



The Saudi Paradox

Ian Bremmer

Whichever candidate takes the presidential oath in 2005, the Oval Office inbox is sure to contain a large folder marked “Saudi Arabia.” Three critical global problems intersect in the desert kingdom: the soaring price of oil; the Saudi role, passive or active, in promoting Islamic radicalism; and the possibility that an archaic political system, with its thousands of privileged princes, may finally totter, destabilizing the strategically vital Persian Gulf. For decades, American presidents have paid only token attention to Saudi Arabia. In return for Riyadh’s cooperation in keeping oil prices at tolerable levels (which also serve the kingdom’s interests), and as a reward for Saudi Arabia’s moderation on the Arab-Israeli conflict, Washington has played down the contentious issue of human rights and supplied the Saudis with sophisticated U.S. weaponry. But this long-standing, bipartisan arrangement was rendered obsolete by the new oil shock, by terror attacks within the kingdom, and by the September 11 assault on New York and Washington, planned by the Saudi Osama bin Laden and carried out by Saudi hijackers.

Given the ongoing turmoil in Iraq and the ongoing deadlock between stateless Palestinians and terror-traumatized Israelis, the path of least resistance in U.S.-Saudi relations would be to limit the agenda to rhetoric in return for empty promises of reform from the Saudis—thereby evading the tough questions in a troubled bilateral relationship. That would be a grave mistake.

Before September 11, Americans generally thought of Saudis as moderate Arabs

and were content to set aside differences with a generally obliging client state to ensure the smooth flow of Gulf oil. Washington wanted to believe that the Saudis provided “an island of stability in a volatile region,” to recall the sanguine phrase used by President Jimmy Carter to describe Reza Pahlavi’s Iran in 1978, a year before the Shah’s fall. Since September 11, many Americans have learned to rethink their no less sanguine views of Saudi Arabia. They have discovered that the affable demeanor of the Saudi ambassador, Prince Bandar, conceals uncomfortable truths about his country. It is widely understood that the Saudi royal family has purchased protection for its anachronistic political system by ceding to radical Islamic movements the right to educate Saudi youth and to preach whatever they wish in the kingdom’s mosques. Although Prince Bandar explains that the Saudi government has a modern and moderate view of the West, Saudi cabinet ministers argue—with a straight face and without a royal rebuke—that Israeli intelligence masterminded the 9/11 attacks.

How Vulnerable Is Saudi Oil Output?

The war on terror aside, soaring oil prices have reminded Americans of the vital importance to the global economy of Saudi oil production. Not only does Saudi Arabia export more oil than any other producer, a fourth of the world’s known reserves lie beneath its soil; the reserves of Russia, Nigeria, and Alaska together do not match the desert kingdom’s. To be sure, reserves need to be located and developed. But simply

tapping Saudi Arabia's spare capacity could help drive down the oil spike, and that could be done on short notice. Today's global oil market is exceptionally tight.

In 1985, the Organization of the Petroleum Exporting Countries (OPEC)—of which Saudi Arabia has, by far, the most oil—held about 15 million barrels a day of spare capacity, or about 25 percent of world demand at that time. As a result, the OPEC cartel could quickly raise output to lessen any global disruptions caused by inflated energy prices. In 1990, OPEC still had about 5.5 million barrels a day of spare capacity, or about 8 percent of world demand. Today, its spare capacity totals about 2 million barrels a day, less than 3 percent of global demand—and it is almost entirely in Saudi hands.

Washington thus must weigh the consequences of a radical regime change in the kingdom and the shock waves a Saudi revolution would send through the entire Muslim world. While Iran's neighbors saw its 1979 Shiite revolution as a threat to Sunni Muslim dominance of the Arab world, the observant faithful in the Middle East might sooner imitate a Saudi revolution than fight to contain it.

Yet the instability many fear in Saudi Arabia remains beyond the horizon. Allowing always for the unpredictable in a jittery region, the fears that a terrorist attack on the Saudi oil industry might nevertheless seriously disrupt output are overstated. A near-term takeover of the country by Wahhabi radicals, the puritanical Islamic sect that has deep roots in the kingdom, appears as unlikely.

The concern that Saudi production is vulnerable to attacks on oil workers or infrastructure is understandable. The kidnapping of foreign contract workers and the terror attacks on a variety of targets within the kingdom has abetted fears that the Saudi oil industry is at risk. Expatriates are indeed leaving Saudi Arabia, but Aramco—the national oil company—does not need them to

maintain current levels of production. Arab engineers with world-class engineering skills already fill Aramco's technical staff. Even if the foreign exodus intensifies, it is unlikely to affect output.

Not only does an ample supply of technically qualified personnel ensure steady oil output, but there are also redundancies in the oil transport infrastructure. There is enough spare pipeline capacity to allow Saudi engineers to bypass damage to one pipeline, or even a pipeline group, without missing a beat in production. And Saudi oil facilities are more effectively protected than in neighboring Iraq, where infrastructure sabotage remains a serious problem. As many as 30,000 guards protect Saudi Arabia's oil infrastructure at any given moment, while high-technology surveillance, aircraft patrols, and anti-aircraft installations defend key locations.

Moreover, to inflict truly devastating damage on Saudi Arabia's refinery capacity, terrorists would have to do more than blow up random bits of pipeline. Abqaiq, the world's largest oil-processing complex, is simply too large a target to be crippled by anything less than a hijacked Boeing 747, a formidable logistical challenge for any terrorist group.

How Serious Are the Risks of Implosion?

Recent events have quickened the concern that the Saudi regime might collapse from within. It is worth recalling that scarcely anybody in intelligence or in academia foresaw the scale of the Iranian crisis of 1978–79, and the latent strength of the ayatollahs. Might not Saudi Arabia produce the next Islamic revolution?

Not this year. A look at the differences between Iran in 1979 and Saudi Arabia today is instructive. The security services permeate Saudi society more broadly and deeply than the Shah's Savak penetrated Iran in the late 1970s. And unlike the Shah, the Saudi royal family has co-opted the radicals. There is currently enough royal money flow-

ing through traditional tribal patronage networks to buy loyalty. Perhaps more importantly, the Saudi royals have essentially handed over education and cultural policy to influential Wahhabi clerics. This “unholy alliance” irks the United States and may ultimately destabilize the country but, so far, this system has worked as the royals intended. In Teheran during the late 1970s, the Shah actively alienated Shiite mullahs with his globalizing policies and aggressive secularism. By contrast, Saudi clerics are allowed enough freedom and influence to blunt serious Islamist challenges to the monarchy, at least for now.

However, because the immediate threat to stability in Saudi Arabia seems minimal, there is a risk that whatever administration assumes office will take the expedient route of offering empty criticism while doing little publicly or privately to address a real, growing threat to the stability of the region and the world economy.

Stated bluntly, the Saudi status quo is unsustainable. In fact, over the long term, the threat of a Saudi upheaval makes it the world’s largest single political risk—defined by the probability of a Saudi political earthquake multiplied by the magnitude of the impact of such an upheaval on U.S. national security and the global economy.

To begin with, a demographic disaster is already looming. With a high birthrate and virtually no family planning, Saudi Arabia’s population has jumped from 7 million in 1980 to almost 21 million today. Because the Saudi economy has never appreciably diversified beyond the energy industry, per capita income has fallen, and unemployment has risen precipitously. At the height of the oil boom in the 1980s, the kingdom’s per capita income was around \$17,000. By 2003, this figure had dropped to around \$8,200, lagging far behind the per capita income of other Gulf oil producers. This decline is even steeper when corrected for inflation and the plunge in the dollar exchange rate. Gross domestic product grew

by only 1.6 percent between 1990 and 2000, while the country’s population grew at an annual rate of 2.7 percent.

Real unemployment currently hovers above 20 percent. An even higher percentage of Saudis live below the poverty line. This worsening economic situation has malignantly affected a deeply conservative society. The kingdom contends with a rapid and unprecedented rise in crime; total incidents have ballooned an estimated 320 percent between 1990 and 1996 alone. And since nearly 60 percent of the Saudi population is under 20 years old, the most severe demographic stress on the Saudi economy has yet to hit the job market.

The exodus of skilled foreign workers exacerbates the lack of diversification in the Saudi economy. Saudis are not commonly trained to manage the high-skill sectors outside of oil production, and foreign workers are routinely hired to handle the foreign technology on which so much of the economy depends. Speaking at an energy conference in Washington in December 2003, the Saudi minister of petroleum and mineral resources, Ali al-Naimi, declared that the government intended “to expand and diversify the Saudi economy; and to create new jobs for a growing population.” But Saudi ministers have been saying virtually the same thing for years, and progress toward real diversification, along with job creation to combat high unemployment, is not happening nearly quickly enough.

To address these problems, Crown Prince Abdullah (Saudi Arabia’s effective sovereign, given the precarious health of King Fahd) has announced ambitious reform plans that include privatization, liberalization, and diversification of the economy. However, conservative opposition within the ruling family is strong and limits the pace of reform. In addition, reform is expensive. By some estimates, the financial cost of state-led economic diversification may exceed \$100 billion over the next generation,

while the national debt is already more than 100 percent of the country's gross domestic product. Even with increased oil revenues, the Saudi government lacks funds to finance diversification of the economy without the extensive private-sector participation that many conservatives oppose.

A prime example of Saudi economic reform is known as Saudization—a development strategy by which indigenous workers replace foreigners. The guidelines of the consultative Shura Council—Saudi Arabia's appointed legislature—dictate that by 2007, 70 percent of the workforce must be Saudi, with the process accelerated in specified industry sectors. Among the major obstacles to these reforms is the ongoing reluctance of many Saudi college and technical school graduates to accept what are considered menial jobs; they are simply unwilling to join the ranks of approximately 6 million expatriate workers who now fill these positions. As for the more appealing jobs, it is estimated that barely 2 percent of the graduates of Saudi universities and technical institutes are qualified for them.

The idea of Saudization is not new. The sixth in a series of five-year development plans (1995–2000) set as a goal the creation of nearly 319,500 jobs for Saudis through replacement of foreign workers. But instead of a reduction in the foreign workforce, the number of expatriates over the targeted period actually grew by 58,400.

Two reasons explain why Saudization has so far failed. First, many Saudi firms in the service sectors—where the kingdom's Labor Ministry has already ordered the acceleration of the replacement of foreign workers with Saudis—fear Saudization will undermine their competitiveness by requiring employment of unqualified workers. As a result, some firms have left the country for what their managers deem more business-friendly environments. The resulting loss of business to other regional banking centers undermines efforts to boost employment and encourages many of the best-

qualified Saudi workers to emigrate in search of better jobs.

Second, the reforms threaten to reduce foreign direct investment in the kingdom. Some foreign firms argue that Saudization not only puts them at a disadvantage with foreign competitors, but that the entire program is unpredictable, with rules and quotas on the hiring of local workers subject to change without warning. The Saudi government is aware of these issues and has reduced the tax burden on foreign investors to encourage investment and prevent capital flight. But the larger point is that quotas for hiring Saudi workers are no substitute for a serious and sustained effort to overhaul the Saudi education system and its ability to produce workers ready to contribute to competitive enterprises.

Schools Planted in Dogma

What is perhaps most dangerous for Saudi political stability is that these failed reforms reinforce the kingdom's "expectations gap." There is an enormous divide in the perception of affluence between the generation that produced Saudi Arabia's leaders—who are in their sixties and grew up with next to nothing—and young Saudis, who see only the wealth of the extended royal family and the meager standard of living of nearly everyone else. Poverty, mass illiteracy, high infant mortality, low life-expectancy, and the absence of hospitals, schools, and telephones that preceded the discovery and exploitation of oil were replaced during the boom years of the 1970s and 1980s with an explosion of wealth so sudden that the generation that experienced it can only think of Saudi Arabia as a rags-to-riches success story. Today's Saudi youth—the majority of the population—takes oil wealth as a given. They know only that their share of these riches seems derisory and there are too few jobs for them.

At the heart of the problem is a failed educational system. An increasing number of Saudis can only afford the education pro-

vided by fundamentalist Wahhabi schools where students are mainly instructed in a fundamentalist view of Islam, and are not taught the skills essential to compete in a global marketplace or to understand the world beyond Saudi Arabia's borders. Saudi universities are significantly overcrowded and continue to turn out masses of students with degrees in "Islamic Studies." This does little to wean the economy from its dependence on oil, or to nudge the political system away from its symbiotic alliance of royals and Islamic radicals. Largely because the Saudi system of education continues to be based on the rote learning of patriotic and religious texts, students entering university are ill prepared for courses that demand technical competence.

Of the 120,000 graduates of Saudi universities between 1995 and 1999, only 8 percent studied technical subjects such as architecture or engineering. These students accounted for only 2 percent of the total number of Saudis entering the job market. Today, 30 percent of Saudi adult men, and half of Saudi Arabia's women, are functionally illiterate. Few graduates find work to support their families, and, given their heavy diet of dogma in school they become easy prey for religious leaders who preach hatred of non-Muslims and encourage jobless youngsters to join the armed struggle to return Islam to an imagined golden age of world supremacy.

A Role for Washington

Washington could play a catalytic role in encouraging—and pressuring—the Saudi regime to undertake substantial economic, political, and educational reforms. As with so many initiatives meant to increase America's influence abroad, effective public diplomacy is critical—but it has to be public diplomacy focused on the right issues.

Some urge the United States to use whatever leverage it has to push the Saudis toward sweeping democratic reform, a strategy more likely to sow resentment than to

succeed. Far wiser to focus immediately on reforming education. This is not to suggest that democracy is less important, but that ordinary Saudis are still so poorly prepared for this century's challenges that rapid democratization would be more likely to cause young Saudis to retreat from the world than to begin cautiously to engage it.

Education reform can produce Saudis qualified for the jobs in a new economy that will significantly enlarge the Saudi middle class. As the Saudi political scientist Turki Hamad says, "The problem in Saudi Arabia is that the middle class is shrinking...and the more poverty you have, the more fundamentalism you have." Until the Saudi system of education adequately prepares its students to revitalize the country's economy, fundamentalist, anti-Western voices will dominate the political and social debate.

It is not patronizing, only realistic, to caution that not all societies are promising candidates for sweeping political reform. Early elections for a national government would legitimize those anti-modern voices because Islamists would very likely sweep into power. In that event, social, political, economic, and education reform would be off the table. A period of more limited social change is necessary if the democracy that ultimately emerges in Saudi Arabia is to be stable and enduring. The stakes are simply too high to encourage a process likely to favor the most ambitious and charismatic demagogue in a society with so little available information about the outside world.

To suggest that Saudi Arabia is not ready for full-speed democratization does not mean that all steps toward the expanded participation by ordinary Saudis are premature. Modest democratic reforms have already been announced, and carrying them out could build momentum for more lasting change. A meaningful start would be to begin to move toward the establishment of an elected national Shura Council whose proceedings were fully public. The council

should have the power to enact legislation, to authorize and appropriate the expenditure of public funds, and to levy taxes. This council ought to function within a system that provides genuine checks and balances among the legislative, judicial, and executive branches of government.

The municipal elections planned for 2005 will give Saudis their first experience with democracy. The Saudi government can demonstrate its seriousness about political reform by establishing rules for electioneering, campaign financing, and voting that allows for the creation of electoral movements able to contest elections. The Saudi government's recent consultation with United Nations electoral experts was a welcome move. Over time, this process could widen to the national level, with more of the seats in the national Shura Council being determined by direct election rather than appointment. Public targets should be set so that ordinary Saudis can see that real progress is being made toward opening up the political system. Pledging that half the seats in the national council could be directly elected before the end of this decade, for example, would be smart and useful.

The evolution of political reform in other Arab monarchies, including Jordan, Morocco, and the Gulf Emirates, offers important lessons—if the Saudis are genuinely interested in learning from them. Modest but genuine efforts to tackle corruption in the judiciary, to promote civil society and human rights groups, to encourage more open media, and to conduct multiparty elections at the local level now have a legitimate track record in the Arab world.

Past attempts to silence reformist voices have seriously undermined the Saudi government's credibility. Those who advocate a more open and liberal polity should be given the same opportunity to speak directly to Saudi citizens as those who promote religious fundamentalism. An important benchmark would be the release of those who have been arrested for advocating

the peaceful transformation of the kingdom into a constitutional monarchy similar to those in Morocco and Jordan.

Obviously, persuading the Saudi royals to relinquish their stranglehold on power will not be easy. Municipal elections are a good first step, but if victory were to go to Taliban-style anti-modernists, the reform process would grind to a halt. The coming year will provide a critical opportunity to see how the logistics of planning for Saudi elections will play out. If the elections are not patently farcical, and if serious candidates are elected and subsequently given authority to tax and spend, we will see the beginning—if only the beginning—of real political reform.

Oiling the Wheels of Commerce

Some economic reforms, especially those required for accession to the World Trade Organization, have already begun. But if the Saudi government resists reducing existing subsidies—except for payments to preserve the social safety net—development of the private sector will remain limited. A significant part of future growth will come from small and medium-sized businesses that are still constrained by the government's micro-management of the economy. If the Saudis offer incentives—or at least cease creating obstacles—to entrepreneurs, the economy might begin to build its own momentum.

Promoting a dynamic private sector is crucial for Saudi Arabia, particularly because the slump in employment and non-oil growth derives from the decline over time in the government's ability to stimulate private-sector growth with its own oil-generated revenues. If the privatization of state-owned sectors of the economy slows, the already considerable—and growing—disparities in wealth and access to capital will widen. The successful initial public offering of Saudi Telecom and the introduction of competition in the wireless and air transport sectors should set a standard for further privatization.

If the government completes efforts to set accounting and transparency standards for both publicly traded as well as state-owned companies, the Saudis will be better able to win more foreign direct investment and to create new jobs for Saudi workers. The Saudi stock market, the largest in the region in terms of capitalization, is overdue for reform. The implementation of a new stock exchange statute, the establishment of an oversight body like the Securities and Exchange Commission, and the creation of brokerage services are at the top of the reform agenda.

The enforcement of contracts and judgments in Saudi Arabia are not yet standard practice. There is still a two-tiered system for doing business in the kingdom: one for the royals and their allies, and another for everyone else. The Saudi government needs to ensure strict guarantees for equality of access to the courts and other regulatory agencies for all businesses and corporations. It has to end the practice of maintaining one set of standards for “ordinary” businesses and another for firms connected to members of the royal family. The courts must also be prepared to enforce contracts and judgments that apply to members of the royal family.

Finally, it is necessary to reform government finances. For the past six years, the Saudi Finance Ministry has successfully enforced the principle that government revenues cannot be spent if they have not been duly budgeted. The result has been greater accountability in government expenditures. The publication of detailed annual budgets would be a further positive step toward the recognition that public revenues belong to all the Saudi people. Greater transparency is also in order when public property is sold or granted to private interests. The state oil company, Aramco, should submit to full disclosure of its finances to counter suspicion that oil revenues are being siphoned away and that the government is not receiving its rightful share.

Economic and political reforms are plainly twinned, the two sides of a single coin. Only an elected Shura Council can give ordinary Saudis the leverage necessary to attempt to trump the influence of entrenched elites. Many current policies, such as the free import of cheap labor from Asia, which discourages the employment of Saudi nationals, are fiercely protected by these elites. The reforms that the kingdom is obliged to enact to gain membership in the World Trade Organization, and to address the goals laid out in the United Nations Arab Development Report, will require some degree of public acceptance; they cannot be imposed from above. Having local and national elected bodies creates the basis for a sustainable reform effort.

An Educated Citizenry

The long-term success of reforms in the kingdom depends on the emergence of a citizenry capable of playing an informed and active role in their society. This requires educational reform. It does not make sense anymore—if it ever did—to argue that what a nation teaches its children is not the business of those who live elsewhere. Debate within the kingdom has focused on the need to eliminate those aspects of the Saudi curriculum that promote intolerance, extremism, and bigotry. Obviously, an internal debate is more likely to produce effective results than lecturing by outsiders. But the opinions of outsiders can inform the discussion as Saudi airwaves become more open to the world beyond. The Saudi government should undertake a continuing review of all books and other educational materials, just as postwar Germany worked to ensure that racist and xenophobic themes were no longer taught in German classrooms.

A new Saudi curriculum should strengthen critical thinking skills that are plainly not encouraged by a system that relies on rote memorization of religious texts and authoritarian teaching methods. The regulation of Muslim religious schools in

Singapore, Malaysia, and other East Asian states provides a model for combining a traditional Islamic course of study with a curriculum designed to produce students capable of functioning within the framework of a modern economy.

As is increasingly apparent from the Saudi media, social reform (including with respect to the role of religion, women, and education in society) has increasingly become the focus of public and private debate. The quality of Saudi public discourse has come a long way since September 11, and particularly since the initial al-Qaeda attacks on Saudi territory in May 2003. A great deal of what Saudis now write and say publicly about themselves and their society would have been dismissed by most of the population as “Zionist propaganda” as recently as two years ago. That’s progress.

Any thoughtful strategy for addressing all of these problems will require difficult, expensive, long-term fixes, often with little short-term benefit. And because the Saudi system remains so opaque, progress will be

difficult to gauge. But if the need for reform—particularly of education—is ignored, the Saudis will not be the only ones who will pay the price of failure.

No Early Rewards

Saudi Arabia is stable today primarily because it is a closed society. Those who would formulate and implement reforms fear they will generate instability. But the beginnings of a transition toward a more open and competitive Saudi Arabia are long overdue. The Saudi royal family, with support from the United States and others, has to set in motion a process that offers no early rewards. If the Saudis themselves do not pull down the walls that separate them from the rest of the world, those walls will collapse of their own weight. The risk is the same if the walls are pulled down too quickly. Finding a resolution of this paradox will not be easy. Nevertheless, it seems fair to say that unless Washington plays a positive role, we could see the worst of all possible scenarios play out in this pivotal country. ●