

BICOM Briefing

Transform or bust? Implications of the Saudi revolution

June 2018



Key points

- *Saudi Arabia needs to undergo rapid internal reforms* to its unsustainable economic and social model by reducing its dependence on oil and creating economic opportunities for its large youth population – both men and women. This presents potential economic opportunities for Britain and other third parties, but the risks of economic failure or domestic backlash are significant.
- *US retrenchment and growing regional threats have also prompted a more diverse and proactive regional policy*, especially to contain the influence of Iran, but with risks of overreach or miscalculation.
- *Saudi interests increasingly overlap with those of Israel, especially regarding Iran, but only up to a point.* Without progress on the Palestinian issue, Israel-Saudi cooperation will remain limited and covert. Meanwhile, Israel is concerned about Saudi acquisition of advanced weaponry and its ambition to match Iran's nuclear capability.
- *To unleash the potential of Saudi Arabia to play a constructive role in regional stability*, the UK, along with the US and other Western governments will need to commit to a coordinated, long-term regional strategy to contain the threats posed by Iran and its proxies as well as Sunni Jihadists.

Introduction

The UK's relations with Saudi Arabia, as well as other Gulf states, build on historic ties, and longstanding economic and strategic considerations. The UK's 2015 Strategic Defence Review described Gulf Cooperation Council (GCC) states as: "vital partners for the UK in working towards sustainable, long-term regional stability, in addressing direct threats to the UK from terrorism, extremism and organised crime, and for our energy security." *Saudi Arabia remains by far the world's largest oil exporter and second largest producer with close to one-fifth of global reserves, according to estimates.* In addition, the Gulf states are an important market for British goods, including defence equipment, and a source of investment.

However, relationships face considerable scrutiny within the UK because of Saudi Arabia's domestic [human rights record](#), its promotion of extremely conservative forms of Islam, its role in crushing protests in Bahrain in 2011, and more recently its military intervention in Yemen. Human rights concerns include the wide use of the [death penalty](#) for offences including drug trafficking. In some cases the death penalty has been used as a punishment for protesting against the government, or the lack of women's rights.

The context of the relationship is changing as Saudi Arabia attempts rapid and radical change driven by its charismatic young Crown Prince Mohammed Bin Salman (MBS), who has risen rapidly since his 82-year-old father King Salman ascended to the throne in 2015.

This briefing addresses the risks and opportunities for British interests in the region, including the potential for changes in Israeli-Arab and Israeli-Palestinian relations.

Mohammed bin Salman

The Power behind the Throne



Age: 32

Crown Prince, First Deputy Prime Minister, Defence Minister

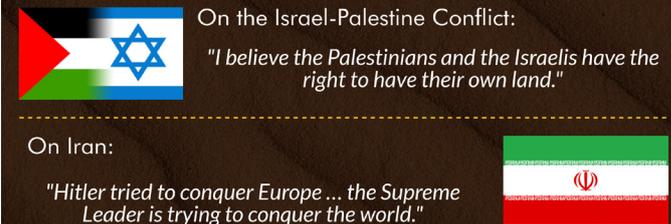
Son of the current King, Salman; grandson of founder of modern Saudi Arabia "Ibn Saud"

Driving force behind Saudi reform agenda, Chief of Court and Deputy Crown Prince

Quotes:

On the Israel-Palestine Conflict:
"I believe the Palestinians and the Israelis have the right to have their own land."

On Iran:
"Hitler tried to conquer Europe ... the Supreme Leader is trying to conquer the world."



Domestic policy initiatives: implications and risks

Saudi Arabia's traditional socio-economic model is unsustainable. Global oil demand is widely expected to [continue to rise](#) steadily in the coming decades despite the shift to electric cars and greener energy production, due to growing demand in other transport sectors and petrochemicals. However, the Kingdom is facing rapid population growth and a large youth population, coupled with unstable oil prices and the threat of falling market share. Therefore, the monarchy can no longer maintain authority and loyalty through disbursements from oil revenues, and allow foreign workers to fill the labour market. Whilst the need for change has been recognised for years, MBS is leading reforms with unprecedented urgency and determination.

Vision 2030 is an ambitious reform plan to reduce oil dependency. The core of the plan is to diversify the economy, create millions of jobs for young Saudis (40.5 per cent of under 24s are unemployed), introduce and enforce taxation; and reduce subsidies and the size of the public sector.

The need for economic change demands a no less challenging social and religious reform driven by the need to bring women into the workforce. Vision 2030 aims for 30 per cent

female participation in the workforce by 2030. This is crucial for middle class, urban families to make ends meet. It is also key to improving Saudi Arabia's international image and opening up the country to outsiders. But emancipating women from a patriarchal society challenges the traditional culture and hierarchy.

Plans to attract international investors and hi-tech industries include a new "independent special zone" called Neom. This is planned to be built on the northern Red Sea coast, extending into Egypt and Jordan and close to Israel, which plans to operate its own judicial system and social norms. A large zone of tourist resorts is planned further south and feasibility studies are underway to span the Red Sea with a Saudi-Egypt causeway.

MBS has been intensively promoting Saudi reforms with visits to Western capitals. In an extraordinary two week US tour in March 2018, he met US President Donald Trump, senior administration figures, former Presidents, leading journalists, business leaders and cultural figures, as well as Jewish community leaders.

Central to funding the reforms is selling five per cent of Saudi Aramco in the largest IPO in history. The success of the IPO is crucial to endowing the Saudi Public Investment Fund (PIF), bankrolling domestic expenditure,

What are MBS's reforms?

OIL	ISLAM	IRAN
		
Reduce Saudi dependency on oil.	Calling for a more "moderate Islam"; touting counter-extremism; allowing women to drive.	A more assertive foreign policy to counter Iranian influence, including military intervention against Iranian backed forces in Yemen.
Create jobs for unemployed under-24s in new industries.	Calling into question association with ultra-conservative Wahhabi Islam.	Supported the US withdrawal from the Iran nuclear deal.

expanding the Saudi private sector, and curbing growing debts. However, [sceptics](#) highlight challenges such as lack of transparency, and uncertainty about reserves and the future oil market, which may bring down share values.

The pace of change is rapid, with MBS showing remarkable readiness to confront elites and taboos. In June 2018 women will be able to apply for driving licences for the first time. Hollywood movies will be shown for the first time since 1979. Meanwhile, in November 2017 MBS orchestrated the extraordinary arrest of 200 wealthy Saudis for corruption, incarcerating them at the Riyadh Ritz Carlton. The individuals,

including princes, were confronted with allegations and required to sign over illicitly gained wealth to the state.

MBS stresses the need to promote “moderate Islam,” raising questions about the Kingdom’s long association with the ultra-conservative Wahhabi brand of Islam. Radicalisation poses a major threat to the Kingdom, both in terms of regional armed groups – and to the youth within Saudi Arabia itself. The government proudly touts its anti-radicalisation [monitoring centre](#) to foreign visitors.

However, whilst enjoying support from the youth, the top down reforms risk a backlash from vested elites, both economic and religious. September 2017 saw a wave of arrests of [critics](#) of the Crown Prince, raising concerns for his centralising and authoritarian approach. In May 2018, leading campaigners for women’s rights were arrested, apparently [signalling](#) a retreat from social reforms.

The fundamental change in the social contract – introducing taxes and reducing handouts – may also create greater demands for political, social and economic liberalization and opportunity, in what remains an absolute monarchy.

Pressure will likely build as reality inevitably struggles to meet ambition in the near term, especially if private sector jobs fail to materialise at the promised pace, and if international investors shy away. Private sector investment fell in 2017 and the business community is warier following the arrests in November 2017.

The Kingdom’s Eastern provinces, which are the main source of oil, also have a Shia majority, which faces suspicion, discrimination, and restrictions on religious activities which are an ongoing potential source of unrest.

Saudi profile: key data

- **Demographics:** The population has [grown](#) from 6m in 1970 to 32m in 2016 and is [expected](#) to reach 39m by 2030. [More than half](#) are under 25. [Youth unemployment](#) (15-24) is 32 per cent and [female participation](#) in the workforce is 20 per cent. Approximately 11m (of the 32m) are foreign workers (mostly Asian or Middle Eastern).
- **Economy:** Oil was [projected](#) to be about 70 per cent of government revenues for 2017.
- **Gender inequality:** “[Guardianship](#)” laws mean every woman has a male “guardian” who makes critical decisions on her behalf.
- **Political profile:** Saudi Arabia is an [absolute monarchy](#). There are no national elections, no political parties, all media is state controlled, and all Saudis must by law be Muslims.
- **Religious conservatism:** The religious authority of the Saudi royal family has for 250 years been rooted in an alliance with the ultra-Conservative Wahhabi school of Islam.
- **Centrality in Islam:** Saudi Arabia includes the two holiest mosques in Islam, in Mecca and Medina, where Mohammed preached and gained power. Mecca attracts millions of Muslim pilgrims each year.

Foreign policy changes: implications and risks

US retrenchment and increasing threats from Iran and Sunni Jihadists since the “Arab Spring,” has prompted a more assertive, though at times haphazard, Saudi regional policy.

In 2011, Saudi forces entered neighbouring Bahrain (where a Sunni monarchy rules over a Shia majority country) to help crush an anti-government protest movement. In this intervention, and other regional conflicts, the UAE, led by its 57-year-old Crown Prince Mohammed Bin Zayed, is a key partner.

The Saudi government warmly welcomed Trump’s decision to withdraw from the Iran nuclear deal. The Kingdom called for reinstating sanctions and international efforts to address the wider policies of Iran including not only the nuclear program but “Iran’s interference in the internal affairs of countries in the region,” and “its support of terrorism”.

The Saudi government has also worked to stabilise Egypt and Jordan, two key Sunni Arab neighbours threatened by Muslim Brotherhood or Sunni Jihadists. It has provided significant financial assistance – its traditional foreign policy tool.

Saudi Arabia has recently launched the Islamic Military Counter Terrorism Coalition, with Sunni Muslim near-neighbours Egypt and Pakistan. The coalition aims to increase counter extremism capability and coordination, though could be critically [interpreted](#) as an anti-Iranian alliance.

Since MBS became Defence Minister (in 2015) and now Crown Prince, a series of foreign interventions have raised concerns in Western capitals about his judgement. These include:

- *The military intervention in Yemen* has fuelled a massive humanitarian crisis, attracted widespread condemnation about the bombing of civilians, and led to missiles being fired directly into Saudi cities.
- *Leading a four-state boycott of Qatar, which has isolated Qatar to an extent, but has so far not brought about Qatari compliance* with an expansive list of [demands](#) ranging from downgrading diplomatic ties with Iran to shutting down Al Jazeera.

- *Orchestrating the resignation of Lebanese Prime Minister Saad Hariri, a Saudi client, from Riyadh,* which raised accusations that Hariri had been compelled by the Saudis, and which was reversed a few days later.

A new source of concern is Saudi nuclear ambitions. The Kingdom has said it will seek to match Iran in gaining full control of the fuel cycle, in addition to issuing tenders for the first two of a planned 16 nuclear power plants. Though controlling the fuel cycle would take many years and huge [cost](#), this technology would theoretically grant the Kingdom nuclear weapons capability. In the past Western analysts have noted that Saudi Arabia has the potential to acquire military nuclear technology from Pakistan.

[Relations with Israel and the Israeli-Palestinian arena](#)

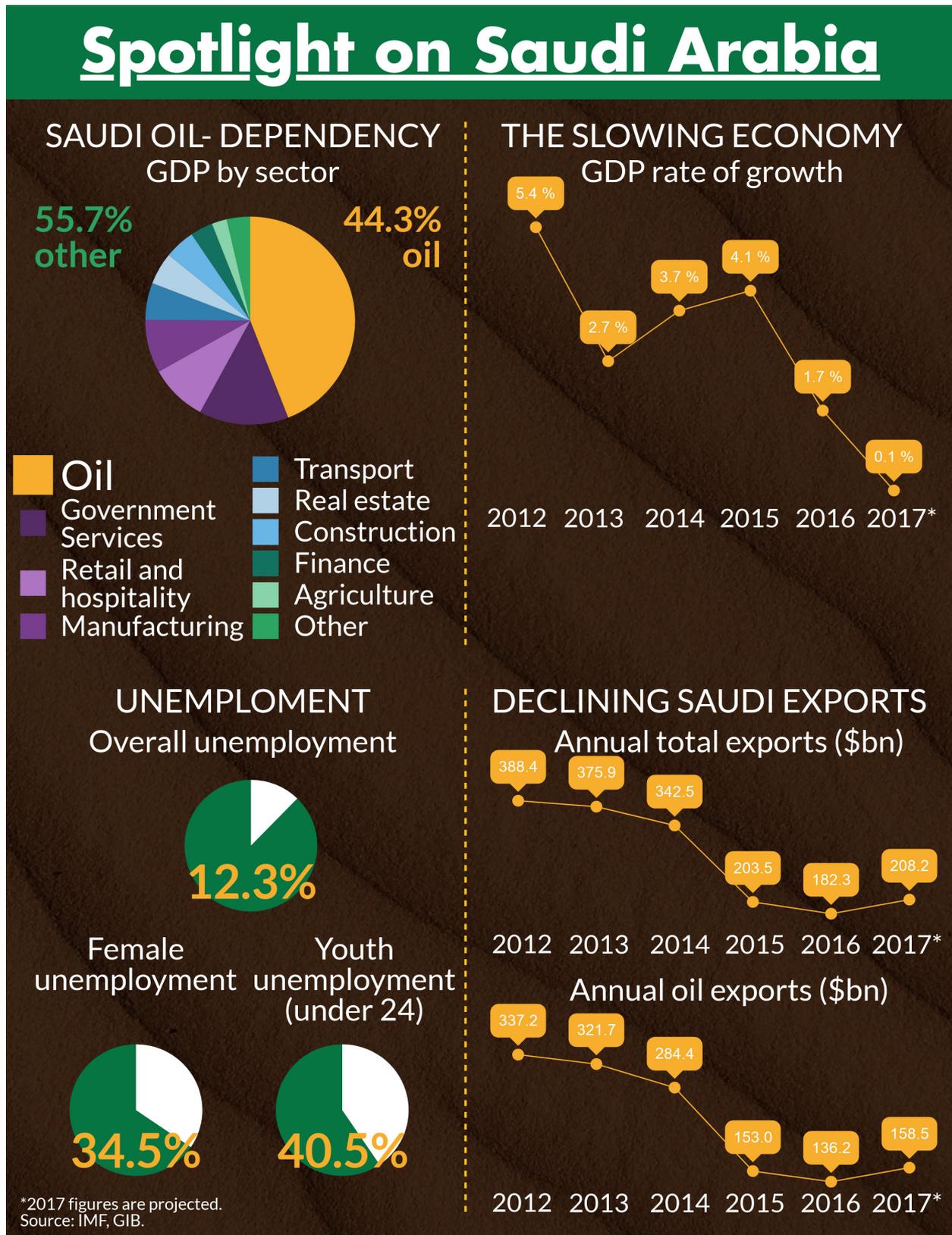
Obama’s retrenchment policy and outreach to Iran was critical in pushing Israel and Saudi Arabia closer together. There are no formal relations and covert contacts remain secretive. However, Saudi Arabia clearly [sees](#) in Israel an important ally in containing Iran and its proxies, especially in southern Syria, as well as Sunni Islamists. Israeli leaders are watching Saudi reforms closely and there is [enthusiasm](#) across the political spectrum to engage with Saudi leaders.

MBS has indicated publicly at his personal openness towards Israel, saying in a recent [interview](#) “I believe the Palestinians and the Israelis have the right to have their own land”. The recent decision to allow Air India flights from Tel Aviv to Delhi to pass over Saudi airspace is a small step reflecting this mood, as was a January 2018 [letter](#) from the Secretary General of the Saudi-backed Muslim World League repudiating Holocaust denial.

MBS has shown readiness to back a Trump administration peace initiative, with a close dialogue between MBS and Jared Kushner. He has applied [pressure](#) on Palestinian President Mahmoud Abbas to engage. The Saudis would reportedly be willing to offer public support if it fell within the parameters of the [Arab Peace Initiative](#), which Saudi Arabia launched in 2002. Indeed a recent [report](#) from Israeli *Channel 10 News* claimed that MBS reportedly

told American Jewish leaders in March: “In the last several decades the Palestinian leadership has missed one opportunity after the other and rejected all the peace proposals it was given. It is about time the Palestinians take the proposals and agree to come to the negotiations table or shut up and stop complaining.”

The Saudis share an interest in advancing Israeli-Palestinian diplomacy, which would advance stability and marginalise Islamist extremists including Hamas, Hezbollah and their Iranian backers. They also have a religious attachment to Jerusalem and a need to maintain legitimacy among their own public and across the Islamic world.



However, in the Israeli-Palestinian arena, with high risks and low chances of reward, is not a Saudi priority. The Saudi leadership does not appear keen to lead or get too heavily invested. It has kept its distance from the Hamas-run Gaza Strip, in comparison to Qatar and the UAE, and has provided only sporadic and relatively modest financial support to the PA.

Similarly, more substantive normalisation with Israel will remain impossible so long as there is little realistic prospects of substantive progress on the Palestinian issue. Being seen to normalise relations with Israel without addressing the Palestinian cause is potential exposure for the regime, domestically and regionally, that it can do without.

Saudi Arabia will no doubt be hoping Israel is successful in preventing Iran establishing a permanent military presence in Syria and made no public response to Israel's broad airstrikes against Iranian military infrastructure in Syria on 1 May.

Saudi Arabia remains sensitive to criticism from regional rivals that it is not committed to the welfare of Palestinians, and [chaired](#) an emergency Arab League summit on 16 May which condemned Israel over the deaths of Palestinian's on the Gaza-Israel border. If Israel becomes embroiled in a major armed conflict against Iranian proxies in Gaza, Lebanon or Syria the Saudis will likely be caught again in a position of privately hoping for Israeli success, but dealing with a public atmosphere of hostility to Israel and its actions.

Trump's Jerusalem announcement made it harder for Saudi Arabia and other Arab states to back his peace efforts. King Salman used an Arab League summit he hosted in Dharan in April to [condemn](#) Trump's recognition of Jerusalem as Israel's capital and pledge \$150m in support for maintaining Muslim heritage in East Jerusalem. This reflects the need of the Saudi leadership to maintain a public commitment to the Palestinian issue and Jerusalem, as well as a generational gap, with the King reflecting greater emotional attachment to the Palestinian issue.

That said, were Israel to show clear commitment to a two-state solution, the Saudis have the potential to play a substantial role

in offering incentives with the offer of steps towards normalisation. The economic potential of access to Saudi and other Arab markets would be enormous, as spelled out in a 2016 report by the [Israeli Regional Initiative](#) group. Netanyahu frequently alludes to unprecedented cooperation with Arab Gulf states, whilst centre-left opposition leaders frequently call for the government to unlock the full potential of these relations by [conditionally accepting the Arab Peace Initiative](#) for a two-state solution.

At the same time it should be noted that Israel remains concerned about Saudi nuclear ambitions as well as the acquisition of advanced weaponry from the US, which could erode Israel's qualitative edge and potentially fall into more dangerous hands should the monarchy be destabilised.

UK interests in Saudi Arabia

[Economic ties](#)

With its ambitious "Vision 2030" development plans, the UK government sees Saudi Arabia's as an increasingly significant potential consumer of British goods and services. It also sees it as a potential investor, as Britain prepares to leave the EU. In 2016, bilateral [trade](#) in goods and services with Saudi Arabia were worth nearly £9bn, and some 30,000 Brits live and work in Saudi Arabia. After the visit of MBS to London in March 2018 a joint [communiqué](#) agreed "public procurement with UK companies in Vision 2030 priority areas, including on: education, training and skills; financial and investment services; culture and entertainment; healthcare services and life sciences; technology and renewable energy; and the defence industry." However, the public target of \$100bn of procurements and investment over a 10-year period remains an aspiration, with few deals closed in new fields during MBS's visit.

The Saudi ARAMCO IPO is a major prestige opportunity for the London Stock Exchange. This provides the Saudis with another source of leverage over the respective governments of the UK, US and China whose stock markets are shortlisted.

However, Saudi Arabia's poor human rights record will continue to make the relationship controversial within Britain, especially around defence-related exports. Substantial parliamentary and public scrutiny exposes a longstanding tension between British economic and strategic interests and human rights concerns. Between 2007 and 2016, the Middle East accounted for 59 per cent of Britain's close to £70bn worth of defence orders, with Saudi Arabia, Kuwait and Oman all major importers. BAE systems signed in March 2018 a provisional deal to provide a further 48 Typhoon fighter jets to the Saudi Air Force. However, Labour has promised if elected to "immediately suspend any further arms sales for use in the conflict [in Yemen]".

Security and defence ties

The post Arab-Spring hopes for a wave of democratisation have given way to a renewed focus on stability and security among Western governments in the wake of the rise of Islamist forces and especially ISIS. British and Saudi officials frequently credit intelligence cooperation for saving many British and Saudi lives from attempted Jihadist attacks.

British Prime Minister Theresa May has reaffirmed Britain's commitment to working with Saudi Arabia and other Gulf States, declaring in a speech a GCC summit in December 2016 that "Gulf security is our security". This comes as the Trump administration reaffirmed its pro-Saudi policy in contrast to Obama, who proposed that Saudi Arabia needed to "share the region" with Iran. In 2016 the Prince of Wales opened a UK naval station in Bahrain, indicating British commitment to its military capability in the region. The UK provides training and advice to Saudi forces and a handful of Saudi officers train at Sandhurst.

Reforms touted by MBS offer to address long-held concerns about Saudi Arabia's role in promoting Islamist extremism, including in Britain. The Kingdom has also been a source of global funding and support for extremely conservative forms of Islam, feeding Islamic radicalisation around the world. In the UK this includes endowments for mosques which have hosted extremist preachers, and training in Saudi Arabia for UK based Imams.

Saudi Arabia's more assertive regional policies are making it a more significant player in the future stability of states coping with huge refugee flows and other economic and humanitarian challenges, as well as Islamist extremism. This includes states where the UK has strong interests, including Egypt and Jordan.

UK officials consider Saudi Arabia's recent re-engagement in Iraq a significant success, with Riyadh offering economic and cultural opportunities to win support and compete with Iranian influence. The Trump administration has called on Saudi Arabia to invest in Iraqi reconstruction, but the Saudis are concerned to see the US commit to maintain their military presence.

Despite the domestic political pressure over Saudi actions in Yemen, the UK government is likely to remain committed to a close relationship, resist calls to freeze defence contracts, and to pursue a more measured and productive Saudi regional policy through intensive dialogue, including recently instituted six-monthly ministerial dialogues.

Conclusion

Saudi Arabia needs to undertake major and rapid reform to make its social model sustainable. The success of this process and the maintenance of Saudi stability opens up significant economic and strategic opportunities, which explains UK enthusiasm. That said, British policy makers need to be realistic about the prospects and pace of reform and cognisant that the process involves considerable risks as well as significant opportunities. Nor can they expect that Saudi Arabia will adopt anything like Western standards of human rights in the near future.

It is particularly apparent that the Saudi leadership has struggled to tie its newfound regional activism with a clear strategy and achievable goals. Here the UK could engage in a close strategic dialogue, and work with the US and other allies to develop a broad and coordinated strategic framework in support of clear and achievable foreign policy goals to stabilise Arab states and contain Iran, including urgent steps to stabilise the situation in Yemen.

Saudi Arabia has the potential to play a constructive role in the Israeli-Palestinian arena including investing in Palestinian development, offering diplomatic support to Palestinian leaders, and offering the incentive to Israel of normal diplomatic and economic ties. Whilst this is an opportunity to be encouraged, it will be difficult to exploit it without pragmatism and flexibility from Israeli and Palestinian leaders.

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