



The Saudi conundrum

Riyadh is entering a new and uncertain era, generationally, economically and strategically

IN A recent five-hour interview with Bloomberg News, Saudi Arabia's Deputy Crown Prince and newly emergent strong man, 30-year-old Defense Minister Muhammad bin Salman, reiterated an earlier declaration that Saudi Arabia was preparing to partially privatize the state-owned oil company ARAMCO and transfer its shares into a giant, \$2 trillion Public Investment Fund. The fund will then play a major role in the economy, investing at home and abroad.

"It would be big enough to buy Apple Inc., Google's parent Alphabet Inc., Microsoft Corp. and Berkshire Hathaway Inc. – the world's four largest publicly traded companies," he boasted.

The ultimate goal is that, in 20 years, Saudi Arabia will no longer be dependent on oil, but rather on the income produced by its investments.

Underpinning the plan is the need to cope with the multiple challenges: The precipitous drop in the price of oil and resulting deleterious effects on the Saudi budget; the regional upheavals that have posed new security challenges for the kingdom and resulted in an unprecedented degree of military muscle-flexing; uncertainty over the durability of the partnership with the US, the ultimate guarantor of the regime's survival and well-being for the last 70 years; the far-reaching social and demographic changes within the country stemming from decades of modernization; the continued centrality of the ultra-conservative Wahhabi religious establishment, and the need to fashion governing institutions appropriate to the new and more complex realities.

Ultimately, the overriding concern is to maintain the legitimacy and ensure the survival of the regime. This is no simple task.

In recent years, the rise of al-Qaida and Islamic State (ISIS) has cast a harsh light on Saudi Arabia's Wahhabi ethos and its global dissemination, even as the Saudi regime became the target of their terrorism. More than 1,000 young Saudis have joined ISIS ranks in Syria and Iraq, and recent ISIS attacks inside the kingdom included the murders of members of Saudi security forces.

Criticism of the educational and social milieu that fostered violent Sunni sectarianism has now become very much part of the media and intellectual discourse in Saudi Arabia, even as the tendency to deny that ISIS is in any way "Islamic" and insist that its rise is due primarily due to the actions of others (the West, Iran, Shi'ites) remains widespread.

A recent study by my colleague at Tel Aviv University's Moshe Dayan Center, Paul Rivlin, points to the interlocking challenges facing the Saudi leadership, and provides context to the ARAMCO initiative.

The country's population has increased 50 percent since 2000, numbering almost 30 million (including some 9 million foreigners), with more than 55 percent under the age of 30. Youth unemployment stands at 30 percent and during the next 15 years, nearly five million people will enter the labor market – more if the rate



Saudi Defense Minister Prince Muhammad bin Salman attends the gathering of the Defense Ministers of the Global Coalition against ISIS at NATO headquarters in Brussels, February 11

of women participating in the labor force increases. Saudi Arabia, therefore, needs to produce three times as many jobs for Saudi citizens (and not for foreign workers) than it did during 2003-2013.

Meanwhile, oil export revenues declined by almost two-thirds between 2012 and 2015, propelling the budget deficit to 15 percent of the country's GDP. One hundred billion dollars of the country's \$650 billion of foreign reserves has already been used to fill up gaps left by depleted oil revenues. According to a McKinsey study, the country's oil development model no longer works. Hence, the country's latest expenditure plans include a huge increase in the price of petrol, electricity and water along with a pledge to introduce a value added tax of five percent and additional taxes on soft drinks and tobacco.

Bin Salman's assertiveness has been no less noticeable in foreign affairs; supporting the Syrian rebellion and Egyptian regime to the tune of tens of billions of dollars, and opposition to any projection of Iranian power, directly or through Shi'ite proxies, resulting in a costly and controversial war in Yemen.

Overall, then, Saudi Arabia is entering a new and uncertain era, generationally, economically and strategically. The regime has considerable assets in hand, but nonetheless faces formidable challenges that will require a high degree of elite cohesion and attention to the broader sectors of the population, if it is to avoid the fate of surrounding failed states. ■

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