

Strategic Analysis Paper

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Difficult Times Ahead: The Challenges Facing Saudi Arabia

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Key Points

- The export of energy products constitutes over 90 per cent of all Saudi exports. Increased oil exports from Russia and the United States could see Saudi Arabia lose its dominant market share.
- Almost fifty per cent of Saudi Arabia's population in 2013 was under 25 years of age. Unemployment in that demographic stands at 12 per cent, increasing the potential for social unrest.
- The lack of renewable water resources, in addition to poor quality education standards, despite intense investment in physical infrastructure, could prove to be long-term threats.
- A possible thaw in US-Iran relations, combined with US commitment to traditional regional allies Jordan and Turkey, could diminish Saudi influence in the region.
- The Muslim Brotherhood, currently designated as a terrorist organisation by Saudi Arabia, could pose a political threat to the Kingdom in the future.
- Saudi Arabia faces security threats from violent extremist groups such as the Islamic State and al-Qaida in the Arabian Peninsula (AQAP).

Summary

Saudi Arabia, a kingdom whose energy exports account for over ninety per cent of its total exports, faces a conundrum: maintaining and diversifying its economy and, consequently, its export markets while countering increasing competition from the US and Russia in those markets. In addition, regional issues such as competition and power struggles in the Middle East, combined with domestic concerns, such as a lack of quality education, limited social freedoms, and a growing sense of dissatisfaction with the unequal distribution of wealth, indicate challenging times ahead for Saudi Arabia. How it chooses to confront these challenges could well determine its future economic and political stability.

Analysis

External Challenges:

Loss of Export Markets

The importance of the oil and gas industry to the Saudi economy cannot be overstated. In 2012, Saudi Arabia's top exports were crude petroleum (76%), refined petroleum (5.7%), ethylene polymers (3.7%), acyclic alcohols (2.9%), and petroleum gas (2.5%). These commodities represented over ninety per cent of its total export earnings of US\$395 billion. Its main export markets in 2012 were the United States (14.3%), China (13.7%), Japan (13.7%), South Korea (9.9%), India (8.2%) and Singapore (4.3%). In barrel terms, Saudi Arabia exported an estimated 7.5 million barrels per day, making it the largest oil exporter that year. The oil and gas industry is clearly critical to the Saudi economy, making recent technological developments in the international oil producing markets particularly troubling from the Saudi perspective.

The United States is currently undergoing a rapid expansion of its oil production capacity, stemming from new technological advancements in shale mining. Due to these advancements, the US produced an estimated daily average of 11 million barrels of oil per day over the first quarter of 2014, making it the world's largest producer of oil, and another 11 million barrels of natural gas. The US is expected to become completely energy sufficient within the next two decades. Consequently, Saudi Arabia's largest export markets are now China (19%), Japan (18%), South Korea (13%), India (11%), and Singapore (5.9%). While this is a concern in itself, the ramifications could reach further, as the US plans to increase its oil exports and will become a serious competitor to Saudi Arabia.

At the same time, while Russian gas giant Gazprom currently supplies Europe with a quarter of its gas needs, the recent Crimean crisis renewed awareness in Europe of the continent's energy vulnerability. In the event of a trade war due to a political impasse, crisis, or hostilities over the downing of a civilian airliner, Russia could use energy as a strategic weapon and dictate energy prices to Europe. Meanwhile, the US is urging Europe to diversify its energy sources and develop a local gas supply; recently discovered major natural gas deposits off the coasts of Greece and Cyprus could aid Europe to do just that. Consequently, Russia has sought new markets for its oil and gas exports, and naturally turned its attention

to neighbouring China. It was not surprising, therefore, that Russia and China recently concluded a US\$400 billion dollar energy deal, with at least one more similarly-sized deal in the offing.

While Saudi Arabia cannot afford to lose the Chinese energy market, currently its largest, China is likely to further increase its imports from Russia, for reasons of geographic proximity and to rid itself of its “Malacca Dilemma”. Recent developments, including Chinese investment in developing Russian oil companies and advanced infrastructure loans, along with Russia’s announcement that it will double oil sales to China and construct a natural gas pipeline between the two countries, indicate that China may start reducing its Saudi oil and gas imports in the next few years. This time period will prove crucial for Saudi policymakers: they will need to look for new export markets to sustain the eventual loss of its US, Chinese and smaller European markets.

Competition for the Role of Regional Hegemon

Saudi Arabia has had a frosty relationship with Iran for some time now. Islamic sectarianism aside, much of that frostiness stems from the mutual dislike between Tehran and Riyadh. Tehran appears to object to the House of Saud using its de facto role as the guardian and custodian of some of Islam’s holiest sites, including the Grand Mosque in Mecca, to derive its legitimacy. Iran sees itself as a democracy and removed from Saudi Arabia, which it considers an authoritarian dictatorship. Thus, when Muslim militants besieged the Grand Mosque in 1979 in an attempt to overthrow the monarchy, the Ayatollah Khomeini termed the occasion a ‘great joy’.

More recently, Saudi Arabia faces a major challenge in its quest for regional leadership. It fears that internationally-imposed, US-led sanctions on Iran could be loosened due to the tentative progress made in negotiations over Tehran’s nuclear programme. Saudi Arabia and the US have enjoyed a long, if at times strained, friendship, based largely on the need of the US for oil and the perception that the Saudis were “tough on terrorism”. As outlined above, however, shale oil developments in the US have made it much less dependent on Saudi Arabia for its energy requirements. This potentially gives Washington a decidedly freer hand in its dealings with the region, possibly with such ramifications as threatening the rule of the House of Saud and calling into question the value of the Saudi-US relationship.

Saudi Arabia must now realise that without the support of the US, which has recently turned its attention to Iran and appears to pay more attention to Riyadh’s traditional regional allies, Jordan and Turkey, it cannot hope to maintain its position of influence in the Gulf region. The economic prosperity that has sustained the House of Saud is under threat, and Saudi Arabia could find itself facing the prospect of being friendless in the Middle East. The Kingdom’s regional allies are fairly weak, so it will need to forge stronger alliances to protect its long-term interests. It must be noted, however, that Riyadh faces considerable difficulties in its efforts to form a regional political union, as noted by a previously published [Future Directions International study](#) of Saudi foreign policy.

Saudi Arabia’s relationship with Turkey is complicated, and revolves around the attempts of both countries to be perceived as the legitimate custodian of Sunni ideology and, by

extension, the vanguard of Islam. Turkey, a Muslim-majority democracy, also poses an ideological threat to the House of Saud's dynastic politics. The growing relationship between Turkey and Iran is also worrying for the Saudis, given the ideological opposition of those two countries to the Saudi Kingdom – for example, Turkey's support for the Muslim Brotherhood and Riyadh's proscription of the organisation as a source of terrorism, and Iran's Shi'ism versus Saudi Arabia's Sunni Islam – appearing to be the main contributing factors.

Turkey's claim to regional hegemony is bolstered by its NATO membership. In 2012, Turkey celebrated 60 years as a NATO member; it currently possesses the second-largest army within NATO, after the US. NATO, along with the US, has long considered Turkey a key ally in the region, and its democratic style of governance does help to endear it to the US. Emboldened by Turkey's economic and political prosperity, policymakers within the US recently have been pushing for a stronger US-Turkey relationship. With their potential to foster a sense of being isolated, closer ties between the US and Turkey and, possibly, Iran, do not bode well for Saudi Arabia. Addressing that should be of key importance to the Saudi Government if it wishes to increase, or indeed maintain, its regional influence.

The Muslim Brotherhood

The threat posed by the Muslim Brotherhood to Saudi Arabia also requires attention. The recent designation by Riyadh of the Muslim Brotherhood as a terrorist organisation has placed increased strain on relations within the Middle East. Currently, the Muslim Brotherhood is recognised as a terrorist organisation by Saudi Arabia, Bahrain and Egypt. Notably, Turkey and, to a lesser extent Iran, support the organisation. The Turkish Prime Minister, Recep Tayyeb Erdogan, is believed to be a mentor of the Brotherhood, exacerbating Saudi dislike and fear of the organisation. Saudi concerns over the Muslim Brotherhood in large part stem from the fear that it could pose a political threat within the Kingdom, and incite a revolution similar to the 2011 Egyptian revolution.

Regional Violent Extremism

Recent escalations in violence in Iraq are troubling for Saudi Arabia as, geographically, it now has extremists gaining a strong hold in both Iraq and Yemen with the potential for the violence to spill over into the Kingdom. Consequently, the Saudi security forces have been placed on high alert. The most immediate threat is likely to be the Islamic State (formerly ISIS), which, despite the tactical and materiel constraints that it would face, has publicly expressed its desire to attack the Kingdom. The threat posed by al-Qaida in the Arabian Peninsula (AQAP), which has previously attempted to attack Saudi Arabia from Yemen, should also not be underestimated.

Internal Challenges:

Internal Social Pressures: Sectarianism, Jobs, Water and Education

Saudi Arabia is facing a number of internal problems, many of which stem from growing economic disparities and dislike of the current government. Anti-government sentiment grew in the wake of the 2011 Arab Spring, and recent counter-terrorism laws passed have compounded the situation, since anyone who speaks out against the monarchy or the

government can be classified as a terrorist, leaving people unable to voice their concerns. They resort to using social media networks; over forty per cent of all Internet users in Saudi Arabia use Twitter, making the country the highest user of the medium, relative to population, in the world. Human Rights Watch, like other human rights groups, has deemed the new laws a legitimised form of oppression against protestors, claiming that they, and not violent terrorists, are actually the intended targets.

Tensions between Sunni (93% of the Muslim population in Saudi Arabia) and Shia (3%) are also a factor, with the Shia population alleging widespread discrimination. This could become a significant problem, as the most heavily populated Shia areas of the country are in the east. Their relative proximity could lead to Iran (where the Shia-Sunni divide is reversed), attempting to extend its influence across the Persian Gulf into Saudi Arabia. This could, perhaps, involve extremist groups affiliated with Iran, such as Hezbollah, infiltrating into, and striking at targets within, Saudi Arabia. Crucially, eastern Saudi Arabia is also where the majority of the Kingdom's oil wells are located.

The Saudi Government must also address other economic and social issues, including unemployment, a lack of clean drinking water, and a poor education infrastructure. Unemployment in Saudi Arabia, especially among its youth (47% of the Saudi population in 2013 was aged under 25), is high, with jobless estimates of around twelve per cent. Despite the relatively strong economy, Saudi nationals lose higher-paying job opportunities to better educated and more qualified foreign workers; approximately 1.5 million of the two million available jobs (both skilled and unskilled) in 2009-12 were filled by foreign workers. Also, due to its strict Wahhabi principles, employment opportunities for women are severely restricted. This, coupled with the increased number of young people expected to enter the labour market over the next few years, will provide a considerable challenge for the Saudi Government.

A sustainable source of clean drinking water needs to be another priority for the Saudi authorities. Like many of its neighbours, Saudi Arabia faces the serious threat of water insecurity. Being a desert country, water is extremely scarce. The Saudi Government drilled tens of thousands of tube wells in the 1970s and also operates 27 desalination facilities that produce a combined total of around three million cubic metres per day of potable water. More than two hundred dams harvest around 450 cubic metres of run-off from flash flooding annually. Additionally, the Kingdom is investing in water-recycling technologies with recycling plants constructed in Riyadh, Jeddah and several industrial centres. In Riyadh, for instance, 50 million cubic metres of water annually is pumped over 40 kilometres to irrigate 15,000 hectares of wheat, fodder and palm trees. With only 0.7% of its land surface comprising fresh water, however, much more needs to be done. The effect of insufficient water is already being felt in cities such as Jeddah, an important economic hub, where water, due to extreme shortages, needs to be trucked in, and deliveries that used to take one hour now take three days.

Perhaps the most difficult of the domestic challenges that Saudi Arabia is addressing is the shortcomings of its education system. Despite billions of dollars being invested, amendments to legislation and compulsory training courses, the quality of teachers remains

problematic. In the period 2008-12, Saudi Arabia had a very high literacy rate for people in the 15-24 year age group: 99 per cent for males and 97 per cent for females. Despite this potential national advantage, the lack of available jobs contributes to a general sense of disillusionment. Education for women is restricted due to a strict adherence to the Islamic principle of gender segregation, which prevents female students from being taught by male teachers unless it is via video link, or by creating a barrier between the teacher and the students. This restricts proper communication and the free exchange of ideas and, effectively, a quality education.

Compounding the matter, the best schools in Saudi Arabia are private institutions that charge exorbitant fees, leading to accusations against the government that only the rich can afford a quality education in Saudi Arabia. While private schools in any country tend to attract perceptions of providing the “best” or most prestigious education, the disparity in Saudi Arabia between the public and private sectors appears to be particularly pronounced. Public schools in Saudi Arabia rely heavily on rote learning and memorisation, and do not offer additional subjects like music, sport, theatre and art. By comparison, private schools favour a teaching style where critical thinking is encouraged, European and North American curricula are followed, and there is no gender segregation in the classroom. These factors support the complaints of some Saudi citizens that they are disadvantaged educationally. They also highlight the fact that a two-tier system of potential employees is evolving, which adds to the Kingdom’s troubles.

Conclusion

The internal, external and ideological challenges facing Saudi Arabia are serious, but not unmanageable if the government acts swiftly. If the House of Saud works to alleviate the issues this paper has highlighted, it is likely they will be perceived by their citizens as truly having their welfare in mind. That would then create more support for the rulers among the ruled, allowing the House of Saud to concentrate upon its external challenges.

Any opinions or views expressed in this paper are those of the individual author, unless stated to be those of Future Directions International.

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