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PRELIMINARY REPORT

THE STABILITY OF SAUDI ARABIA

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PREFATORY NOTE

The following paper represents the preliminary findings of a study which is only half complete. It is a quick reaction response prepared for a specific project with an urgent deadline, and some conclusions may be modified later.

In addition, it should be recognized that studies of Saudi Arabia occur in a context different from that of studies of most other countries. It is not so easy to locate and converse with a rural bedouin as it is with a Filipino farmer. It is not possible to locate and exchange views with dissident political leaders in Saudi Arabia in the way that one can speak with political dissidents in South Korea. It is even harder to identify the principal factions in the leadership and population of Saudi Arabia than it is in China.

The concept of "risk" as it is normally used includes two components. The first component is risk in the technical sense, namely the probability that a coin flip will come up tails when one needs heads. The second component is technically called uncertainty, which is the absence of knowledge as to whether one's success depends upon the flip of a coin, on the value of a playing card drawn from a deck, or on the outcome of a game of chess. In dealing with Saudi Arabia, the component of uncertainty is unusually high, because the royal family is extremely secretive about its internal workings, and the methods by which governmental decisions are made are known only vaguely. Every paragraph of the following paper should be read with this firmly in mind.

THE STABILITY OF SAUDI ARABIA

Since late 1973, Saudi Arabia has become a major arbiter of global economic prospects. Its decision to impose an oil embargo after U.S. assistance to Israel in the 1973 war contributed decisively to the ensuing spectacular rise in oil prices. Its ability to produce about half of total OPEC oil production provides it with a dominant position in OPEC pricing policy, which it has recently employed to moderate the rise in oil prices. Oil prices in turn affect the growth prospects of much of the world economy. Saudi Arabia's financial surplus provides it with the potential to manipulate much of the world's financial system, although it has not yet chosen to do so. Saudi Arabia's spectacular construction projects make it the world's most interesting construction market; while it plays nothing like the role in construction that it plays in oil and finance, it provides a critical margin of projects for the largest American, West European, and Asian firms, and its requirements for contract labor have become a crucial component of the balance of payments for many of the countries in a huge arc between Pakistan and South Korea. The kingdom also provides a crucial margin for many of the world's leading firms engaged in architecture, urban planning, and the management of social change.

This economic giant, however, appears to stand on the feet of a dwarf. Geographically it is a sea of sand, the deprived interior of a peninsula whose principal redeeming features (other than oil) lie on the periphery beyond the borders of Saudi Arabia. The country's population is about half that of metropolitan New York City. It is a measure of the country's backwardness that estimates of the population vary by more than 50 percent and that an

economy possessing Saudi Arabia's extraordinary revenues still has relatively primitive land connections among its three major regions. Until the late 1940s, Saudi Arabia's international economic relations were based primarily on small exports of dates and pearls and above all upon the income from the hajj, the annual pilgrimage to Mecca of Muslims from all over the world. Until well into the 1950s, the basic domestic political and economic structure revolved around the camel raid. Slavery was legally abolished only in 1962 and persisted beyond that time in actual practice. In 1978, 58 percent of the population was still illiterate. The country is a monarchy at a time when most of the world views kingdoms as archaic; a socially ultra-conservative country undergoing rates of social change unparalleled in world history; an emphatically capitalist nation in an era of third world socialism; an Islamic theocracy committed to literal implementation of Koranic law under conditions radically different from those of 7th century desert life; and a country of basically pro-Western economic, financial, diplomatic, and military posture at a time when fundamentalists and radicals alike are repudiating their ties to the West. All of this raises one central question, namely whether a traditionalist Islamic monarchy can drag a desert nation from the 7th to the 20th century in two generations, using Western methods, without a monstrous upheaval?

Contemporary Saudi Arabia represents the Saud family's third interlude of dominance throughout the interior of the Arabian peninsula. The rise of the Saud family in peninsular Arabian history dates to 1744, when the family formed an alliance with the Wahhab family. The Saud family sought political dominance. The Wahhab family led a reformist movement within Islam, dedicated, like the fundamentalist Protestant Christians, to stripping away

centuries of accumulated religious institutional infrastructure and returning to the original, austere traditions of the faith.

The current position of the Saudi monarchy derives from the multi-faceted genius of Abdul Aziz (known widely in the West as Ibn Saud), who finally defeated his principal enemies in 1932. Abdul Aziz was deeply dedicated to the Wahhabi form of Islam, and used Islamic egalitarianism to cut across tribal lines. He also employed intermarriage to break down tribal divisions, marrying over two hundred wives at various times in his life and producing more than forty sons. He built a position of legitimacy, domestically and internationally, based on the family's role as a protector of the Islamic holy places and of Islamic virtues. He achieved and maintained that position through brilliant military and economic management. A master of the camel raid, he nonetheless became the principal innovator of relatively modern military technology in the Arabian peninsula, and he learned to use set-piece battles against his more loosely organized opponents. He employed the forbidding desert of Nejd as a military asset in the way the Russians used their vast empty spaces to destroy German armies around Stalingrad. While maintaining his Islamic legitimacy, Abdul Aziz learned to employ relationships with the infidels (successively Britain, the United States, and the Western economies), in order to maintain his family's domestic position. The family learned, in a painful early lesson, not to provoke its Islamic neighbors, particularly the Ottomans, while building up relationships with the Western infidels. Abdul Aziz understood the economics of the camel raid, giving away nearly everything he conquered in order to maintain his political alliances and his physical mobility, and the economics of the hajj, which now skillfully manages 2.5 million visitors every year in a country of only 5 million people.

He initiated oil development, and his successors have managed the economics of oil with similar adroitness. In short, Abdul Aziz was a man of superior religious, military, social, and economic vision.

Is Saudi Arabia Another Iran?

The rapid transformation of Saudi society from an amorphous collection of tribes, interrelated primarily through camel raiding, into a relatively modern state and economy, has created strains at every level of social functioning. There is strain concerning the nature of the political unit which deserves ultimate loyalty. Is it the transnational house of Islam? Is it the migratory tribe which spans modern national boundaries? Or is it the territorial state with specific modern boundaries? The strains concern the basic basis of legitimacy. Does legitimacy derive from Islamic purity, or from efficient management of economic development? If it derives from both, how does one mediate the contradictory requirements of the two bases? The strains concern the financial basis of the state. Islam condones only the traditional revenues of zakat (charity), ushr (tithe), of the hajj, and of tribal plunder, whereas the ultimate financial basis of the modern Saudi state rests on taxes which are forbidden by the Koran, and on the export of the oil to the infidel West. The strains concern foreign policy. Is foreign policy to be rooted in the Islamic tradition of the jihād (as Abdul Aziz originally intended), in Islamic isolationism which seeks to ensure religious purity by isolating the nation from insidious foreign influences, or from pan-Arab nationalism, all of which are traditionally recognized bases for foreign policy, or is it necessary to rely primarily on economic relations with the West, military protection by the West, and diplomatic alliance with the West? The strains

concern the integuments of economic management. Should economic management adhere strictly to the Koran, or should it accept the seemingly forbidden institutions of modern interest rates, modern insurance, and the modern stock exchange?

Most analyses of Saudi Arabia proceed by analogy to situations elsewhere, but the uniqueness of Saudi Arabia makes most analogies drastically misleading. Several analogies deserve particular attention: the view that events elsewhere have demonstrated that rapid change inevitably brings revolution; analogies from the Iranian revolution to a Saudi Arabian revolution; and analogies from overthrow of monarchies elsewhere.

Rapid social change does indeed create social stresses, but those stresses need not bring thoroughgoing and violent revolution. The experiences of South Korea, Taiwan, Hong Kong, and Singapore indicate that extraordinarily rapid growth, with all the ensuing changes in the economic and political situations of various groups, the influence of new ideas on the society, and the strain of additional contacts with the foreign world can in some cases be contained. Saudi Arabia confronts the problems of social change with peculiar difficulties, caused by the extreme rapidity of change and the extreme detail with which traditional Islam regulates social life, but also with peculiar assets, caused by the unusual political and social structure. The balance of these unusual difficulties and assets will be examined later.

The analogy between Iran and Saudi Arabia is fundamentally flawed. Iran, like Saudi Arabia, was indeed a rapidly modernizing, oil-financed, Islamic monarchy. But there are differences which outweigh these similarities. Iran's Shi'a Islam sustained a clergy which was substantially autonomous from the political elite, along with a religious mentality which was overtly hostile

to the secular authorities. In contrast, the Wahhabi version of Sunni Islam, which dominates in Saudi Arabia, constitutes an alliance of religion with the state which sustains neither an independent clergy nor an adversarial cast of mind. Indeed, the regime was able to install the Minister of the Interior as the principal religious figure. Second, the Shah stood alone, and the regime completely lost its top management when the Shah became ill with cancer, whereas the Saudi regime contains nearly 4,000 princes and operates on the basis of consensus among the senior princes. Militarily, Iran's government was centralized in Tehran, where a single strike could make a coup succeed, whereas the Saudi regime is decentralized among Riyadh, Jedda, and Dhahran. Saudi Arabia has spread its wealth around much more than Iran did, both because it has twice the oil production for one-sixth the population and because its traditions are relatively more egalitarian. Finally, Saudi society is affected very differently from Iranian society by the forces of economic modernization.

Saudi Arabia also differs decisively from the classical monarchy, represented to some extent by France, Russia, Ethiopia, and Iran, because of differences in social structure. The classical monarchy has been overthrown in virtually all countries by a combination of forces. First, modernization disrupts the peasantry, bringing the peasant into world markets and thereby into competition that he cannot win. New ideologies suggest to the peasant that he deserves a better life, and new forms of communication and transportation make possible the organization of peasants in opposition to the existing regime. Usually the monarch cannot indefinitely delay responding to peasant demands without risking a rural guerrilla revolution, but, if he tries to side with the peasants, he is overthrown by the landlords before the

peasants can organize adequately to support him. The monarch is also opposed by the middle class, which is composed of technocrats, who find their policies blocked by traditional aristocratic patronage, and of entrepreneurs, who find their ambitions blocked by traditional socio-economic arrangements. Commonly, the frustrations of the middle class are mirrored by the frustrations of the military, which finds itself facing new challenges at home and abroad and wants to respond with modern organization (including especially merit principles) and modern technology, but finds itself blocked by aristocratic privilege. Finally, the traditional monarchy normally finds itself delegitimized by the spread of Western secular, democratic ideology, whose egalitarian, modernizing thrust makes aristocratic privilege ideologically unacceptable.

The Saudi government faces many of these same strains, but in substantially different degrees. Much of rural Saudi Arabia is not a peasant society, but a nomadic bedu (bedouin) society. Whereas the peasant finds the market disruptive, the bedu, a traditional trader, is familiar with rudimentary capitalist markets. Whereas the Iranian or classic French peasant finds himself uprooted from the land, the bedu frequently acquires geographical roots for the first time. In Saudi Arabia, the city beckons with opportunity, and the former nomad who wishes to build a house can apply for a free plot of land and a \$100,000 interest-free loan, which is repayable over 30 years and is 20 percent forgiven if he makes the payments on time. Frequently the formerly rural Saudi will use part of the loan to finance a business; if he is more sophisticated, he can obtain an interest-free business loan from the government. Instead of losing his roots, the rural Arabian may gain an economic stake in settled society for the first time.

Similarly, the Saudi technocratic and entrepreneurial class is perhaps the world's most unblocked middle class. Saudi businessmen have extraordinary opportunities, financed by oil and encouraged by the government. Educated Saudi technocrats can quickly obtain a span of authority, in either the private or government sectors, which exceeds their wildest childhood dreams, and within their span of authority they can achieve a great deal. The problem of the modernizing military has been addressed in Saudi Arabia by keeping the national army weak and immobile, and relying on the West for effective defense, as well as by dividing the military power between the national army on the one hand and a more traditional, tribally oriented, rural-based National Guard on the other hand.

Finally, while the ideological challenge, like the other traditional problems of monarchy, has been significant, it has been muted in the case of Saudi Arabia by a number of historical and social factors. The nation's history as a country of traders both through bedu internal trade, and through the history of Jeddah as a great port, has lent legitimacy to trading and entrepreneurship and thereby limited the ideological socialist reaction against the modern market. The strength of Islamic feeling, and the commitment of the intellectual leadership to avoiding Western secular decadence, which is associated in their minds with widespread crime, divorce, sexual abuse, and other social problems, limits the appeal of the Western secular democratic tradition. The disaster of Iran has limited the appeal of revolutionary fundamentalism, and the failure of Nasser has, for a while at least, limited the appeal of radical Arab socialist ideologies; this lesson has been reinforced by the difficulties of Iran and Syria.

Thus, while Saudi Arabia suffers from the strains of rapid modernization, from the strains of the fundamentalist Islamic reaction against Western-style economic modernization, and from many of the difficulties of modernizing a monarchy, the degrees and shapes of problems are unique to Saudi Arabia and cannot be decided by the now-familiar analogies. In order to obtain a view of Saudi Arabia's unique capacities and vulnerabilities, it will be appropriate to begin with a survey the current state of its economic management and political management.

Economic Management.

The regime has a history of extraordinarily wise use of scarce resources. It has achieved broad geographic spread and substantial international influence with extraordinarily limited population, usable territory, technology, and (until 1973) money.

Modern Saudi economic policy has continued the basic thrust of this tradition within the limits of extraordinary problems and an extraordinarily thin management tradition. Saudi Arabia invests its enormous flow of oil funds conservatively and in a manner which helps to maintain the global financial system upon which the future security of the those funds depends. Domestic investments have focused on infrastructure, building the roads, airports, communications, and buildings which the country has lacked until very recently. It has invested very heavily in diversification of the economy, in contrast to Venezuela and other oil economies which speak loudly of diversification but lack the funds and the political will to implement their slogans. Perhaps most importantly of all, Saudi Arabia invests 19 percent of its budget in human resources. Illiteracy, although still very

high, is dropping at a dramatic rate. College students studying abroad are given \$800-900 a month plus another \$50,000 when they return to Saudi Arabia.

Of course, Saudi Arabia's economic policy is dominated by its oil policy. That policy has been quite sound. Saudi oil policy maintains a very large flow of current funds to the country, but limits current greed through an intense concern to avoid setting prices so high that they lead to collapse of the oil market in the short run due to world depression, or in the long run due to creation of overwhelming incentive for consumers to diversify away from dependence on oil. In short, the basic thrust of Saudi policy has been to keep oil prices high but not too high. Saudi Arabia has the long-term oil reserves and the contemporary political will to focus its attention firmly on long-run economic interests rather than on short-run cash flow.

Within this framework of sound basic policies, there are problems of great magnitude. An extreme shortage of workers, together with exclusion of women from most of the workforce, produces an emphasis on capital-intensive development. This capital-intensive development fits well with Saudi predilections for avoiding manual labor, but it tends to create a society comprised of an upper crust of Saudis who are managers without technical experience or knowledge, and a horde of largely foreign laborers who do most of the work. This risks creating a situation in which the Saudi elite loses touch with the basic technologies and social structures which make the economy function.

The juxtaposition of traditional social mores and management practices with modern problems produces an extraordinary trinity of extravagance, corruption, and inefficiency. Saudi Arabia's three largest airports will also be the world's three largest; each comes equipped with separate runways and

terminals for civilians, for the military, and for the royal family. The palaces of the leading princes are numerous and extravagant beyond description. Sometimes an individual palace employs a large proportion of the leading architectural firms of the world working on a single complex. The sudden influx of money created major bottlenecks (e.g., lack of port facilities, a problem which has been eliminated), serious inflation (a problem which has been largely eliminated), and a situation where the number and scale of projects greatly exceeded the regime's capacities for management (a problem which has emphatically not been eliminated). The country is strewn with housing projects which are unoccupied because of lack of sewage, apartments which cannot be used because no second elevator was provided for women, pipelines which are corroding because of improper construction, roads which are deteriorating because they were built with the wrong kind of cement, and facilities of all kinds whose maintenance costs will be so high that they will be more cheaply replaced than maintained after a decade. Saudi construction executives say that the government's projection of a shift in the 1980s from the construction to maintenance is a chimera, because the government does not realize how shoddy virtually all the construction done in the past decade has been.

Corruption comes in several varieties. First, acceptance of commissions for landing contracts is a universal practice which, although regarded as unethical in the West, is regarded in Saudi Arabia as acceptable and as a way of improving the lot of Saudis at the expense of foreigners. On the other hand, the scale of some of the commissions, particularly commissions for negotiating government contracts, will attract rising attention, even domestically and even though some of the profits trickle down. Second, a

percentage of the Petromin oil production is distributed among seven to ten senior princes and sold on the spot market, with only the base price returned to Petromin. While this practice was wiped out when the spot price became equal to the contract price, this form of corruption represented a potentially serious problem in the past and could again in the future, because it constitutes swindling of the Saudi population rather than of foreigners. Finally, the government has long sold government land to princes at low prices and then bought the land back at huge prices, and has distributed urban land to various people at a time when prices were very low and allowed them to become multimillionaires when land prices rose; this practice was moderated after the November 1979 Mecca incident, and some beneficiaries made some "donations" back to the government, but a large residue of potential difficulties remains.

These problems are serious, and they will remain serious for a considerable period of time. On the other hand, there is consensus that the trend in each case is toward improvement. The rapid removal of key bottlenecks, the absence of inflation, and the reforms made in the wake of the Mecca incident illustrate the regime's ability to identify and address problems with considerable results. On balance, the economy is one of sound long-run policies, universal economic opportunity, total absence of unemployment, relatively low inflation, and resources far superior to demands.

In the future, much of this relatively auspicious picture is likely to remain, barring a world depression which would cause a collapse in the oil market or terrorist or military damage to the oil pipelines. But crucial transitions are on the horizon. If oil prices remain relatively constant in real terms, then the flow of funds from oil will be constant rather than

accelerating. The economics and politics of a constant flow are substantially different from those of an accelerating flow. Particularly at a time when the large flow of funds has elicited involvement in the economy by virtually every imaginable domestic and international group, this means that competition will greatly intensify. A shakeout of business and financial firms will almost inevitably ensue. In Saudi Arabia, the market for almost everything is large and attractive but increasingly saturated. Moreover, as the official and private management capabilities improve, the margins of profit will become less spectacular, competition will intensify even further, and remaining management inefficiencies will grate on the competitors even more than they have in the past. For construction firms, traders, and financial institutions alike, the Saudi market is an increasingly glutted one. The strategy of success in the future will have to be far more sophisticated than simply joining in the rush to do business with everyone else. Risks will increase for new entrants to the extent that the most attractive forms of business have already been subsumed by earlier entrants into the market. On the other hand, some new entrants will benefit from rising Saudi sophistication--gaining clients through an ability to argue that the Saudis' old relationships were insufficiently beneficial. Politically, this will be a period when the technocrats and entrepreneurs are jolted by realization that, even for Saudi Arabia, there are finite limits to available opportunities; this could raise questions about ultimate control over those resources.

Political Management

The Saudi regime was founded by an individual genius who was able to combine the traditional Saudi virtues of tribal loyalty and marriage of

politics to religion with the modern virtues of Islamic equality, military technology, international diplomacy, and trade in natural resources. Regimes based on individual genius are notoriously difficult to sustain, particularly when faced with the scale of change and of problems confronted by the Saudi regime. However, as noted above, the Saudi regime is no longer the extension of a single man but rather a diversified executive leadership.

As individuals, Saudi Arabia's current top leaders are mediocre. King Khalid is intensely religious, politically astute, socially conservative, and largely illiterate. Crown Prince Fahd is entrepreneurial, forward-looking, pro-Western, somewhat dissolute by Saudi standards, and unreliable in a crisis. National Guard Commander Abdullah is stern, traditional, tribal-oriented, military in outlook and bearing, and as effective at managing relations with the Syrians as Fahd is at managing relations with Americans. As is to be expected, there is considerable competition between Fahd, the designated successor to the King, Abdullah, who is number three, and Sulon, who is informally number four. Both Khalid and Fahd are in poor health. In short, Khalid appears sound but lacking in the genius of Abdul Aziz and in the drive and wisdom of Feisal, while Fahd and Abdullah are complementary and perhaps adequate, but Fahd will always be vulnerable to charges of being excessively pro-Western and inadequately faithful to Islamic ethics. Abdullah suffers from a reputation for being slow, possibly as an unfair consequence of his tendency to stutter uncontrollably; Abdullah's management of the National Guard appears to be much more astute than his reputation for slowness would suggest. Critically, however, neither Fahd nor Abdullah has a reputation for performing well under pressure.

On the other hand, the institution of the royal family now transcends the few senior princes. The family is diverse, rendering it relatively invulnerable to coups from outside the family and relatively sensitive to the diverse social changes and pressures of the society. It is run in collegial fashion, which leads to very slow decision-making but also to the emergence of a consensus that is broadly based; as the Japanese example has shown, this style of decision-making has great virtues, at least in non-crisis situations. The monarchy has a clear line of succession and the crucial capability to remove an incompetent ruler. There is a tradition of listening to popular opinion and addressing grievances, and there is a very strong tradition that the leader should be chosen on the basis of merit. Members of the royal family dominate the principal government institutions, military and civilian, national and provincial, as well as much of the private economy. The family is intensely aware that its domination of Saudi Arabia depends upon its internal unity, and it has been successful at preserving basic unity and even more successful at projecting an image of unity. But it also has its share of internal rivalries. Its large size, which gives it the benefits of diversity and balance, also makes the family potentially vulnerable to many of the divisions of society at large. In the early 1960s, the "free princes," attracted by Nasser and his ideas, sought to change the regime and temporarily defected to Egypt. Faisal successfully mounted a coup against Saud. The striking differences of outlook between the young, Western-educated members of the family and the older, palace-educated traditionalists parallel broader social divisions. On balance, Saudi Arabia's executive leadership, comprising the more prominent members of the royal family, lacks Abdul Aziz's individual genius but has institutional strengths which are more important. It has

impressive unity but has not always possessed such unity in the past and is probably vulnerable in the coming decade to some of the divisions which affect Saudi society. Thus, the executive leadership of Saudi Arabia consists of individuals who are substantially less impressive than their predecessors, and vulnerable to indecision in a crisis, but also contains impressive institutional strengths.

Beneath the executive leadership are institutions, governmental and private, which manage particular sectors. The typical government ministries are led by dynamic, Western-trained ministers and deputy ministers, of whom Minister of Petroleum Zaki Yamani provides an archetype. These dynamic, frequently young, technocratic leaders are largely supported by the royal family, have broad spans of authority, and are able to deploy resources effectively. At the same time, virtually all the burden of decision-making and implementation falls on a few top individuals. Beneath a thin layer of deputy ministers and assistant deputy ministers lies a bureaucratic morass. Much of the official bureaucracy was set up and staffed by Egyptian expatriates, who have brought to the middle levels of Saudi bureaucracy all the decisiveness and efficiency for which Egyptian and Indian bureaucracies are famous. They are supplemented in many cases by Saudis who have little interest in anything except participating in top management and little aptitude for detailed administration; many of these Saudis are returned students who are required to spend a certain amount of time in government service and who resentfully occupy governmental offices to serve time before entering the private sector.

Unlike the Egyptian and Indian bureaucracies, however, the Saudi government is infused with the concept of stimulating local entrepreneurship

and facilitating the development of the economy through relationships with private domestic and foreign firms. Partly because of the sheer volume of money available, and partly because of the Saudi tradition of being a trading nation, the relationship between government and business in Saudi Arabia is far more compatible than in most third world countries, particularly Middle Eastern countries. The result is an increasingly dynamic, increasingly competitive, increasingly disciplined (from a low base) private sector, along with a government sector which has severe problems but remains impressively managed under the difficult circumstances.

Finally, the Saudi population is somewhat more manageable politically than the large, diverse, and obstreperous populations of Saudi Arabia's neighbors. Like Taiwan, Hong Kong and Singapore, Saudi Arabia benefits from the advantages of having to administer only a very small population. With a few key exceptions, such as the Shi'a in Eastern Province, the indigeneous population is ideologically homogeneous and ethnically homogenous. The tradition that any Saudi citizen has the right to demand redress of grievances from the highest officials moderates some of the difficulties of communication between a semi-illiterate, still largely poor population and an enormously wealthy elite.

The Saudi style of management is to adopt an extremely conservative social posture, to let change (e.g., television, Western business practices) bubble up from below, then to haul the society back in a conservative direction whenever the strain between traditionalists and modernizers becomes too severe. This has proved to be a sound policy for two generations, but the balancing act requires extraordinary skill, and even then the position of the leadership is always precariously dependent upon uninterrupted wise

decision-making and a relatively favorable international environment (of which more later).

Vulnerabilities

Economic. Unlike most of its OPEC colleagues, Saudi Arabia faces no shortage of reserves. There are 54 years of proven reserves and even larger probable reserves. Saudi Arabia is, however, vulnerable to military disruption of its oil production and trade, which could be largely shut down for long periods of time by a single modern aircraft or a single small, determined terrorist group. The oil pipeline system is so extensive that it is militarily indefensible, and the facilities are so lacking in redundancy that a bomb placed at any of a number of key points could disrupt the flow of oil for long periods of time. As a single-industry economy, which it will remain for a long period of time, Saudi Arabia is vulnerable to collapse of world oil demand, which could result from depression or severe recession in the short run, or from excessively high oil prices in the long run; while both of these are possibilities, neither is a high probability prospect for the next few years. Finally, in the likely shakeout of the next few years, many individual firms will be far more vulnerable to collapse than they were in the recent past.

Technocrats vs. Royalty. Ultimately, the principle of rule by merit and the principle of rule by royalty conflict. In Saudi Arabia, unlike France before the French revolution, the conflict is mitigated substantially by the extraordinary opportunity of technocrats to exercise authority, by intermarriage of the royal family with most of the other major families, and by the extraordinarily high level of economic opportunity. As the number of

foreign-trained technocrats increases, the conflict will intensify somewhat. To the extent that revenue flows stabilize, the conflict will further intensify. There is substantial resentment by the best and brightest (who went abroad and struggled hard to get a modern education in order to return to Saudi Arabia and earn an upper middle class living) of the less bright brothers who stayed at home, obtained grants of cheap land, and became multimillionaires in the explosion of land prices. There is a sharp divide between the older generation of top leaders, few of whom are Western-trained, and the rising generation, virtually all of whom are Western-trained.

The technocratic, Western-trained elite is committed to Islam, but not always to the extremely conservative view of Islam held by the executive leadership. It is modern in orientation, but attracted neither by what it perceives as the decadent secular democracy of the West, nor by the economically disastrous radicalism of the Syrians and Iraqis. The technocrats are instinctively pro-Western and anti-Soviet, but react extremely strongly against U.S. support of Israel and acquiescence in Israel's expansion of West Bank settlements and annexation of the Golan Heights. In short, the technocrats as a group are economically satisfied but ideologically adrift. Their conflicts with the executive leadership are minimal today but will increase steadily over the decade. As a group they were very strongly attracted to Nasser when the latter ruled Egypt, and even today they strongly praise Nasser's policies, portraying him as a man of pan-Arab (rather than merely Egyptian nationalist) vision, as a man who enhanced his nation's pride (ignoring his humiliating military defeats), and who managed the Egyptian economy more successfully than his successor (here they are flatly wrong). At a time of domestic strain and international uncertainty, a new foreign Arab

leader with Nasserite appeal could mobilize the feelings of the Saudi technocrats and bring a sharp change of Saudi Arabia's course. At the moment, the tensions are more latent than overt, no contemporary Nasser has appeared on the horizon, the financial and career prospects of the technocrats are going nowhere but up, and international events have not yet created such an atmosphere of uncertainty as to mobilize these technocrats around a cause. International changes could potentially bring an early transformation of this auspicious situation, but purely domestic developments would likely enhance the tensions to the danger point only over a five to ten year period.

Cultural Strain. Social change, and the tensions between the details of Islamic law and the pressures of modernization, are pervasive in Saudi Arabia. The determinedly independent bedu makes a good taxi driver and a good trader, but he feels very uncomfortable as a bureaucrat. Saudis who are sufficiently well-educated and well-trained to follow normal bureaucratic procedures insist on charging for postage stamps on the basis of the whim of the moment rather than the weight of the letter; likewise, the charge for gasoline is almost invariably based on the size of the car, rather than on the amount of gasoline actually used, even if the meter shows a specific amount. After building numerous multi-family apartment buildings all over Riyadh, the government has now banned further construction of this kind on the ground that it tends to infringe the Islamic requirement that women remain secluded. Television, banned until recently, is now available, much to the distress of traditionalists. Of even greater concern, while all movie houses are banned from the kingdom, virtually every family in Saudi Arabia has a videotape set, and a very large proportion use their videotapes to screen the most pornographic films available from the West. Interest payments are banned as

usury, insurance is banned as a form of gambling, and stockbrokerage is banned as a combination of both, but the payment of interest and the purchase of insurance are quickly becoming universal practices, and the institution of stockbrokerage is under serious consideration. The legal system is split between the traditional Shari'a religious courts and a modern commercial judicial system, with the former dominant over the latter. Legal practice in both court systems is theoretically conducted on the basis that all men have equal rights, but in fact according to a fairly rigorous rule that Saudis should win over foreigners and that one's own tribe should win over others. There is a major split between the cosmopolitans who go abroad and the provincial traditionalists. All these tensions are heightened by the extraordinary number of foreigners who wander about traditionally isolated Saudi cities behaving in ways quite contrary to traditional Saudi custom.

These strains are most evident in the role of women. Women are prohibited from driving automobiles, from riding alone with males to whom they are not married, from going outside the home without a veil, from participating in any business that involves men, and from such practices as swimming in areas where men could see them. On the other hand, the regime has begun to provide education for women. It has allowed the formation of women's branches of banks and the participation of women in such businesses as journalism. Increasingly, thoughtful Saudis are trying to ameliorate the social tensions of the role of women through a series of technical fixes. Where insufficient female teachers are available for the female students, male lecturers are employed through videotapes and closed circuit television. Many thoughtful Saudis believe that in the future men and women will participate together in business, isolated in separate rooms but communicating through

closed circuit television and digital screens. Like the American faith in the technical fix for delicate social problems, the Saudi faith is bound to be disappointed.

Saudi women have reacted in two ways to the increasing stress between traditional requirements and modern aspirations. A small group has become more intensely traditional and Islamic. This group holds meetings, studies the Koran, wears gloves so that the hands as well as the arms will be covered, and so forth. The largest majority shows virtually no overt signs of the stress. But an increasing group asks questions about why women should not be allowed to drive. (One answer is that they might have a flat tire, and might have to request male help in fixing it, and therefore might tempt the man.) This group will continually become larger and will press for marginally increasing opportunities in business, in education, and in social life. The frustrations of this group are readily visible: Pay telephones ring throughout Riyadh because lonely women are randomly dialing for someone to talk with. Many Saudi women like to spend long periods of time in the new supermarkets where they can meet with others in the absence of many traditional restrictions. Young women plunge with perhaps excessive enthusiasm into the job of acquiring education. Universally in Saudi Arabia, women outperform men in school by such a large margin that it is common for women's grades to be put on an entirely different scale from those of men.

The political implications of the strain over the role of women are difficult to discern. Certainly the strain does not imply early revolutionary upheaval; the image of a band of revolutionary women overthrowing the monarchy is remarkably unpersuasive. (However, women's organizations played a significant role in the Chinese revolution, and Iranian women held

demonstrations during that country's revolution.) But, equally, one cannot dismiss the social force of large numbers of women who have attained, for instance, advanced training in administrative science, who have outperformed their male counterparts by a very wide margin, and who find that virtually no outlet is available for their talents and energy. In all probability, the political role of women will be largely invisible. However, if a decisive clash occurs between the technocrats and the royal traditionalists, then the male technocrats who play the visible role in the conflict may well draw a predominant measure of their strength and support from an invisible, female sector of the population whose influence will then be no less important for its invisibility.

The other aspects of cultural strain may be much more manageable than in Saudi Arabia's Middle Eastern neighbors. The Saudi man on the street exhibits none of the overt signs of unbearable cultural stress which one found in Iran for many years before the revolution. Taxi drivers are friendly and easygoing. The social violence prevalent in Iran is virtually absent in Saudi Arabia. Foreigners who accidentally offend local customs are treated firmly rather than explosively. Having never been a colony, Saudi Arabia lacks much of the post-colonial cultural insecurity of the rest of the third world. Having served for much of its history as a great entrepot and a gathering point for Islamic pilgrims from all over the world, Jedda possesses a residual cosmopolitanism which modifies the fierce fundamentalist isolationism of the Nejd.

The Military. As noted, the military has been controlled by keeping it weak and by dividing it into the conventional forces and the National Guard, as well as by putting members of the royal family into most key positions.

The country has relied, implicitly but decisively, on rivalry among its adversaries and on support from Western powers to protect its national integrity. But the U.S. keeps pressing the Saudis to unify their military, to modernize its weapons, and to provide mobility. The Saudi military is susceptible to this siren song of modernization and enhancement of its ability to do its national duty. To the extent that the U.S. succeeds in pressing its program, the security of the regime vis-a-vis its own military will deteriorate. This development, if it occurs, will presumably require something on the order of five to ten years before it massively affects the security of the regime.

Minorities. A huge proportion of the Saudi population consists of foreigners. The question naturally rises: do not these foreigners constitute an underclass which might one day rise up against the domestic Saudi elite, in much the way that the groups ruled by the first Arab empire eventually rose to overthrow their masters? Certainly there must be risks in being a tiny society whose construction is almost all done by South Asians and East Asians; whose agriculture is largely in the hands of Yemenis; whose business and financial leadership is heavily delegated to expatriates or former expatriate families from nearby Arab countries; and whose top management is heavily delegated to Westerners?

Most of these groups in fact represent little threat to the regime. The Westerners are powerful, but limited to tiny cultural and geographical ghettos. Most Westerners come for two to four years in order to earn a high, tax-free salary and return to the West. Most never deal with more than a tiny number of Saudis, and most never develop any attraction for, or sensitivity to, local culture. There is a rising cultural reaction against Westerners, but no political threat from them.

Likewise the Filipinos, Koreans, and Thais, who form the majority of construction workers, are conservatives who are earning wages that are unusual by their home standards, who are accumulating most of their wages as a nest egg for home and business back in Northeast or Southeast Asia, and who will happily leave after two or three years. Those who are construction workers usually are physically isolated from most contacts with the Saudi population; those who perform in the service sector often deal primarily with Westerners (for instance as clerks in Western-style hotels) rather than Saudis. All are closely watched both by the Saudis and by their home governments for any sign of politicization or overt discontent.

The Palestinians, as Muslims and Arabs without homes to which they can return, represent a more entrenched minority. However, in Saudi Arabia, the Palestinians are culturally despised and politically disorganized. Further immigration by Palestinians is diligently discouraged, and any beginnings of Palestinian political organization are instantly squelched. For the Saudis, the problem presented by the Palestinians is not one of domestic obstreperousness but of international instability and the risk that inadequate Saudi attention to Palestinian needs will be interpreted by the Saudi population as the rulers' betrayal of the Arab cause. The Palestinians play a critical and organized role in key neighbors of Saudi Arabia, most notably Kuwait and the United Arab Emirates. The plight of the Palestinians is an intensely felt issue among the domestic population of Saudi Arabia, so no Saudi regime could, even if it were so inclined, ignore the claims of the Palestinians for a homeland.

The Pakistanis and Egyptians constitute additional entrenched Muslim groups. While many of the Pakistanis and some of the Egyptians might

eventually go home, both groups have greater social contact with the Saudi population than the Northeast and Southeast Asians, both can claim special protection from the Saudis because they are Muslim, and both are vulnerable to pan-Islamic inspiration. The Egyptians could become a transmission belt for a new Nasserite ideology, if one should arise elsewhere in the Arab world, and thus would enhance the response of Saudi technocrats and women to such a foreign challenge.

The Yemeni constitute a vulnerability which is far less important in the short-run but potentially of the greatest importance in the long-run. Although North and South Yemen look relatively small on the map, their population is 60-100 percent larger than that of Saudi Arabia. Saudi Arabia's seizure from the Yemeni of Asir and Jazan provinces is historically very recent and deeply resented. Some two million Yemeni live within the boundaries of Saudi Arabia. They are, in comparison with most of the Saudi population, relatively well-trained, hard-working, and technically capable, and they are the only foreign minority which possesses rudimentary political organization. Saudi businessmen say that the Yemeni resentments run sufficiently deep that even Yemeni who have been orphaned and raised by Saudi families frequently become disloyal to the families which raised them. Some Yemeni work as tenant farmers for Saudi landlords, an obvious source of potential problems. The Saudi government has done a great deal to improve the economic situation of the Yemeni, particularly in Asir and Jazan, but have by no means resolved all the tensions.

The Yemeni who remain at home are divided into roughly one million in communist South Yemen and about seven million in feudal North Yemen. However, the South Yemen regime is backward and disorganized, and is steadily losing

control of some of the countryside to a broad Marxist front which is supported by North Yemen. Saudi Arabia fears the advances of South Yemen and would like to strengthen North Yemen against such advances, but it is also determined to keep more populous North Yemen weak, divided, and poorly led. The only truly effective leader of modern North Yemen was assassinated under circumstances which many people in the region trace to Saudi Arabia. Much armament provided by the United States under the Carter administration for North Yemen's use against South Yemeni invasion was never transferred by Saudi Arabia to North Yemen, or was transferred without the ammunition which would have made it usable. In the next few years, this set of tensions with the domestic and foreign Yemeni population does not represent a threat to the Saudi regime or to the physical integrity of Saudi Arabia, but in, say, eight to fifteen years, the problems are potentially very severe.

Finally, the largest domestic minority within Saudi Arabia is the Shi'a minority which clusters around the oil fields of Eastern province. The Shi'a population is a repressed minority whose religious activities are severely circumscribed, whose children are not permitted to be educated by Shi'a adults, whose career opportunities in the kingdom are severely circumscribed, and whose economic infrastructure is strikingly inferior to that of most of the kingdom. This group constitutes 50-80 percent of the Aramco workforce, and it contains 150,000 males between the ages of 15 and 22, the age groups which customarily form the core of politically troublesome activities elsewhere. There were severe riots at the time of the November 1979 Mecca incident (which took place on the opposite side of the country) and again in February 1980. These riots were very forcefully suppressed. Subsequently, the government has upgraded some of the physical facilities of the Shi'a

areas, most notably roads, but many of these improvements are attributed by the Shi'a population to the government's desire to be able to introduce troops quickly.

The combination of relatively severe tension between the Sunni majority and the Shi'a minority on the one hand, and the extreme military vulnerability of the oilfields on the other, is troublesome. While considerable efforts are being made to ameliorate tensions, the tensions will not easily disappear. While the disastrous chaos of Iran limits the attractiveness of the Ayatolla Khomeini's fundamentalist Shi'a appeals, the yearnings for a system more sympathetic to the strong religious feelings of the Shi'a community remain. While determined efforts have been made to limit the access of the Shi'a workers to the most sensitive aspects of oil production, the military vulnerabilities of the system are simply too great for protection against a community that includes a majority of the workers. While the Shi'a community fully understands that any disruption of oil production would subject it to overwhelming political-military retaliation, and potentially deprive the entire Shi'a community of its economic livelihood, such technical calculations are not always the most important issues for small groups of religiously inspired youth.

Social Brittleness.

The vulnerability of the whole Saudi economic situation, and with it the entire political structure of the regime, to attack by a small group on the oil facilities is one of several examples of a phenomenon of social brittleness. As discussed above, Saudi Arabia is far less vulnerable than many of the world's monarchies of today and yesterday to the deep social strains that typically result from social modernization of a monarchy.

However, Saudi Arabia does retain key vulnerabilities due to: its dependence on a single commodity; its military weakness; its diminutive population; and its dependence for legitimacy on religious orthodoxy and on protecting the holy cities of Islam (Mecca, Medina, Jerusalem, and Damascus). In comparison with the French, Iranian, and Russian and Ethiopian monarchies, the Saudi regime is like a man with a basically sound body as compared with terminally ill patients. However, this basically sound body has a small number of pressure points which, when activated, can potentially cause collapse. Loss of surplus oil revenues from a small guerrilla attack, or from collapse of the world market, is one key pressure point.

A second key pressure point is illustrated by the Mecca incident of November 1979. In this incident, a group of several hundred religious fundamentalists seized control of the Grand Mosque in Mecca and held out for some time against the determined efforts of the Saudi regime. The government had been aware for some time of the subversive activity of the leadership of the group, and had jailed the top leader, for a brief period, but released him after being pressed with the argument they should not jail a man of religion who was simply trying to push for the same Islamic ideals which the regime stood for, albeit in an excessively enthusiastic manner. The insurgents effectively drew upon several sources of support. First, religious reaction against the forces of modernization provided an ideology to the group. Second, the leadership came from the Oteyba tribe, a traditional tribal foe of the Saud family which caused considerable difficulties for Abdul Aziz. Third, there was a substantial international component among the insurgents, including Moroccans, Tunisians, and eight Egyptians from the same group that later assassinated Anwar Sadat. The military was hampered in its efforts to

dislodge the insurgents by its concern not to cause excessive damage to the holy places. Saudi domestic forces proved utterly unable to defeat the insurgents, and the National Guard began to disintegrate. The insurgents were eventually defeated only with the assistance of Jordanian troops and French counter-insurgency experts.

Contrary to conventional interpretations, the Mecca incident does not prove that Saudi intelligence is totally incompetent. Nor does it prove that Saudi Arabia is vulnerable to the same kinds of structural disintegration and religious reaction that overwhelmed Iran. As argued earlier, the basic economic system, political management structure, and class structure of Saudi Arabia are far more sound than was Iran's, and there are more social and historical factors which moderate the (nonetheless significant) religious reaction to modernization. However, the combination of military weakness and of vulnerability to sudden loss of legitimacy (if the regime cannot protect the holy places) renders the government vulnerable to sudden collapse if some group can attack one of the holy cities with considerable success.

International Vulnerabilities.

Saudi Arabia is a tiny boat adrift in the violent political seas of the Middle East. Not only is it small, but its legitimacy is derived from the partly international role of protecting the holy places, and its sense of identity is derived in substantial part from being a leader of the international house of Islam as well as a key leader of the Arabs. One cannot overstate the degree to which Middle Eastern politics surges across national boundaries, following lines of tribe and ideology and language and ethnic origin, rather than the extremely recent and to some extent artificial lines dividing one country from the other on the map.

Saudi Arabia's vulnerabilities to developments in Yemen have already been discussed. They are important, but relatively long-term ones. The country's vulnerabilities to Iranian Shi'a revolutionary enthusiasm are shorter term, and could conceivably have become critical had circumstances been slightly more favorable in 1979, but have been greatly diminished by Iran's haplessness; these vulnerabilities are therefore probably relatively limited for the remainder of the decade. While serious problems with the Shi'a minority may well arise, they will have primarily domestic rather than Iranian roots.

Iraq represents a different kind of threat. Unlike Iran, Iraq is a fellow Arab nation. The Saudi regime believes that Iraq aspires to military hegemony and political leadership in the region, and that ultimately Iraq's leader perceives himself as a new Nasser, leading the Arab world to a new form of socialist modernization. Some risk remains that an Iraqi government with such aspirations would come to put pressure on Saudi Arabia, or on Kuwait with implications for Saudi Arabia, but Iraq's near-totalitarian social organization, and the weakening of Iraq in the war with Iran, make this a very limited concern for the next few years. In all likelihood, it would have to be a leader who arose after the death or overthrow of the current leader, and who had successfully shown over an additional period of some years that he could inspire his population politically and provide for it economically, who play this Nasserite role.

The most likely location for a new Nasser to arise would be in Egypt. If the Palestinian autonomy talks break down completely, or if a series of Israeli actions beginning with expansion of the West Bank's settlements, annexation of the Golan Heights, and possibly severe clashes in Lebanon, leads

to the discrediting of the Camp David accords and of the Mubarak leadership in Egypt, then Egypt might experience the rise of a more socialist, more pan-Arab, more anti-American leadership which could aspire to reclaim Egypt's old role as spokesman for all the Arabs. Saudi Arabia's technocrats, its peoples' pan-Arab sympathies, its students, and its progressive women could then potentially be mobilized into a successful opposition coalition. While such a scenario seems at first glance to require the coincidence of an unlikely number of major changes, the possible emergence of a new Nasserite figure in the Arab world, and particularly in Egypt, should not be underestimated, and the impact of Nasser's charisma on such groups in Saudi Arabia during Nasser's lifetime should be kept firmly in mind.

Finally, all of Saudi Arabia's vulnerabilities come together on the issue of the American-Israeli-Saudi triangle. The current regime is perceived in Saudi Arabia as being dangerously pro-American. Crown Prince Fahd, who will probably become king in the very near future, is seen as being far more pro-American than the present King Khalid. In these circumstances, the Saudi regime can easily be backed into a dangerous corner by international events. Suppose that, as is quite possible, the Lebanon ceasefire breaks down and Israel and Syria clash. The Saudi regime would be under overwhelming domestic pressure to side strongly with Syria. If the clash were sufficiently severe, one could even imagine some bombs falling on Damascus, a holy city. In most circumstances, the United States would probably back Israel, or administer a minor slap (such as a mildly negative United Nations resolution) to Israel. Most of the Saudi population would then become severely critical of a Saudi leadership which had emphasized American ties. The leadership could then save itself only by shifting to a very anti-American stance. To a remarkable

degree, there is a consensus among Saudi interviewees as to what the contents of such a stance would likely be: oil production would be severely cut. Future business and financial relationships would be shifted overwhelmingly away from America to Western Europe and Japan. Saudi Arabia would recognize the Soviet Union, adopt an anti-American diplomatic policy, and provide diplomatic and financial backing to the more radical Arab groups. Alternatively, such a situation could throw the leadership into a state of conflict and indecision which would lead to the overthrow of the regime. In this circumstance, outraged Arab feelings would unify the religious, technocratic, and other social discontents which hitherto had remained limited and separate from one another. Many similar scenarios of Arab humiliation could unhinge America's balancing act between Israel and Saudi Arabia and subsequently force the Saudi regime to choose between domestic instability and adoption of anti-American policies.

Summary.

The Saudi regime possesses more diverse and sophisticated political management institutions than is generally realized. Its basic economic policies are sound, and its economic management, while marred by corruption, extravagance, and inefficiency, is improving. The country faces a series of social problems which are potentially severe (the military, Yemen, the technocrats...) in a ten-year time frame, but very few deep domestic problems which seem likely to go critical in the next five years. On the other hand, the country can be brought to grief quickly by even minor guerilla attacks on the oil facilities, by collapse of the oil market, or by certain humiliating international scenarios. The leadership could escape the domestic consequences of certain dangerous international scenarios by adopting

anti-American policies for some period of time. In the current Middle East environment, the emergence of potentially humiliating international scenarios is perhaps more likely than not, so any business deal should be examined for potential sensibility to Saudi policies which shift business relationships away from the U.S., severely cut oil production, support the views of radical Arab regimes on Palestine, and deal somewhat more with the Soviet Union.

The other side of these international difficulties is that, whatever the inherent merits of particular issues that may arise, anything which would get the Saudis off the horns of their basic dilemma would dramatically improve the business climate in the entire region. If, through some dramatic turn of events, the Palestinian autonomy issue were to move toward resolution, then the Saudi leadership would be far more secure, and the Saudi-American relationship would become far more stable. If U.S. policy, while firmly supporting Israel's security, were to take a far stiffer line in particular crises (e.g., opposing annexation of the Golan Heights), then the Saudi leadership would suddenly find its pro-U.S. posture far more defensible at home. (There has been a recent shift in the sentiments of the Reagan administration, because it was angered by Israeli behavior over AWACS and the Golan Heights, but it would be premature to perceive this as a permanent shift or as an augury of greater shifts in the future.) Equally, resolution of the Lebanese civil war, consolidation of the Mubarak regime in Egypt, limitation of Israeli military overflights of Saudi Arabia, or the emergence of something like the Fahd Plan as a basis for negotiation, would improve Saudi and Saudi-American prospects. More generally, the business environment in Saudi Arabia will be improved by any developments which limit the danger of humiliation of the regime, decouple Saudi-U.S. relations from the Palestinian dilemma, or reduce the risk of a new Nasserite leader in Egypt or elsewhere.