS and his Vision 2030, seem to fit neatly within its confines.

On Foreign Policy it is clear that there are some fundamental differences, the UK has not been terribly impressed by the Kingdom's ham-fisted approach to either Lebanon or Qatar, and London would much rather maintain the JCPOA than push for the far more hawkish positions held by MbS or the current US administration. Yemen has also been an open sore which has caused great difficulty for those who advocate the UK's defence sales relationship with the Gulf states. Given that Britain has set a course for a closer relationship with the Kingdom, these differences will ever be present. Generally, the UK has tended to look at Saudi as a close ally on counter terrorism, and a strong defence partner, given the economic benefits the relationship could bring in the future, it is unlikely that these issues will be so insurmountable as to cause irreparable damage.