

## Arcanum in the news



### IT'S TIME FOR THE UNITED STATES TO START WORRYING ABOUT A SAUDI COLLAPSE

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As if there weren't already enough problems to worry about in the Middle East, Saudi Arabia might be headed for trouble. From plummeting oil prices to foreign-policy missteps to growing tensions with Iran, a confluence of recent events is mounting to pose some serious challenges for the Saudi regime. If not properly managed, these events could eventually coalesce into a perfect storm that significantly increases the risk of instability within the kingdom, with untold consequences for global oil markets and security in the Middle East.

Here are some of the percolating problems that could throw the country off kilter.

**Fissures Within the Royal Family.** Last week, the Guardian published two letters that an anonymous Saudi prince recently circulated among senior members of the royal family, calling on them to stage a palace coup against King Salman. The letters allege that Salman, who ascended to the throne in January, and his powerful 30-something son Deputy Crown Prince Mohammed bin Salman have pursued dangerous policies that are leading the country to political, economic, and military ruin. In an interview with the Guardian, the prince insisted that his demand for a change in leadership not only had growing support within the royal family but across broader Saudi society as well. "The public [is] also pushing for this very hard," he claimed. "They say you have to do this or the country will go to disaster." The article, which includes the letters, written in Arabic, has been shared more than 15,000 times.

**The Yemen War.** The longer it drags on, the greater the risk that the Saudi intervention against Houthi rebels could become a serious source of internal dissension. In its story on the prince's letters, the Guardian reported that "many Saudis are sickened by the sight of the Arab world's richest country pummeling its poorest." Particular blame is attached to Prince Mohammed bin Salman, who also serves as the kingdom's defense minister and by all accounts has been the driving force behind the war effort. Tagged with the unofficial nickname "Reckless," Prince Mohammed bin Salman has been accused of rushing into Yemen without a clear strategy or exit plan, resulting in mounting costs in blood and treasure, an ever-expanding humanitarian crisis, and growing international criticism.

Economic Problems. Thanks largely to Saudi policy, oil prices plummeted by more than 50 percent in the past year. Facing a market glut due to the U.S. oil boom, Saudi strategy has been to maintain high production, fight for market share, allow prices to collapse, and wait for higher cost producers, particularly in America, to be driven out of business. With cheaper oil spurring increased demand and squeezing out excess supply, the theory was that higher prices would return before the kingdom ever felt any real economic pinch.

But it hasn't quite worked out that way – at least not as quickly as the Saudis anticipated. Indeed, Saudi Arabia's 2015 budget was based on the assumption that oil would be selling at about \$90 per barrel. Today, it's closer to half that. At the same time, the Saudis have incurred a rash of expenses that weren't planned for, including those associated with King Salman's ascendance to the throne (securing loyalty for a new king can be expensive business) and the war in Yemen.

The result is a budget deficit approaching 20 percent, well over \$100 billion, requiring the Saudis to deplete their huge foreign exchange reserves at a record rate (about \$12 billion per month) while also accelerating bond sales. The Saudis have reportedly liquidated more than \$70 billion of their holdings with global asset managers in just the past 6 months.

While there's no danger that the kingdom will run out of money anytime soon, the longer this trend of large budget deficits, lower oil prices, and declining foreign exchange reserves continues, the more nervous international markets will become – with potential implications for key indicators like credit rating and capital flight. Adding to long-term concerns is the fact that Saudi net oil exports have been in slow decline for years as internal energy consumption rises dramatically. Indeed, analysts now suggest that rapidly expanding domestic demand could render the kingdom a net importer of oil by the 2030s. It goes without saying that such a development poses a mortal threat to the kingdom, where oil sales still account for 80 to 90 percent of state revenues.

As for battling deficits by cutting expenses and imposing austerity, it's hardly an attractive option for a government whose main weapon for staving off domestic discontent since the start of the 2011 Arab uprisings has been to shower its people with more free stuff. Energy subsidies alone have comprised about 20 percent of Saudi GDP. There are also extensive subsidies for food, housing, water, and a wide range of other consumer goods. As they mull the risks of reform, you can be sure that the Saudis are acutely aware of the role that sharp increases in the cost of living played in triggering revolts across the Middle East, including in Tunisia, Egypt, and Yemen.

On top of its growing fiscal problems, the kingdom's economy continues to be burdened by a rash of other ailments as well. Saudis under the age of 30 make up two-thirds of the population and approximately 30 percent of them don't have jobs. And while hard numbers are difficult to get, reports of astonishingly high poverty rates among native Saudis persist, with some suggesting it could be as much as 25 percent.

Hajj tragedy. Two major disasters marred this year's pilgrimage to Mecca: the collapse of a crane that killed more than 100, followed by a stampede that left at least 769 dead – with many unofficial counts insisting that the real number trampled could eventually reach the thousands. In the aftermath, the Saudis have been hit by a wave of unprecedented criticism over their management of the hajj. This is serious business, indeed. The House of Saud's stewardship over Islam's holiest sites goes to the very core of its claim to run the country. Call into question the royal family's continued

fitness to serve as custodians of Mecca and Medina and you're quickly calling into question the political and religious legitimacy of the monarchy itself.

Escalating Conflict With Iran. Iran in particular has seized on the hajj tragedy to intensify tensions with the Saudis – which, of course, were already at fever pitch over the nuclear issue and Iran's destabilizing activities throughout the region. More Iranians seemed to have died in the stampede than any other nationality; the latest count is 464, and it could still go higher. When the kingdom was slow in repatriating bodies, Iranian officials went on the attack. Iran's supreme leader, Ayatollah Ali Khamenei, warned the Saudis that they could face a "brutal and violent reaction" if they "show the slightest disrespect to Iranian pilgrims." Khamenei said that Iran had so far shown great restraint in the face of Saudi offenses, "but they should know that Iran's hand is superior to many others and has more capabilities." He concluded that, "If [Iran] wants to react to disturbing and sinister elements, [Saudi Arabia's] situation will not be good." Iran's former defense minister, Revolutionary Guard Gen. Mostafa Mohammad Najjar, followed up by telling the Saudis to take Khamenei's warning "seriously" because Iran was capable of giving a "strong and crushing" response to Saudi wrongdoings.

Hassan Nasrallah, leader of Hezbollah, called for Saudi Arabia to forfeit management of the hajj to a committee of Muslims. The head of Iran's Supreme National Security Council, Ali Shamkhani, charged that "after [the Islamic State], Saudi Arabia has inflicted the greatest harm on Islam." Revolutionary Guard Gen. Ali Fazli, deputy commander of Iran's internal security force, the Basij, claimed that the kingdom's support of the Islamic State and other Sunni extremist organizations had greatly contributed to the Mecca disaster. Speaking about an upcoming Shiite religious celebration, he expressed hope that "one day, with the fall of [the House] of al-Saud, we will be able to celebrate Eid al-Ghadir at its true location" – meaning, of course, Mecca.

Beyond the hajj tragedy, Iran appears to be escalating its challenge to Saudi interests in other theaters as well. On Sept. 30, the kingdom announced that it had seized an Iranian fishing boat loaded with weapons on its way to resupply Houthi rebels fighting the Saudi coalition in Yemen. The next day, the kingdom's neighbor and close ally, Bahrain, said it had uncovered a bomb-making factory with close links to Iran's Islamic Revolutionary Guard Corps. Bahrain immediately withdrew its ambassador from Tehran and declared Iran's top envoy persona non grata "in light of continued Iranian meddling in the affairs of the kingdom of Bahrain ... in order to create sectarian strife and to impose hegemony and control." The next day, Iran retaliated by evicting the Bahraini chargé d'affaires.

And in Syria, of course, the past several weeks have witnessed the full-blown emergence of an Iranian-Russian military coalition to keep the Assad regime in power and battle rebels that the kingdom supports. In conjunction with the start of a major bombing campaign by Russian combat planes, Iran has allegedly sent hundreds of more troops to Syria to help lead a new ground offensive to reclaim territory lost to forces backed by the Saudis.

U.S. Retrenchment. Russia's dramatic intervention in Syria has underscored a much broader threat now rocking the kingdom: the growing reality that America is abandoning its traditional role as guarantor of Middle East stability. That's of course very bad news for the Saudis, who have hitched their survival for 70 years to Pax Americana. Now, that U.S.-defended order appears to be unraveling before their eyes. Instead, the new normal is Washington cutting diplomatic deals that promise to embolden the kingdom's worst enemy in Iran, while protesting meekly as its main geopolitical

rival, Russia, seeks to overturn the region's balance of power. As surely as night follows day, the rapid decline of American power and reliability inevitably leaves Saudi Arabia increasingly exposed and vulnerable.

No one has gotten rich betting on the House of Saud's early demise. Over the decades, they've shown remarkable staying power in the face of political, ideological, and military currents that have swept away lesser regimes. So predicting that the royal family could now be on the cusp of real trouble is a bit of a fool's errand.

That said, the dangers should be taken seriously. The regional environment that the kingdom faces is perhaps unprecedented in its hostility. The Middle East is collapsing, its state system in free fall. The Arab Spring long ago turned into an Islamist Winter. An Iranian-Russian military axis hungry for hegemony and higher oil prices gathers strength on Arabia's borders. And America is headed for the exits, leaving little in its wake but demoralized allies, emboldened adversaries, and chaos.

All the while, as described above, the challenges besetting the kingdom internally slowly continue to mount. Call up any list of warning signs that a society may be approaching the danger zone with respect to possible instability and match it up against what seems to be happening in the kingdom today. Growing elite fissures: check. Mired in a costly foreign war: check. Increasing economic stress: check. Signs of eroding legitimacy: check. Rising power of hostile foreign actors: check. Declining power of traditional foreign protectors: check.

Of course, it's hard, if not impossible, to gauge whether any of these factors are close to reaching something like a tipping point for the Saudis. Again, if history is any guide, they probably are not. We may still be at the very early stages where everything remains quite manageable through wise and timely decision-making.

What does seem safe to say is that most of the key indicators now appear to be headed in the wrong direction simultaneously – perhaps for the first time ever. In that sense, there could be a greater risk than in the past that, left unattended, these negative trends might eventually converge or cascade in ways that could overwhelm the system.

Yes, the risks that the worst will happen may be low. But the consequences of widespread instability in the kingdom are potentially so deleterious to U.S. interests that the risks should nevertheless be heeded. As bad as things are now in the region, a meltdown in Saudi Arabia would make the current crisis pale in comparison.

While the United States may be severely limited in terms of what it can do in the short term to help the kingdom address its mounting challenges internally, it still has significant capability to alleviate some of the rising external threats and pressures that the Saudis face. That is surely America's comparative advantage: the ability to reassure key strategic partners of our commitment to their security, and our determination to maintain a regional correlation of forces that favors the United States and its friends while deterring our common adversaries.

But that is precisely the role that the Obama administration has so disastrously failed – or, more accurately, refused – to perform over the past several years, in the process undermining the morale and confidence of already fragile friends while super-charging the ambitions and aggression of their worst enemies.

The question now is whether the Obama administration is even capable of recovering from the geopolitical mess it has

triggered. Does it even have a clue about the disastrously destabilizing chain of events that have been unleashed by its very purposeful decision to put a “closed for business” sign on Pax Americana in the Middle East? Does it at last understand that what replaces the abandonment of U.S. leadership in the region is not some virtuous equilibrium or balance of power among local competitors, but accelerating levels of violence, extremism, and chaos? Does it have any idea of how it would go about the arduous task of rebuilding the strategic partnerships that its policies have so badly undermined, and stemming the rising tsunami of disorder that now threatens to swamp the region and U.S. interests?

Alas, there’s absolutely no reason to believe that the answer to any of these questions is yes. In which case, the risks will continue to grow that on top of all the other disasters that President Obama will bequeath to his successor, he may yet add one more: an increasingly unstable and perilous situation in Saudi Arabia – the world’s largest exporter of oil, the site of Islam’s holiest sites, and a country awash, in almost equal measure, in advanced American weapons and angry Wahhabis.