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**Saudi Arabia Faced with Modernity: from the
Demographic Transition to 'Vision 2030'**

Supervisor

Ch. Prof.ssa. Maria Cristina Paciello

Co-Supervisor

Ch. Prof. Duccio Basosi

Graduand

Saverio Violi

Matriculation Number: 850845

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a Martino

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List of Abbreviations

AQAP	<i>Al-Qaida in the Arabian Peninsula</i>
ARAMCO	<i>Arabian American Oil Company</i>
CEDA	<i>Council of Economic and Development Affairs</i>
CIA	<i>Central Intelligence Agency</i>
CPSA	<i>Council of Political and Security Affairs</i>
FDI	<i>Foreign Direct Investment</i>
GCC	<i>Gulf Cooperation Council</i>
GDP	<i>Gross Domestic Product</i>
IMAFT	<i>Islamic Military Alliance to Fight Terrorism</i>
IMF	<i>International Monetary Fund</i>
IPO	<i>Initial Public Offering</i>
IS	<i>Islamic State</i>
KAEC	<i>King Abdullah Economic City</i>
KPI	<i>Key Performance Indicator</i>
MBN	<i>Mohammed Bin Nayef</i>
MBS	<i>Mohammed Bin Salman</i>
MENA	<i>Middle East and North Africa</i>
NTP	<i>National Transformation Plan</i>
OPEC	<i>Organization of the Petroleum Exporting Countries</i>
PIF	<i>Public Investment Fund</i>
PPP	<i>Public-Private Partnerships</i>
SABIC	<i>Saudi Arabia Basic Industries Corporation</i>
SAMA	<i>Saudi Arabian Monetary Agency</i>
SME	<i>Small and Medium-sized Enterprises</i>

SWF	<i>Sovereign Wealth Fund</i>
UN	<i>United Nations</i>
UNDP	<i>United Nations Development Programme</i>
UNESCO	<i>United Nations Educational, Scientific, and Cultural Organization</i>
VAT	<i>Value Added Tax</i>
WTO	<i>World Trade Organization</i>

Abstract

This dissertation attempts to analyze the current historical conjuncture of Saudi Arabia with its related challenges, both internal and external. In particular, this study aims to explain the main socio-political trends of the Saudi population according to the demographic transition theory and their repercussions on the regime's stability. Specifically, the demographic transition process is the result of gradually declining birth and death rates among the population thanks to rising literacy rates and diffusion of birth control practices during the last decades. Consequently, Saudi Arabia, as it is the case in most of the MENA region, is now characterized by a young and educated population that challenges not only the ideological terms of reference within society, but also the broader system of values of their parents' generation. For this reason Saudi Arabia, as any other country undergoing such a demographic process, is particularly prone to political instability and violent unrest.

Thus, in the first chapter, I take into account the concept of demographic transition and the main issues related to the Saudi population growth, such as high unemployment rates, youth bulge and rapid urbanization. In the second chapter I suggest that the waves of terrorism and nationalism that Saudi Arabia is experiencing are a signal of popular uneasiness, in a situation where oil income for the government has been heavily reduced by low oil prices. Finally, in the third chapter, I will examine the possibilities of success of "Vision 2030", the national plan of economic reform launched in April 2016 by the Deputy Crown Prince Mohammed Bin Salman.

Summary (Italian)

“L’Arabia Saudita di fronte alla modernità: dalla transizione demografica a *Vision 2030*”: è questo il titolo del presente elaborato, uno studio che, a partire da varie angolazioni, cerca di capire ed analizzare i tratti distintivi di questo periodo di difficoltà per il paese. Perché, nonostante parole come “crisi” o “transizione” siano ormai diventate di uso comune quando ci si accinge a parlare di Medio Oriente, mai prima d’ora l’Arabia Saudita si è trovata nella condizione di dover affrontare un periodo di trasformazioni tali da mettere a rischio la stabilità del paese.

Tale analisi ha quindi come obiettivo principale quello di dimostrare che, a fronte di cambiamenti strutturali di ordine demografico ed economico, il regime saudita sarà sottoposto nel medio periodo a crescenti pressioni al fine di concedere forme di apertura politica. Dal mio punto di vista, infatti, il cambiamento in atto della struttura sociale ed economica del paese è di una portata tale da rimettere in discussione il contratto sociale che lega il regime saudita alla propria cittadinanza; a tal riguardo, un’eventuale rinegoziazione dei termini di tale contratto non potrà avvenire che a scapito della famiglia reale.

Il concetto di modernità, come si può evincere dal titolo, è alla base di questo elaborato. In un certo senso, infatti, la crisi che il Regno Saudita sta oggi affrontando in ambito demografico ed economico può essere intesa come una crisi di transizione verso un modello societario moderno, in cui la struttura demografica ed economico-produttiva del paese assume i contorni stabili di un paese sviluppato. Da questo punto di vista, il periodo di difficoltà che sta affrontando l’Arabia Saudita rispecchia una crisi di transizione allo stesso tempo economica e culturale, data l’instabilità ideologica a cui tali periodi di cambiamento sono spesso associati. Tuttavia, il regime si trova di fronte alla possibilità di poter adeguare non solo il proprio modello di sviluppo economico, ma anche le proprie basi

politiche in linea con tale processo di cambiamento. Dipenderà quindi dalla famiglia reale il compito di saper trasformare questo periodo di crisi in una stagione di nuove possibilità politiche ed economiche.

La base demografica dell'Arabia Saudita è il primo e più importante fattore che viene analizzato in questa tesi. L'assunto principale del mio studio si basa infatti sul principio che l'evoluzione demografica di qualunque popolazione influenzi in maniera decisiva lo sviluppo economico e politico del paese nel suo insieme. Il concetto di "transizione demografica" riveste quindi un ruolo centrale all'interno di questa tesi. Con questa espressione si fa riferimento al passaggio di una certa popolazione da un regime demografico antico (caratterizzato da alti tassi di fertilità e alti tassi di mortalità) ad un regime demografico moderno (con, al contrario, bassi tassi di fertilità e bassi tassi di mortalità). Questo lento e graduale processo di trasformazione demografica ha avuto luogo per la prima volta in Europa e Nord America nel diciottesimo secolo, per poi diffondersi in America Latina e in Asia Orientale, impiegando ogni volta più di un secolo per arrivare a completo compimento. Al contrario, l'Africa Sub-Sahariana si trova ancora alle prese con le fasi iniziali di questo processo, mentre la regione MENA (*Middle East and North Africa*) è nelle sue fasi centrali.

La centralità che riveste questo argomento in questa trattazione deriva non solo dal fatto che la straordinaria trasformazione demografica che sta attraversando il Regno Saudita rientra in pieno nel quadro teorico rappresentato dal processo di transizione demografica, ma anche dal fatto che dal punto di vista politico tale evoluzione rappresenta un fattore di instabilità e incertezza sociale tale da dare luogo ad ampi fenomeni di contestazione popolare, se non addirittura rivolta, contro l'autorità politica. Tale considerazione deriva dal fatto che i cambiamenti demografici hanno delle ripercussioni che esulano dalle mere questioni di ordine statistico-quantitativo, ma coinvolgono anche, talvolta in maniera irruenta, il carattere ideologico e culturale di una data popolazione.

In particolare, secondo la teoria della transizione demografica, il calo graduale del tasso di mortalità in seguito al miglioramento generalizzato del sistema sanitario è seguito poco dopo dal calo, anch'esso graduale, del tasso di fertilità in seguito al miglioramento del sistema educativo. Infatti, l'aumento del tasso di alfabetizzazione, soprattutto femminile, è correlato alla diffusione generalizzata di pratiche contraccettive tra la popolazione. Tale fenomeno, che rappresenta un ulteriore fattore alla base della diminuzione delle natalità, innesca una serie di trasformazioni in seno alla società tanto dal punto di vista culturale-sociologico, che dal punto di vista politico-economico.

Dal punto di vista delle strutture familiari si passa infatti da larghi e numerosi nuclei a delle strutture in cui i genitori si limitano ad avere due o tre figli. L'aumento del tasso di alfabetizzazione e il miglioramento del rapporto di uguaglianza tra uomo e donna all'interno della famiglia è tale per cui alla taglia della famiglia si preferisca un migliore livello di educazione per i propri figli. Allo stesso tempo, l'aumento del tasso di produttività economica tende ad aumentare in una società in cui anche le donne reputano importante entrare nel mondo del lavoro.

Dal punto di vista ideologico-culturale, però, il processo di transizione demografica può avere effetti destabilizzanti nei confronti della "stabilità mentale" di un'intera società. In un contesto in cui anche il livello di pratica religiosa tende a diminuire in parallelo all'aumento dei livelli di istruzione, le nuove generazioni, sempre più istruite e sempre più abituate a mettere in discussione i fondamenti valoriali della propria società, rischiano di non riconoscersi più nel sistema ideologico proprio delle precedenti generazioni. Di conseguenza, come da un punto di vista familiare un figlio più istruito rispetto ai propri genitori può contestarne l'autorità, da un punto di vista sociale una generazione di giovani culturalmente attivi e numericamente superiori rispetto alla generazione precedente può dare luogo a violente forme di contestazione contro l'autorità politica o religiosa.

Per questa ragione i processi di transizione demografica sono spesso legati a momenti di smarrimento ideologico e di generalizzata rivolta popolare.

L'Arabia Saudita, come molti altri paesi della regione, sta attraversando proprio questo processo di transizione: uno stravolgimento demografico, con ripercussioni di ordine sia economico che culturale, avvenuto a partire dagli '50 ed essenzialmente basato su una eccezionale crescita della popolazione. Le conseguenze di tale sviluppo, però, sono emerse in tutta la propria gravità solo negli ultimi anni sotto forma di evidenti "rigonfiamenti delle fasce di popolazione giovanile" (i cosiddetti *youth bulges*), elevati tassi di disoccupazione (soprattutto giovanile) e preoccupanti tassi di urbanizzazione. La crescita demografica che ha portato la regione del MENA ad avere una popolazione di 431 milioni di persone nel 2016, rispetto ai 106 milioni del 1960, è quindi alla base di un'insofferenza popolare legata a questo stravolgimento tanto radicale quanto repentino.

Le rivolte popolari scoppiate nella regione nel 2011 e denominate "Primavera Arabe" sono quindi il frutto di una duplice frustrazione. Da un lato rappresentano un'evidente forma di avversione nei confronti di regimi apertamente autoritari responsabili di gravi situazioni economiche: in particolare di sclerotici mercati del lavoro incapaci di offrire un impiego alle centinaia di migliaia di giovani, molti dei quali laureati. Dall'altro lato, però, tali rivolte testimoniano il puntuale smarrimento ideologico percepito nei confronti di una società che non li rappresenta più e il cui sistema valoriale è incapace di dar loro risposte.

Il Regno Saudita, oggi, presenta lo stesso clima di effervescenza sociale che caratterizza l'intera regione. Dal 1960 ad oggi la popolazione del paese è aumentata di ben 28 milioni di abitanti, raggiungendo gli attuali 32 milioni, la fascia d'età 0-19 anni rappresenta il 25 per cento dell'intera popolazione e quella 0-30 il 60 per cento. Sul fronte del mercato del lavoro i dati sono ancora più allarmanti: nella fascia d'età 15-24 anni, il tasso di

disoccupazione arriva al 30,4 per cento, mentre entro il 2030 si calcola che circa 6 milioni di giovani sauditi cercheranno di trovare un impiego in un paese in cui il settore pubblico non è più in grado di assumere, mentre il settore privato non sembra capace, almeno per il momento, di rappresentare una seria valvola di sfogo.

Se nel 2011, però, il regime saudita è riuscito a prevenire l'emergere di qualsiasi seria forma di contestazione popolare grazie all'esborso di circa 130 miliardi di dollari sotto forma di politiche redistributive, non è detto che tale strategia possa funzionare anche in futuro. Il cambiamento della struttura economica del Regno Saudita sta infatti andando di pari passo con il peggioramento delle proprie capacità finanziarie. Sebbene ciò sia dovuto a tanti fattori concomitanti, la diminuzione della rendita petrolifera avvenuta negli ultimi due anni rappresenta senza dubbio la maggiore fonte d'inquietudine per gli Al Saud.

A partire dal 2014, infatti, il mercato petrolifero internazionale ha subito uno sconvolgimento tale da causare un drastico calo del prezzo del petrolio. Dagli oltre 110 dollari di metà 2014 il prezzo al barile è in breve tempo sceso fino a toccare, nel gennaio 2016, addirittura i 26 dollari. Tale stravolgimento ha inciso notevolmente sul bilancio di un paese come l'Arabia Saudita le cui entrate si basano per quasi il 90 per cento sulla rendita petrolifera. Almeno formalmente, però, le cause di questo drastico calo del prezzo del petrolio sono da imputare proprio al Regno Saudita. La decisione del regime di aumentare la propria produzione è stata infatti la risposta alla ritrovata concorrenza rappresentata dal petrolio iraniano, iracheno, russo e statunitense. In particolare gli Stati Uniti, capaci di raggiungere negli ultimi anni la quasi indipendenza energetica grazie allo *shale oil* (il petrolio ottenuto tramite fratturazione idraulica), hanno radicalmente modificato l'equilibrio energetico internazionale, ridimensionando il proprio ruolo di maggiore importatori petroliferi. La caduta del prezzo del petrolio rappresenta quindi, da questo punto di vista, una nuova stagione di concorrenza e sovrapproduzione petrolifera in cui

l'Arabia Saudita, grazie ad una politica al ribasso, cerca di mantenere le proprie quote di mercato nei confronti degli altri paesi esportatori.

Dal punto di vista domestico, però, l'Arabia Saudita soffre un'altra minaccia che rischia di pesare in maniera strutturale sulla rendita petrolifera del paese. L'aumento progressivo del consumo energetico interno rischia infatti di pesare in maniera rilevante sulla capacità saudita di esportare petrolio. Questo *trade-off* tra consumo energetico nazionale e petrolio riservato all'esportazione vede infatti il settore dell'export in crescente svantaggio, con ingenti conseguenze sul piano finanziario. A trascinare questo aumento vi è la forte crescita demografica avvenuta negli ultimi decenni e un modello economico basato sull'utilizzo intensivo di energia a basso costo.

Questo indebolimento delle capacità finanziarie del paese rischia quindi di togliere al Regno Saudita la propria fondamentale, se non unica, arma politica: un'entrata petrolifera tale da assicurare, grazie a importanti politiche redistributive, la pace sociale. E in un contesto in cui la società saudita dimostra già evidenti segni di irrequietezza, questa mancanza potrebbe rivelarsi fatale per il regime. Due, in particolare, sono i segni di squilibrio che la giovane società saudita in crisi di transizione dimostra oggi: il terrorismo e un rampante nazionalismo.

Il rapporto tra il Regno Saudita e il terrorismo islamico si è andato fortemente rafforzando negli ultimi decenni. Tra il 2003 e fine 2006 ha avuto luogo nel paese un lungo e sanguinoso conflitto tra i membri di cellule terroristiche affiliate ad al-Qaida e il regime. Nonostante alla fine il governo sia riuscito ad averla vinta su questa ondata di attacchi contro rappresentanti del governo e cittadini stranieri, la stessa minaccia si ripresenta oggi sotto l'egida dello Stato Islamico. A partire dal 2015, il gruppo guidato da Abu Bakr al-Baghdadi ha rivendicato numerosi attacchi perpetrati contro la minoranza sciita e importanti luoghi di culto sunniti. In questo contesto in cui il terrorismo torna ad infiammare il clima politico interno al paese, una giovane, disoccupata ed istruita generazione rischia

di trovare nel radicalismo islamico una soluzione al proprio spaesamento ideologico legato al processo di transizione demografica. Il terrorismo si presenta così non solo come fattore aggravante di una già presente instabilità sociale, ma come effetto diretto di questo cambiamento demografico.

Nella stessa ottica possiamo interpretare l'ondata di nazionalismo che contraddistingue adesso il Regno Saudita. Lo scontro settario tra le componenti regionali sciite e quelle sunnite, che nasconde uno scontro ben più netto per la leadership regionale tra l'Iran e l'Arabia Saudita, vede infatti in questo paese un fertile terreno di sviluppo. Il Regno Saudita, in particolare, soffre di un marcato problema di instabilità politica dato dal fatto che la regione orientale del paese, a stragrande maggioranza sciita, si trova di fatto staccata dal resto della popolazione. La tensione tra queste due componenti religioso-demografiche è poi acuita dal fatto che proprio in quest'area si trovano la maggior parte dei campi petroliferi che rappresentano la ricchezza del paese.

Ma se lo scontro tra le politiche settarie promosse da questi due paesi ha già destabilizzato gran parte della regione, i costi di tali politiche potrebbero avere pesanti effetti anche sui rispettivi promotori. L'intervento militare saudita lanciato in Yemen nel 2015 ne è un lampante esempio. I massicci bombardamenti aerei volti a neutralizzare i ribelli Houiti, accusati di essere una quinta colonna iraniana nella penisola arabica, rappresentano infatti una gravosa fonte di spesa per il regime saudita. Il fatto che l'intervento non sia riuscito a portare i risultati sperati ha poi acuito il risentimento politico e l'onere finanziario per un paese che sperava di eliminare il problema attraverso un breve e deciso intervento militare.

Di conseguenza, dato lo stravolgimento del mercato petrolifero internazionale, unito ai pesanti fattori di spesa e di consumo energetico, l'Arabia Saudita si trova oggi a dover affrontare un'inusuale quanto precaria situazione finanziaria. Dopo più di dieci anni il paese si è ritrovato a dover fare i conti con un netto deficit fiscale poiché la rendita petrolifera

è crollata del 68 per cento e il governo ha dovuto bruciare il 23 per cento delle proprie riserve di valuta straniera in appena due anni. Come risultato, il regime è stato costretto a ridurre di circa il 70 per cento la propria capacità di spesa, mettendo a repentaglio i grandiosi progetti infrastrutturali del paese così come parte delle proprie politiche redistributive.

“*Saudi Vision 2030*” è stata quindi la risposta del regime di fronte a tale serie di ostacoli di ordine demografico ed economico-finanziario. Tale progetto di riforma economica è stato lanciato nell’aprile del 2016 dal nuovo e potente ministro della difesa Mohammed bin Salman, figlio di re Salman. Vision 2030 ha come principale obiettivo quello di ridurre la dipendenza del paese dalla rendita petrolifera, sviluppare il settore privato ed aumentare la crescita economica al fine di creare nuovi posti di lavoro per la nuova generazione di diplomati e laureati. Per raggiungere questo obiettivo il regime ha proposto un piano di riforma economico basato su tre assi fondamentali: la creazione di un fondo sovrano da più di 2 trilioni di dollari, lo sviluppo del settore privato attraverso partnership pubblico-private e la “saudizzazione” del mercato del lavoro.

La creazione del fondo d’investimento sovrano più grande al mondo verrà effettuata a partire dalla privatizzazione di circa il 5 per cento di ARAMCO, la compagnia petrolifera nazionale, e di molti altri beni statali. Questo fondo, che nei piani del regime verrà utilizzato per investire in tutto il mondo e su più settori differenti, servirà a generare una rendita supplementare che verrà impiegata nello sviluppo dell’economia del paese. A sua volta, creare nuovi posti di lavoro per i giovani sauditi, in particolare riducendo la schiacciante manodopera straniera presente nel settore privato, sarà una sfida di decisiva importanza.

Nonostante l’investimento politico fatto dal regime nel promuovere e pubblicizzare questo programma, Vision 2030 presenta ancora molti punti deboli che ne mettono in dubbio le possibilità di riuscita. In particolare, l’alto costo del progetto di riforma, unito al carattere ambizioso e spesso

vago del piano, rischiano di trasformare Vision 2030 in un vasto, quanto inefficace, piano economico.

In conclusione, l'Arabia Saudita si trova oggi a dover fronteggiare una serie di sfide diverse ma comunque legate tra loro. Il processo di transizione demografica sta radicalmente trasformando la società del paese, con gravi ricadute sulla stabilità interna. A ciò si aggiunge il calo della rendita petrolifera e il bisogno pressante di creare nuovi posti di lavoro per una generazione di sauditi sempre più istruita e cosmopolita. La sfida più interessante e difficile da superare resta però quella di attuare un processo di trasformazione economica capace di lasciare inalterata la struttura politica interna al paese. In tal senso, la diminuzione delle politiche redistributive che questo periodo di crisi finanziaria impone, insieme alla privatizzazione di svariati servizi pubblici (in particolare sanità e istruzione), rischia di far saltare questo piano di diversificazione economica che di fatto si presenta come un tentativo, da parte del regime, di stipulare un nuovo contratto sociale con la cittadinanza saudita.

Di conseguenza, non vedo come il Regno Saudita possa affrontare questo periodo di transizione demografica, economica e culturale verso nuove e più moderne basi, senza allo stesso tempo non subire una forte pressione per un cambiamento di ordine politico volto a limitare l'attuale potere assoluto detenuto dalla famiglia reale.

Introduction

In a changing Middle East, Saudi Arabia is facing a series of internal and external challenges. The aim of this dissertation is therefore to analyze the nature of these challenges and how the House of Saud intends to respond to them. At the same time, this study is based on the assumption that, given the current socio-economic circumstances within the country, no plan of economic development can be successful without a parallel program of political opening. In fact, the Kingdom of Saudi Arabia has to face a series of unprecedented and structural problems that seriously threaten the stability of the regime.

First of all, after several decades of uninterrupted population growth, the country has to deal with an essentially young demographic age structure (the so-called youth bulge), that represents a heavy burden on the Saudi labor market as well as on public policies aimed at maintaining internal political stability.

Furthermore, the slowdown of Saudi economy, the rise of unemployment rates (especially youth) and the weakening of fiscal capability on the part of the state are the main economic issues that concern the royal family, in a context where oil income has been considerably reduced by the collapse of oil prices and by increasing domestic energy consumption. Besides, military intervention in Yemen, repeated attacks by the Islamic State (IS) on Saudi soil, increasing resentment of the Shi'a population living in the Eastern province and chronic instability in Syria and Iraq are other sources of destabilization for Saudi Arabia.

Overall, Saudi Arabia seems to be going through a period of deep transformation of its economy and society. In fact, for the first time after the modern Kingdom was founded in 1932, Saudi Arabia undergoes a set of pressures that could change the political basis upon which the social contract between the regime and the population was signed.

As a consequence, exploring the need for a new social contract, its potential new economic framework and its possible consequences on

Saudi political structure will be another collateral, but still fundamental, objective of this dissertation.

Among different and multiform threats concerning both economic and socio-political aspects, the demographic factor has a particular role in shaping and channeling this political season defined as a “period of transition”.

From a demographic point of view, the country presents the same set of factors that in 2011 in other states of the region, together with other economic and political circumstances, started the so-called “Arab Spring”; Bahrain, Egypt, Tunisia, Syria, Libya and Yemen experienced indeed a common wave of contestation against their authoritarian regimes, based on the same political claims. In fact, the rule of authoritarian regimes, the mafia-like character of state economic elites, rampant poverty and unemployment were some underlying political-economic shared causes of this broad wave of revolt. Nonetheless, the study of the demographic nature of these societies suggests that other hidden but structural elements were at work in activating popular unrest.

Over the last decades many societies of the MENA region underwent a rapid population growth that caused substantial transformation. This demographic earthquake, at the base of alarming youth bulges and exponential demographic growths, deeply altered the physiognomy of society, while improvements in regional health-care systems produced a sharp decrease in mortality rates. Successively, the increase in literacy rates, especially among women, and the consequent diffusion of birth control practices, caused a gradual but relentless reduction in fertility rates.

So, this gradual demographic process, called “demographic transition”, refers to a situation in which a society shifts from an ancient demographic system (high birth rates and high mortality rates) to a modern demographic system (low birth rates and low mortality rates); nevertheless, every demographic transition is related to a major process of cultural and ideological change that has deep consequences on the political field too (Courbage and Todd 2011).

Demographic transitions lasting more than a century have already occurred in other parts of the globe, for example in Europe, but are still under way in other continents, notably in the MENA area and in sub-Saharan Africa (Coldwell 2006). Now, the crucial factor regarding a demographic transition is that the rise in literacy levels and the consequent decrease in fertility rates reflect a society in which education of children and finding a job represent an urgent need for both parents. Moreover, increased literacy levels are always related to reduced religious practices. This tendency to question spiritual authority, however, is accompanied by a more general tendency to question the political and ideological points of reference of the previous, less educated generation. In fact, in the same way in which, under certain conditions, a young person raised in a small nuclear family tends to oppose family authority, a society where young people are numerically prevailing and culturally active tends to oppose the established power. Consequently, not only demographic transition periods are very often related to times of ideological and cultural uncertainty because of mistrusted value systems, but cultural disorientation can also foster the diffusion of radical doctrines as well as the development of popular upheavals (Courbage and Todd 2011).

Concerning the MENA area, entire societies in this region underwent a structural transition towards demographic modernity: in 2010 the youth population (15-24 years) of the Arab region, representing 20 percent of the total population, had an unemployment rate standing at 27 percent (Mirkin 2014: 14-23) and a literacy rate of 92.6 percent (World Bank). Therefore, young and educated societies found themselves changed and embedded in a globalized world that put an even more stressful net over the sterile job markets and political systems of their countries. As a result, these societies are experiencing not only a period in which a large part of the population is knocking at the door of the job market, but also a broader process of disruption of traditional social arrangements and common ideological terms of reference (Dyson 2010). In this sense, the streets of Arab states expressed at the same time a process of demographic change

and a sentiment of ideological disorientation that has its roots in the transformation of demographic and family structures.

In the same manner, nowadays Saudi Arabia has a population of more than 32 million people, 28 million more compared to 1960; moreover, an army of 100.000 students is ready to enter the job market (Mckinsey 2015: 92-6), whereas fertility has fallen from 6,7 to less than 3 births per woman¹ and adult literacy stands at 94 percent (World Bank 2016). These indicators highlight a potentially boiling situation in which a large part of the population lives in a society where family, political and religious institutions risk not to represent a model that fits instead with a more atomized and emancipated (notably from family and religion) ideal lifestyle.

The wave of terrorism that has hit the country in the last two years and rampant Saudi nationalism are two evident signals that testify to a period of ideological alteration, and consequently of political instability, that usually goes with the process of demographic transition. In fact, to a young population that refuses the old system of value of the previous generations, these radical doctrines represent a sort of independent and, paradoxically, safe way to interpret reality.

Starting from 2015 several terroristic attacks, launched under the ideological aegis of the Islamic State, have repeatedly hit the country causing the death of 69 people; moreover, Islamic State doctrine exerts a strong appeal on a largely unemployed and urbanized Saudi youth. Thus, the Kingdom of Saudi Arabia, already theatre of a long and violent war against al-Qaida's terrorism in the mid-2000s, has gradually become one of the main targets of Abu Bakr al-Baghdadi, the political-religious leader of the self-proclaimed Caliphate. The House of Saud is accused of harboring foreign troops – coming especially from the US - on sacred Saudi soil, in order to protect the country from outside threats; in fact, King Salman, holder of the royal title of “Custodian of the two Holy Mosques”, by allowing US troops in Saudi Arabia would in practice default on its

¹ In 2014 the fertility rate in Saudi Arabia was 2.8 births per woman (World Bank 2016).

obligations. Furthermore, the Islamic State accuses the Kingdom of allowing a large Shi'a community to live and pray in Saudi Arabia. By so doing the so-called Caliphate challenges Saudi religious authority by presenting itself as the true defender and proponent of Sunni Islam. Consequently, when targeting Shi'a mosques in the Eastern provinces and the main religious sites in Saudi Arabia, the IS responds to a specific goal: unveiling some kind of collusion between the House of Saud and both the USA and the Shi'a community.

On the other hand, the renewed and intense opposition to Iran and Shi'a Islam testifies to a context where the regime uses this wave of nationalism in order to underpin its regional sectarian policy (Potter 2014; Wehrey 2013). In fact, a strong wave of nationalism is a societal phenomenon typical of any young population (Todd 2011). So, given that the re-emerging status of Iran is perceived as a vital threat to the Kingdom, and the Middle East is increasingly divided between Sunnis and Shi'a, such Saudi anti-Iranian nationalism risks to exacerbate a dangerous sectarian policy in the region.

The intervention in the Yemen war in 2015 represents the most evident form of sectarian policy put in place by Saudi Arabia lately. In fact, although Yemen, the most poor of Arab countries, was already ravaged by violence and political instability, the Saudi-led operation "Decisive Storm" was launched only after Houti rebels headed towards Aden. Houtis are considered by Saudi Arabia as the fifth column of Iran in the Arabic peninsula: consequently, the possibility of having a Yemen ruled by a pro-Iranian entity at its southern border was perceived as an unacceptable outrage by the Kingdom. In fact, although a meaningful engagement of Iran in the Yemeni civil war has never been proven in reality, if not ideologically, given the Zaidi Shi'a-affiliated religion of the group, the House of Saud has immediately intervened in the conflict after the dissolution of the official Yemeni government. Nonetheless, the fight against "Yemeni Hezbollah", especially by means of continuous airstrikes, did not produce the desired results; on the contrary, the resolute resistance of the Houtis bars the way to any quick and durable peace

agreement. Moreover, the ravaging effects of the still ongoing military operations have produced an enormous humanitarian crisis to which no solution has yet been found.

In addition to that, although the terrible effects of this war on civilians continue to go unnoticed by international public opinion, this conflict has had immediate repercussions on Saudi fiscal budget. Arms purchases and ongoing ineffective military operations represent a heavy fiscal burden for the Kingdom.

But the war in Yemen and the huge armaments purchases of past years are not the only reasons for the worsening of the fiscal balance of the state. Two other important factors are at the base of this financial stress.

Firstly, since 2014 the international energy market is experiencing a renewed instability that has caused the collapse in oil prices by reason of a glut in production which, paradoxically, is driven mainly by Saudi Arabia. Slowly recovering Iraqi and Iranian production, together with an increased energy independence reached by the US thanks to new shale oil extraction technologies, have made the oil market much more competitive and structurally instable. Consequently, the Saudi decision to increase its oil output, so as to reduce international oil prices, has to be interpreted as a strategy to put its most direct economic competitors out of business.

Secondly, erosion of a large part of income due to increasing use of oil for domestic consumption is another factor of destabilization of the Saudi oil-centric economy. In fact, demographic growth of the population and complete reliance on oil as the main source of energy are gradually corroding Saudi oil-export capacity (Luciani 2013a).

Taken together, these two elements are the main cause of the 68 percent collapse in oil income since 2011 and of the 70 percent cut of capital expenditure compared to 2015; furthermore, in 2016 government debt increased up to \$73 billion (Dipaola and Martin 2016). These figures show a deep change in fiscal reality for a state accustomed to rely heavily on oil income. As a consequence, not only Saudi demography is undergoing a period of transition: economy and the way Saudi Arabia intends to adapt its political economy to these new financial constraints are also changing.

Therefore, the major risk for the Saudi regime is that an internal worsening of the economic situation can activate, in a sort of ripple effect, underground tensions harbored by a population in the middle of demographic transition and already undermined by the appeal of terroristic doctrines and dangerous nationalism. In particular, the reduction of oil income started in 2014 crippled the financial stability of the country, seriously cutting the redistributive capacity of the state.

The rentier nature of the Kingdom of Saudi Arabia represents indeed a major point of departure in the study of the socio-economic situation in the country. Political stability deriving from a society that has forsaken any civil or political representation in exchange for tax exemption and partial redistribution of oil income is the constitutive element at the base of the political relationship between the House of Saud and the citizenry. As a consequence, the unilateral break of the social contract by the regime caused by unprecedented fiscal constraints constitutes a serious challenge to the political harmony between the two parts. In fact, the reduced capacity of the House of Saud to create new job opportunities in the overloaded public sector, ongoing public policies aimed at reducing energy subsidies for large parts of the population and the planned privatization of many public sectors are clear signals of new economic needs for the country. Moreover, although in the course of time oil price has experienced ups and downs following geopolitical shifts and international energy market disruptions, never before Saudi Arabia has faced such a period of uncertainty in which intertwined demographic and economic aspects risk to undermine the political basis of the Kingdom.

Besides, Saudi Arabia is worried by two other demographic sources of destabilization. On one hand the Shi'a community, unsettled and divided from the rest of the population; in particular, the worsening of the regional sectarian situation risks to foster popular unrest in a region (the Eastern province) already theatre of street demonstrations and location of the majority of oil fields (Matthiesen 2014). On the other hand, the mass of 11 million foreign workers that Saudi economy cannot dispense with

represents a serious element of social tension in a country where more than one third of the population enjoys no political or civil right.

As a consequence, in order to deal with such a multi-faced series of structural threats, the Kingdom of Saudi Arabia has launched in April 2016 a project of national long-termed reform (“Saudi Vision 2030”) as the official political-economic response to the challenging transformation of some pillars of Saudi society and economy. In particular, economic diversification and the development of a dynamic private sector able to reduce national unemployment are the two main goals of this economic program.

The strategy of Saudi Vision 2030 to diversify and develop the economy away from oil income is mainly based on the privatization of 5 percent of Saudi ARAMCO (the national oil company) and many other state-owned assets in order to create a Public Investment Fund consisting of more than \$2 trillion, that is the largest sovereign wealth fund in the world. According to the regime this investment fund will be used to invest in different sectors and markets worldwide; in turn, the diversified revenues generated by these investments will be use to boost domestic economic growth.

Still, the capacity of Vision 2030 to represent a solution to such problems appears reduced. In fact, the high cost of the plan together with its blurred and ambitious economic programs risk to hinder the implementation of any effective and more disciplined process of economic reform.

In conclusion, what I intend to prove with this analysis is that the Saudi Arabian regime needs to deal with a series of challenges of different nature and at different levels that, from my point of view, will represent a serious source of stress for the royal family. Thus, my purpose is not only to describe the different problems to which Saudi Arabia is, or will be, confronted with, but also to analyze the response and the margin of maneuver of a monarchy in the middle of a period of transition. In fact, despite the Kingdom’s risky situation, the House of Saud can always rely on a latest generation coercive apparatus, a still influential religious authority and a strong diplomatic network.

Following this order of ideas, the first chapter will take into account the demographic structure of Saudi Arabia by analyzing in the first paragraph key demographic indicators such as population growth, youth bulge and unemployment rates. The Shi'a community, foreign workers and their respective roles will also be studied. Conversely, the second paragraph will examine the demographic transition theory and its applicability to the Saudi context. Then, the second chapter will study the causes and repercussions of three main threats for the Kingdom of Saudi Arabia: the new wave of terrorism on the country's soil: Saudi nationalism and the war in Yemen: and the new energy situation that is shaping the country's political economy. Finally, the third chapter will analyze Vision 2030, the Saudi project of economic-political reform launched in April 2016, together with its strengths and weaknesses. In sum, this chapter will study if and how the House of Saud will be able to rebrand the 86 years old Saudi social contract in a context of demographic as well as economic transition.

Chapter 1

SAUDI DEMOGRAPHY: A CHANGING DNA

Introduction

This chapter will try to analyze the demographic features of Saudi Arabia and how they could represent a threat to the political stability of the country itself. In particular, the rapid growth of its population during the last fifty years, combined with the large youth bulge that characterizes the actual age distribution of the country, has had serious repercussions on many socio-economic aspects. As a consequence, the second paragraph will attempt to read this demographic picture of Saudi Arabia in the light of the broader demographic transition theory.

1.1 POPULATION GROWTH: KEY INDICATORS

1.1.1 *THE POPULATION LEAP*

If we take a quick look at the population statistics of Saudi Arabia from 1960 to 2016, we are obliged to notice the exceptional growth rate of this country. From a population of little more than 4 million in 1960, in 2016 the total population of Saudi Arabia reached 32,158,000: a 7.7 fold increase that allowed the second largest country in the Arab world (after Algeria) to almost create its demographic basis (World Bank 2016). From this point of view, Saudi Arabia followed the general trend of population growth of the region: the Middle East and North Africa (MENA) area passed, in the period from 1960 to 2016, from 106 to 431.6 million people (ibid). The two main reasons that explain this demographic boom in the area are high birth rates and the sharp fall in death rates.

On one hand, the crude birth rate per 1.000 people stayed well over 40 during the two decades from 1960 to 1980 then dropped to 33.6 in 1990. On the other hand, the crude death rate of Saudi Arabia in 1960 was 20.3 per 1,000 people; fifty-five years later the same indicator stands at 3.4

(similarly the MENA region shifted from a death rate of 19.9 to 5.1). In practice, this decline in death rates is the natural outcome of the improvement in public health services: governmental health expenditures, total hospital beds, neonatal and infant mortality rates and the number of physicians per 1000 people are a set of indicators that witnessed a brisk increase over the last decades in Saudi Arabia as well as in the Middle East (Clawson 2009).

Besides, another key factor of such an exceptional population growth worries the Gulf monarchies; in these countries the total population has been inflated by a strong migratory flow. In fact, these oil-rich countries benefited, starting from the 1970's, from a large influx of foreign workers. The oil boom of these economies allowed them to finance the building of a large amount of infrastructures; in this context, the unemployment of the Arab world at first, and of South Asia later, has been the source of an addictive low-cost workforce. Today, this non-citizenry working class represents 32.7 percent of the total population of Saudi Arabia, while in the United Arab Emirates or in Qatar it represents almost 90 percent (Gulf Labour 2016).

Nowadays, this demographic dash has come to an end; birth rates in Saudi Arabia are becoming stable: the annual population growth rate was 6.1 percent in 1980 and it's still decreasing, having reached 2.1 percent in 2015; similarly, the crude birth rate shifted from 47.6 per 1,000 people in 1960 to the current 19.7. Nonetheless, the population size will reach 46 million by the year 2050 according to the World Bank projections (2016): this is due to the large number of women of child-bearing age that will remain high in the future. But the intense impulse at the origin of the demographic boom of the last decades has gone (Clawson 2009).

This rapid population growth, however, has caused deep transformations to Saudi demographic structure; the shape of the country's population is different as well as its needs and behavior; what the country has undergone is the so-called "demographic transition". This expression refers to the passage from an old demographic regime with high birth rates and high death rates, to a modern demographic regime in which these rates are lower.

However, the demographic transition is not only the result of a mere demographic shift, but also the effect of the spreading of mass literacy in a country (Courbage and Todd 2011). The adult literacy rate in 2015 in Saudi Arabia was 96.9 percent for men against 91.8 for women, while youth literacy rates are both over 99 percent (World Bank 2016). Similar efforts to reach high levels of mass literacy have been deployed in the whole MENA area. Now, the main consequence of mass literacy is a net increase in the use of contraceptive methods by women and couples in general. Obviously, young educated parents devote more resources to the education of their children than to the creation of large-sized families as it was common in the past.

In conclusion, Saudi Arabia, as well as the entire MENA region, entered the demographic modernity era, in which birth and death rates are becoming stable and the population's growth is no more explosive, although it is still underway. Therefore, the Saudi demographic body is still in transformation: in the next subparagraphs we will examine the essential features and distortions that have accompanied this period of transition.

1.1.2 AGE DISTRIBUTION: THE YOUTH BULGE

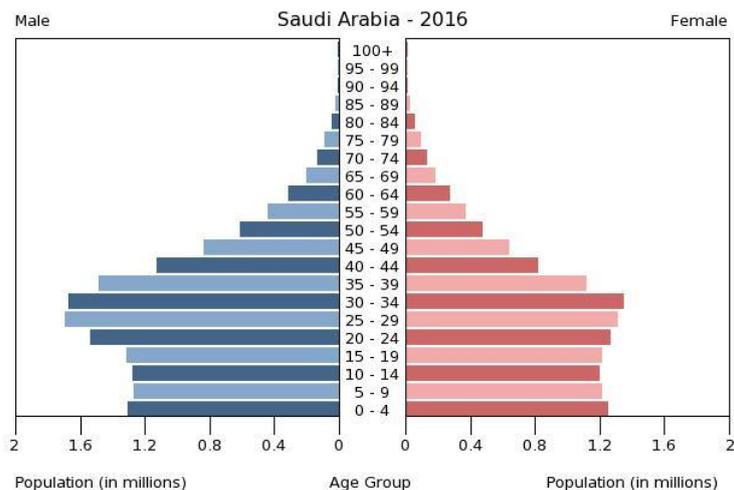
The first and more evident demographic distortion due to this sharp population growth is related to age distribution. In 2016, according to the General Authority for Statistics of Saudi Arabia, the population under the age of 19 was 24.9 percent of the total population, while the population aged 15-64 years (working age population) represents 72 percent of the totality. But, and this is what matters, 58.5 percent of the 19.4 million Saudi citizens are under age 30; in particular, the 0-9 segment represents 21 percent of the native population (2016a: 48). Thus, it follows that the demographic structure of the Saudi population is completely tilted towards the medium-low age distribution.

The other key indicator of the young Saudi population is the youth-bulge proportion, which is defined by Richard Cincotta as: "the proportion of young adults aged 15 to 29 years within a country's total working-age population (ages 15 to 64)" (2012: 100). In Saudi Arabia this indicator

stands at 35.5 percent, which means that the country is still far from a demographically mature condition, with a youth-bulge proportion below 30 percent (that is the case of countries such as Japan, Germany or Italy, where this proportion is around 24 percent) (World Bank 2016). This high percentage highlights the large proportion of young and educated Saudis that are about to enter the labor market in Saudi Arabia as well as the pressure that will be exercised on it to absorb these young cohorts. In figure 1.1 we can see the graphic proof of this young people's overrepresentation within the Saudi population. In the same figure we can also observe the disproportionate ratio between the male and the female population (especially in the 20-39 segment): this distortion is due to the presence of a high number of foreign workers inside the country, largely men.

Figure 1.1

Population Pyramid of Saudi Arabia by Gender (2016).



Source: Central Intelligence Agency, "The World Factbook." CIA, www.cia.gov/library/publications/the-world-factbook/geos/sa.html.

Furthermore, Saudi age structure has a deep impact on population behavior and on government fiscal needs: from 2015 to 2050 health expenditures are expected to rise due to the increase of the elderly

population, as well as government expenditures to dispense pension benefits. Conversely, expenditure for education in the same years is expected to decrease due to the diminution of the youth population.

Besides, if we want to analyze the trend of the Saudi population in terms of “generational sustainability”, dependency ratios can support us. This index relates the number of people that are economically dependent to the working-age population in order to discern the pressure on the productive side of the country. In the case of Saudi Arabia, youth dependency ratio will decrease from 41.2 percent in 2016 to 28.4 percent in 2050 according to World Banks estimations. Conversely, the elderly dependency ratio will leap from the actual 4.3 percent to 23.2 percent in the same time frame (2016). This highlights the actual youth demographic structure of the Saudi population: nowadays, government expenditures in terms of education exceed expenditures for social pensions and social services for the elderly. Nevertheless, the total dependency ratio will rise from 45.6 percent in 2016 to 51.6 in 2050 (World Bank 2016): that means that even if the ageing of the population will offset public expenses regarding the educational field (Abusaaq 2015), Saudi economy will still face a greater burden to provide social services for the future economically dependent sectors of the society, notably the elderly.

The main challenge, however, will remain the increasing Saudi labor force participation rate: almost 10 million of young Saudis, including the rising female labor force participation trend, will enter working-age by 2030 and, therefore, will put pressure on the labor market (McKinsey 2015: 15). Thus, it will be a hard challenge to be hired in an economy where the public sector is saturated by 70 percent of the total Saudi workforce and where the private sector is distorted by the presence of more than 11 million of low-skilled foreign workers (McKinsey 2015: 14; General Authority 2016a: 48).

1.1.3 UNEMPLOYMENT RATE

The main problem that the Saudi economy will have to deal with in the next decade is the increase of an already high unemployment rate, especially among young people. According to the General Authority for Statistics of the Saudi government, in 2016 unemployment rate of the native population stands at 11.6 percent (5.5 percent for men against 33.7 percent for women), while the total unemployment rate stands at 5.6 (2.5 percent for men against 21.1 percent for women) (2016a: 19). There are many doubts about the veracity of these numbers, especially in a country where a youth educated bulge risks to worsen social tensions. In fact, Saudi Arabia is dealing with a situation where a large portion of the 6 million Saudis that will reach the working-age by 2030 will knock at the labor market's doors, and where the unemployment rate could reach 20 percent by the same date (McKinsey 2015: 15-6).

Anyway, youth unemployment rate is the main challenge for the regime: in 2014, according to CIA's estimations (2016), unemployment rate for young Saudis aged between 15 and 24 was 30.4 percent (21.4 for men against 57.9 for women), while, according to Saudi government, 39.2 percent is the unemployment rate in 2016 for Saudis aged between 25 and 29 (General Authority 2016a: 19).

Moreover, a large number of students benefited from the "Two Holy Mosques" scholarship program, also known as "King Abdullah Scholarship Program". Launched in 2005, this program pays tuition fees to many Saudis students who choose to study abroad, mainly in the United States: more than 200.000 people are currently enrolled (McKinsey 2015: 35). Therefore, a huge number of experienced and cosmopolitan home returning students will try to find a job in the Saudi labor market aware of the poor prospects that it offers. In this regard, it's worth noticing that 53.7 percent of the unemployed Saudis has already a bachelor degree and 7.1 percent a diploma (General Authority 2016a: 19).

In addition to that, women's status is slowly but gradually changing: female participation rate in the workforce has continuously increased; if in 1999 the total female participation rate was 10 percent, in 2014 it stood at 18

percent. Today, women represent 16.6 percent of the Saudi labor force, although they have an unemployment rate of 64.1 percent (General Authority 2016a: 17).

So, the data mentioned above lead us to draw some conclusions. Firstly, outside the Saudi labor market there is a growing unemployed native population, both male and female, and extremely young. The age groups with the highest unemployment rates are the 20-24 for men and the 25-29 for women: in the age group 20-24 male unemployment rate is at 40.7 percent, while female unemployment rate in the age group 25-29 is at 41.7 percent: (General Authority 2016a: 19). Secondly, this youth unemployment rate represents in large part an educated section of the population. Nonetheless, if Saudi government expenditure on education in 2015 was 25 percent of total government expenditure (a percentage much higher compared to the other developed countries) (Mckinsey 2015: 35)², results did not match expectations: in fact, only 19 percent of Gulf residents, according to a survey conducted in the region, believes that their education is adequate to the labor market requests (Murphy 2011: 3). In conclusion, the structural basis of the Saudi labor market, dominated by the public sector and by more than 11 million of foreign workers, obliges the government to adopt a set of reforms in order to contain the increasing frustration of its national unemployed workforce; a huge task considering the race against time that Saudi Arabia is facing in this field and the depth of the distortions to which a remedy has to be found.

1.1.4 *FOREIGN WORKERS*

In Saudi Arabia, the huge and sudden financial liquidity deriving from the 1970's oil boom generated a massive building impulse in a country still largely rural. As in other oil-producing countries of the Gulf region, characterized by a lack of manpower, these building projects were fostered by a big migratory flow, at first from other Arab countries; from the mid-sixties to the mid-seventies many migrants came from Egypt, Yemen, Palestine, Jordan, Lebanon and Sudan. Gradually, however, this foreign

² However, the Saudi expenditure includes the costs of construction of new schools.

labor force started to be used from both the host countries and the countries of origin as a means of fostering their political agendas. In particular, in Saudi Arabia Palestinians were considered subversives and at the origin of many strikes in the oil fields, while Yemenis took part in many anti-regime activities; notably, non-Saudi Muslims took part in the Great Mosque seizure in Mecca in 1979. The complete politicization of the migration process occurred in 1990 during the Gulf War (Castles and Miller 2012): in this occasion Yemeni and Palestinian communities were expelled from Saudi Arabia as a retaliation towards their national authorities for not having supported the US-led coalition against Iraq (Emiliani 2012)³. Hence, starting from that period, Saudi Arabia began the replacement of Arab migrants with low-skilled workers from Southern Asia and South East Asia.

Nowadays, non-Saudi population in the country, according to the General Authority for Statistics of Saudi Arabia (2016a: 48), is 11,677,000 people, mostly from India, Pakistan and Bangladesh⁴, and they represent the cheap labor force pool of the country (De Bel-Air 2014: 6). Nevertheless, there are many points related to that question that worry the Saudi government as well as the international public opinion.

Firstly, the human rights abuses that these people face: even if living conditions of foreign workers have improved in the last years, many abusive aspects still persist concerning the *kafala* system (sponsorship) (Dito 2015)⁵. As Human Rights Watch (2015) affirms:

Saudi Arabia continues to impose an exit visa requirement that prevents foreign workers from leaving the country without their employer's permission. And migrant workers who change jobs without their employer's approval remain at risk of becoming undocumented.

³ Moreover, the mass expulsion of 800.000 Yemeni people from Saudi Arabia was also a political retaliation against Yemeni unification, which occurred in 1990.

⁴ Due to regional proximity, large Egyptian and Yemeni communities persist in the country. Saudi government, anyway, avoids to publish the exact number of people of each nationality in order to prevent the formation of any political awareness.

⁵ The *kafala* system regulates the legal status of the unskilled foreign workers in the GCC (Gulf Cooperation Council) as well as in other Arab countries. With this system the migrant laborer is directly tied to the in-country sponsor/employer who is the person in charge for their visa and legal status, thus creating a favorable environment for the worker's exploitation.

Secondly, although the great majority of the foreign labor force is male, the feminization of the migrant workforce in Saudi Arabia, following the increasing demand of women for household chores, worsens the general condition of precariousness and vulnerability of this part of the population (Castles and Miller 2012).

Nonetheless, Saudi economy cannot stand without them: in 2011, 99 percent of foreign workers are occupied in the private sector, mostly in the sectors of construction, retail and personal services, with an average monthly wage of \$400 (De Bel-Air 2014: 3, 6; McKinsey 2015: 18). Besides, foreign workers, which have accompanied Saudi economic growth during the 2003-08 high-oil price period, are preferred to domestic workers in the private sector for their less political claims in the workplace. In fact, the great majority of the Saudi workforce, almost 70 percent, works in the public sector, where to a higher wage (\$2500 a month on average against the \$1500 of the private sector) corresponds a higher social status. That is why the public sector, even if bloated by 3 million of employees, still represents the main ambition for a Saudi unemployed citizen (McKinsey 2015: 32, 28, 101).

1.1.5 *SHAPING THE COUNTRY: THE URBANIZATION PROCESS*

From a spatial point of view, Saudi population follows an essentially urban distribution: 26 million of inhabitants, or 83.1 percent of the total population, lived in a urban center in 2015. An incredible change compared to 1970, when the urban population represented 48.7 percent of the population, that is 2.8 million of Saudis (World Bank 2016).

This rapid wave of urbanization, that has completely changed the nature of social living, has its roots in the 1970's oil boom (Hertog 2011: ch. 4). First of all, it is not only the result of the population growth previously described, but also of a precise way to conceive the modernization process by the Saud family. In this sense, the country's urbanization (along with other policies, such as higher incomes or higher education standards) responds to a state's double objective: on one hand, to enhance the role of the state in people's lives, on the other hand, to legitimate the political role of the

Saud family vis à vis the citizenry (Hertog 2011: ch. 4; Bsheer 2016: 42). In fact, in my opinion, the royal family has acted as a demiurge deity: the infrastructure system and the social housing have been almost “created” for the people by the regime. In this context, the rapid urbanization of the country plays the material function of articulating a new national paradigm made of oil revenues, economic growth and nationalism.

Now, the overwhelming evidence of this policy is the refurbishment of the center of Mecca, where massive destructions, in a sort of competition between past and present, sacred and profane, have reshaped the holy city center in order to build service facilities for the pilgrims performing the *hajj*. Moreover, the royal family wants to emancipate its official source of legitimacy from any other alternative historical and religious basis outside of that directly related to the Saudi-Wahhabi national narrative. That is why King Salman decided in 2015 to renovate and develop the site of Diriyah, where in 1744 the alliance between Muhammad bin Saud and Muhammad ibn ‘Abd al-Wahhab was signed, while a huge number of historic sites near Medina and Mecca have been destroyed (including the birthplaces and tombs of many members of the Prophet’s family) to make space to malls, car parks and luxury hotels in the name of real-petro-capitalism (Hubbard 2015; Nasrawi 2007)⁶.

Nevertheless, three main features characterize this forty-year-old disorganized urban growth. Firstly, the consequences of a wild and rushed urbanization, careless of the natural environment, are evident in the hundreds of deaths provoked by the massive floods in Jeddah in 2009 and again in 2011. The public demonstrations that followed the disaster, especially the one in 2009, were directed against the corrupted and shallow policy of management of the territory by the authorities (Pétriart 2016). Secondly, the pursue of major works in the main cities has led to the displacements of thousands of citizens from their homes in order to build luxury hotels and car parks; these families, that have been refunded with scarce compensations, often could not find decent accommodation as

⁶ This policy has been justified by the Wahhabi institutions with the explanation that every veneration or worship of men, even the Prophet, is forbidden because considered as a sign of idolatry.

a replacement. Many, as in the case of Mecca's works of refurbishment of the Great Mosque, have been forced to find a solution in the shantytown less than one kilometer behind the religious complex (Bsheer 2016). Thirdly, a phenomenon of social boredom is gripping the country, especially in its peripheral cities, where this rapid urbanization has followed the traits of the conservative religious narration: "No cinemas, a paucity of athletic fields and courts" and a general underestimation of the social and recreational spaces' importance (Murphy 2011: 4). Moreover, these urbanized peripheries populated by latecomer rural migrants not only represent a safe base for criminal activities, but also a vast pool for terroristic recruiters who pivot on the feelings of revenge against society of these young excluded and anonymous citizens (Derdzinski 2006; Roy 2015).

However, this rapid urbanization is not only a synonym of gentrification and state control. It is also the cause-effect of a process in which "traditional institutions and forms of solidarity have been undermined", and where a new and atomized middle class has begun to head toward the main cities in order to take advantage of new working and social opportunities (Haykel, et al. ch. 13).

1.1.6 *THE SHI'A COMMUNITY: THE FAMILY STRANGER*

The Shia community represents the last aspect of the Saudi demography that we need to discuss. In fact, the particularity of this community is its complete foreignness to Saudi national dynamics. The Shi'a represent between 10 and 15 percent of the entire population, a shocking enormity for a country which is the cradle of Sunnism; specifically, they are concentrated in the eastern region of al-Hasa and in the southern regions of 'Asir, Jizan and Najran at the border with Yemen, but they are present even in bigger cities such as Jeddah and in the capital Riyadh (Dazi-Héni 2014: ch. 2).

There are two orders of reasons that justify this domestic anti-Shia excitement: the first is political, the second is religious.

Primarily, the majority of Saudi national Shi'a live in the Al-Hasa region, exactly over the most rich oil fields of the country. In this sense, this population represents, in the regime's eyes, a potential Iranian fifth column inside the country. This viewpoint is corroborated, from the Saudi perspective, by an instable Iraq; in fact, the wave of violence and instability sprung from this country toward the entire Middle East fed the Saudi fears to the extent that, in Saudi Arabia's opinion, Saudi Shias could fight for their independence supported by Iraqi coreligionists and Iranian Khomeini's ideology (Dazi-Héni 2014; Matthiesen 2014). For the royal family, together with the Sunni society, this frightening as well as unreal scenario represents a situation in which the monarchy would lose its oil-rich region in favor of the enemy Shia axis (Matthiesen 2014).

Secondly, the Shia community openly contradicts the Wahhabi creed of a united homogeneous Islamic Ummah. In this context, where the Islamic religion is preached and promoted in the absolute terms of a fundamentalist Sunni doctrine, Shia represents no less than an heresy. Therefore, Shias symbolize the public enemy of the nationalistic discourse calling for religious and political unity.

The Shi'a, for their part, in parallel with the prohibition of celebrating their religious festivities such as the "ashura", denounce a second-class political treatment by the royal family. In particular, they denounce the fact that if the national development has been financed with the oil resources of their territory, on the contrary this peripheral region has not received the same amount of funds compared to the other regions (Haykel 2015; Pétriat 2016). Moreover, as Toby Matthiesen says, "Shia are largely absent from top positions in the bureaucracy as well as in the private sector" (2014: 10).

In conclusion, the Shia community's resentment is the more evident result of a sectarian policy used by the Saudi government to unify the country in the Saudi-Wahhabi national discourse; besides, the price that Saudi Arabia has to pay in terms of regional and confessional restlessness is high, as the 1979 Eastern province's rebellion as well as the Shia Sheikh Nimr al-Nimr's execution in January 2016 demonstrate.

1.2 DEMOGRAPHIC TRANSITION IN SAUDI ARABIA

1.2.1 *AN UNDERESTIMATED CONCEPT*

When the main features of a situation of conflict or the global trends of a regional area are analyzed in terms of, for example, democratization, stability or economic development, the demographic indicators are often used in a mere descriptive way, as a simple frame to the political discourse. In particular, regarding the so-called Arab Spring, only passing references have been made to unemployment rates in the region or to the youth bulges that characterize the population of many Arab states, while detailed analysis of the demographic structures of these populations as well as the consequences in terms of political stability of the rapid population growth of the last decades are practically absent, except in some specific demographer's work. Conversely, great importance has been placed on the examination of the most obvious political issues such as: dictatorship, rising food prices, human rights violations, crony capitalism and corruption. Now, while recognizing the importance of these factors in shaping and channeling regional upheaval, from my point of view there is yet another more hidden but fundamental explanation to this historical event: the concept of demographic transition.

This expression refers to a model in which a given population shifts from a situation of high birth rates and high death rates to an opposite situation of low birth rates and low death rates. Correlated to these two processes of mortality and fertility decline are the processes of population growth, urbanization and population ageing (Dyson 2010).

As a global phenomenon, the demographic transition started for the first time in the eighteenth century in north-western Europe and later spread to other regions: notably Asia, starting from Japan and Taiwan, and Latin America, with Argentina and Chile ahead (Dyson 2010). Anyway, considering that the process of demographic transition takes almost a century to occur, many states are still undergoing this process, while many others are in their early development phases: Sub-Saharan Africa, above all, is just starting to see a decline in fertility rates.

In the MENA region, however, the situation is more varied; at first, Iran unleashed this process when in the 1980s its fertility rate quickly started to fall, so that today this country can boast the more “European” population structure of the region, with a fertility rate of 1.7 children per woman in 2015 (World Bank 2016). Even countries such as Egypt, Tunisia and Morocco, with delayed performances compared to Iran or Lebanon, show that the process is still unfolding. Saudi Arabia, conversely, started its fertility decline only in the last decade, given that in the year 2000 the fertility rate was at 4, while today it reached an averaged 2.7 births per woman. Yemen, vice versa, is the more undeveloped Arab country in terms of demographic transition, with a fertility rate of 4 and a mortality rate of 22.1 in 2015.

Now, leaving the study of the scientific origins of this process outside the scope of this dissertation, this paragraph will take into consideration the socio-political and cultural consequences of the demographic transition. In particular, what I intend to highlight in this paragraph is that every country that undergoes this transition is altered by a set of radical mutations that destabilize the mental stability of its population, with great consequences on the political behavior of a society as a whole (Courbage and Todd 2011).

1.2.2 *THE FAMILY REVOLUTION*

Emmanuel Todd and Youssef Courbage (2011) in their work “A Convergence of Civilizations”, talking about the collapse of the fertility rates in the Muslim world in the last thirty years, say:

Such a reversal has deep cultural and social roots: It is the sign of a disruption of traditional social arrangements. This disruption permeates relations to authority, family structures, ideological terms of reference, the political system, and so on. Birth control is both a symptom and a cause of a major anthropological transformation. (2)

In fact, what can be easily described as a simple demographical change, hides a major process of maturation of an entire population.

The demographic transition proceeds along two main axis.

Firstly, what really changes during a demographic transition is the status of woman: in particular, rising levels of literacy, especially in women, have a major impact on the “cultural and social dynamics of society” (Courbage and Todd 2011: 8). As previously said, the natural consequence of this increase of literacy levels, both male and female, is the decline in fertility through the diffusion of birth control. In fact, in an educated couple, where great importance is given to the quality of education and to the research of a job, even by women, the number of children is inevitably smaller compared to the previous generation. From this, it follows that even the rise of economic productivity is a consequence of an increased literacy level (Courbage and Todd 2011)

Secondly, every demographic transition, or as it could be called, every literacy revolution, is correlated to a decline in religious observance that can anticipate or follow the decline in fertility (Courbage and Todd 2011). In this sense, despite the resurgence of seemingly religious violence which is subverting the MENA region through the disintegration of Syria, Libya, Iraq and Yemen, the weakening of religious observance among the population is a factor that must be taken into account. In particular, the personal ways to conceive and practice religion by young Muslims are challenging the official Islam of different MENA countries. As Olivier Roy (2012) says:

Islam as a theological corpus has not changed, but religiosity has. And this religiosity [...] delinks personal faith from traditions, collective identity, and external authority. [Young Muslims] have criticized the cultural Islam of their parents and have tried to construct their own brand of Islam, one that feels more like a matter of conviction and less like an inherited habit. (20)

In this sense, the demographic transition is no less than a scientific explanation of a broad and natural process in which a majoritarian, educated, productive and more emancipated, above all in ideological terms, youth population tries to reverse the society's internal balance of power to its advantage at the expense of their parents' generational interpretation of the world. In fact, the main but revolutionary consequence of this demographic transition is that society acquires a completely different shape: from large families in which the father or the husband is

predominant, by means of the rise in literacy levels and the decline in fertility rates, we arrive to small families of two children on average and where the task of educating them is split evenly between the two parents. Consequently, what is happening in the MENA region is not only a simple shift toward a new demographic structure where the majority of the young people has a better education compared to that of their parents. Indeed, what is happening are major changes in terms of reductions in gender differentiation, rise of economic productivity, “decline of social ascription in society and greater emphasis on achievement and the planning of the future” (Dyson 2010: 220), religious disenchantment, rupture of the authority relations inside the family and, in parallel, within society as a whole (Courbage and Todd 2011; Todd 2011).

However, the main consequence of this silent revolution is often a protracted, even violent, political instability mainly caused by a widespread sense of ideological disorientation (Todd 2011).

1.2.3 *CRISIS OF TRANSITION, CRISIS OF MODERNITY*

As we have seen, the rise in literacy levels among the youth population and the diffusion of birth control practices pave the way to the shift from an ancient to a modern demographic regime. Moreover, mass education, together with an increasing economic productivity among the population and more egalitarian relations between men and women, lay the foundation for the modern development of a country in broader terms. Nevertheless, the price that a country has to pay in terms of political stability for this demographic as well as cultural modernity is often heavy.

In the English civil war and the restoration period (1642-66), in the French revolution and the early Napoleonic period (1789-1804), in the Russian first world war, revolution and external intervention (1914-22), in the German first world war and the consequent internal instability (1914–24) as well as the second world war and occupation period (1939-50), in the Austrian first world war and the dissolution of the Austro-Hungarian Empire (1914-24), in the Spanish civil war and dictatorship (1936-42), in the Eastern Europe shift from communism to a market economy (late

1980s): the common feature to all these cases is that a fertility transition, even if accelerated by the upheaval, was already under way (Coldwell 2006). The same thing can be said for the MENA region, where this process was already unfolding during the Iranian Khomeini revolution and war against Iraq (1979-88), the Lebanese civil war (1975-90) as well as the Algerian civil war (1991-2002) (Courbage and Todd 2011). Now, why a population experiencing a demographic transition is so prone to instability if not to proper violent unrest?

First of all, because every demographic transition has major socio-psychological effects on society (Dyson 2010): the rise in global literacy levels, especially, destabilizes these populations. In fact, in a mass educated society where women and men have the same degree of education, the relations of authority inside the family and, consequently, inside the society as a whole, tend to change. In particular, the citizenry will be more inclined to challenge the political authority and to question it (Courbage and Todd 2011).

In the second instance, always related to mass education, an educated citizenry will gradually refuse and abandon the prevailing ideological and religious interpretation of the world; in this way, the common points of reference of the population begin to fall and a general uncertainty about the future is spread⁷.

We must add that every population characterized by a young age structure is statistically related to political violence; in particular, “prevailing unemployment among highly educated youth segments may cause frustration and grievances that could motivate political violence” (Urdal 2006: 1). According to this, the median age of a population is a useful indicator not only to show the age distribution inside a country, but also its intrinsic predisposition to instability⁸. So, no surprise if countries ravaged by civil wars, such as Afghanistan, Iraq and Yemen, have very low median

⁷ The fact that many countries fall prey of radical ideologies or fundamental religions (such as the Napoleonic France or the Khomeini Iran) in the middle of a demographic transition, has to be interpreted as a transitory effect of this mental destabilization in which the society seeks old and safe points of reference. Nevertheless, as in the case of Iran, this fundamentalist politics could be prolonged by an adverse international circumstance (war against Iraq 1980-88).

⁸ The median age of a population is an index that divides the population into two numerically equal groups: half of the population is older than the median age and the other half younger.

ages of 18.6, 19.9 and 19.2 respectively in 2016, while in the same year other deeply instable countries have slightly higher median ages: 23.4 Pakistan and 23.8 Egypt (CIA 2016)⁹.

In conclusion, we can affirm that every population with a young age distribution suffers from a sort of physiological tendency to instability; now, this volatility can either be exacerbated by a set of political-economic factors (internal as well as external), or it can be mitigated by a favorable situation in which through particular policies these social anxieties are defused.

1.2.4 SAUDI ARABIA: ON THE BRINK OF THE CLIFF?

Richard Cincotta (2008), talking about young and jobless populations, says:

Youth bulges tends to give rise to youth cultures that coalesce around distinctive identities and untampered ideologies, and find expression through experimentation and risk-taking. Such conditions, some theorists argue, facilitate the political mobilization and recruitment of young adults – particularly young men - by non-state and state-supported organizations capable of political or criminal violence. (11)

In this respect, the estimated median age of the Saudi population in 2016 is 27.2 but, considering the high percentage of foreign workers inside the country, this indicator is necessarily lower. In fact, in 2013 the index considering just the native population was 23.3 (Cincotta 2015: 188).

However, the resolution used by the monarchy to stifle the Arab Spring season demonstrates a palpable fear to be infected by the same wave of protests that hit the region: Egypt has been flooded with massive political and, above all, financial support in order to reestablish the army-led government against the Muslim Brotherhood elected majority of the President Morsi, while in Bahrain, Saudi Arabia practically preserved the Hamad ibn Isa al-Khalifa's monarchy with a direct military intervention (Emiliani 2012; Henderson 2013). In fact, even if only five protesters responded (they were immediately arrested) to an official call for demonstration in Riyadh, the "Day of Rage" of 11 March 2011, (Amnesty

⁹ The median age in Syria in 2013, two years after the start of the civil war, was 22.4.

International 2012), Saudi Arabia has in its society all the ingredients necessary to start a wave of protests: a young population, a high unemployment rate and a strong urbanization (Lacroix 2016). On the other hand, the country presents the same set of political problems that motivated the Arab Spring in the region: lack of democracy, corruption and clientelism.

So, what are the inhibiting factors that prevented the explosion of a popular uprising in the past five years?

Obviously, the main reason is oil income. Oil represents roughly 90 percent of the government revenues and 42 percent of the gross domestic product (GDP) (McKinsey 2015: 17; CIA 2016). Saudi Arabia benefits from this revenue in three different ways that inhibit any social unrest.

Firstly, Saudi Arabia uses its oil income in order to coopt and neutralize the social dissenters through the allocation of domestic subsidies as a tool to discourage dissent; during the Arab Spring, for example, the Saudi regime allocated \$130 billion in social spending such as salary increases, social housing and other domestic benefits (Haykel et al: ch.1).

Secondly, oil wealth allowed the kingdom to build a strong coercive apparatus, especially during the AQAP's (Al-Qaida in the Arabian Peninsula) campaign in the country from 2003 to 2007; again, the security services and the intelligence expertise, in addition to the latest generation military devices, allow the country not only to prevent social upheaval by arresting in time the more threatening political opponents, but also to act more effectively in case of social unrest.

Thirdly, as the rentier state theory affirms, Saudi Arabia derives its political stability from oil, not from being dependent on the payment of taxes from the population. Thus, on the one hand the Saudi population lacks of the main political reason of insurrection, since there is no space for the slogan "No Taxation Without Representation"; on the other hand, the Saudi regime enjoys a greater level of decision making power as well as a greater capacity to use its repressive apparatus.

Thus, the oil income has had the function of softening the destabilizing effects of the demographic transition through the redistributive role of the state and its social control over the population (Todd 2011). Nevertheless,

the monarchy is still worried: not only the age distribution of its population, but also many other factors, internal as well as external, risk to precipitate the situation inside the country; among these, Shia unrest in the East of the country, Islamic State terrorism, the rise of domestic energy consumption, the need to diversify the economy, the war in Yemen and the changing oil market. A set of threats able to make the royal family more dependent on political legitimacy coming from the citizenry and the national economy more vulnerable to the changing oil market. Briefly, the risk of social upheaval is directly related to the economic situation of the country to the extent that the state loses its distributive role of part of the oil income. In the same way, even a major international crisis could have greater consequences on the stability of the country through different channels.

Anyway, these, as the other main challenges for the future of the country, will be discussed in the next chapter.

Conclusions

The first part of this chapter tried to analyze the demographic structure of the Saudi population: particular attention has been given to the study of the sharp population growth during the last decades and to the distortions related to it: the youth bulge, the high unemployment rates, the wild urbanization process, the excessive foreign worker population and the Shia community resentment. Then, the second part examined the demographic transition theory in the light of the demographic features of the MENA region. Particularly, we have analyzed the strict relation between decreasing fertility and mortality rates and political unrest in a context of high youth unemployment and strong urbanization.

In conclusion, Saudi Arabia is now living a period of potential internal instability: in fact, a country where a process of demographic transition is under way is particularly prone to unrest (Goldstone 2002). Nonetheless, the House of Saud, by virtue of the huge oil income, has managed until now to avoid the affirmation of any serious political opposition through redistributive policies and the creation of a solid coercive apparatus.

Thus, the next chapter will take into account three main questions which, combined or autonomously, could exacerbate the pressure on a country already troubled by demographic transformation.

Chapter 2

THE SAUDI FEARS: TERRORISTIC, REGIONAL AND ENERGY THREATS

Introduction

This chapter will take into consideration three main issues: terrorism, rivalry with Iran and energy consumption as well as production in Saudi Arabia.

Home-grown terror and stiff competition with its regional enemy are related to the demographic transition concept: in fact, both violent unrest and nationalism are directly linked to the social “effervescence” that characterizes a young and changing population. These two questions are analyzed in the first two paragraphs. Conversely, considering that oil represents the regime’s main control valve over social dissent, the third paragraph will examine the international oil market and Saudi energy consumption.

2.1 THE TERRORIST THREAT

2.1.1 “LE DESERT DES DESERTS”¹⁰

Although very popular in western literature, the term “Wahhabism” referring to the national religious ideology is not so common in Saudi Arabia: the Saudis, in fact, prefer the term *muwahhidun* (“unitarians”) to name themselves. This word, that could be translated as “those who support monotheism”, comes from the Islamic concept of *tawhid*, that defines the unicity and indivisibility of God, or, in wider terms, the principle of monotheism (Zuhur 2014). In this regard, the *muwahhidun*, following Muhammad ibn ‘Abd al-Wahhab’s teachings, have been trying ever since

¹⁰ *Le Désert des Deserts* (the desert of deserts) is the French title of the Wilfred Thesiger’s book of 1959 “Arabian Sands”, in which he describes the Bedouin life in the Arabian peninsula.

to spread their ideology of religious unicity throughout the Muslim world with the political and military support of the Saud family. In their opinion any other theological conceptualization of Islam is deviant. In particular, Shi'a and Sufi Muslims represent the two most evident forms of deviancy from Wahhabism: in fact, in both cases there is a sort of intermediate figure between God and the believer that is not accepted in such a puritanical form of Islam. In the first case, the imamate is considered heretic, whereas in the second case, the veneration of the Sufi saints is considered a form of idol worship (Commins 2006).

However, even if the religious aim of Wahhabism is to purify Islam from the modern customs and traditions coming from the Western civilization, this movement still remains an Hanbali conservative doctrine inside the Sunni branch of Islam¹¹. Nonetheless, the Saudi clergy, supported and legitimated by the Saudi royal family, continues to pursue its Islamic mission of proselytism (*da'wah*) all over the world presenting the Saudi-Wahhabi version of Islam as the official Islam. From this point of view Wahhabism, condemning any pluralistic view of the Islamic religion as part of the *dār al-Islām* (house of Islam), has transformed the Arab world in a dichotomic environment in which the Wahhabi interpretation is opposed to any other Islamic religious practice: a sort of theological desert corroding the Muslim world from the inside (Al-Rasheed 2014; Lano 2015).

Nowadays, the Islamic State's ideology comes from the same dried and ultraconservative vision of Islam spread until now by the Saudi regime (Lano 2015). In particular, Riyadh and Abu Bakr al- Baghdadi compete in the same arena in a perverse struggle to "eradicate difference and impose an imagined homogeneity on a diverse population" with their authoritarian and absolutist version of Islam (Al-Rasheed 2014). Consequently, as its main political-ideological opponent, the Islamic State declared war on the Saud dynasty in order to unmask in front of the Muslim world the political collusions of which the Saudi Kingdom would be at fault for.

Specifically, there are three important questions for which Saudi Arabia is accused by the Islamic State today. Firstly, their alliance with the United

¹¹ The four juridical schools (*madhāhib*) of Sunnism are: Hanbalism, Malikism, Hanafism and Shafi'ism.

States. The close relation between Saudi Arabia and the United States was the main reason for the wave of attacks conducted by al-Qaida in the country in the 2000s and for the rupture with the Muslim Brotherhood after the First Gulf war (Lacroix 2015). In particular, the hospitality conceded by the al-Saud to the American troops and bases in the Arabian peninsula since then, is considered a betrayal of the Muslim traditional and exclusive duty to protect the sacred soil. Secondly, and in strict relation with the first point, Saudi Arabia is accused of not being able to protect the two holy sites of Mecca and Medina, as the attack to the Prophet's Mosque in Medina on 6 July 2016 wanted to prove. A very harsh accusation against King Salman, crowned with the royal style of "Custodian of the Two Holy Mosques". Thirdly, IS denounces the religious policy of the Kingdom regarding the Shi'a community. From this point of view the so-called "caliphate" presents itself as the true and original defender of Sunnism, whereas Saudi Arabia, despite its official condemnation of Shia, allows a large Shi'a population to live and pray in the country (Dazi-Hèni 2015). On one hand, that is the sense of the attacks on Shi'a targets in the country in 2015 by IS suicide bombers; on the other, the Saudi decision of executing the sheikh Nimr al-Nimr in January 2016 can be put in the political perspective of maintaining the scepter of anti-Shi'a leader in the Muslim world.

In conclusion, beyond any conspiratorial theory according to which Saudi Arabia, or at least the higher ranks of the royal family, supports and finances the Islamic State in a direct and continuous way (even if in Syria and Iraq they have convergent military objectives), the terroristic threat represented by the Abu Bakr al-Baghdadi's affiliates constitutes nowadays a major challenge for the al-Saud family inside the country.

2.1.2 *FROM AL-QAIDA TO THE ISLAMIC STATE*

The second paragraph of the first chapter analyzed the main tendencies of a society in the grip of demographic transition. In fact, the ideological disorientation derived from a new educated youth, combined with high

unemployment rates and a strong urbanization, is a fertile substrate for the rise of violent upheavals.

In Saudi Arabia, terrorism, both introverted against the Saudi state and extroverted in other MENA countries (Hegghammer 2009), is the most evident form of political unrest expressed during this last decade of demographic transformation. Nowadays terrorism represents one of the main sources of destabilization of the country. In fact, as Olivier Roy (2016) says:

Salafism allows to give a religious legitimacy to a generational revolt against society, because it rejects the obscurity of no religious belief and the faith as well as the culture of the parents.

The modern confrontation of the Kingdom of Saudi Arabia with terrorism started in the mid-2000s. In that period al-Qaida's Saudi members left Afghanistan after the US-led invasion and brought jihad in the country. The campaign was mainly directed against the Western presence in the country in order to undermine the US-Saudi alliance (Haykel, et al. 2015). In 4 years, starting from 2003, al-Qaida conducted suicide attacks, kidnappings and shootings mainly targeting Americans, foreigners and the oil field facilities. The campaign launched by Usama bin Laden caused the death of approximately 300 people in a period of large-scale internal violence: pan-Islamism and anti-Americanism were the two main driving factors at the base of this ideological unrest (Hegghammer 2011: 1).

The Saudi response was entrusted to Muhammed bin Nayef, at the time head of the counter-terrorism program and nowadays Minister of the Interior as well as Crown Prince. The Saudi reaction was targeted and precise: by virtue of unlimited resources and the hard work of the intelligence services, the government succeeded in handling a situation that had taken the country by surprise. Consequently, by the end of 2006 the al-Qaida's campaign in the country had already lost its momentum.

Nowadays history is repeating itself: the main fear of the Saudi Kingdom is that the thousands of jihadists that have left the country to fight in Syria and Iraq with the caliphate come back to destabilize the country. Since

2011, around 3000 Saudis have left the country to go fighting in Syria and 700 have returned in Saudi Arabia (Black 2016).

In 2015, IS conducted 15 attacks on Saudi soil which have caused the death of 65 people: the most violent assaults have been perpetrated in May against Shi'a mosques in Qatif and Dammam in the Eastern province where 24 people were killed (Black 2016; Kirkpatrick 2015). On 7 August, 15 people (12 members of the security forces and 3 workers) died when a suicide bomber attacked the Sunni mosque in the military installation of Abha, in the southern province, engaged in the war in Yemen (Shaheen 2015).

In 2016, the attacks continued in the Eastern province, but a major coordinated plan has been executed on 4 July: that day a sequence of four suicides bombings has hit three main cities in the country. The symbolic meaning of the attack is evident: the first militant blew himself in the parking of the "*Al-Masjid an-Nabawī*" (the Prophet's Mosque) in Medina, the second holy city in the country, killing four people. The second and the third militants attacked a mosque in Qatif, but they did not kill anyone but themselves. The last suicide bombers struck near the US consulate in Jeddah harming two police officers (Hubbard 2016). This coordinated attack exactly confirmed how the Saudi religious authority, the Shi'a religious community and the western presence in the country are the main enemies of the caliphate.

In addition to that, in 2009 the Saudi and Yemenite branches of al-Qaida merged forming the so called "al-Qaida in the Arab Peninsula" (AQAP) that, based in Yemen, threatens the southern border of Saudi Arabia (Barthe 2015). With the deterioration of the situation in Yemen because of the civil war started in 2015 and the following Saudi Arabian-led intervention, it is likely that even this front will represent a serious menace for the Kingdom in the future.

2.1.3 THE AL-SALUL

Since the proclamation of the caliphate in June 2014, Saudi Arabia has been targeted as a main objective by its leader Abu Bakr al-Baghdadi, in particular after the creation of a Saudi-led coalition against IS on December 2015. The Saudi regions of Hejaz and Najd have been declared *wilāyāt* (“provinces”) of its political project by the caliphate, while Saudi Arabia has been defined as “the serpent’s head” of the disease that infects the region (reuters.com: 13 Nov. 2014). Moreover, the House of Saud is usually defined by Islamic State leaders and militants as the “al-Salul”, an insulting wordplay that refers to ibn Salul, labelled as *munafiq* (“hypocrite”) because of his reiterated conflicts with the Prophet in the seventh century despite having embraced Islam (Black 2016).

Nowadays, there are many factors that are worsening the Saudi position of fragility regarding terrorism.

Firstly, IS is losing ground in Syria and Iraq: as the military operations conducted by its opponents erode its territory, IS fighters threaten to leave the ground exporting *jihad* elsewhere. This tendency could be defined as an “al-Qaidasation” of the Islamic State; in a context where a terrorist organization whose slogan is “remain and expand” starts to lose ground, the only alternative left is to attack its enemies abroad trying to move the official battlefield. That is the same tactic used by al-Qaida after its defeat in Afghanistan and Pakistan, when it started coordinating attacks in other countries (Schmitt 2016). In fact, in 2015 the Islamic State claimed responsibility for the attacks conducted in Istanbul, Paris, Dacca, Orlando, Brussel, Baghdad and other Islamic countries (including Saudi Arabia), just at the moment in which the traditional military operations of its enemies put the Islamic State boundaries under pressure.

Secondly, the hundreds, if not thousands of foreign fighters ready to come back home to continue fighting for the caliphate’s cause risk to find an enabling environment for their recruitment activities. According to a 2014 pool, 5 percent of the adult population in Saudi Arabia supports IS (approximately half a million people) (Pollock 2014). Even if in absolute terms that percentage does not represent an exorbitant figure, the youth

unemployment rate and the wild urbanization level of the country increase the possibility of formation of effective terroristic cells. In this sense, the phenomenon of radicalization goes hand in hand with the process of pauperization that is affecting Saudi society. In particular, in the marginal and ghettoized suburbs of the main cities, such as Riyadh or Jeddah, where those last arrived from the rural areas live, high levels of unemployment are strictly linked with high rates of drug consumption and trafficking, prostitution and criminality. It is in these areas that the jihadi presence is stronger and where its proselytism risks to take root (Dezi-Héni 2014).

Thirdly, in line with its religious discourse of unity and elimination of diversities, Saudi Arabia also pursues this kind of homogeneity from a political point of view. It is for this reason that the Kingdom fears the ability of the Islamic State to revive the tribal and regional cleavages inside the country (Dezi-Héni 2015). This is particularly true regarding the Shi'a community in the eastern part of the country: attacked with regular suicide bombings, it is becoming more and more restless. But kinship ties characterizes the populations of other parts of the country too. As Madawi Al-Rasheed (2014) says:

The population of northern Saudi Arabia consists of branches of tribes that live across the border in Jordan, Syria and Iraq. [...] Such fictive kinship and the trust that it invokes prove to be conducive not only for mutual support, but also smuggling and other cross-border activities.

These ties could represent not only a source of transmission of terrorist activities from Iraq and Syria to the Kingdom, but also kernels of political mobilization against the central power in times of economic hardship. Besides, even Thomas Hegghammer (2006) identified "shared tribes" (117) living across the border and their tribal loyalty as an important factor in understanding radicalization dynamics.

Lastly, Saudi Arabia is paying the price for having bred for years a pan-Islamist sentiment among the population. In fact, the Kingdom has not only accepted, but also promoted the participation of Saudi fighters to other conflicts in the last decades (Hegghammer 2011). These fighters have

fought in Afghanistan, Bosnia, Chechnya and Palestine with the Kingdom's permission and moral consent. That is the reason why religious and political establishments are having problems in condemning the participation of young and motivated Saudis in the fight in Syria and Iraq against the *kuffār* (unbelievers) with the Islamic State.

However, given the different socio-economic backgrounds of the Saudi terrorists, it is impossible to trace the official profile of a radicalized citizen, even if the majority of them comes from the middle and lower classes of the urban strata (Hegghammer 2006). This consideration supports my thesis according to which the violent unrest that is plaguing the country is also the effect of an ideological and cultural disorientation that affects society as a whole rather than the result of a mere economical juncture. In this sense the concept of demographic transition represents a broader theory useful to explain a major socio-political trend.

2.1.4 THE SAUDI PHOBIA OF ENCIRCLEMENT

The almost 700 battle-hardened fighters that returned home since 2011 represent a crucial problem for the country. Furthermore, Saudi Arabia has a big problem of recidivism; many militants detained in the past years have been arrested again for their links with IS, and these rates are on the rise (Black 2015; Boghardt 2015).

Consequently, together with the imprisonment of hundreds of people for their terrorist activities, the religious clergy has started condemning any form of moral justification for extremism, in particular:

Imam have been prohibited from incitement and talk of intolerance, and the Ministry of Islamic affairs is conducting a program to educate imams and monitor mosques and religious education to purge extremism and intolerance. (US Department of Defense 2015: 9)

In addition to that, a royal decree on counterterrorism dated February 2014 enforced various measures against terrorism, targeting in particular the membership in terrorist cells and the "participation in hostilities outside the Kingdom" (Kingdom 2015). Moreover, the financing of terrorism has been labelled as "Spreading evil on earth" dating back to December 2013

the “Law Concerning Crimes of Terrorism and its Financing” (US Department of Defense 2015: 6).

However, the most spectacular reaction to this threat has been the double construction of a barrier on the northern and southern borders of the country. The Saudi-Yemen barrier is under construction since 2003 to counter the infiltrations of al-Qaida in the country. The Saudi-Iraq fortified barrier, on the contrary, has been built in 2014 to protect against the infiltrations of the Islamic State in the Kingdom and goes from Turaif, at the border with Jordan, to Hafar Al-Batin, near Kuwait.

In conclusion, Saudi Arabia is fighting with several enemies at the same time. In addition to the terrorist danger coming from its own young population, the Kingdom lives at its borders a sort of competition between the Islamic State and al-Qaida’s terror, coming from the north and the south respectively. Besides, the regime is leading a war in Yemen since 2015 to overrun the Houti rebels. But the worst enemy of the House of Saud, however, comes from the east.

2.2 THE IRANIAN THREAT

2.2.1 *THE NEED FOR AN ENEMY*

Nationalism in the Arabian Peninsula is largely a product of the so-called “myth of homogeneity”. In fact, the main source of the nationalistic discourse that characterizes a country like Saudi Arabia is the idea of a population that revolves around a common religion, class and tribe (Okruhlik 2004: 191; Exell 2016). All that remains outside of the Wahhabi-rich-Najdi national paradigm contributes to form, by opposition, the official version of the Saudi society. Thus, the variety of religious practices and ethnic distinctions inside the country represents a clear mirror of this internal diversity. In particular, the Sufi sects, the Shia community and the strong immigrant communities are the main social counterbalances in respect of which, by subtraction, the authorities obtain the framework of their national identity (Thiollet 2010).

As Frederick Turner (1965) affirms, the nationalistic momentum of a population is strictly related to the demographic structure of the country and to its demographic transition stage. There are many social and economic factors that shape the way a community perceives itself. For example, “the rise of literacy, just like the multiple advances in transportation and media facilitates communications between national groups” (90), while the economic growth and the creation of an internal market provides the country with a division of labor and an effective participation to the country’s economic development that makes a population more socially interdependent.

In Saudi Arabia the creation of the nationalistic discourse has been fostered starting from the late 1970s. To be precise, 1979 is the turning point for the country: the Iranian Islamic Revolution destabilized the regional status quo after a period of mutual understanding between Teheran and Riyadh against Nasser’s Pan-Arabism and no competition over religious leadership. In addition to that, that same year Saudi Arabia faced the siege of the Great Mosque in Mecca and the Shi’a uprising in the east of the country (Wehrey et al. 2009).

Nowadays the Saudi regime, given the attempt of delegitimization mainly coming from the IS, the Houti rebels and Iran, invests a lot in the definition and in the expansion of its nationalistic agenda (Karasik 2015). However, it is the rivalry with Iran that today represents the main ideological confrontation for the House of Saud.

2.2.2 KHALEEJ AL-FARSI OR KHALEEJ AL-ARABI?

The contention over the name of the Gulf that separates Saudi Arabia from Iran (should it be named Arabic or Persian Gulf?) summarizes the broader competition between the two states for regional leadership. There are two main reasons that explain this struggle for supremacy in the heart of the Muslim world.

Firstly, the conflict between Riyadh and Teheran can be explained from an ideological point of view starting from the oil-rentier nature of these two states. In fact, a rentier state, receiving the rent from the rest of the world,

is financially and politically independent from the citizenry. Unlike the “production states”, where the wealth is produced by a society that wants to be represented through democratic elections in the political field, a rentier state derives its legitimacy from its redistributive role towards the population (Beblawi and Luciani 1987). Consequently, in a context where accountability is replaced by generosity, the rentier state tends to present itself as “invested with some superior or wider mission” that goes beyond the official boundaries of the state (Luciani 2013b: 120). Thus, the regional environment suffers from the ideological fight between these two main rentier states both seeking to impose their personal legitimacy over the same territory.

Secondly, as noted above, 1979 represents a major shock in the MENA region. In fact, that year represents the beginning of a major change in the area: the overthrow of the political balance between Sunni and Shia Islam (Roy 2007)¹². Starting from that year both Iran and Saudi Arabia have been using religion as a tool to pursue their regional agenda. This precarious balance of power finally collapsed in 2003 with the fall of Saddam caused by the US-led invasion. More generally, the widespread instability of the region created a sort of political vacuum that Saudi Arabia and Iran tried to fill with their sectarian politics (Nasr 2011). Nowadays this political rift between Iranian and Saudi regional policies has been even more exacerbated by the so-called “Arab Spring” that multiplied the number of Arab States where the influence of the two regional leaders could be implemented (Young 2016).

Specifically, the Saudi fear of a Shi’a regional siege around the Arabian Peninsula is the main concern for the regime. In fact, the formation of a Shi’a crescent that from Iran reaches Syria through the Shi’a-led government in Iraq and the strong Hezbollah presence in Lebanon would diminish Saudi margins of maneuver in the Levant. Moreover, the strong Shi’a presence in Bahrain (almost 70 percent of the population) and

¹² According to Olivier Roy (2007), together with the Islamic Revolution in Iran of 1979 the two other main shocks that have deeply disturbed the Middle East were the missed creation of the “Greater Arab Kingdom” in 1918 and the declaration of the state of Israel in 1948.

Yemen undermines, together with the strong Shi'a community of the country, the regime's sense of security.

Besides, Saudi Arabia and Iran used sectarianism as their main tool of regional policy (Potter 2014; Wehrey 2013). In fact, the exploitation and deterioration of religious and identity divisions in the whole MENA area contributed to create an even worse climate of instability and antagonism among different national actors. Depending on the case, the activation of religious or ethnic sentiments served both in fighting their political opponents in the regional arena and in diverting the public attention from internal issues of domestic policy (Gengler 2016). Furthermore, under King Salman the political objective of creating a united Sunni alliance against Iran has replaced King Abdallah's political priority of constraining the Muslim Brotherhood in the Arabia Peninsula and elsewhere in the Arab world (Lacroix 2016).

However, the excitement of the anti-Shi'a animosity within society in Saudi Arabia has reached a level where it threatens to escape the authorities' control. On one hand, the anti-Shi'a propaganda of the religious *Ulama* ("Muslim scholars"), together with the anti-Iranian discourse of the Al-Saud, risks to worsen the salafi radicalism of its Sunni population pushing it towards terroristic activities; on the other hand, the Shi'a population, especially in the Eastern Province, experiences an increasing resentment against the ruling power's lack of political attention.

Similarly, the Saudi intervention in the Yemeni civil war proves how expensive it is to follow passively a sectarian policy in the resolution of a regional crisis.

2.2.3 THE YEMENI MORASS

The Saudi-led intervention in Yemen was launched at the end of March 2015 with the name "Decisive Storm". Other nine Arab countries took part in the military operations¹³. This intervention was added to the 34-member coalition assembled by Saudi Arabia in December 2015 in order to fight

¹³ The nine Arab countries that rejoined the coalition are: Bahrain, Egypt, Jordan, Kuwait, Morocco, Pakistan, Qatar, Sudan and the United Arab Emirates.

against IS in Syria and Iraq, a coalition that never was truly operational (Riedel 2015).¹⁴ Furthermore, the 2216 UN resolution, “acting under chapter VII of the Charter” and demanding that the Houtis “End the use of violence” and “Withdraw their forces from all areas they have seized, including the capital Sana’a”, gave to the intervention a sort of legal cover in order to conduct the military operations in accordance with international law (ibid.).

Without delving too deeply in the analysis of the outbreak of the Yemeni civil war started in 2015 (the country has decades of political instability behind), the official explanation of this campaign has been given by the Saudi ambassador to Washington Adel al-Jubeir. During a press conference he affirmed that the Kingdom would have done anything to “defend the legitimate government of President Hadi from the takeover attempts by the Houti militias in Yemen” (alarabiya.net: 26 Mar. 2015).

However, there are three main political causes at the origin of this military adventure. Firstly, in accordance with the sectarian policy of Saudi Arabia, the Houtis, a Zaidi Shia-led political movement, are seen as an Iranian-backed militia at the Saudi borders; the fact of having a pawn of their regional enemy at their borders is perceived as an unacceptable provocation by the al-Saud. Michael Young (2016) compares this situation to an hypothetical soviet-backed Mexico for the US during the cold war: how would have they reacted? Secondly, at the time of the Saudi intervention the Houtis were trying to expand their control over the country: after the takeover of Sana’a in September 2014, the militias were moving towards other provinces of the country and, most importantly, towards Aden. Thirdly, once the US clarified their intention not to intervene in the Yemeni question (although they give logistical and intelligence support to the coalition), Saudi Arabia decided to assert in the face of their closest ally their intent to pursue its regional strategy autonomously (Al Jazeera Center 2015). The intervention has been a failure both from a military and a political point of view.

¹⁴ The Islamic Military Alliance to Fight Terrorism (IMAFIT) includes 34 Islamic States, except Iran. The high cost of conducting such military operations is the main factor at the base of the slowdown of its activities.

Yemen, the poorest Arab country, has been devastated by the conflict, especially by the coalition's airstrikes. According to the World Health Organization (2016) up to November 2016 2,1 million people were internally displaced, 7070 have been killed and 36.818 injured. Moreover, 21 million people need urgent medical treatments and humanitarian assistance while the health system of the country has been severely damaged by the ongoing violence: 274 health facilities have been damaged (69 of which totally) and 40 percent of the Yemeni districts suffers from shortages of medical doctors (ibid.).

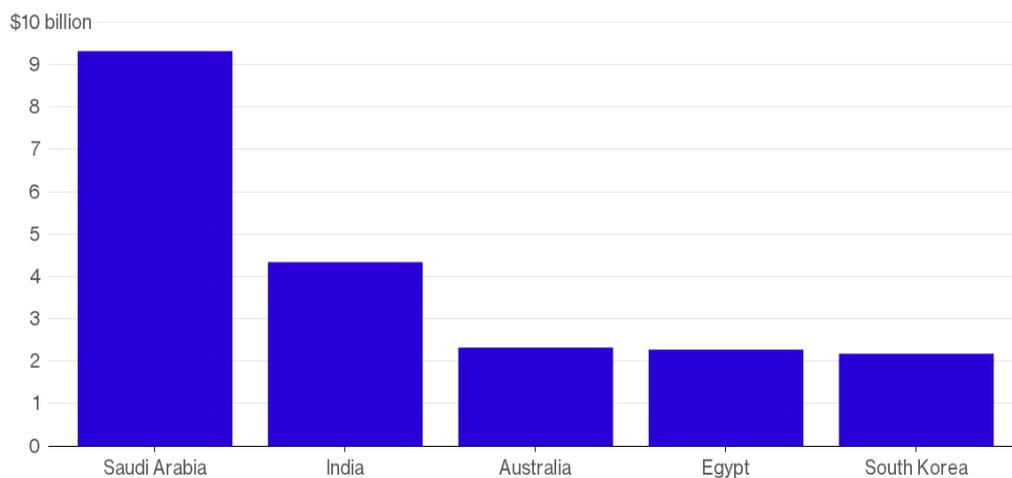
Notwithstanding the operations meant to curtail freedom of movement of the Houti militias by destroying part of the country's infrastructure system, the control of Yemeni airspace by the Saudi Air Force and the embargo against the country (al-Shibeeb 2015), not only the military-Shia movement has been able to resist the Saudi offensive, but has also managed to conduct several incursions into Saudi territory (Bonney 2016).

Furthermore, even if the Yemeni dossier has been practically ignored by international community leaders, the intentional bombings of many cultural heritage sites (notably in the capitol city Sana'a) (UNESCO 2016) and the images of the Yemeni population sufferings caused by the Saudi-led coalition's airstrikes have severely tarnished the Saudi international public image.

From the Saudi point of view, however, the prolongation of what was intended to be a rapid war has serious political consequences. After about a month Operation "Decisive Storm" gave way to Operation "Restoring Hope": without ruling out the use of force, the coalition wanted to focus on humanitarian and peace efforts to solve the question. But given the United Nations' (UN) growing concern for a situation that seems to deteriorate day after day, these efforts have not had positive results. The two Special Advisers of the UN Adama Dieng and Jennifer Welsh (2016) denounce the risk of a spillover effect within the region and in Saudi Arabia in particular. Now, considering the sectarian cleavages that infect the region, the potential cost for Saudi Arabia of a protracted instability of the Arabian Peninsula in military and political terms is evident.

In fact, the economic side of this intervention rightly represents the most important political problem for the al-Saud. As figure 2.1 shows, according to the “IHS inc’s Global Defense Trade Report” (2016), with \$9.3 billion Saudi Arabia is starkly the world’s largest arms importer in 2015. Specifically, between 2011 and 2015 Saudi Arabia increased its arms purchases by 275 percent compared with the previous five years (Fleurant et al. 2016: 8).

Figure 2.1
World’s Largest Arms Importers (2015).



Source: IHS inc’s Global Defense Trade Report, cited in Syeed, Nafeesa. “Imports Lead Surge in Global Arms Sales.” *Bloomberg*, 12 Jun. 2016, www.bloomberg.com/news/articles/2016-06-12/saudi-arabia-s-weapons-imports-lead-surge-in-global-arms-sales

As a consequence, the Saudi policy of low oil prices and high fiscal deficits caused by this ongoing Yemeni war is causing the selling of parts of its foreign exchange reserves. In fact, according to the International Monetary Fund’s (IMF) regional report (2016: 72) Saudi Arabia will run out of its foreign exchange stock in just five years if it will continue on this fiscal path. How the Kingdom intends to respond to this political-economic challenge, however, will be analyzed in the next chapter.

2.2.4 SAUDI FOREIGN POLICY ON THE TEST BENCH

At the head of such an assertive and aggressive regional policy sits the favorite son of King Salman, Muhammed bin Salman, the thirty-one year old Prince and Defense Minister who has been defined “commander in chief” of the military operations in Yemen by Saudi media (Stenslie 2015). The royal family played the nationalistic card in order to legitimate this military adventure, and the Saudi society responded positively to this call to arms. Bin Salman is very popular among young people and his nationalistic discourse worked well: the anti-Shi’a sentiment and the desire to avoid the formation of a Yemeni Hezbollah at the country’s borders resulted, at least at first, in a strong Saudi support to this war (Law 2016). In fact, every country in the middle of a demographic transition, also characterized by a low median age, is easier to excite through the diffusion of a nationalistic propaganda compared to a country with a higher median age (Todd 2011). Nevertheless, at risk of destabilizing the country by means of diffused jingoism, there are other reasons that explain the confrontational and expensive foreign policy pursued by the government. Firstly, this war is an occasion to consolidate the prominent position of Muhammad bin Salam and the concentration of powers on his hands. Secondly, the war in Yemen has been a reaction to the humiliation of the Sunni Arab states caused by the Shi’a front military resistance in Syria (Stenslie 2015). Thirdly, Saudi Arabia is pursuing the policy of containment against Iran conducted until now by the US and, from the Saudi point of view, finished with the negotiation of a nuclear deal between its regional rival and the international community in 2015 (Salisbury 2015)¹⁵. It remains to be seen how this aggressive foreign policy will exacerbate the divisions of this region “Continuously divided against itself” (Nasr and Takeyh 2008: 88) and how much this policy will cost, in economic and political terms, to its supporters.

¹⁵ Specifically, the preliminary agreement has been signed by the Islamic Republic of Iran with the P5+1 (the five members of the UN security council plus Germany) and the European Union.

2.3 THE ENERGY THREAT

2.3.1 *RECALIBRATING THE ROLE OF DEMOGRAPHIC TRANSITION*

Until now this dissertation was an attempt at examining the socio-political situation of Saudi Arabia in the light of the demographic transition theory. What I have tried to explain is that, given a particular demographic structure, a country presents higher possibilities to behave in a certain way. For example, in Europe, where the median age is 42.4 years (Eurostat 2016)¹⁶, it is easier to find in national political agendas a greater attention to security issues (immigration control, pension policies, national deficit containment, decrease in labor costs, etc.) rather than to policies interesting a younger citizenry. And that is why, despite high unemployment and taxation rates in the Eurozone (especially in southern countries), these populations have never been able to react in a constant and resolved way: in fact, Europe lacks the critical mass of young people necessary to impede the implementation of these restrictive monetary policies (Todd 2011). Conversely, the Arab region and Sub-Saharan Africa, with median ages of 24,6 and 18,5 respectively (UNDP 2014: 219), present a greater possibility to fall prey of social tensions and political unrest in case of widespread social malaise.

Anyway, the demographic transition process is not a full explanatory theory of what happens in a given society: not every society in the middle of a demographic transition experiences civil disorder, as well as not every troubled society is in the middle of a demographic transition. The anthropologic characteristics of a population as well as the political and economic features of a country also represent very useful tools in order to understand the conduct of a population. Adam Hanieh, for example, in his “Lineages of Revolt” (2013) presents a clear analysis of the most important capitalism-related problems that afflict the MENA region, in particular: imperialism, neoliberal policies and authoritarianism.

Nonetheless, from my point of view the demographic study of a country helps to individuate the basic tendencies of a society as a whole.

¹⁶ This data refers to the EU-28.

Regarding the demographic transition process, for example, these tendencies either can be exacerbated by a particular political-economic situation or can be mitigated by a set of conciliatory policies.

In Saudi Arabia, birth rates and death rates started to decrease in the 1950s bringing deep changes to the demographic and mental structure of the population. Terrorism and nationalism have been examined as two of the main consequences of this major demographic change, but the regime has never lost its control over the population by means of its generous redistributive policies. As a consequence, it is obvious that the weakening of the rentier nature of the state represents a serious threat for the al-Saud's stability.

2.3.2 SAUDI ENERGY CONSUMPTION

Paradoxical as it may seem, air conditioning now represents one of the most important problem for the Saudi regime. Obviously this is a provocative simplification, nonetheless it symbolizes a major political concern for the Kingdom's stability: the sharp increase in the energy consumption and, in particular, the growing trade-off between burning crude oil for domestic energy production and destining it to export (Luciani 2013a).

Electricity generation in the Kingdom is supported by oil (57 percent) and natural gas (43 percent) (Alrashed and Asif 2014: 378). According to the World Bank (2016), electric power consumption increased from 5,472.1 kWh in 2000 to 8,741.4 kWh in 2013. Similarly, energy use per capita (expressed in kg of oil) passed from 4,574.4 in 2000 to 6,363.4 in 2013 (ibid.). Thus, starting from 1990, the public demand for electricity has increased at a rate of 6 percent per year (Alrashed and Asif 2014: 379); moreover, by 2025 the domestic oil consumption will reach, all else constant, 6.2 million barrel per day (Krane 2015: 101).

This sharp increase in domestic energy consumption is the result of the urbanization process and of population growth in the last decades together with the strong industrial growth experienced during the periods of high oil prices. The residential sector is the biggest energy consumer with 52

percent the total domestic consumption, followed by the industrial sector with 18 percent (Alrashed and Asif 2014: 380)¹⁷.

As a consequence, not only Saudi Arabia is today the biggest oil producer of the MENA region (coming second to the United States worldwide), but it is also the biggest oil consumer of the region. In fact, given a daily production of 12.014 million barrels per day in 2015, the total primary energy consumption that same year was 3.895 million barrel per day (BP Statistical 2016: 8-9). In other words, almost 32.5 percent of the total oil production of Saudi Arabia is nowadays destined for domestic consumption, and this percentage until now has been constantly on the rise.

It is now clear how the last main threat for the Saudi Kingdom comes from its own economic structure. Moreover, as Giacomo Luciani (2013a) says: “A system exclusively reliant on hydrocarbon sources is not sufficiently flexible and does not provide an adequate platform for economic diversification and sustainability of the Gulf economies and societies” (7). Thus, energy diversification, despite fears over peak oil have been dispelled by the findings of new oil reserves (Dipaola 2016) and by the use of modern extraction technologies, is becoming a priority for the country if it wants to give space to the oil export and to a broader economic growth not only based on oil income.

2.3.3 *SHALE OIL AND LOW PRICES*

As figure 2.2 shows, in the second half of 2014 a major shock hit the world oil market. In just a few months crude oil prices passed from about \$110/barrel to nearly \$40/barrel, approaching even \$26 in January 2016.

Since this sudden shock has not been the result of an unexpected economic crisis as in 2008, academic literature has given different explanations of this major economic change.

Firstly, according to many scholars and, in particular, to part of the international press, the oil price collapse is directly related to the US shale

¹⁷ During summer 60 percent of the electricity consumption it is used for air conditioning.

oil revolution. In fact, the rising oil prices of the last decades together with the new techniques in the field of hydraulic fracturing have allowed the extraction of conventional oil from low-permeability formations (shales)¹⁸.

Figures 2.2

Crude Oil Prices, 2006-16 (US Dollars).



Source: Us Energy Information Administration, cited in “Oil Price Rises to Over \$50 US, loonie Rallies Above 78 Cents.” *CBC News*, 7 Jun. 2016, www.cbc.ca/news/business/crude-oil-dollar-stock-markets-1.3619882. Accessed on 01 December 2016.

As a consequence, in 2013 the US have produced an estimated 3.5 million barrel per day becoming the first oil producer of the world (Belu Mănescu and Nuño 2015: 856). Nevertheless, the extraction costs of the two countries are very different: if Saudi Arabia pumps a barrel of oil for less than \$10 on average, the production costs for the US shale are higher, ranging from \$39 to \$50 according to the different regions of extraction (Crooks 2016; Petroff 2015). Thus, from this point of view Saudi politics of keeping high levels of oil production has to be intended as an economic strategy to cut US shale oil out of the market, although this industry has been able to adapt itself to lower costs of production by means of fast-paced technologic innovation in the field.

¹⁸ As extraction techniques and economic conditions evolve, the categories “conventional” and “unconventional” change.

Secondly, many analysts tend to explain the Saudi decision to retain its output levels in the light of the Saudi regional rivalries with Iran and Russia (Badawi 2016; Fathallah 2016). As Russia strengthens its military support to Assad's operations in Syria, and Iran attempts to regain its pivotal role in the Middle East, Saudi Arabia would decide to use the "oil price war" in order to thwart the geopolitical objectives of its rivals. Moreover, Saudi Arabia would be hampering the oil facilities' need of requalification in these two countries. Iran, in particular, after the easing off of sanctions against its economy has planned to openly compete with Saudi Arabia over the petrochemicals market: it is obvious that its projects of economic diversification and modernization are jeopardized by this low oil prices season (Badawi 2016).

Thirdly, what happened in 2014 tends to be related to a more specific economic situation: on one hand, to the slowdown of the Chinese and European economies, and, on the other hand, to the loss of value of the Euro versus the US Dollar (Tokic 2015).

Now, although there are many overlapping causes at the origin of the collapse of oil prices, nonetheless I think there is a major reason that explains the fall in prices of 2014: the "market share war" (Webber 2014). As oil supplies experienced a glut in 2014 and the oil market is becoming more and more competitive by virtue of the increasing non-OPEC production, Saudi Arabia is trying to maintain its portion of oil market, notably of the US oil import market. From this point of view both Canada, having surpassed the Kingdom's oil export to the US in 2004, and the "Keystone XL" pipeline are the main economic rivals of the Kingdom (Arezki 2016, Krane 2015)¹⁹.

In conclusion, without going too deeply into the analysis of the fiscal situation of the Kingdom (which will be examined in the next chapter), it is certain that the drop in oil prices has severely hit the Saudi budget, given that oil remains the most important source of income for the government. The infrastructure projects of the country have been adapted to the new oil

¹⁹ The Keystone XL Pipeline is a proposed enlargement of the existing Keystone Oil Pipeline System that runs from the Western Canadian Sedimentary Basin in Alberta, until the US refineries in Illinois and Texas.

price, while gasoline and electricity experienced higher prices for the population (Bianchi et al. 2016). More broadly, Saudi response to this season of economic instability is “Vision 2030”: a national plan of economic development aimed to reduce the country’s dependence on oil and to promote the formation of a stronger private sector. Consequently, the next chapter will attempt to analyze this ambitious and challenging project of economic reform and its potential impact on Saudi society.

Conclusions

This chapter examined the three main sources of economic and political instability that Saudi Arabia is facing nowadays and how each of these can be related to the demographic transition theory.

The first paragraph takes terrorism into consideration: from my point of view, Al-Qaida and, above all, the Islamic State threat, represent at the same time the proof of a new educated and disoriented youth that tries to challenge the culture and the system of values of their parents and a source of even more instability in the process of demographic transition that is under way in the country.

In the same way Saudi nationalism, given the young demographic structure of the country, is experiencing an high degree of vitality. From this perspective, the recurring frictions with the national and regional Shi’a component (exasperated by the regime’s intervention in the Yemeni civil war), together with the possible sense of resentment that could arise from the foreign workers’ population, risk pushing Saudi Arabia towards a polarized and unmanageable political environment where acting could be more and more onerous in economic as well as political terms. In fact, both the fight against terrorism and the regional rivalry against Iran, expressed through a strong sectarian policy and high military expenditures, represent an heavy source of spending, and consequently of weakening, for the regime.

Furthermore, the fact that oil income has suffered a sharp decline in the last two years because of increased energy consumption and low oil

prices, contributes to create a climate of financial instability that, in the medium term, can affect the regime's stability.

Chapter 3

'VISION 2030': SAUDI ARABIA'S ECONOMIC DIVERSIFICATION PLAN

Introduction

This chapter will examine the Saudi project of economic reform launched on April 2016 called "Saudi Vision 2030" (henceforth Vision 2030) and the political design of Saudi Arabia to diversify its oil-centric economy.

The first paragraph will analyze the political and economic situation in which this plan, together with related documents such as the "National Transformation Program" (NTP), was born; in particular I will examine the current fiscal difficulties of the Kingdom and the key role of Crown Prince Mohammed bin Salman, the political architect behind Vision 2030. Thus, the second paragraph will take into account the actual strategies of economic diversification proposed by the government with this plan. Finally, the third paragraph will attempt to examine the possible impact of the plan on the Saudi social contract and the stability of the House of Saud.

3.1 BEHIND THE SCENES

3.1.1 *VISION 2030*

The plan Vision 2030, announced on April 25, 2016 by Deputy Crown Prince Mohammed Bin Salman, has been presented as "An ambitious yet achievable blueprint, which expresses our long-term goals and expectations and reflects our country's strengths and capabilities" (Kingdom 2015b: 6). This project of economic reform is aimed at diversifying the sources of national income and reducing the dependence on oil of the Saudi economy; in fact, oil still represents more than 90 percent of export earnings and 42 percent of GDP (CIA 2016). The plan has been drafted by the Council of Economic and Development Affairs

(CEDA), a powerful subcabinet of the Kingdom led by Mohammed Bin Salman. Specifically, if Vision 2030 sketches a global and general framework of how the regime intends to change Saudi society by 2030, the “National Transformation Program 2020” is the first part of a more detailed political agenda “Identifying the strategic objectives and targets” of this economic overhaul (NTP 2016: 11).

However, it is not the first time that the Kingdom tries to diversify its economy and increase the productivity of other sectors, such as agriculture, industry and services. From 1970 to 2014, 9 five-years development plans have been launched by the authorities, each of them with economic diversification as its main objective (Albassam 2015: 112-13). Yet, with the exception of the fourth development plan (1985-89) that achieved the government’s goals²⁰, the other plans failed in improving the economic diversification indicators (ibid). As a consequence, although Saudi Arabia has never been able to lastingly increase private sector contribution to GDP, it still has a long history of political-economic programs aimed at reducing the country’s addiction to oil.

The reasons why economic diversification is an important objective for the Al Saud are clear: increasing private sector contribution to GDP and having a more diversified economy is both a remedy against unemployment and an incentive to social development. But, above all, the main fear of the Kingdom is expressed in the text of Vision 2030 itself: “We will not allow our country ever to be at the mercy of a commodity price volatility or external market” (Kingdom 2015b: 7). Now, given that oil is still the main engine of the country’s economy and oil experienced a price collapse in 2014 whose effects are still evident, we better understand the regime’s need to put this plan in place. Furthermore, considering the precarious situation within the Saudi labor market in terms of unemployment rate, especially youth, and upcoming “youth working bulge”, it is obvious how this plan of reforms is in reality an urgency.

²⁰ Increasing economic diversification and reducing unemployment were the two main economic objectives of the 10 development plans issued by the Kingdom. In particular, the fourth development plan achieved the government’s goals regarding economic diversification, such as reduced oil’s share of GDP, reduced oil exports as a percentage of the country’s exports and increased private’s sector contribution to GDP (Albassam 2015).

3.1.2 THE NEW FISCAL REALITY

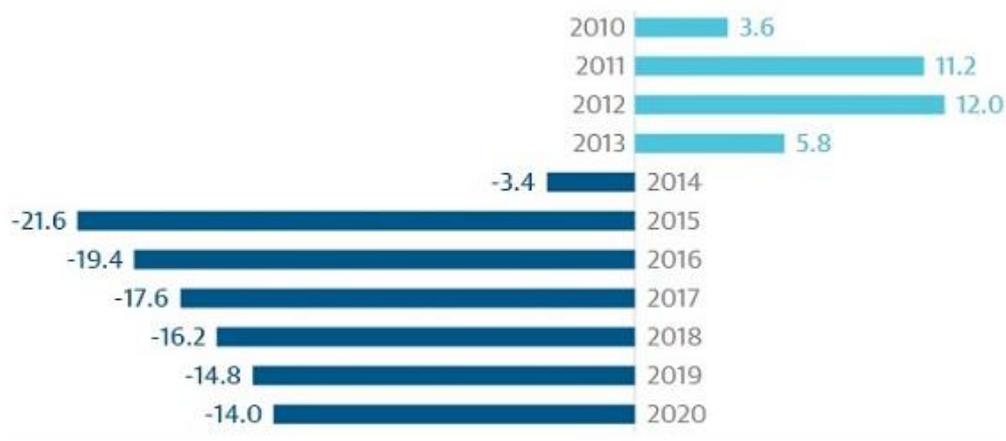
Not only low oil price, but also Saudi intervention in the Yemeni civil war with its related military purchases have had a negative impact on government budget balance. Since 2014 Saudi revenues have plunged, transforming budget surpluses into a deficit for the first time in ten years. This current fiscal deficit situation can be analyzed from different viewpoints.

Firstly, oil income has dropped by 68 percent since 2011, slumping from a maximum of more than 1,100 billion riyals in 2011 to 334 in 2016 (\$89 billion) (Dipaola and Martin 2016).

Secondly, as figure 3.1 shows, government deficit as a percentage of GDP reached 21.6 percent in 2015, a 32.6 points drop compared to 2012, while projections for the future show a gradually reduction of this negative trend (Elliott 2015).

Figure 3.1

Saudi Arabian Government Surplus/Deficit as a Percentage of GDP (2010-20).



Source: IMF, "Global Implications of Lower Oil Prices", cited in Elliott, Larry. (2015), "Oil price slump turns Saudi surplus into huge deficit, IMF report shows." *The Guardian*, 7 Oct. 2015, www.theguardian.com/world/2015/oct/07/oil-price-slump-turns-saudi-surplus-into-huge-deficit-imf-report-shows.

In particular, although IMF has regularly corrected its forecasts about Saudi deficit percentage according to changing oil prices²¹, the high degree of deterioration of the Saudi fiscal balance is evident.

Thirdly, given that oil is still the main driver of Saudi economy, it is not a surprise that GDP annual growth follows the oil income trend: consequently, annual growth switched from 10 percent in 2011 to 3.5 percent in 2015, eventually standing at 1.2 percent in 2016 (World Bank 2016, IMF 2016a). Furthermore, confronted with a government debt that ballooned from \$32 billion in December 2015 to \$73 only 9 months later, (Dipaola and Martin 2016; IMF 2016b: 4) in 2016 the Kingdom heavily reduced its capital expenditure by 70 percent compared to 2015 (Dipaola and Martin 2016). This huge cut in spending includes not only salaries and government services, but especially a decreased level of investment in infrastructural programs. Overall, in 2016 both real oil GDP and real non-oil GDP experienced a sharp slowdown (IMF 2016a).

As a result, the Kingdom's immediate need for liquidity, especially in order to sustain its military efforts in the Yemeni civil war, has forced the Saudi Ministry of Finance to draw on foreign exchange reserves²².

Figure 3.2

Saudi Arabia Foreign Exchange Reserves (2010-16)



Source: Trading Economics. (2016), "Saudi Arabia Foreign Exchange reserves (2010-2016), www.tradingeconomics.com/saudi-arabia/foreign-exchange-reserves.

²¹ The last IMF's press release of July 2016 adjusted the government deficit at 13 percent of GDP for the same year (IMF 2016a).

²² Foreign exchange reserves are usually made of gold or a particular currency, mostly US Dollars.

As figure 3.2 shows, in just two years, from August 2014 to August 2016, foreign exchange reserves have been reduced by 23 percent, shifting from \$731 billion to \$562 billion.

Moreover, on October 2016 Saudi Arabia raised \$17.5 billion from its first international bond deal, the biggest bond sale for an emerging country, offering a yield of 2.58 percent for the five-year bonds, while ten and thirty-year bonds offer a yield of 3.4 and 4.62 percent respectively (Cui et al. 2016). This auction, eclipsing the Argentinian \$16.5 billion issuance of April 2016, has particularly interested international US investors.

In conclusion, although on December 2016 OPEC member countries seem to have found a precarious agreement on reducing oil production in order to increase crude oil price, the feeling is that this new oil market configuration characterized by low oil prices is more a structural market condition than a temporary disruption. For this reason, the Saudi financial imperative for reform has become an unavoidable reality. Besides, in case of a persistent lack of liquidity by the Saudi Arabian monetary Agency (SAMA), given that from the 1970s the Kingdom of Saudi Arabia started investing a considerable part of its oil revenues in US Treasury bills for an amount kept secret by the US government (Basosi 2012), how would an eventual selling of a percentage of this US debt affect the value of the dollar and, more broadly, the international economy?

3.1.3 *MBS AND THE NEW AL SAUD GENERATION*

Mohammed bin Salman Al Saud, commonly abbreviated to MBS, is the favorite son of King Salman and the architect of the project of economic reform Vision 2030 and its related policies.

Born in 1985 he is the eldest son of the third spouse of King Salman, Fahda al-Hithlayn, the favorite of the King. He holds a bachelor degree from King Saud University in Riyadh, where he studied law, and before starting the political career he spent some years working in the private sector (Nitch Smith 2016).

He was barely known to diplomats when he became special adviser to his father Salman at the time he was governor of Riyadh. Consequently, the

political ascent of MBS has been all the more unexpected. Since the death of King Abdallah and the crowning of Salman as King of Saudi Arabia in January 2015, MBS has accumulated a series of appointments such as to make him the most powerful person in Saudi Arabia after his father. In particular, in January 2015 he has been named chief of the Saudi Royal Court and Minister of Defense at the same time, becoming the youngest defense minister in the world²³. One week later he was named chairman of the Council of Economic and Development Affairs, while in April of the same year he was named Deputy Crown Prince; in other terms, he is third in the line to the throne behind the Crown Prince Mohammed bin Nayef (Black 2016).

From an internal point of view, MBS represents the key figure of the political offices' reshuffle operated by King Salman at the regime's top just after his crowning. In fact, not only the line of succession to the throne named by King Abdallah has been changed, but also the secretaries of the most important ministers, including the Petroleum and Mineral Resources Ministry, the Ministry of Commerce and Industry (renamed Ministry of Trade and Industry) and the Saudi Central Bank governor (Arabnews.com 7 May 2016). According to Stéphane Lacroix (2016), this new distribution of power within the regime reflects an unusual but successful attempt to change the Saudi political system from the horizontal distribution of power organized by King Abdallah, to a vertical distribution of power more corresponding to an idea of hereditary monarchy²⁴. In particular, King Salman managed to operate a rejuvenation of the political system shifting the balance of power from the old Al Saud generation, represented by the "Sudairi Seven", to the new generation represented by Mohammed bin Salman (ibid)²⁵.

Nowadays, the triumvirate composed by King Salman, Crown Prince Mohammed bin Nayef (MBN) and Deputy Crown Prince Mohammed bin

²³ The Royal Court (*al-Diwan al-Maliki*) brings together the King's principal advisers to discuss the most important issues of domestic politics, religious affairs, and foreign policy.

²⁴ The Allegiance Council, formed in December 2007 by King Abdallah for determining in a more collegial way the succession to the throne, is the best example of the past more horizontal distribution of power inside the regime.

²⁵ The Sudairi Seven, or Sudairi Faction, is a label referring to the alliance among the seven full brothers sons of King Abdulaziz and his favorite spouse Husa bint Ahmed Al Sudairi.

Salman, constitutes the political nucleus that dictates policy in Saudi Arabia. From a mere political point of view, MBS and MBN, also labelled *Mohammedain* (“the two Mohammeds”), hold the same share of power: if the first is Defense Minister and chairman of the Council of Economic and Development Affairs, the second is Minister of Interior and chairman of the Council of Political and Security Affairs (CPSA)²⁶. Nevertheless, analysts and international media agree in saying that MBS, aided by the advanced age of his father who seemingly suffers from dementia or Alzheimer’s disease, is the real political point of reference in this particular historical period for Saudi Arabia (Waver 2015).

Therefore, since January 2015, both domestic politics and foreign policy have undergone a clear acceleration of their usually more cautious policies. This more reactive political style has been proven by military intervention in Yemen on one hand, and by a renewed resolution concerning the economic diversification plan on the other. MBS, who has taken the lead in both fields, seems to have been inspired by the political and economic dynamism of Mohammed bin Zayed, the Deputy Crown Prince of Abu Dhabi, and Mohammed bin Rashid, the Emir of Dubai, maybe the two most representative examples of a Middle East that is completely integrated in the global network (Lacroix 2016).

In conclusion, although Mohammed bin Salman has been generally appreciated by young Saudis for his modest and simple manners and his will to reform the country’s economy, there are many doubts concerning his political ability. Firstly, MBS, often accused of naivety and arrogance by the international press, pays for his lack of experience in the fiscal management of the state’s affairs and in the resolution of the most delicate international issues: obviously, this undermines the credibility of his political projects (Henderson 2016). Secondly, his rapid climb to the regime’s top generated discontents and jealousy among members of the royal family; in particular, the fact that MBS represents an intermediary for

²⁶ The councils of Economic and Development Affairs and Political and Security Affairs are two powerful Kingdom’s subcabinets created in January 2015. They are the best example of this new bureaucratic architecture designed by King Salman.

anyone who wants to talk with his father King Salman, is a source of resentment for the other Al Saud princes (Barthe 2016b).

In the meantime, Crown Prince Mohammed bin Nayef, who enjoys a large popular support in reason of his victory against terrorism in the 2000s and can count on a wide diplomatic support abroad, seems to patiently wait for his rival Mohammed bin Salman to gradually ruins his career by getting too involved in the Yemeni war and in the reform of the Saudi economic system.

3.2 VISION 2030: ITS STRATEGY

3.2.1 *A NEW OPERATING MODEL*

From a certain point of view Mohammed Bin Salman and the House of Saud appear to have understood the opportunities for economic and political reform brought about by a period of crisis. In fact, despite low oil prices and growing regional tension in the MENA area, the Kingdom of Saudi Arabia has established that 2016 would be the starting year for a broader country reform.

Choosing the term “vision” to name this political program is not a Saudi peculiarity; even other Kings and Emirs of the MENA region have used this word in order to express their long-term national development policies aimed at transforming the economic environment within their societies²⁷. Moreover, the term “vision” seems to cover the political program with a mandatory divine mantle, as if the plan had been inspired directly by God to the ruler in a dream.

The three pillars of “Vision 2030” reported in the first pages of the document are more a wish of what the Kingdom intends to achieve from an international point of view, than a point of departure in the political strategy aimed at diversifying the economy. In fact, the three pillars at the basis of this vision are: the Kingdom’s “Status at the heart of the Arab and Islamic worlds”, its “Determination to become a global investment

²⁷ “Kenya Vision2030”, “Qatar National Vision 2030”, “Bahrain Vision 2030”, “Kuwait Vision 2035” and “UAE Vision 2021” are examples of how, in the area, the term “vision” represents a sort of political brand indicating a willingness to reform the economy.

powerhouse” and the willingness to transform its “Unique strategic location into a global hub connecting three continents” (Saudi Vision 2016: 6): they seem more a faded declaration of intent than a programmatic plan.

Conversely, the second section of the National Transformation Program draws up a list of “strategic goals and targets” that each Ministry or government body has to achieve by 2020. Therefore, each strategic objective (such as total non-oil revenues) is evaluated according to a key performance indicator (KPI) that measures the level of improvement compared both to the “2020 Target” and regional as well as international benchmarks.

Besides, the NTP offers a new interesting operating model that, involving 24 government bodies and divided into five phases, is at the base of the decision making process behind the program. Thus, the five phases of this new operating model can be summarized as follows (NTP 2016: 15):

- (I) Identifying the challenges;
- (II) Developing initiatives;
- (III) Developing detailed implementation plans;
- (IV) Promoting transparency;
- (V) Auditing, improving and launching new initiatives and adding new participating entities (15).

In fact, the 346 targets listed in the document, ranging from the 37 objectives of the Ministry of Labor and Social Development to the 4 objectives of the Institute of Public Administration, are subject to annual evaluation and implementation according to their degree of success in achieving intermediate goals.

Furthermore, the program emphasizes the government’s intention of increasing transparency, institutionalization and specialized support alongside the implementation of initiatives that, according to the Kingdom, by 2020 will cost almost \$78.9 billion (NTP 2016: 16). Therefore, the rest of this paragraph will try to analyze the load-bearing axis of this economic reform.

3.2.2 ARAMCO AND THE PUBLIC INVESTMENT FUND

The sale of a little less than 5 percent of the “Saudi Arabian Oil Company” (ARAMCO)²⁸ is the mother of all reforms announced until now by the House of Saud. The total amount of this sale would be channeled into the Public Investment Fund (PIF) in order to boost its capacity to invest worldwide and diversify the Kingdom’s revenues. In fact, according to Saudi Vision 2030 (2016):

The public investment fund will [...] help unlock strategic sectors requiring intensive capital inputs. This will contribute towards developing entirely new economic sectors and establishing durable national corporations (42).

Hence, the PIF, chaired by Mohammed bin Salman himself but directed by the general secretary of the board Yasir Alrumayyan, is aimed at investing in international companies operating in strategic sectors and markets, especially abroad; the resulting revenues, in turn, will be used to boost domestic economic diversification and development. By so doing the PIF is at the center of a diversification strategy aimed at ending the government’s dependence on oil revenue as a driver of economic growth²⁹.

The importance of this operation is highlighted by the fact that the future financial capacity of the fund has been evaluated by Mohammed bin Salman between \$2 and \$2.5 trillion (Saudi Vision 2016: 47; Reed 2016). In fact, the Initial Public Offering (IPO) of Saudi ARAMCO, expected in 2018, will largely surpass the Alibaba \$25 billion IPO of 2014³⁰, the largest to date, and it will be at the base of the biggest sovereign wealth fund

²⁸ The value of Saudi ARAMCO is unknown; before Vision 2030 hypothesis about its value ranged from \$1 to \$10 trillion dollars.

²⁹ One of the most criticized and controversial investment of the Saudi SWF conducted until now is the mid-2016 \$3.5 billion investment in Uber, the US car-booking app founded in 2009. In fact, from the Saudi point of view this investment is not only in line with a strategy of economic expansion, but also supports female presence in the workplace by bringing women to work each day. No need to add that this operation, effectively aimed at augmenting female participation in the labor market, it has been perceived as an additional frustration of their apparently heretical right to drive (Abu-Nasr 2016; Newcomer and Carey 2016).

³⁰ Alibaba is a Chinese e-commerce company. At the moment of the IPO, in September 2014, it had a market value of \$231 billion (Baker et al. 2014).

(SWF) in the world, given that the Norwegian SWF is worth only \$868.1 billion (Norges Bank 2016).

Besides, ownership of ARAMCO will be transferred to the PIF with the aim of increasing the efficiency of the fund's management and its return on investment. The "Saudi ARAMCO Transformation Program" and the "Public Investment Fund Restructuring Program" are two programs conceived by government in order to oversee this reform. Moreover, the PIF will also control the majority of SABIC shares³¹ (Saudi Vision 2016: 43).

This huge financial operation responds to an urgent need for economic development and maximization of the country's investment potential through the strong capital support generated by the sale of part of the Saudi ARAMCO shares as well as other state-owned assets (notably unutilized lands) (Bin Salman 2016). In particular, \$400 billion is the amount of funds that MBS has evaluated to introduce in the PIF over the next five years by virtue of an "Ongoing privatization of state-owned assets" (Saudi Vision 2016: 42; Bin Salman 2016).

Ultimately, this capital increase of the Saudi PIF, together with access to the international debt market, responds to the initial phase of an economic plan of reform in which the most important factor, for now, is to have a large financial liquidity to inject into the economy. The supportive monetary policy launched in September 2016 by SAMA, for example, testifies to such a need for current assets on the government's part; \$5.3 billion have been given by the Saudi agency to banks in order to ease the cash crunch on the banking system (Young 2016). In fact, the system was suffering from a lack of liquidity generated by money withdrawal operated by the government to face the latest fiscal deficits. With this injection the government aims to renew the banking system's abilities to make loans to a private sector which is experiencing a period of financial difficulties provoked by the slowdown of state investment in infrastructure projects (ibid).

³¹ Saudi Arabia Basic Industries Corporation (SABIC) is a diversified manufacturing public company mostly active in chemicals, polymers, fertilizers and metal.

In conclusion, the royal family seems to have put the PIF at the center of their reform project to move economy beyond oil; nevertheless, given the basic need for liquidity to invest in the national economy in order to boost the still sclerotic capabilities of the private sector, the success of Vision 2030 will depend mainly on the regime's capacity to reinvest nationally the revenues generated by the PIF assets conglomerate in a consistent and focused way.

3.2.3 *ECONOMIC DIVERSIFICATION AND KEY SECTORS*

The sense of urgency that has pushed the Saud family on the path to reform suggests that the Kingdom is facing a "do or die" period in which not only social peace is at stake, but also the regime's capacity to impose control over its own population. In fact, the possibilities that a young and educated population takes to the streets in protest against the monarchy have hugely increased after other Arab countries set an example in 2011 (Achcar 2013). Moreover, the Kingdom has maybe realized that during the economic growth of the last decade it did not give enough importance to transforming the economy in order to better manage the upcoming youth bulge and possible more volatile oil revenues; on the contrary, during the last years of high annual GDP growth, Saudi Arabia has not succeeded in escaping an economic model mainly based on oil and pilgrimage revenues.

Among the most important economic goals to be achieved by 2030 (Saudi Vision 2016) there are the following:

- Lowering the unemployment rate from 11.6 to 7 percent;
- Increasing contribution to GDP by small and medium-sized enterprises (SME) from 20 to 35 percent;
- Increasing private sector contribution to GDP from 40 to 65 percent;
- Increasing foreign direct investment (FDI) from 3.8 to 5.7 percent;
- Raising female participation to the workforce from 22 to 30 percent;
- Generating 9.5 gig watts of renewable energy. (39-53)

More broadly, MBS has repeatedly stressed his intention to reach \$100 billion of non-oil revenues by 2020, creating at the same time 90,000 job opportunities (Saudi Vision 2016: 49; Bin Salman 2016).

For this purpose, privatizations, public-private partnerships and foreign direct investment are the keywords of Vision 2030's new economic paradigm designed to reform Saudi labor market and increase its productivity. Furthermore, MBS and the royal family have identified in mining, tourism and subsidy reforms the three major fields at the base of this reform project (ibid).

Above all, mining has been often considered as a strategic sector in which to invest. Important mineral deposits of uranium, gold, copper, aluminum and other commercially valuable products have been discovered across the country, including 15 million ounces of gold, 2.2 billion tonnes of phosphate and 6 percent of the world's uranium reserves (McKinsey 2015: 50; Bin Salman 2016). The high margins of development of this sector mean that it is capable to create, according to the McKinsey report (2015: 8), up to 500.000 new jobs for the Saudi workforce.

Additionally, tourism represents another key sector for the Saudi economy. In fact, for a long time the Kingdom has developed its touristic facilities with the sole aim of sustaining the pilgrims performing the *hajj*. Now, although religious duty attracts every year more than a million people³², the *hajj*'s events take place in a short five-day period during the "*Dhu al-Hijjah*", the last month of the Islamic calendar. As a consequence, given that obtaining a travel visa for Saudi Arabia is particularly difficult, if not impossible, the vast and expensive accommodation infrastructure built for absorbing foreign pilgrims remains nearly unused for the rest of the year, with important economic losses for the country (Luciani 2016). So, by allowing international tourists to enter the Kingdom and by encouraging domestic tourism among the population, the regime aims to unlock important resources able to differentiate the national economic substrate.

³² In 2016, according to the General Authority for Statistics in Saudi Arabia, 1,325,372 pilgrims came from outside the country to perform the *hajj* (General Authority 2016: 11).

Finally, fiscal policies concerning subsidies are the third priority area in which the Kingdom has planned to intervene. Now, restructuring fossil fuel and water subsidies is a challenging reform, given their political role in ensuring political loyalty to the regime. Nevertheless, these subsidies contribute to create a polluting, energy-intense economy with huge economic costs. MBS has outlined how he intends to save billions of dollars every year by rolling back subsidies for 80 percent of the Saudi population. Specifically, the regime planned to have wealthy families pay full price for water and electricity, while keeping subsidized tariffs for the low-income families (Bin Salman 2016; Reed 2016).

Overall, the monarchy intends to reform almost every aspect of the economic structure. Regarding the military sector, for example, the Kingdom aspires to localize the production of over 50 percent of military equipment spending by 2030, by initially “Developing less complex industries such as those providing spare parts, armored vehicles and basic ammunition” (Saudi Vision 2016: 48), while, concerning the renewable energy market, it aims to diversify the sources of energy production, especially by developing the solar energy sector (ibid).

However, Vision 2030 remains a general and long-term blueprint that indicates the directions towards which the regime intends to direct its effort of economic and political reform; even the NTP does not say much more about more detailed implementation policies for achieving the program’s targets, but it mainly fixes numerical targets and goals for 2020.

In the meantime, the monarchy, albeit with more difficulty than in the past, continues funding public infrastructure programs all over the country. Among them, the “Riyadh Metro and Bus” project, the “Haramain High Speed Rail” between Mecca and Medina, the expansion of national ports and the construction of a “King Abdullah Economic City” (KAEC) (Nazer 2016). In particular, KAEC is a \$100 billion city under construction since 2005 along the coast of the Red Sea, 100 km north of Jeddah (Moser et al. 2016: 71). This megaproject is a milestone in the country’s strategy to diversify the economy by engineering a global hub for R&D, industry, education and tourism. Moreover, together with a national strategy to foster economic development, planning new cities in Saudi Arabia is both

a political instrument to instill pride and loyalty in the population, and a practical policy to solve the problem of housing shortages and overcrowding in the major cities (ibid). Nevertheless, when works started, the economic feasibility of the KAEC was not taken into serious consideration; among delays in delivery and increased costs in construction, nowadays the regime tries to revitalize this project by locating in the city the headquarter of the PIF and by transforming the district in a “Special zone that has competitive regulations and procedures with visa exemptions” (Saudi Vision 2016:55).

So, it remains to be seen if the Kingdom will be able to fill economic diversification and the infrastructure programs up with FDI and the national private sector’s participation, or if Vision 2030, as well as KAEC and the NTP, are destined to remain an enormous showcase of the country’s economic potential.

3.2.4 THE SAUDIZATION OF THE LABOR FORCE

Although Vision 2030 does not openly address the issue of the so-called Saudization, a term that indicates a policy of replacement of foreign workers in the private sector with Saudi nationals, this question has always been a priority for the Kingdom. A reduction of the vast number of expatriates was already programmed starting with the third five-year plan (1980-84), without success; on the contrary, the number of foreign workers has starkly increased ever since, representing in the mid-1990s up to 93 percent of private sector employees (Hertog 2011: ch. 6).

The effects on Saudi economy of this overwhelming foreign labor force mainly coming from Southeast Asia and other Arab countries are evident. Firstly, it boosts unemployment: in Saudi Arabia, given the low salaries offered by the private sector (since the employers prefer underpaid foreign workers) and the public sector’s incapability to create new job opportunities, many young citizens are voluntarily unemployed (Abouraia 2014). Secondly, it supports the low levels of productivity of the Saudi population by fostering the idea of their privileged status in the labor force; as a consequence, professional training and the broader labor market

need to adapt to more advanced standards of efficiency (ibid). Equally, the social effects of such high unemployment rates are taken into consideration by a regime that seriously fears political claims and social dissent in the Kingdom.

According to Steffen Hertog (2011), the main causes for the failure of these policies of Saudization were their “messy character” and the “lack of coordination” (ch. 6) between different ministries and agencies in dealing with this issue. Moreover, to this incapacity to integrate different policies we should add the opposition of many employers of the private sector whose interests rely on the low wages and flexibility that foreign workers assure.

The last program of Saudization of the labor force launched in 2011 was called “*Nitaqat*” (“zones”) and gave ambiguous results. On one hand, thanks to a mixed system of quotas and incentives, it succeeded in increasing the number of Saudis working in the private sector, but, on the other hand, in two years it led to the closure of more than 200,000 firms that were not able to meet the Saudization quotas fixed by government (Koyame-Marsh 2016)³³; furthermore, *Nitaqat* was unable to reduce the unemployment rate among the Saudi population.

Nevertheless, the regime is well aware that creating new job opportunities for the Saudi population and stimulating private sector activities are the best ways to meet the Saudization targets, and that pursuing Saudization policies through Vision 2030 means shifting the economic growth model from a path of low skills and low productivity to a path of high skills and high productivity. To achieve this goal MBS has even referred to the drastic possibility, as a last resort, of expelling 11 million foreign workers presently occupied in the private sector in order to deflate the pressure on the Saudi labor market; a choice fraught with humanitarian and political consequences (Bin Salman 2016).

³³ Many Saudi employers resorted to an illegal system called “Ghost Saudization”, that means registering fake employees as national employees in order to comply with the high Saudization rates fixed by the authorities for companies and to avoid penalties (Koyame-Marsh 2016).

3.2.5 DEALING WITH WATER SCARCITY

The fact that in the NTP the “Ministry of Environment, Water and Agriculture” is second behind the “Ministry of Labor and Social Development” concerning the number of targets to achieve by 2020 (35 targets against 37), is a clear signal that water scarcity and its related implications are a major concern for the Kingdom. In fact, this problem affects Saudi Arabia in many different ways.

Firstly, Saudi Arabia has gradually abandoned the idea of achieving the sort of food self-sufficiency that took root in the past. Over the years, the pursuit of this objective has led the government not only to an excessive disbursement of funds, especially in order to build the irrigation system that would make the desert bloom, but also to a consequent deterioration of groundwater sources (Faye 2016).

Secondly, although Saudi Arabia is one of the most deficient countries on earth in terms of natural renewable water resources, nevertheless, with 250 liters per capita per day in 2012 Saudi Arabia was the third-largest water consumer in the world after the United States and Canada (Drewes et al. 2012: 1). Moreover, the high population growth rate is the leading cause of the 8.8 percent annual increase in water demand, to which must be added the negative effects of climate change on the country’s water resources (DeNicola et al. 2015: 343).

Thirdly, in order to cope with water scarcity, Saudi Arabia has heavily invested in the development of desalinization technologies, which are rapidly becoming the first source of potable water in the country (ibid). Furthermore, the monarchy has planned to build 16 desalinization facilities by 2030 (UN 2015: 79). Now, considering that the process of production of this kind of water requests large amounts of domestic oil (such desalinization plants are fueled by oil), the regime faces a serious need to adequate these facilities to renewable energy sources, notably solar (DeNicola 2015)³⁴. Besides, together with wastewater reuse and rainwater harvesting, Saudi Arabia uses “land grabbing” and outsourcing food

³⁴ During a press conference in May 2014 Abdul Rahman al-Ibrahim, the head of the Saline Water Conversion Corporation, revealed that this state company consumes around 80 million barrels of oil per year (Khrais 2016).

sources as a clear form of virtual water importing. Water-intensive products such as rice, crops or vegetables, are imported from other countries, especially Sudan, Ukraine and other South American states (DeNicola et al. 2015).

In conclusion, water scarcity, in a fundamentally desert country such as Saudi Arabia, represents a clear challenge for the regime. Consequently, “Boost water storage resources and security” and “Improve the efficiency of municipal and agricultural [water] consumption” (NTP 2016: 48) are two strategic objectives of the Ministry of Environment, Water and Agriculture, in a context where the expensive lifestyle of the Saudi population and its demographic growth rate are one more hurdle to overcome.

Paradoxically, the reduction of water subsidies in order to face fiscal constraints could have the parallel effect of fostering a better use of water resources by population. Nonetheless, Vision 2030 and the NTP are still far from offering a global and coordinated solution to all these interconnected problems. For this reason, the next paragraph will take into consideration the limits of this plan of economic reforms and its possible repercussions on the stability of the House of Saud.

3.3 THE SAUDI GAMBLE

3.3.1 *A BLURRED BLUEPRINT*

So far, Saudi Vision 2030 is the official response to this multidimensional threat coming from society with its changing demographic structure, from a regional context characterized by instability, and from a reduced oil revenue affected by a more volatile energy market as well as a skyrocketing domestic consumption. Taken together, all these interrelated factors have negative consequences on Saudi finances, putting in jeopardy the political legitimation of the House of Saud, and its capacity to maintain its tight control over society. In particular, the Saudi regime fears the mixed effect of modernity over society. On one hand, as explained in the first chapter, the new anthropological behavior resulting from increased literacy rates and diffused birth control practices, that is, the

demographic transition process, is characterized by a higher degree of ideological instability and social restlessness; on the other hand, the political attempt at diversifying the economy by creating, among other things, a strong and modern private sector, risks to promote claims of political representation and participation by an active part of the population in case the redistributive policies of the regime should decrease.

Moreover, the weakening of the rentier nature of the Saudi economy by reason of a higher domestic consumption of energy and lower oil prices is coupled with the corrosive effects of globalization over a society historically shaped around the myth of homogeneity and strictly codified Islamic values.

In this situation, Vision 2030 and the NTP represent both an economic and a social reaction to this major challenge for the monarchy and the stability of the Kingdom more generally. In fact, the aim of this dissertation is to demonstrate that, despite the Kingdom of Saudi Arabia appears to many as a symbol of authoritarian stability due to its rentier nature, the House of Saud faces instead an incoming threat hailing from a changing society in the middle of a demographic and economic transition process. However, despite the determination with which the royal family tries to adapt Saudi Arabia to such new socio-economic standards, this program of reform presents four main shortcomings.

Firstly, this project of reform takes into consideration almost every single aspect of the economic landscape of Saudi Arabia and beyond; it even vaguely aspires to increase by 40 percent the number of people doing physical exercise at least once a week (Saudi Vision 2016: 25). In fact, Vision 2030 in many passages seems more a mirror of the hopes of the regime for the future of the country than a detailed economic plan aimed at changing Saudi economy. By so doing, the impression is that many financial resources will be lost in too many collateral programs without any practical and immediate economic return. In this sense, the future implementation plans will be more important than the unveiling of Vision 2030 (Thompson 2016).

Secondly, MBS has estimated at \$71.5 billion the five-year budget for NTP, although this amount can be reviewed in the future (NTP 2016: 84).

However, other reports suggest that such an economic program requests a different amount of investment. The McKinsey report (2016), for example, estimated at \$4 trillion the cost of a serious program of economic diversification by 2030 (45). Even though international funds or the Gulf Cooperation Council represent other financial sources for the country, it is obvious that the capacity of this plan to be effective will highly depend on the level of investments that the Saudi Kingdom is ready to deploy. In this case too, the future health conditions of the stressed Saudi finances will better clarify the fiscal capability of Vision 2030.

Thirdly, despite the fact that since 2005 the country is a member of the World Trade Organization (WTO) and the efforts made by the regime in order to remove many preexisting trade barriers (Killian 2007), Saudi Arabia is still far from offering a clear legal environment able to shore up investors' confidence. Public-private partnerships (PPP), for example, have been repeatedly indicated by MBS as the reference model aimed at regulating the private sector participation on the infrastructure projects. Nevertheless, until today, no PPPs law has been introduced in the country (Kiyasseh 2016).

Lastly, this program of economic reforms has been presented by MBS as a sort of "Thatcher revolution" (Bin Salman 2016), a monumental neoliberal reform in the name of cutting subsidies, privatizing social services and national companies, withdrawing the state from the economy and even "Paving the way for the derivatives market" (Saudi Vision 2016: 43; Reed 2016): a net change of trend for a regime accustomed to political and economic caution all along. Now, these policies of deregulation, privatization and opening to international markets are the same that Adam Hanieh (2013) has indicated as the political recipe at the base of the revolts of 2011 in the Arab world, given that "The last three decades have seen the sustained erosion of basic economic and social rights as a direct consequence of neoliberal policies", in a context in which the resulting "Growing poverty, unemployment and social exclusion" have accompanied

the “Consolidation of a domestic capitalist class” (ch 3)³⁵. In the light of these negative historical precedents, it is hard to see in Vision 2030 a softening policy of the already existing social tension.

Anyway, at least at first, the chances of success of Vision 2030 will mainly depend on the capacity of the regime to show to Saudi society, especially to its youth, quick and concrete results.

3.3.2 A NEW SOCIAL CONTRACT

Saudi Arabia has always represented a “society of paradoxes” (Killian 2007: 30) in which modernity and tradition coexist and restrain each other; nevertheless, the socio-political substrate over which this society has developed is based on a social contract that ratifies the rentier nature of Saudi Arabia. As previously said, according to this contract Saudi citizenry refuses any democratic claims in exchange for domestic tax exemption and the redistribution of oil rent via domestic and social spending. Consequently, in Saudi Arabia, as well as in any other rentier economy, state and society are effectively independent (Luciani 2013b). However, for the first time since the discovery of oil in 1938 near the village of Dammam, in the Eastern Province, it is very likely that the terms of the current social contract will change in parallel with the deep transformation that Saudi economy and society are undergoing.

According to Brianna B. Seymour (2012), present day Saudi Arabia is in the third and last stage of rentierism called “Late Rentierism” (42)³⁶. In fact, this stage of rentierism “Occurs when the state is responsive, globalized and strategic in its thinking” (ibid). In fact, although the Kingdom entered this final phase in 2005 with the crowning of King Abdallah, now more than ever the royal family has started to show a greater degree of strategic thinking, mainly in the economic and geopolitical context. Moreover, the same study foresees the end of rentierism in Saudi Arabia between 2022 and 2033 (165). Now, considering the increase in domestic

³⁵ Egypt, Jordan, Tunisia and Morocco have been the main cases of study of this work of Adam Hanieh.

³⁶ The first two stages of rentierism are called “Classical Rentierism” and “Specialized and Conditional Rentierism”.

oil consumption and population growth coupled with the fall in the price of oil, it is evident how the rentier nature of the Saudi economy should not be taken for granted.

MBS has repeatedly affirmed his intention to privatize, among other things, healthcare and services sectors (bin Salman 2016; Almashabi et al. 2016). On April 2016 he said to Bloomberg: “ We are trying to push for more health insurance by convincing the citizens that services provided through health insurance are better than the free healthcare services, and faster for them” (ibid). Moreover, the Kingdom is planning to introduce value added tax (VAT) and sin taxes³⁷ and it has already reduced water, electricity and fuel subsidies. Therefore, although MBS has immediately declared that no income or wealth tax will be levied (Bin Salman 2016), Vision 2030 represents the first step of a dangerous but irreversible process of decline of the redistributive capacities of the Kingdom that will gradually hit the country.

Finally, despite the fact that in the past the process of political and economic modernization in Saudi Arabia has followed the pattern of “corporatism”, through a top-down concession of a sort of fake functional representation to different segments of society (Hertog 2006), still, both the development of the private sector wished by the regime in order to diversify the economy and the increased participation of larger parts of the population in the economic productive process may be put at the base of stronger political claims from the active Saudi workforce. Besides, the municipal elections of 2005, 2011 and 2015, although they were mere window dressing, have been a landmark moment in the evolution of civil society in Saudi Arabia. At the 2015 elections two thirds of the members of the local councils were elected (the others were appointed by royal nomination) and for the first time in Saudi history elections were open both to male and female voters and candidates. On the contrary, the 2005 and 2011 elections were held for half members of the municipal councils and women were not allowed to participate. Nevertheless, the authorities have

³⁷ A Sin tax is a tax levied on certain types of goods considered harmful to society such as alcohol, tobacco, fast foods, soft drinks, etc.

always had a major role in the process of selection of the candidates, with negative repercussions on the electoral participation.

In conclusion, Vision 2030 and the new political season inaugurated by MBS can be defined as a gamble aimed at changing the economic model, mainly challenging the rentier mentality of the unskilled and unmotivated Saudi workforce. But, paradoxically, this attempt at a general reorganization of Saudi Arabia contains the germs of the Al Saud political delegitimization.

In fact, will Saudi society accept to submit to an authoritarian regime without the privileges of a rentier economy? Furthermore, despite Vision 2030 has been highly praised for the attention given to the principle of political transparency, especially by students and young people, the slowdown of economy (Thompson 2016), the rise of the unemployment rate, the almost absent investments in renewables and the still pervasive corruption worsen the regime's margins of bargaining over a post-oil economy's new social contract (Luciani 2016, Seymour 2012).

3.3.3 *HOUSE OF SAUD: WHICH FUTURE?*

All things considered, it is very unlikely that the House of Saud can continue to rule with this authoritarian mode of governance in the medium-long term. Too many sweeping changes are affecting Saudi economy and society. In fact, the pressure on the regime coming from the inherent instability of a population in the middle of a demographic transition will probably be intensified by the delicate phase of economic transformation that the country is going through. Consequently, from my point of view, and considering the historical precedents of the region, it is very difficult to hypothesize that the Saudi regime will not experience any form of political contestation by society. Moreover, the so-called Arab Spring opened a new period of political contestation in the MENA area where people "Learned to express their democratic will in the most radical way" and revolution has been put on the agenda (Achcar 2013: 241); in this perspective, the fall of Ben Ali in Tunisia, Mubarak in Egypt and Gaddafi in Libya by means of protracted popular uprisings have had a symbolic

repercussion all over the area, given the strong emulative potential that these events have instilled in the populations of the region.

However, the fact that the House of Saud will probably face a period of contestation does not necessarily mean that the royal family will disappear from the Saudi political scene. According to Richard Cincotta (2015), for example, around mid-2020s Saudi Arabia will experience a sort of “Monarchical transition toward higher levels of democracy” (195) similar to what happened in Spain, Thailand, Morocco and Malaysia. In fact, with few exceptions, the Kingdom’s authorities have always prevented the formation of any political organization outside state control. As a consequence, in Saudi Arabia the Al Saud, that represent at the same time a state, a family, and a political party (Emiliani 2006), are the only option of a society where the development of any qualified political alternative has been historically frustrated. Moreover, as Stéphane Lacroix (2014) explains, Saudi divided society is another factor contributing to the regime’s strength. In his words:

Islamists of different strains and liberals kept on fighting each other over society-related issues (the issue of women being the most symbolic, and polarizing, of them), which allowed the royal family to position itself as arbitrator between the competing factions, siding now with the liberals, now with the Islamists, while convincing each of the two sides that the regime’s resilience was the best protection against the threat represented by the other. (16)

In addition, the increase in FDI and the development of a national private sector may have the paradoxical effect of augmenting social demand for stability, both internal and external, by supporting the Al Saud political continuity.

But, most importantly, the survival of the regime will depend not only on the capacity of the House Al Saud to accompany the process of socio-political and economic reform with a greater cultural openness (from this point of view, the restriction of powers of the Saudi Islamic religious police, also informally called *Hai’a*, on April 2016, has been welcomed favorably by society), but also on the capacity of the regime to combine the process of economic reform with a process of gradual political opening to civil society. In fact, as Theodore Karasik (2016) suggests, hoping to change

the economic structure of the country without affecting the Saudi political configuration, in a sort of new *perestroika*³⁸, is a project doomed to fail.

Conclusions

Vision 2030 and the National Transformation Program, together with the figure of Mohammed bin Salman, the Deputy Crown Prince mastermind of this project of socio-economic reform, are the main objects of analysis of this final chapter.

First of all, 2016 has been a crucial year for Saudi Arabia, from an economic and a political point of view. In fact, lower oil prices, expensive arms purchases and increasing domestic energy consumption have been at the origin of the first fiscal deficit in ten years, compelling the regime to start a period of economic reform. At the same time, King Salman conducted a reshuffle at the top of the royal family by appointing MBS Deputy Crown Prince and Minister of Defense and Mohammed bin Nayef Crown Prince of Saudi Arabia. Moreover, he has created two new powerful councils, the Council for Political and Security Affairs, chaired by MBN, and the Council for Economic and Development Affairs, chaired by MBS and at the head of Vision 2030 and the NTP. By so doing, King Salman dismantled the previous political order created by King Abdullah establishing an even more top-down political structure.

Most importantly, Vision 2030 represents the most significant attempt of the Kingdom to diversify the economy and reduce its dependence on oil. At the base of this strategy is the creation of a \$2 trillion public investment fund with the funds generated by the privatization of 5 percent of ARAMCO and other state-owned assets, and a new operating model able to identify the challenges and develop programs with more efficiency than in the past. In this context, economic diversification, Saudization of the labor force, reduction of water scarcity and development of a strong domestic private sector are the most important targets for the regime.

³⁸ *Perestroika* ("restructuring") was a process of economic reform launched by Mikhail Gorbachev in 1985 and aimed at introducing some market-like reforms in the context of Soviet socialism. *Perestroika* is often indicated as a main cause in the process of the dissolution of the Soviet Union.

Nevertheless, the high cost of the program (probably higher than the estimate by the regime), together with the high number of programs and plans set up by the NTP, risk to convert this economic plan in an ineffective and ambitious project. Moreover, given the weakening of the rentier nature of Saudi Arabia, no economic reform in the country can be successful without taking into consideration a parallel cultural and political opening.

Conclusions

Saudi Arabia is in the middle of a period of transition; not only its demographic structure, but also its economy and society are undergoing sweeping changes that are gradually moving this country away from its comfortable position of rentier state. Specifically, modernity, this term being understood in its broadest sense, is what has hit the country in various and different forms forcing the Kingdom to operate a general reevaluation of its economic and demographic basis. In this respect, Saudi Arabia rediscovered itself much more vulnerable to popular unrest and economic disruptions than it used to be. In fact, high unemployment rates, youth bulge, terrorism, the collapse of oil price and the war in Yemen are just some manifestations of an inherent instability that regards the regional context as well as Saudi Arabia. As a consequence, Vision 2030 represents at the same time a political-economic response to a new fiscal reality and a new social narrative for a Saudi citizenry in a period of crisis. Modernity surfaced in the Kingdom along many axis, and each one has destabilized the way of thinking of a regime accustomed to continuity both in the political and in the economic field.

Firstly, and most importantly, modernity emerged from the demographic component of Saudi Arabia; in particular, the demographic transition process is at the base of major change that is under way within the population. The long period during which a given population shifts from a situation of high birth rates and high death rates to an opposite situation of low birth rates and low death rates is called demographic transition; in brief, it represents the shift from an ancient to a modern demographic regime. Now, this process is the simultaneous result of increased levels of literacy (especially among women) and diffused birth control practices. Thus, the effects of the demographic transition are not limited to the mere demographic side of a population, but also extend to the cultural and economic sides of society. In fact, together with a more stable and balanced demographic structure, the demographic transition also lays the foundations to a more educated citizenry, more egalitarian relations

between men and women and a higher level of economic productivity. As a consequence, the demographic transition provides a modern demographic and cultural basis to a population where education, self-realization and the creation of personal value systems have a new and primary role.

Secondly, the energy issue is pushing Saudi economy away from a sclerotic economic model based solely on oil revenue and no longer able to guarantee a viable path of economic development to society. In fact, oil prices collapsed, passing from \$110/barrel of mid-2014 to nearly \$26 in January 2016. As a matter of fact, the Saudi decision of maintaining an elevated oil production is above all a geopolitical response aimed at an increased international oil output, mainly driven by US shale oil and a reemerging Iranian key role. In addition to this, Saudi economy seriously suffers from the erosion of its oil export capacity in reason of a galloping domestic energy consumption. Consequently, given the current international energy market, the Saudi regime has been forced to put in place the modern globalized and strategic political economy typical of a state that entered the final stage of "Late Rentierism".

Therefore, the House of Saud is passively witnessing two major changes that are transforming their country in an irreversible and completely new way.

From an economic point of view the weakening of oil rent represents a mortal threat to a regime that, to preserve internal stability, has used oil as a political tool and a diplomatic weapon in the international arena. In fact, the rentier economy of the Saudi Kingdom not only allowed the regime to build a strong coercive apparatus, but also allowed it to implement generous social spending policies and a complete income tax exemption for the citizenry. Now, the slowdown of the economy, together with a higher fiscal pressure on Saudi population, will probably lead to a redefinition of the social contract at the expense of the regime's authoritarian policies.

Conversely, from a demographic and cultural point of view, the demographic transition left the country on the edge of a dangerous youth bulge and an even more dangerous cultural crisis. Specifically, the

population growth that Saudi Arabia experienced in the last decades has resulted in a demographic structure completely tilted toward the 0-25 age band. Furthermore, such great number of young people, highly educated and raised in smaller families compared to the past, are structurally prone to question family and political authority. This makes Saudi Arabia, as well as the MENA more in general, a particularly instable country.

Moreover, terrorism, strong nationalist sentiments, a rapid urbanization, high unemployment rates, growing resentment in the Saudi Shi'a community, a sclerotic labor market and the war in Yemen are other factors that increase the precariousness of a situation that combines financial and economic constraints with popular uneasiness.

In conclusion, the Kingdom of Saudi Arabia is finally showing its true constitutive nature away from a rentier economy that relied too much on oil income, foreign unskilled manpower and public sector hiring. In foreign policy too, the House of Saud demonstrated in the last three years a higher degree of autonomy and independence, especially towards the United States. Nevertheless, the high costs of the ambitious and overreaching Vision 2030 risk to sabotage this political-economic plan; on the other hand, the development of the private sector, the weakening of the redistributive capabilities of the state together with an increased fiscal pressure on the population will probably boost political claims coming from society. As a consequence, the capacity of the House of Saud of handling such changes while preserving its absolute political control seems unrealistic.

Anyway, the most difficult challenge for the Kingdom founded by Abdulaziz Al Saud will be to demonstrate to its own population, and to the MENA area, that Saudi Arabia has something else to offer other than oil and strict Wahhabi Islam to young and educated societies. From this point of view, the lack of a coherent and long-term political and cultural strategy is the biggest problem confronting Saudi Arabia today.

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