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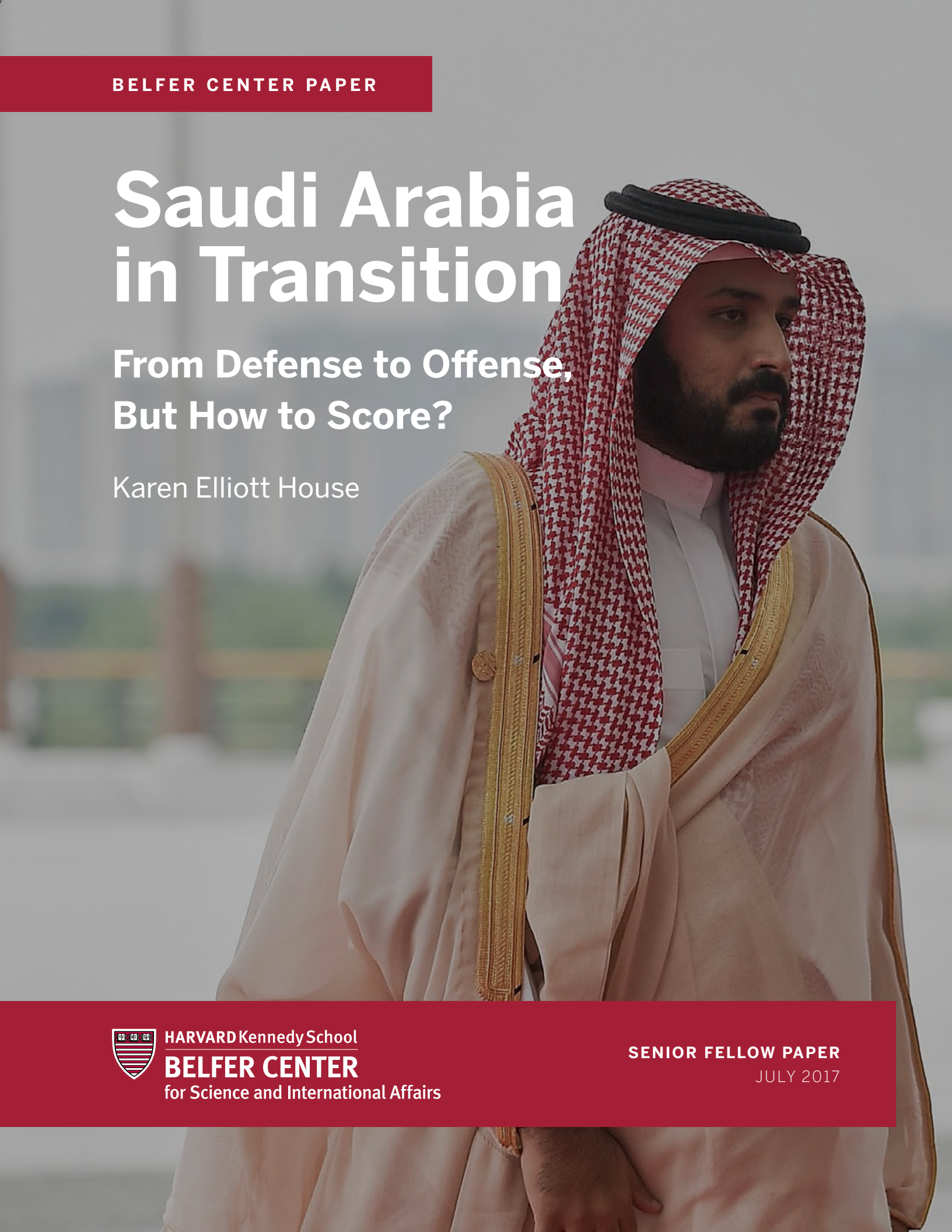
Saudi Arabia in Transition

From Defense to Offense, But How to Score?

Karen Elliott House



HARVARD Kennedy School
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Cover photo and opposite page 1: Deputy Crown Prince Mohammed bin Salman arrives at the Hangzhou Exhibition Center to participate in G20 Summit, Sunday, Sept. 4, 2016 in Hangzhou, China. (Etienne Oliveau/Pool Photo via AP)

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http://www.belfercenter.org/publication/uneasy-lies-head-wears-crown

The author, above, in rural Jizan Province in April 2009 with an elderly farmer and some of his 35 children (from three wives) and 30 grandchildren.

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Introduction

Saudi Arabia is like an obese man disfigured from decades of gluttony and idleness. Dieting is painful given his body's cravings. Even the small exertion of walking is more unpleasant. And the inability to imagine that his sacrifice and suffering eventually will lead to good health makes it easy to revert to old habits. If, however, he will just push through the pain, good health and a better life are attainable.

This metaphor, offered by a senior Saudi minister, is the best way to understand the titanic struggle Saudi Arabia confronts as it seeks to wean itself off decades of dependence on oil wealth. It's not the first time the Kingdom has tried to diet. Promises to transform the Saudi economy from oil are almost as old as its half century of dependence. So, not surprisingly, the Saudi people continue to assume something will turn up to extend their idle but ample lives. And, thus far it always has. But almost surely not this time.

So, this latest government transformation plan known as Vision 2030 calls for nothing short of a societal revolution. Out with government dependence; in with self-reliance. Out with conservative anti-modernist Wahhabi dogma and in with moderation. "Our vision is a strong, thriving and stable Saudi Arabia…with Islam as its constitution and moderation as its method," is how the plan was described in April 2016 when unveiled by its architect, Mohammed bin Salman, the 31-year-old son of the Saudi King.

If, as promised, the economy is to be privatized, Saudi companies and citizens will need to become much more nimble and efficient to compete globally and survive. That suggests the elimination of conservative religious constraints like forced closing of shops multiple times a day for 45 minutes to observe prayers which require no more than 10 minutes, and the end to rigid segregation of men and women in the

workplace. The risk that conservative Saudis balk and then simply refuse to change, precipitating social instability in the Gulf's most strategic nation, is definitely there. But the regime launched Vision 2030 precisely because it fears a prolonged fall in oil revenues that began in 2014 will lead soon to precipitous declines in the livelihoods of Saudis who then, with nothing left to lose, may destabilize this nearly three century-old monarchy. Pick your poison.

So far, Saudis only have been forced to consume a little less—to diet. The more difficult and painful phase of actually resculpting the national body to build muscle and shed fat—to make citizens self-reliant rather than dependent on government largesse—is still to come. Yet even a modest amount of imposed dieting—reduced government subsidies for water, electricity and energy—has provoked citizen complaints. A tougher measure to reduce salaries and benefits of government employees (60% of working Saudis are employed by government) was reversed within six months after persistent citizen protests on social media.

As the transformation plan enters its second year, much undeniably is changing. But almost all the change is social, not economic—and surely not political.

The government has sought to distract Saudis from the pain of change by opening up a wide variety of heretofore banned entertainment events like music concerts, wrestling matches and a Comic Con where young Saudis dress as their favorite cartoon characters, something heretofore regarded as frivolous and forbidden. A royal decree also has banned the religious police, who long roamed streets enforcing Wahhabi restrictions on veiling and separation of the sexes, from arresting citizens for such indiscretions. But the hard work of privatizing the economy—and, equally hard, persuading citizens that privatization isn't just a way to make the rich richer and purloin the patrimony of the people—remains to be done. The existing private sector in Saudi Arabia relies on cheap foreign labor: 90% of workers are foreigners. Retooling to employ more expensive and often untrained Saudi labor will require wrenching changes for both business and Saudi citizens not accustomed to performing or losing their jobs.

Relative to any of its neighbors or indeed to any other Arab country in the Middle East, Saudi Arabia maintains a high degree of stability and, even in reduced circumstances of lower oil prices, prosperity. The greatest advantage the regime has going for it as it subjects citizens to the pain of economic change is precisely that comparison. Saudis can merely look at neighboring Yemen, Syria, or Iraq, all engulfed in bloodshed and chaos, to count their relative blessings.

Still, like citizens of any other society, Saudis rue the change in their pocketbooks more than they appreciate their relative good fortune vis a vis neighbors. Thus, seeing benefits reduced and being asked to work harder constitutes real pain for citizens who for generations have lived off government dole and worked very little. Even worse for Saudis is the anxiety of anticipating still further, as yet undefined, changes.

Two Big Unknowns

As the first anniversary of Vision 2030 passes, two big unknowns have dominated discussion in the Kingdom: Will the government have the courage to stick to its reform plans when the going gets tougher? After all, a social media threat of a street protest in Riyadh quickly brought a royal decree in April restoring those salary and benefit cuts imposed on government workers last October. For some Saudis, this was a sign that reform plans were poorly thought through and thus should be shelved; for others, it was a sign that government listens to people—and thus can be pushed further in the future. Either interpretation only deepens the Kingdom's inertia.

The second and even larger unknown was this: Would Prince Mohammed bin Salman, the undisputed architect and chief cheerleader of Vision 2030, retain power and thus the ability to push his reform plans once his 81-year-old father, King Salman, died? That uncertainty has been removed by his elevation in June to Crown Prince. Indeed, it is possible that the Crown Prince soon will persuade his elderly father to step aside and install him as King to assure the ascension takes place.

After all, the last two designated crown princes have been removed. And once King Salman dies, his power over the fractious family dies too. Although 31 of the 34 senior princes on the Allegiance Council, which represents each of the direct male descendants of King Abdulaziz Al Saud, acquiesced with the request of their king to elevate his son, many royals remain unhappy with the young prince and could seek at the King's death to make MBS the third crown prince to fall short of becoming king. Other royal family members oppose not only the ambitious reform agenda but also his harsh treatment of Crown Prince Mohammed bin Nayef, 57, whom he confined to suppressing terrorist threats in the Kingdom while MBS—known as "Mr. Everything"—ran the economy, defense and Saudi Aramco, the national oil company that funds the government.

Deputy Crown Prince Mohammed bin Salman waves as he meets with Philippine President Rodrigo Duterte in Riyadh, Saudi Arabia, April 11, 2017 (Bandar Algaloud/ Courtesy Saudi Royal Court/Handout)

Current Members of the Allegiance Council

Sons of founder King Abdulaziz *

Abdulrahman bin Abdulaziz
Mutib bin Abdulaziz
Abdulilah bin Abdulaziz
Mamdouh bin Abdulaziz
Mashhour bin Abdulaziz
Mugrin bin Abdulaziz

Grandsons and Great Grandsons of Abdulaziz **

Abdullah bin Faisal bin Turki bin Abdulaziz
Bander bin Saud bin Abdulaziz
Khalid bin Faisal bin Abdulaziz
Badr bin Mohamed bin Abdulaziz
Faisal bin Khalid bin Abdulaziz
Mohamed bin Nasir bin Abdulaziz
Mohamed bin Saad bin Abdulaziz
Talal bin Mansour bin Abdulaziz
Mohamed bin Fahd bin Abdulaziz
Faisal bin Bander bin Abdulaziz
Bander bin Musaad bin Abdulaziz
Khalid bin Abdullah bin Abdulaziz
Saud bin Abdulmuhsin bin Abdulaziz
Khalid bin Sultan bin Abdulaziz
Khalid bin Talal bin Abdulaziz
Mohamed bin Mashari bin Abdulaziz
Fahd bin Badr bin Abdulaziz
Fahd bin Turki bin Abdulaziz
Abdulaziz bin Nawaf bin Abdulaziz
Saud bin Nayef bin Abdulaziz
Mohamed bin Salman bin Abdulaziz
Mishaal bin Majid bin Abdulaziz
Faisal bin Thamir bin Abdulaziz
Abdulaziz bin Sattam bin Abdulaziz
Nayef bin Ahmed bin Abdulaziz
Abdulaziz bin Hazloul bin Abdulaziz
Faisal bin Abdulmajeed bin Abdulaziz

* Four other surviving sons of Abdulaziz do not serve on the Council. They are King Salman, Bandar, Talal, and Ahmed. Each of them is represented by one of their sons.

** This list lacks one member: a son of Prince Mishaal bin Abdulaziz who died in May 2017.

Reportedly, the three princes who voted against Mohammed Bin Salman becoming Crown Prince were: Ahmad bin Abdulaziz, Mohammed bin Saad bin Abdulaziz and Abdulaziz bin Abdullah bin Abdulaziz representing his brother Khalid bin Abdullah.

The New Generation of Rising Princes
Appointed by King Salman in June 2017

Mansour bin Mugrin bin Abdulaziz
Deputy Governor of Asir

Second youngest son of Prince Mugrin Bin Abdulaziz, former Chief of Saudi Intelligence Agency and former Crown Prince removed by King Salman in 2015.
Prince Mansour is a grandson of the founder King Abdulaziz.

Saud bin Khalid bin Faisal bin Abdulaziz
Deputy Governor of Medina

Youngest son of Khalid Bin Faisal, who is the currently Governor of Mecca, appointed by King Salman in 2015 and the former Governor of Asir and former Minister of Education.
Prince Saud is a grandson of the late King Faisal and a great grandson of King Abdulaziz.

Mohammed bin Abdulaziz bin Mohammed bin Abdulaziz
Deputy Governor of Jazan

Son of Abdulaziz bin Mohammed and a grandson of Mohammed bin Abdulaziz. Mohammed bin Abdulaziz was the older, full brother of the late King Khalid. Mohammed was passed over for succession, which he accepted as his brother Khalid became crown prince (1965) and king in 1975 following the assassination of King Faisal. Mohammed is the prince famous also for demanding the beheading of his granddaughter (immortalized by the BBC in *Death of a Princess*) for an illicit love affair.
Prince Mohammed is a great grandson of King Abdulaziz.

Mohammed bin Abdulrahman bin Abdulaziz
Deputy Governor of Riyadh

Son of Abdulrahman, who is one of the Sudairi Seven and thus an older full brother of King Salman. Abdulrahman served as Deputy Minister of Defense from 1978 to 2011, but was removed by King Abdullah when Abdulrahman objected to the promotion of his younger full brother Nayef as Crown Prince.
Prince Mohammed is a grandson of King Abdulaziz.

Ahmad bin Fahd bin Salman bin Abdulaziz
Deputy Governor, Eastern Province

Youngest son of the late Fahd bin Salman, King Salman's eldest son who died in 2001. Fahd bin Salman served as Deputy Governor of the Eastern Province from 1986 to 1993 and then went into private business in 1993.
Prince Ahmad is a grandson of King Salman and a great grandson of King Abdulaziz.

Fahd bin Turki bin Faisal bin Turki bin Abdulaziz
Deputy Governor of Qassim

This prince is a descendent of Turki bin Abdulaziz, the founder's first son born in 1900 and died in 1919. He is referred to as Turki I to distinguish him from another Turki bin Abdulaziz born in 1931.
Prince Fahd is a great great grandson of King Abdulaziz.

Abdullah bin Bandar bin Abdulaziz
Deputy Governor of Mecca

Younger son of Bandar bin Abdulaziz, the eldest surviving son of King Abdulaziz. Abdullah's older brother Faisal bin Bandar was appointed as Governor of Riyadh by King Salman in January 2015, replacing Turki bin Abdullah, who was appointed by his father King Abdullah in May 2014.
Prince Abdullah is a grandson of King Abdulaziz.

Turki bin Hazloul bin Abdulaziz
Deputy Governor of Najran

Hazloul, also spelled Hathoul, was one of Abdulaziz's younger sons, born in 1941. He died in 2012, having never served in government.
Prince Turki is a grandson of King Abdulaziz.

Abdulaziz bin Fahd bin Turki II bin Abdulaziz
Deputy Governor of Al-Jouf

Prince Abdulaziz is a grandson of Turki II, one of the Sudairi Seven and thus a younger full brother of King Salman. Turki II died in November 2016.
Prince Abdulaziz is a great grandson of King Abdulaziz.

Abdulaziz bin Saud bin Nayef bin Abdulaziz
Minister of Interior

Eldest son of Saud bin Nayef, currently Governor of the Eastern Province since his appointment by King Abdullah in January 2013. Prince Abdulaziz' grandfather is former Crown Prince Nayef, who served as Minister of Interior from 1975 until his death in 2012. Prince Abdulaziz' uncle is former Minister of Interior and former Crown Prince Mohammed bin Nayef, removed by King Salman in June 2017.
Prince Abdulaziz is a great grandson of King Abdulaziz.

Reform Is Possible, If Only Because Necessity Makes it Inescapable

Despite these myriad obstacles, this report, based on two prolonged trips to the Kingdom last fall and this May, will argue there is a real chance for significant restructuring of the Saudi economy over the next decade. That change surely will not unfold in the elegantly orchestrated way it is laid out in Vision 2030, created with the help of some $1.3 billion in fees to consultants. But significant change seems unavoidable if only out of necessity. Oil prices which hovered around $100 a barrel for much of the decade before their collapse to $20 in 2015 are a thing of the past, argues oil historian Dan Yergin.[1] Oil producers are growing ever more efficient, lowering the cost at which they can profitably produce oil. "The entire business has been recalibrated," Mr. Yergin asserts, thus $100 oil is an "aberration that won't recur absent an international crisis."[2]

The implications of this for Saudi Arabia cannot be overstated. For the decade from 2005 to 2015 under the rule of the late King Abdullah, government revenues (90% from oil) averaged more than $300 billion a year for five of those years before falling precipitously in 2015 to half that.[3] During the decade, King Abdullah lavished money on his countrymen for education, health, a minimum wage to help poor Saudis, and for construction of scores of megaprojects, many unproductive and billions of dollars over budget. (Simply maintaining some of these megaprojects is now yet another drain on current reduced revenues.) Budgets exploded; actual spending ballooned far beyond budget every year. In a society where 70% of the population is under 30 years of age, the great majority of Saudis have never known anything but lavish largesse from their government and strong economic growth. Indeed, in the decade from 2005 the economy grew at an average of 5.5 % annually.[4]

1 "The Struggle Behind Oil's Ups and Downs," Dan Yergin, Wall Street Journal, May 16, 2017. https://www.wsj.com/articles/the-struggle-behind-oils-ups-and-downs-1494976842.

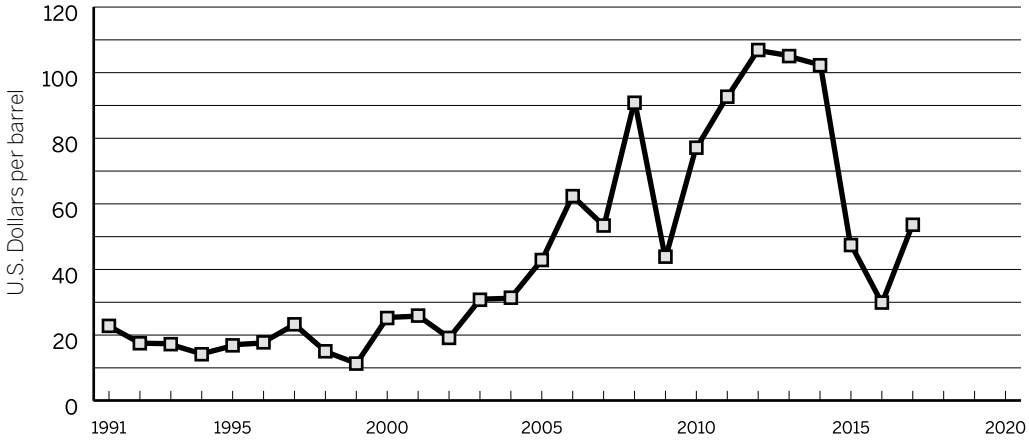
2 Ibid.

3 IMF Cross County Macroeconomic Statistics https//www.quandl.com/data/ODA/SAU_GGR-Saudi-Arabia-General-Government-Revenue-USD-Billions.

4 World Bank Data, "GDP growth (annual%). http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=SA.

Now, however, one year into reform efforts, economic growth has stopped. Growth this year is forecast at .1%, declining from a meager 1.4% in 2016.[5] In a country where 80% of all household income derives from government—either through jobs or subsidies of all sorts—when government spending shrinks, the economy shrinks.[6] Indeed, the non-oil private sector of the Saudi economy recorded an almost invisible growth of only .1% last year, the lowest since 1990.[7] As a result, unemployment among young Saudis under 30 years of age is said to be as high as 40%. Having known only the best of times makes today's belt tightening seem all the more painful to young Saudis.

Oil Prices, 1991–2017



Source: IMF, July 2017 / http://www.imf.org/external/np/res/commod/External_Data.xls

5 "Macroeconomic Update," Jadwa Investment June 2017, p 1. http://www.jadwa.com/en/download/saudi-economy-2017/research-13-1-1-1-1.

6 "Saudi Arabia Beyond Oil: The Innovation and Productivity Transformation," McKinsey Global Institute December 2015; Executive Summary page 2. http://www.mckinsey.com/global-themes/employment-and-growth/moving-saudi-arabias-economy-beyond-oil.

7 The Saudi Economy 2017 Jadwa Investment, p 1; http://www.jadwa.com/en/download/saudi-economy-2017/research-13-1-1-1-1.

Year One: Shock, But Not Yet Awe

Vision 2030 was unveiled to Saudis in April 2016 at a nationally televised press conference that essentially also unveiled its primary promoter, Mohammed bin Salman, a prince largely unknown to the Saudi public at the time. The young prince, then only 30, had been named deputy crown prince a year earlier by his father, who shortly after becoming king in January 2015 had initiated a palace shake up. The King removed his half-brother Mugrin bin Abdulaziz as crown prince and elevated a nephew, Mohammed bin Nayef to that slot vacating the role of deputy crown prince for his young son. The previously unknown young prince quickly emerged as the power behind the throne and the driving force behind Vision 2030. A graduate of King Saud University, his previous government service had consisted largely of working for his father at the defense ministry. But in the past year, MBS as the deputy crown prince is known, has established a reputation as an intelligent, dynamic force of nature willing to take bold risks in a royal family long characterized by cautious consensus leadership.

Barely a year into the job he was promising nothing short of revolutionary change: to make Saudis dependent upon themselves, to grow the number of women in the Saudi workforce, to permit forbidden entertainment and to make the price of oil "irrelevant" to the Saudi economy. The bedrock of Saudi success, he promised, would be "moderation, tolerance, excellence, discipline, equity and transparency"—all values largely absent in the current Kingdom of Saudi Arabia.

Most shocking, he promised to privatize the national oil company, Saudi Aramco, the crown jewel of Saudi Arabia; indeed, the golden goose that is the patrimony of the people. By promising to put 5% of Aramco up for sale to investors worldwide, the prince delivered and underscored his core message: *nothing is secure from change*.

Who is this brash young man in such a hurry to change everything in a society where so many still pride themselves on seeking to emulate exactly the life of Prophet Mohammed 1400 years in the past? After at least the past three decades of rule by geriatric kings—inert, listless figures largely seen and not heard and ruling through royal decrees and courtiers—MBS

is a shocking change. Tall, energetic and informal, working bareheaded and without the dark draping cape royals wear over their long, white thobes, MBS evokes the raw energy of his towering grandfather, Abdulaziz al Saud, who at only 27 began a three-decade long civil war in 1902 to unite disparate tribes into what is now the Kingdom of Saudi Arabia proclaimed in 1932. Two previous Saudi states founded and ruled by the Al Saud since 1744 had each collapsed only to be reconstituted after a short hiatus. If MBS succeeds at his transformation plan, he essentially will found a Fourth Saudi state, so different is his vision of the future Kingdom from that created by his grandfather and perpetuated by six of the founder's sons who have ruled since his death in 1953. Because he is only 31, MBS should have decades, perhaps a half century, to rule giving him a long runway to remake the Kingdom.

For the majority of young Saudis, reared in times of plenty, often educated abroad and all connected by social media, the prince's promise to tear up the Kingdom's sclerotic economy and remake it into a more vibrant, self-reliant one sounded appealing—at least at first. But within months, the regime froze billions of dollars in government contracts, pending review of their economic justification. Private companies no longer receiving payments for contracted work began to lay off employees, rather than become the new source of jobs for young Saudis as promised in Vision 2030.

Already government had begun to reduce subsidies for energy, water and electricity that essentially had made these family necessities gifts to citizens while costing government an estimated $61 billion annually. [8] Even with gasoline prices rising to 96 cents a gallon from 64 cents, Saudis still pay far below market prices. [9] As a result, those initial increases caused little public outcry. Then in September came the decision to cut salaries and benefits to government employees who comprise a whopping 60% of all employed Saudis. This meant that a majority of working people suddenly, without warning or explanation, found their take home pay slashed by roughly 30%.

8 Saudi Arabia's2016 Fiscal Budget, Jadwa Investment, 28 December 2015; p 6. http://www.jadwa.com/en/download/2016-budget-2/gdp-report-15-6-2-1-2.

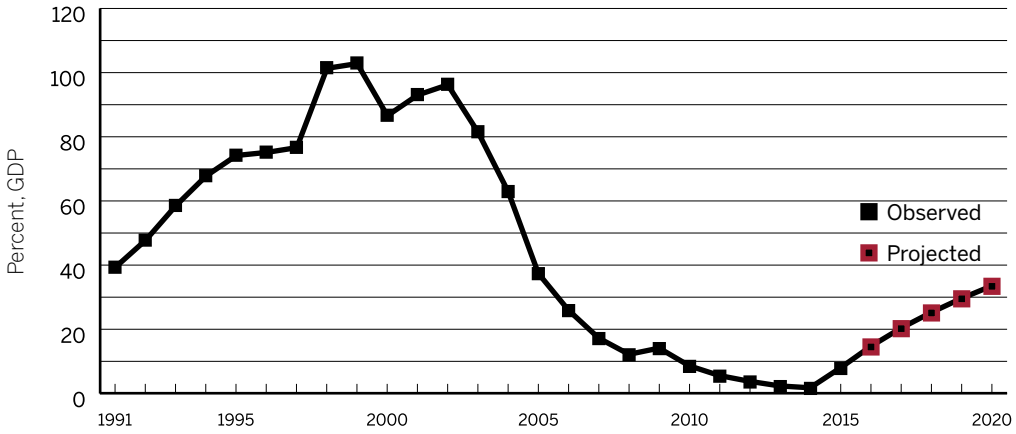
9 Ibid.

To add insult to injury, the head of the Saudi civil service took to television to accuse Saudi government employees of working "only an hour a day."[10]

Abruptly, eager anticipation for reform turned to anger. "We had Christmas every day and now Grinch has stolen it," is how one Saudi economist, who supports reform, described the national mood after the salary and benefit cuts.

"The government has now touched the social contract," says a conservative critic of the Al Saud, referring to a long pact between Saudi citizens and their monarchy: loyalty to the regime in exchange for prosperity for its citizens. "People don't care about politics or human rights; only about their pocketbook," he explains. "What the government is doing is very dangerous." Another Saudi put the same point this way: "The question is can government tinker with subsidies and remain autocratic? If the economy is growing at 5%, people accept repression. But if they think the next five years will be worse then there is no reason not to act against government even if it may destroy the country."

Saudi Central Government Gross Domestic Debt
as a percentage of GDP



Source: IMF, September 2015

10 Saudi Gazette, October 25, 2016, "Saudis Angry at Accusations of Laziness"; https://english.alarabiya.net/en/business/economy/2016/10/25/Saudis-angry-at-accusations-of-laziness-.html.

Year Two: Social Change Leads the Way

As Vision 2030 enters its second year, pressure mounts on the government to show some wins for citizens from its ambitious reform strategy. A skeptical, sullen public essentially is demanding "show me" or refusing to budge. Wealthy Saudis, too, are hedging bets. Some $300 billion has fled abroad in the past twelve months. That obviously is money not available to help develop the private sector so vital to creating jobs for Saudis who no longer can count on government. Moreover, the Kingdom's foreign currency reserves in May fell below $500 billion, the lowest level in four years,[11] as deficit spending has been funded in part by drawing down reserves which stood at $750 billion in 2014.

Despite reversing the unpopular salary and benefit cuts to government workers, the regime seems intent on continuing to press forward with its economic reform agenda. "Society is split," acknowledges Muhammad al Tuwaijri, deputy minister of economy and planning, in an interview this May. "A lot of people are undecided but we will win them through more transparency and success." [12]

Meanwhile, government seeks to mask unpleasant economic news with more social liberalization. While many Saudis scoff at the idea that social changes are meaningful, they are far more important than generally acknowledged. The reason: Saudis, long bound like mummies in the strictures of religious dogma and tribal tradition, aren't accustomed to thinking or acting independently. And those Saudis who do think independently, surely don't let it show in public because society ostracizes those out of step from the norm. Mohammed bin Salman clearly understands that to change the Kingdom's economy, he must change the mindset of its citizens. Baby steps are beginning to occur.

To foreigners, it may seem insignificant that more and more Saudi women these days, even in conservative Riyadh, are exchanging their flowing black

11 Saudi Chart Book Jadwa Investment, May 2017, page 1, shows March reserves at $508 billion; Saudi Chart Book Jadwa Investment, June 2017 page 1, shows another $8.4 billion decline in April. http://www.jadwa.com/en/researchsection/research/chart-books.

12 Author interview with Mohammed al Tuwaijri, May 7, 2017, Riyadh

American country singer Toby Keith, left, and Saudi legend Rabeh Saqer perform at the Green Halls auditorium in Riyadh on May 20, 2017. (*Arab News* photo by Hussam Al-Mayman)

abayas for colorful ones often tied at the waist to reveal the body's shape or unsecured in front exposing tight tee shirts and jeans. Saudi fashion expert Marriam Mossalli, founder of a luxury fashion consultancy, Niche Arabia, acknowledges that a lot of young Saudi women underneath their *abayas* "look like Kylie Jenner.… That whole sportswear, tights, crop top and heels," she explains. "It's a whole globalization." [13] Moreover, a growing number of women are baring their faces and letting headscarves fall back to reveal their hair. These aren't insignificant. They are acts of both courage and individuality in a society where until a year ago the so-called religious police could have arrested a young woman for such brazen display. After all, the very purpose of an *abaya* and veil in Wahhabi Islam is to obscure completely a woman lest her visibility arouse *"fitna"* or chaos, in a man's heart—a sin that would be her fault.

Restaurants that once had rolling wooden partitions ready to wall off women and families from single males, now increasingly resemble modern restaurants anywhere else in the world. Groups of barefaced young Saudi women dine in so-called "family sections" that are separate but often visible to single male diners. The young women laugh, talk, and snap selfies they are free to share with whomever they choose. Music, once forbidden,

13 "What's Trending Under the Abaya? A Saudi Fashion Expert Weighs In," Pret-a-Reporter, June 19, 2017; http://www.hollywoodreporter.com/news/whats-trending-under-abaya-a-saudi-fashion-expert-weighs-1014864.

wafts through most Saudi restaurants in the Kingdom's major cities. Asian-fusion, French and Italian cuisine are increasingly popular—and pricey. A woman dining solo is a common site as more and more women with jobs are self-sufficient enough to shun marriage. In sum, there is a palpably more relaxed mood in the Kingdom than even six months ago. One single professional Saudi woman describes relaxing with her brother at a university, listening to music among a gathering of relaxed Saudi men and women. "I felt I was in Dubai," she gushed. Dubai is the tiny tourist mecca next door with alcohol, movies, beaches and wonders like indoor snow skiing where many Saudis escape to relax.

Even very conservative Saudis seem to be loosening up—another sign social norms are changing. At a private family gathering I attended of the wife, mother and six sisters of a Saudi Imam of a decade's acquaintance, a score of young children celebrated around a birthday cake decorated with a likeness of Mickey Mouse. More shocking, the children's faces were painted to resemble cats. Both the birthday cake and the cat faces are strongly at odds with the teaching of this very Wahhabi Imam. Birthday celebrations are considered by traditional Wahhabis a forbidden imitation of Western infidel practices and portraying any human or animal likeness is seen as a sinful effort to usurp *Allah*, the creator of all things. "The people who will receive the severest punishment from *Allah* will be the image makers," warns one of the *hadith*, a collection of thousands of sayings, attributed to Prophet Mohammed. [14] Yet these young children were experiencing a very different message.

A far bigger change is the growing role of women in the Saudi economy. Within the past year, a female has been named chairwoman of the Saudi stock exchange. Another woman leads a major bank; while yet another serves on the board of the new General Entertainment Authority, created to bring once-forbidden entertainment to the Saudi public. (Conservative Saudis have labeled the GEA the General Evil Authority.) Most surprising, a woman has been appointed to lead women's sports, an activity

14 Fatwas of Ibn Baz Volume 4 Ruling on Images and statues Part No. 4; Page 224. http://www.alifta.net/Search/ResultDetails.aspx?languagename=en&lang=en&view=result&fatwaNum=&FatwaNumID=&ID=330&searchScope=14&SearchScopeLevels1=&SearchScopeLevels2=&highLight=1&SearchType=exact&SearchMoesar=false&bookID=&LeftVal=0&RightVal=0&simple=&SearchCriteria=allwords&PagePath=&siteSection=1&searchkeyword=1041171090971100321051090971031011 15#firstKeyWordFound.

previously forbidden by the religious authorities as "following in the devil's footsteps."[15]

Princess Reema bint Bandar, the new head of women's affairs at the General Authority of Sports, is seeking to make sports facilities quickly available to Saudi women at little or no extra cost by persuading universities to share their existing sports facilities after hours with both men and women, separately of course. Her major obstacle isn't the willingness of women to participate but rather the endless Saudi bureaucracy that requires each sport's facility to register with myriad government entities including the ministries of interior, labor and trade as well as governors of their local province before such activities can take place. All that is taking time. Still, she observes to me in May, "The aperture of comfort by women has widened in recent years. Women are willing to do many more things. My focus isn't on what's new or first but just getting people to accept all this as normal."[16]

Of all the goals laid out in Vision 2030, meeting the target of growing the percent of females who work to 30% from 22% by 2030 [17]is almost surely one of the easiest—and yet one of the most significant. Women constitute 60% of university graduates. Both men and women agree that women are not only better educated but also more motivated and productive employees than their male counterparts. Beyond a boon to Saudi productivity, the larger role of women in the economy seems likely also to have significant social impact. Already, working Saudi women are less inclined to marry or to do so at a later age than more traditional women. Because of the discrimination they have faced, they also say they are more nurturing with young employees.

All these social changes are just beginning to plant the seeds for a more tolerant society. Fathers, familiar with rude treatment endured by their daughters, are becoming more cooperative with young female employees. "When I started as a research analyst in the financial world sixteen years

15 Underground Sport: Saudi women shed veils to play basketball," Associated Press, May 8, 2008; https://usatoday30.usatoday.com/news/world/2008-05-08-saudi-sports_n.htm.

16 Author interview with Princess Reema bint Bandar, May 2, 2017, Riyadh

17 Vision 2030, "Placing the Kingdom on a Prosperous Path," p. 3; Jadwa Investment, May 2016. http://www.jadwa.com/en/download/saudi-vision-2030/gdp-report-16-6-2-1-3-3-2-1-1.

ago men would hang up on me when I called with questions about their company," recalls Sarah Al Suhaimi, chairwoman of Tadawul, the Saudi stock exchange. Today, she says, young female hires generally are welcomed by the companies they study. "Fathers in these companies are proud to meet with women like their daughters."[18]

The general counsel of a leading financial institution describes her own father's changing attitudes. A few years ago, when she was invited to do a television interview, her father agreed but with trepidation at the prospect of his daughter appearing unveiled so publicly inviting criticism. This year when she was invited to be among a group of accomplished Saudi women meeting with a high level female political leader, her father again asked if she would be seen on television. "He wanted to be sure not to miss me," she says.

While it is easy for Saudis—and surely Americans—to diminish social changes in Saudi Arabia, both groups have only to look at how much American attitudes have changed on tolerance of differences—whether religious, racial, gender, or sexual preferences—since women began to enter the U.S. workforce in large numbers in the 1970's. It is increased moderation and tolerance that the deputy crown prince seeks in his countrymen to make way for a more modern, competitive economy that can utilize the talents of all citizens as well as make foreign investors and talent comfortable in the Kingdom.

Prince Mohammed is presenting change for women as an economic necessity, not a feminist luxury. This approach makes it harder for the religious conservatives to object and mobilize public opposition. He similarly is seeking to reshape young Saudis to take risks and be the foot soldiers in his revolution.

Almost monthly, the prince's personal foundation, MISK, funds and orchestrates large gatherings of young Saudis—male and females mixed—from all across the Kingdom usually also blended with a minority of other Arabs, Americans, Asians and Europeans. While these gatherings ostensibly are focused on topics like entrepreneurship, UNESCO or the impact

18 Author interview with Sarah Al Suhaimi, May 7,2017, Riyadh

of social media (recently featuring Ivanka Trump as a speaker) essentially they are designed to help young Saudis connect across regional, tribal and gender isolation that long have kept most Saudis suspicious of one another rather than cooperative. Indeed, some believe the prince is seeking to create a collective patriotic fervor among the young that can replace—or at least complement—the role Islam traditionally has played in holding Saudi society together under the Al Saud. MBS is seeking to reduce the influence of conservative Islam in the Kingdom by among other things limiting the role of the so-called religious police and promoting more moderate Islamic scholars to the Council of Senior *Ulema*.

Encouraging youth to engage each other and to take risks is essential to change a society where few individuals dare take a risk: stepping outside societal consensus exposes one to criticism from family and the risk of shame. In a shame-honor culture like Saudi Arabia, "honorable behavior is that which strengthens the group…while shameful is that which tends to disrupt, endanger," the group, wrote David Pryce Jones in his book explaining Arab societies.[19] Interestingly, MBS seems determined to break that code not only with his foundation's work but by his personal example. Despite criticism from his royal relatives, religious conservatives and ordinary Saudis, he unapologetically charges forward with his plans to revamp both society and the Saudi economy.

Undeniably Saudi Arabia has far to go to attain the moderation the Crown Prince proclaimed. But, as seventh-century Chinese philosopher Laozi famously said, "A journey of a thousand miles begins with a single step." Saudi Arabia is clearly on the long road of its journey of transformation.

19 David Pryce Jones, *The Closed Circle: An Interpretation of the Arabs*, p. 36.

Economic Reform is Lagging

If social change is accelerating, the government's ambitious goal of privatizing the Saudi economy is proving much harder. Throughout government ministries, officials are steeped in the new jargon acquired from reliance on consultants—"a number of enablers that will ensure a smoother workflow". Activity abounds: workshops on increasing local content, on creating a more welcoming work environment for women, and on how to allocate 200 billion Saudi riyals, or some $53 billion, earmarked for private sector development just to name a few.

Still, the economy is stalled. As noted earlier, economic growth is forecast at .1 percent in 2017; non-oil private sector growth is expected to accelerate from .1 percent, the lowest since 1990, to an anemic 1% this year. [20] While the Kingdom did reduce its budget deficit in the first quarter of 2017—a step toward achieving its goal of a balanced budget by 2020—most of that reduction came because of higher oil prices, not spending cuts or growth in non-oil revenues. Indeed, non-oil revenue grew only 1.3% or $8.5 billion and spending fell a tepid 2.5%. Both statistics underscore that despite ambitious talk of reform, government actually is proceeding cautiously. More revealing is the continued huge role oil revenues play in the Saudi budget: The bulk of the $38.4 billion increase in Q1 revenue this year came from oil as higher prices produced $29.8 billion additional revenue, more than double oil revenues a year earlier.[21]

To successfully privatize the economy obviously requires the engagement and support of Saudi businessmen who remain passive and skeptical—almost as skeptical as the society at large. "What we have done so far is positive," says one senior businessman, "but it isn't hugely significant." Real change, he says, would require government to "cut corruption by mowing down fences around public property seized by princes" and reforming education which continues to propagate Wahhabi hatred of Jews, Christians

20 "The Saudi Economy in 2017," Jadwa Investment, February 2017. www.jadwa.com/en/download/saudi-economy-2017/research-13-1-1-1-1.

21 Bloomberg, May 11, 2017; "Saudi Quarterly Budget Deficit Narrows With Oil Income Surge" https://www.bloomberg.com/news/articles/2017-05-11/saudi-reports-quarterly-budget-deficit-of-26-2-billion-riyals.

and Shia Muslims. "We are still educating Saudis for the next life, not this one."

Abdulrahman Zamil, a former head of the Riyadh Chamber of Commerce and dean of Saudi businessmen, divides the business community into three groups—pessimists, realists and optimists. Pessimists, he says, include those accustomed to getting rich off real estate deals or agent commissions who now see that easy money threatened by reform. Realists are bankers and industrialists waiting to see if government sticks with announced reform plans. Mr. Zamil says he is an unabashed optimist. "Since 1975 the goal has been to diversify the economy but with high oil revenues government always said, 'Oh let the people be happy.' But this government is serious."

"The biggest advantages of the vision 2030 are restructuring and diversifying the economy through effective public-private partnership programs," says Mohammed Abunayyan, Chairman of Abunayyan Holding and ACWA Power International, a giant in power generation and water desalination. "We have a dynamic private sector. The key is how to enhance their engagement and reap the full potential."

His answer: Stop talking and act. And do not focus on ARAMCO, the national oil giant, but on other sectors of the economy as well. Indeed, the government is promising to privatize a desalination plant, at least one power plant and a sports club within the year and by 2020 to have government assets fully privatized. "We need a roadmap. What? When? How?" says Mr. Abunayyan. "Transforming a company takes years, " he adds. "Restructuring government is a herculean task but not insurmountable."

In the meantime, the government's goal is to capture and keep as much government spending as possible at home in the domestic economy by requiring all companies that receive government contracts to buy local content. Local content is defined as the "total spending of the Kingdom that benefits the national economy through participation of Saudi labor, goods, services, assets and technology."[22]

22 Interview with Fahad Al Sukait, President Local Content and Private Sector Development Unit, May 8, 2017, Riyadh.

The biggest opportunities for this are obviously the areas where Saudis or their government spent large amounts of money on imports. Weapons spending leads with an estimated $70 billion a year spent on arms purchased overwhelmingly from the U.S., but also from Britain, France, Germany and Russia. Similarly, the Kingdom spends $30 billion a year on autos, and another $20 billion a year on travel and entertainment abroad. Almost everything Saudi Arabia consumes other than oil and gas is imported. But creating the businesses and industries to capture that spending at home will take considerable time. Riyadh is requiring weapons manufacturers to begin plans to make spare parts, armored vehicles and basic ammunition in the Kingdom. In the short run, however, while this may create work for some Saudis, the costs of these items likely will be higher than production abroad. Expanding to create higher value more sophisticated equipment such as aircraft is far off. Similarly, with no auto industry, launching joint ventures between international auto makers and local Saudis will be an expensive process to create local content in basic items like auto parts.

Saudi Arabia's Labor Force Demographics

Labor force (shown, right)

Saudis:	7,537,694
Non-Saudis:	8,834,330
Total:	16,372,064

Total population

Saudis:	20,427,357
Non-Saudis:	12,185,284
Total:	32,612,641

Sources: Population Mid-Year 2017, Saudi General Authority for Statistics
Employment as Percent of Population Q3 2016, Saudi General Authority for Statistics

Creating a travel and entertainment industry that could capture Saudi spending on tourism and leisure activities won't be easy but may prove easier than some other areas the government has identified. At least the Kingdom already attracts 1.5 million worldwide visitors to the annual weeklong *Hajj* and another eight million for *Umrah*, a non-mandatory pilgrimage to Mecca, Muslims may perform anytime during the year. Creating high quality tourism and entertainment options in the Kingdom could not only retain a larger share of Saudis' $20 billion annual spending but also capture money from these Muslim visitors.

What is clear is that any and all of these promised changes will require time and investment to truly impact the Saudi economy. Meanwhile businessmen tired of declining profits and citizens angry about reduced incomes are restless. The government has stepped up consultation with the business sector and communication with the public. Fahad Al Sukhait, who runs the government's newly created Local Content and Private Sector Development Unit, says he has met with more than 300 business executives to seek ideas on how most effectively to spend the $53 billion government has earmarked to incentivize and stimulate private sector participation. "Business people were angry, even panicked," he says, because they saw demand declining when government froze large contracts for much of 2016 and consumer spending freeze up when government workers' salaries and benefits were cut. "Some remain skeptical but they are engaged now," he says. While he has held scores of meetings with groups of businessmen, he also did something unusual for a Saudi government official: he went to meet major Saudi business titans rather than waiting for them to seek him.

The Crown Prince Mohammed bin Salman, too, has begun to confront skepticism with communication. He recently sat for a long nationally televised interview to explain Vision 2030, his first since unveiling the plan a year earlier. While the interviewer was friendly, the crown prince, to his credit, didn't try to sugar coat the pain involved in reform. While explaining the government's decision to restore the slashed salaries and benefits of workers (a larger than expected decline in the budget deficit) he said clearly that if needed in the future to plug budget gaps, such cuts would be quickly re-imposed. "There is no doubt that if we go through a critical stage again, we will turn to the austerity measures." He also gave Saudis the unhappy news that government programs to build more housing almost surely would be delayed at least to the end of 2017. Housing is a sensitive topic in the Kingdom as a majority of Saudis cannot afford a home. Even the data on home ownership is disputed with a private investment bank putting the number at 30% while Vision 2030 claims 47% of Saudis own homes. [23] Regardless, MBS has promised by 2020 to raise the number by 5%. [24]

23 "Only 30% Citizens own house in KSA," Arab News, December 23, 2015. http://www.arabnews.com/saud ai-arabia/news/854636.

24 "Caring for our Families," Section 1.3.1, Full Text of Saudi Arabia's Vision 2030, Al Arabiya. https://english.alarabiya.net/en/perspective/features/2016/04/26/Full-text-of-Saudi-Arabia-s-Vision-2030.html.

Such candor in delivering negative news to the public is something new for Saudi rulers. As important, it is also reflected in a growing number of government officials who also will acknowledge that the courage to stick with the reform plan is perhaps the Kingdom's biggest challenge. While this may seem glaringly obvious, a willingness to acknowledge that simple fact seems at least mildly reassuring. Asked what is needed to succeed, Mr. al Tuwaijri, the deputy minister of economy and planning, responded, "Political will, which the prince provides; money, which we have; and human capacity, which we can hire." Reform is aided, he added by a young population which can be convinced of the necessity for change and continued low oil prices "which gives us a lot of ammunition to show why change is needed."

To enhance prospects for socioeconomic stability as government continues to reduce subsidies to citizens to achieve a balanced budget by 2020, the regime is creating a Unified Citizens Account Program to protect the most vulnerable low and middle-income households from the impacts of market prices for energy, water and electricity. Already some 12 million of the Kingdom's 20 million citizens have registered for these accounts. The crown prince said on television that perhaps as many as 10 million citizens will qualify for monthly payments intended to cover the higher costs of energy, water and electricity. The impact of market prices thus would be felt only by well-off Saudis and foreigners. Indeed, the government hopes that by providing a set monthly payment to low income households, citizens will be encouraged to reduce energy consumption in order to have money left over for other household expenses. The less energy Saudis use, the more there is for government to export even if it no longer commands the high prices it once did.

There are signs that austerity is breeding small examples of individual initiative that will be essential if Saudis are to become self-reliant as the crown prince hopes. One Saudi family confronted with higher water bills, initiated an extreme solution: drilling for water in the family's front yard. Despite shelling out $10,000 to drillers, no water was found. Another Saudi father explained with pride having trimmed his water bill from 300 Saudi riyals to 30—roughly $26 to $8. A small act of individual responsibility.

Aramco: The Privatization of the Century?

All these myriad details of economic reform in many ways are dwarfed by the Kingdom's plan to sell 5% of Saudi Aramco, the national oil company. Aramco is the golden goose that has funded the Kingdom since Americans discovered oil there in 1933 and created California Arabian Standard Oil Company. In 1944 to better reflect the ownership, CASOC was renamed Arabian American Oil Company or Aramco. Since Saudi Arabia bought out American interests in 1980, the company has been known as Saudi Aramco.

With the price of oil down sharply in recent years and a worldwide combination of conservation and technological breakthroughs in oil recovery creating the possibility of a prolonged imbalance in demand and supply, the deputy crown prince seeks to monetize the value of Aramco now and invest the proceeds to produce a new and lush stream of revenue to fund Saudi Arabia's future. By floating only 5% of the company, which he insists will fetch $100 billion from investors, he hopes to establish a $2 trillion value for Aramco. Proceeds of this IPO would go into a Public Investment Fund, or PIF, which would serve as a Sovereign Wealth Fund for the Kingdom. Proceeds from PIF would be invested both at home to develop new industries and abroad in high yielding assets with the hope of emulating the investing success of much older sovereign funds in countries like the United Arab Emirates or Norway. Details of precisely who would manage this fund and how it would be invested have yet to be disclosed.

Despite the crown prince's enthusiasm for marketing Aramco, obstacles abound that raise questions whether this can be, as promised, accomplished in 2018. Failure to do so—or a failure to achieve the $100 billon valuation for 5%—would be a big blow to Vision 2030 and personally to Mohammed bin Salman, who has made it the centerpiece of plans to privatize the economy and create a new source of wealth for Saudi citizens. Continuing low oil prices obviously makes more difficult securing a high valuation for Aramco.

One important set of opponents is the Saudi royal family who long have lived lavishly on the nation's oil wealth. The King is said to receive a 20% royalty from oil sales which he parcels out to key members of the sprawling thousands of Al Saud princes. A tax imposed on the remaining revenue goes to the Finance Ministry to fund government and its largesse to Saudi citizens. Aramco from its inception has been a sacred possession to the Al Saud. "We know Aramco better than others do," the late King Abdulaziz al Saud told a visiting writer for The American Magazine in 1947. "I shall protect it as if it were my most valuable subject." [25]

That Abdulaziz's grandson seeks to sell even part of that precious asset literally horrifies not only many in the royal family but also the Saudi public. Saudis regard Aramco, which manages the Kingdom's oil, as the nation's patrimony. Not surprisingly, many of them fear that the sale of shares in Saudi Aramco to investors worldwide will transfer their national patrimony into the private hands of a few wealthy princes and foreigners, leaving the Saudi people with nothing but the sands of Arabia. Prince Mohammed bin Salman has dismissed such criticism as "close to the socialist, communist approach where everything is owned by the state." [26] Selling 5% of Aramco, he told a national television audience, will allow the government to develop more quickly other sectors of the economy such as mining or logistics that will create jobs for citizens and revenues for government. "And all this will happen while Aramco is still in Saudi Arabia," he said.[27]

Beyond these political challenges, listing a stake of Saudi Aramco also involves technical and legal challenges. Before any valuation can be established, the Kingdom has to be able independently to certify the level of Aramco's oil reserves and production and the way that production will be taxed. Without this, investors can't judge the value of what they are being offered.

Energy Minister Khalid Falih has promised to provide before 2018 independent confirmation of the Kingdom's claim that reserves total 260 billion barrels. To make Aramco more appealing to investors, the government

25 "Our Partner in Oil," American Magazine, October 1947, the Crowell-Collier Pub. Co., New York, New York; condensed in Readers Digest, December 1947 by Gordon Gaskill, page 11.

26 Al Arabiya English, "Watch and Read: Mohammed bin Salman's full interview," May 3, 2017; p. 7. https://english.alarabiya.net/en/features/2017/05/03/Read-the-full-transcript-of-Mohammed-Bin-Salman-s-interview.html.

27 ibid p. 8

already has announced it will cut the tax rate on Aramco to 50% from 85%.[28] A lower tax rate obviously leaves more money in Aramco for investment or dividends to shareholders and thus makes its shares more attractive. Since government will remain a 95% shareholder of Aramco, it will receive 95% of dividends. To the Saudi government, whether its revenue comes from dividends or taxes is immaterial.

Where to list Aramco, the largest IPO ever, also is complex. While Riyadh has made clear it will be listed on the Saudi exchange, that market is far too small to absorb what is hoped to be a $100 billion offering. To lure investors capable of purchasing that large an IPO will require a deep market like New York or London. Yet lawyers for the Kingdom have warned that the New York exchange is risky because the U.S. is litigious. Deep concerns already exist in the Kingdom about a law Congress passed in 2016 allowing relatives of those who died in the World Trade Center attack on September 11, 2001, to sue Saudi Arabia, home for 15 of 19 hijackers. Whether Donald Trump could persuade Congress to overturn or limit this law is an open question. Beyond that, Aramco could face class-action litigation should it be seen not to comply with strict rules from U.S. regulators for transparency on reserves and data disclosure. Moreover, U.S. shareholder lobby groups are another threat.

All this focus on obstacles to a New York listing has put the spotlight on London. A "premium" listing on the London Stock Exchange, however, requires by its rules a float of 25% of a company's shares. Obviously, Saudi Arabia wants nothing less than a "premium" even though it wants to sell only 5% of its crown jewel; The United Kingdom Investment Association is insisting on no bending of the rules. One big concern of the London Stock Exchange: a listing there would put the Saudi oil company into the FTSE 100 index, making an arm of the Saudi state automatically a holding for millions of pension funds. To ease that concern, Saudi Arabia has stated it will not seek inclusion in the FTSE.[29]

Regardless of the obstacles at home or on foreign exchanges, the Deputy Crown Prince seems absolutely determined to sell a 5% share of Saudi

28 "Saudi Arabia Drops Tax Rates for Oil Firms Ahead of Aramco IPO," Wall Street Journal, March 2, 2017; https://www.wsj.com/articles/saudi-arabia-drops-tax-rates-for-oil-firms-ahead-of-aramco-ipo-1490623271.

29 Financial Times, "Boost for London bid to Land Saudi Aramco IPO," June 8, 2017; https://www.ft.com/content/c3300f5c-4c16-11e7-919a-1e14ce4af89b.

Aramco in 2018. He isn't likely to be deterred even if, as increasingly speculated by market experts, the offering values Aramco at $1 trillion, only half the $2 trillion he has touted as its value. "He will find a way to spin it," says a disgruntled Saudi.

Nasty Neighborhood, but the U.S. is Back

If transforming Saudi Arabia is a herculean task, taming its nasty neighborhood is even more challenging—and far less amenable to regime control. Over the past year tensions in the region have only deepened with Syria, Yemen and especially Iran, which the Kingdom sees as a threat to its very existence.

Two things have changed, however, and they are interrelated. First, the U.S which tilted toward Iran under Barack Obama—with the former president urging Saudi Arabia to "learn to share neighborhood with Iran"—these days is boldly backing Saudi Arabia's bid for leadership of the Islamic world and hegemon of the Gulf. To the administration of President Trump as to the Saudis, Iran is an enemy.

Second, Mohammed bin Salman has become markedly more assertive against Iran—and seems certain to notch that up now that he is crown

President Donald Trump shakes hands with Saudi Deputy Crown Prince and Defense Minister Mohammed bin Salman during a bilateral meeting, Saturday, May 20, 2017, in Riyadh. (AP Photo/Evan Vucci)

prince and Donald Trump's ally. The assemblage of 50 Islamic leaders during President Trump's May visit to Riyadh wasn't just about combatting terrorism, but also about confronting Iran. Prior to President Trump's arrival, the crown prince provocatively (and accurately) accused Iran of targeting the Saudi regime. "We will not wait until the battle is in Saudi Arabia but will work so the battle is there in Iran…" he said. Iran immediately warned against such "stupidity" and threatened that if Saudi Arabia acts, nothing will be "left in Saudi Arabia except Mecca and Medina," the two holy cities of Islam.

Then, within days of the Trump visit, Saudi Arabia organized Egypt and several Gulf countries in a diplomatic and economic boycott of the neighboring statelet of Qatar citing its cozy relations with Iran and its support of regional terrorist groups including Hezbollah, Hamas and the Muslim Brotherhood. Qatar has stood firm against accepting any of the 13 maximalist demands belatedly issued By Saudi Arabia, Egypt and their gulf allies raising the risk of an embarrassing back down by the Saudi Crown Prince and his allies or a rupture in the Gulf Cooperation Council if Qatar chooses to exist rather than compromise. So far Iran has backed Qatar not only rhetorically but by airlifting food to the blockaded nation and by allowing Qatar's airline, blocked from overflying Saudi, to use Iranian airspace to stay in service. All this has further raised the temperature of the Saudi-Iranian dispute. Additionally, the June terrorist attacks on the Iranian parliament and the tomb of Ayatollah Khomeini have been blamed by Iran on the Saudis. Whether this is true or not, it indicates that Iran increasingly is viewing the Saudis as an assertive rather than supine presence in the region. Indeed, just as the Iranians support anti-al Saud actors across the Mideast, the Saudis are beginning to try to encourage potential opposition to the Iranian regime from tribal groups in Iran's Khuzestan region which borders Iraq and also from those along the Iran-Pakistan border. Whether the Saudis can succeed at this remains to be seen, but it is at least an effort to go on offense by playing tit for tat.

President Trump has tweeted his support for the Saudi-led confrontation with Qatar and his voice matters most. Others in his administration, however, prefer to deescalate the confrontation to protect the continuity of America's airbase there which is critical for air operations against terrorists

throughout the region. From the Saudi perspective, if that airbase needs to be moved, the government has assured the U.S. President the base would find a welcome home in Saudi Arabia where it was located until 2003. The relocation of that base back to Saudi would be the most visible possible signal of the strengthening U.S.-Saudi relationship.

It appears that the Saudis have been emboldened by Trump Administration support while that U.S. support may reflect, at least in part, a growing sense in Washington that the Saudis are willing to stand up for themselves and stand against Iran. It is chicken and egg, but it does represent a significant shift in appearances in the region. Is this a change in rhetoric only or in U.S. strategy toward the Mideast? It remains to be seen if the U.S. is actually changing the Obama administration's strategy of arming Gulf nations to take care of their own security rather than expect the U.S. to engage adversaries on their behalf. So far, Trump has offered only supportive rhetoric and more arms. The last time the U.S. sought to build up a regional hegemon to reduce its own role in the Mideast, it chose the Shah's Iran. Huge weapons purchases coupled with declining oil prices bankrupted Iran and led to the Islamic revolution and Iran's current anti-American theocracy. Is this possibly *deja vu*?

Appearances are one thing. Realities on the ground are another. The reality is that nothing yet has changed for the better in Yemen, where the Saudis remain bogged down in what can best be described as a costly and stalemated conflict with the Iranian-backed Houthi rebels. That war, now nearly two years old, is increasingly unpopular in Saudi Arabia and is taking a toll on the reputation of the deputy crown prince and defense minister who has been unable to win it. "Time is on our side," he insisted in an April national television interview. But the large financial cost (estimated at $200 million a day) and the deaths of Saudis along its border with Yemen from attacks by missiles said to be supplied by Iran, are straining Saudi patience. Mohammed bin Salman seeks increased U.S. help—not just intelligence sharing and logistics but more special forces on the ground—to win the conflict. So far, the Trump Administration has hesitated even though it has agreed to resume selling the Kingdom precision guided munitions curtailed by President Obama after a number of strikes—accidently according to the Saudis—killed Yemeni civilians. Comparisons to America's negotiated withdrawal from

Vietnam aren't apt. As one Saudi analyst notes, "Yemen is not our Vietnam. Vietnam was far from you. Yemen is our neighbor. We do not have the option of leaving without victory."

Similarly, nothing positive has changed in the charnel house of neighboring Syria where ISIS continues to wreak havoc while Bashar Assad seems to be solidifying his supremacy in at least part of that ravaged nation. President Trump's one-day air offensive against a single Syrian air base from which chemical weapons had been launched was popular in both the U.S. and Saudi, but changed nothing on the ground. In Syria, the U.S. and Saudi aren't entirely on the same page. For the Americans, the primary villain is ISIS because, as a terrorist group with international tentacles, it can launch attacks in the U.S. and Europe. To the Trump Administration, Assad is an evil tyrant but not one who threatens the U.S. The view from Riyadh is rather different. Yes, ISIS has openly proclaimed its intent to one day topple the Al-Saud and reclaim Islam's holy cities of Mecca and Medina. But it is Assad who serves as Iran's ally and it is Iran and its proxies such as Assad who are the primary threat to Saudi Arabia.

Meantime, nothing has changed for the better in neighboring Iraq either where despite some military successes against ISIS, the Iraqi regime continues its inexorable slide into the Iranian orbit. The Saudis have reopened diplomatic relations with Iraq in an attempt to reestablish some influence there. But to largely Shia Iraq, Iran and its ayatollahs are the 500-pound gorilla next door.

Altogether then, the new Saudi assertiveness is visible and that in itself is somewhat significant. However, it hasn't translated yet into any new realities on the ground. As always, Mohammed bin Salman seems to believe that the best defense is relentless offense. This is true of his ambitious domestic reform agenda and it is similarly true of his aggressively anti-Iran foreign policy. While the results of that policy remain to be seen, it is of some domestic benefit to the prince. The more that Saudi citizens focus on the threatening regime in Tehran, the less likely they are to actively oppose belt tightening at home. The more they can take some pride in an assertive Saudi foreign policy, the less they may complain about lagging results on the home front.

In short, difficult realities notwithstanding, the dynamics of the region have changed significantly over the past year. Only a year ago, the Saudis were in a defensive crouch, lacking any sign of U.S. support while watching Iran, emboldened by a nuclear deal with Washington and enriched by the payoff of $150 billion in unfrozen assets, make further mischief in the region. Today, the Saudis are out of that crouch, standing upright with the U.S. behind them and are at least shadow boxing with their Iranian nemesis and its proxies. It is a very different posture, and in a region where appearances matter more than anywhere else, it is a significant change.

Of course, there is a risk that the escalating Saudi-Iran hostilities could spill into a military confrontation with implications for oil shipments and global economic stability. If Iran's Revolutionary Guards conclude, as their leader asserts, that Riyadh is behind the attacks inside Iran, it isn't difficult to imagine a retaliatory attack inside the Kingdom to punish Riyadh.[30] A military clash between these two has the potential to drag the U.S. into hostilities that likely would be unpopular among Americans. This could be reason enough for Iran to seek to disrupt the new U.S.-Saudi harmony and once again put the Kingdom in a more vulnerable position. Undeniably, the Saudi government is so thrilled with Donald Trump's visit, it will be hard for him not to disappoint as his presidency continues and Congress gets more involved in second guessing U.S. policy there.

30 "Rising Tensions: Iran Again Links Saudis to Terror Attack in Tehran," New York Times, Thomas Erdbrink, June 13, 2017; https://mobile.nytimes.com/2017/06/13/world/middleeast/iran-saudi-arabia-terrorism.html?_r=0&referer=.

Royals Resigned

If much of the Saudi economic transformation is making only halting progress and if Saudi confrontation with Iran is at best stalemated, fractious relations within royal family have been smoothed over—at least for the present. Power is being passed to a whole passel of young princes in what amounts to the greatest generational power shift in modern Saudi history.

King Salman's recent decision to fire Crown Prince Muhammed bin Nayef, 57, and replace him with Muhammad bin Salman was anticipated, though the timing was earlier than many Saudis expected. The move eases two years of tension between the two princes. In formal settings, such as the visit of President Trump to the Kingdom, the Crown Prince obviously had outranked the deputy. But when it came to wielding power and influence within and beyond the Kingdom, it is MBS who was—and is—totally in charge and who had gradually sliced his cousin's portfolio to internal security only.

While Saudi citizens do not get a vote on their future King, those who favored reform and those who opposed it both had speculated that should King Salman die suddenly, Mohammed bin Nayef as the next King would fire his younger cousin, ending his rule and with it Vision 2030 reforms. That uncertainty is now gone. He and his reform agenda are here to stay. Thus, unlike elderly kings of recent decades, MBS isn't likely to kick economic reforms down the road hoping oil prices will recover. His long runway in power means the problem will still be *his*.

As always in this century of Al Saud rule, power has passed peacefully—at least on the surface, though royal family tension is said to remain high. Once the King made up his mind to depose the Crown Prince, the 34 princes of the Allegiance Council representing the direct male descendants of King Abdulaziz were polled one by one on the phone. Only three opposed: granting the monarch his wish is Saudi royal family tradition. So Mohammed bin Nayef, like Mugrin bin Abdulaziz before him, bowed from power with the acquiescence of most of his relatives. A resistant Crown Prince, in Mecca for Ramadan, the month of fasting, was held incommunicado all night while the polling of the Allegiance Council took place.

At dawn he agreed to resign and emerged to congratulate his younger cousin.[31] "I shall rest now, and may god be with you and guide you." MBS was shown kneeling before his deposed cousin and is said to have replied, "Your advice shall remain indispensable."[32] Mohammed bin Nayef has been confined to his palace since that night.

What brought this long simmering issue to resolution now? Mohammed bin Nayef has been said for years to fall asleep in meetings and was often absent from the Kingdom for extended periods. Some said he suffered from wounds received in 2009 when he met with what he thought was a reformed terrorist who sought to kill the prince by exploding himself as they sat together. Others said he had narcolepsy, which made him uncontrollably fall asleep at all hours. Whatever his health issues, the family agreement to remove him now likely was driven by other issues entirely.

Most important, the Kingdom faces a host of external threats—Iran, war in Yemen and a dispute with Qatar that require assertive action best taken with at least the appearance of unity within the ruling family. The King seems to have persuaded his relatives that in the aftermath of Donald Trump's strong embrace of Saudi Arabia in May, now is the time to present a united royal front in tackling these issues.

To secure support from royal opponents of his son, the King promised that no future king and crown prince will be from the same branch of the family. This eased royal family fears that King Salman in elevating his son to crown prince was seeking to establish his own lineal monarchy and disenfranchise all the other sons and grandsons of the founder. That fear, coupled with royal opposition to MBS' youth and brashness, had up until June blocked the King from elevating his son despite his clear desire to do so.

Now that he has won backing to make his son crown prince, it isn't clear if that promise will hold. As of July no one had been named to fill the position of deputy crown prince. Obviously even if the king keeps his word and names a prince from another branch to that role, once MBS is King,

31 New York Times, June 28, 2017; https://www.nytimes.com/2017/06/28/world/middleeast/deposed-saudi-prince-mohammed-bin-nayef.html

32 Al Jazerra, June 21, 2017; http://www.aljazeera.com/indepth/features/2017/06/saudi-arabia-mohammed-bin-nayef-170621122951195.html.

he could try to vacate his father's promise by removing that prince and naming his own son as his crown prince. MBS eldest son is said to be only seven years old.

There are a variety of views in the royal family about MBS. Some grudgingly see the substance of his reforms as necessary but are offended by his youth, brashness, and rashness. Others are unhappy with both his proposed reforms and his style. That didn't mean, however, that critics of MBS automatically were supporters of his older cousin, who has his own detractors and who was filling a role that at least several other senior princes felt should be theirs. Almost all royals who will talk agree on one thing: As Crown Prince and Minister of Interior, Mohammed bin Nayef did an outstanding job for more than a decade keeping Saudi Arabia largely safe from terrorist attacks. Some royals—and many Saudi citizens—fear that stripping him of his role may endanger domestic security, leading to a return of the terrorist attacks Saudi Arabia suffered in 2003-2006.

The new Interior Minister is a 34-year old nephew of the outgoing minister of interior. Abdulaziz bin Saud bin Nayef bin Abdulaziz, will follow in the footsteps of his uncle and his grandfather in handling the internal security portfolio. His lack of experience is comparable to nine other young royals who recently were named deputy governors, all princely young contemporaries of MBS, and each representing an important branch of the royal family. These young princes each are placed in one of the Kingdom's 13 provinces where they are being groomed for larger leadership roles in the very near future. Meanwhile, in family councils, it seems this move may have helped win the gratitude of their fathers to the King for giving their sons this opportunity. At a minimum all these young princes in their 30's make young MBS look like the leader of a new generation of young Al Saud princes, not a generational oddity.

All of these recent changes do not mean the royal family is united behind MBS; only that they have acquiesced to the wishes of their all-powerful king out of respect. Any number of senior princes who expected to play major roles in ruling Saudi Arabia over the next decades now are essentially powerless. Some Saudis now believe MBS, realizing his opponents could seek to reverse this once his father dies, will persuade King Salman

to step aside in the near future to assure his son becomes king. As for Saudi citizens, they deplore uncertainty so clarity is a positive for them regardless their views on MBS. Asked the hypothetical question which prince would win were Saudis allowed to vote, most citizens 40 years old or above claimed victory for Mohammed bin Nayef; younger Saudis tended to project the youthful MBS as the winner. Now he is. It is he who must literally remake Saudi Arabia's society and economy even as he fends off external enemies. The whole world has a stake in his success.

King Salman, right, and Defense Minister and Deputy Crown Prince Mohammed bin Salman wave as they leave the hall after talks with the British prime minister in Riyadh, April 5, 2017. (Saudi Press Agency)

Conclusion

The Kingdom of Saudi Arabia clearly confronts unprecedented problems at home and abroad. While confrontations with Iran, Yemen, Iraq and Syria all help buy government some greater public patience for the painful adjustments beginning to be imposed to reform the national economy, that patience is likely to have limits. Nor will more entertainment options mask discontent from the 60% of Saudis who can't afford a home or the 70% who live below the government's definition of self-sufficiency of $2000 a month, and surely won't appease the estimated 40% of young Saudis who are jobless. Hanging over the nation is the uncertainty of reforms, albeit less than before MBS was named crown prince, and an untested new generation of leaders. But after eight years of tilting toward Iran, the U.S. once again is firmly behind Saudi Arabia. Whether Riyadh will use this renewed friendship to try to settle scores with Iran or see an opportunity to reduce tensions abroad to allow more and faster progress on its reform agenda is unclear. As serious as the Iranian threat is to the Middle East, Saudi Arabia should give priority to its domestic problems as the best way to safeguard the home front from the instability Iran has spread to Saudi neighbors. The U.S. would do well to use its considerable influence to keep Saudi Arabia focused on essential economic and social reform and to help the Kingdom achieve those reforms. Nothing else has a better chance of moderating extremist Islam in Saudi Arabia, advancing Saudi human rights and stabilizing this most strategic of Arab nations.

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