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The Source of Saudi Influence

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At the dawn of an era of multi-sourced global energy supplies, amidst simmering domestic grievances and cleavages in regional politics, Saudi Arabia stands firm. Buoyant oil revenues have allowed her to shun troublesome developments at home and play an integral role in the Middle East. However, the re-orientation of Saudi Arabia's development model currently seems insurmountable.

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Saudi Arabia has achieved something that other regional players have not; to contain the tide of revolt despite sharing many of the social and economic problems of Egypt, Yemen, and Libya. In fact, she has managed to appease the indignation domestically and suppress revolutionary movements in her close periphery. The monarchical system has remained intact so far in the entire Middle East and North African region and the Saudi kingdom has struggled to buy influence in order to ensure its survival amidst a crucial period of regional reshuffling. The means to achieve that has been its primary source of influence, the oil.

At first glance, the economic profile of the Saudi kingdom and its macroeconomic indicators are encouraging. According to the International Monetary Fund (IMF), Saudi Arabia has been one of the best performing economies of the G-20 with the overall Gross Domestic Product (GDP) growth expected to reach 4.4 percent in 2013.¹ Her twin surpluses, the fiscal and the current account, are expected to remain substantial despite lower oil production and prices. The Saudi Ministry of Finance projects a fiscal surplus of \$2.4 billion² in 2013, and according to the 48th Annual Report of the Saudi Arabia Monetary Agency (SAMA), its current account is predicted to record a surplus of 26.3 percent of total GDP -for the fourteenth consecutive year-³. The Saudi economy remains strong, occupying the second position in the region after Qatar in the World Competitiveness Index.⁴ In comparison to the Levantine and North African countries the financial situation of the country is vibrant. However, its vast wealth derives from its major source of income, the petroleum sector as the latter accounts for 75 percent of budget income, 45 percent of Saudi Arabia's Gross Domestic Product and 90 percent of export revenues.⁵ Notwithstanding, the country's economy remains vulnerable to the economic fluctuations of the prices shaped in the international oil market. Saudi Arabia has played a systemic role in maintaining price stability as a key actor in the Organization of Petroleum Exporting Countries (OPEC) oil cartel. However, volatility coupled with the fact that oil reserves are not going to last forever, means that Saudi Arabia will soon face the need for economic diversification.

As mentioned above, infusion of money has been the recipe to counter revolution. In particular, within the country Saudi Arabia's King Abdullah bin Abd al-'Aziz Al Saud in February 2011 began distributing over \$130 billion to social benefits, increasing unemployment pay, bonuses for civil servants and students, as well as building new homes for the country's poor.⁶ But these economic concessions were accompanied by a suppression of fundamental human rights such as freedom of expression, assembly and association.⁷ In its periphery, Saudi Arabia helped suppress pro-democracy protests in Bahrain by providing Bahrain's King Hamad Bin Isa Al Khalifa with financial and military aid. Saudis also provided assistance and financing to Yemen and permitted drone strikes by the United States be launched from their soil against al Qaeda targets contributing greatly to the regime change and the advent of Yemen's President Abdu Rabbu Mansur Hadi.⁸ In the same vein, the spike in oil revenues has also allowed Saudi Arabia to maintain her prominent donor's role outside her immediate sphere of influence, such as in Egypt, Jordan, Morocco, Tunisia, the West Bank and Gaza. The total regional financial aid pledged has been around \$18 billion of which disbursed about \$4 billion.⁹ According to an IMF report in June 2012, Egypt had received \$1.54 billion of the \$3.99 billion financial aid promised by the Saudi kingdom. Saudi Arabia's proactive economic diplomacy competes with Qatar's checkbook diplomacy and investments around the region -disproportionate to its size-. For instance, given its alignment with the Muslim Brotherhood, Qatar has pledged Egypt \$8 billion in various financial aid since the revolution in 2011, of which \$5 billion have been already given.¹⁰

Indeed, energy has been the vehicle for Saudi Arabia's regional and international reach. It has allowed her to push for the position of becoming the Arab world's leader and to foster a solid alliance with the world's western superpower. The well-known bilateral agreement between the United States of America and Saudi Arabia in 1945, renewed in 2005, aimed at securing Saudi oil supply to the US, shows that this natural resource has been the cornerstone of their relationship. Today, things have changed slightly. China has become Saudi Arabia's top trade partner and the crude oil exports to the world's second largest oil consumer have outstripped those of the US. China received an estimated 20 percent (Far East Asia, 54 percent) of Saudi Arabia's crude oil exports while the kingdom's exports to the US accounted for 15 percent in 2012.¹¹ Therefore, Riyadh's "Look East" policy reflects the current geopolitical shift, caused by the growing oil demand in East Asia.¹² In fact, this strategic shift may be interpreted as a manifestation of Saudi Arabia's intent to put Iran's oil sales to China in limbo -historically, the third largest exporter to China after Saudi Arabia and Angola-¹³ and persuade Beijing's authorities to impose tougher sanctions against Iran's nuclear program.¹⁴

But, should the impasse of Iran's nuclear program deteriorates, Saudi Arabia could potentially revise its strategic plan of making the Middle East a zone free of weapons of mass destruction and become the forerunner of the region's nuclearization. Although there are not tangible signs that Saudi Arabia is heading towards this path, it is interesting that there has been mention of developing a nuclear program for military uses in collaboration with Pakistan, backed by former intelligence chief Prince Turki al-Faisal and Prince Bandar Bin Sultan.¹⁵ Notwithstanding, since Saudi Arabia is a party of the Non-Proliferation Treaty (NPT), in order to remove itself from accusations of violation, Pakistan "could offer a deterrent guarantee by deploying its own nuclear weapons, delivery systems, and troops on Saudi territory".¹⁶ On this unprecedented transfer of nuclear weapons from one state to another, Gary Samore, President Obama's advisor on arms control, noted that "Pakistani nuclear weapons being placed in Saudi Arabia cannot be ruled out".¹⁷ In reality, the two Sunni-majority states border Iran on opposite sides and coincide in their vital interests of containing its power. Furthermore, Riyadh's close ties with the heads of Pakistan's military and intelligence agencies as well as its financial aid for arms deals and training of its military personnel by the Pakistanis are signs that could strengthen the above-mentioned argument.¹⁸

In addition, because of the dawn of the shale gas revolution and the contingency of the US's energy independence -today's so-called non-conventional gas constitutes 30 percent of the entire American gas production- Riyadh feels insecure.¹⁹ Alternative energies come on stream and Saudi Arabia plans to diversify its economy away from oil. The Saudi Ministry of Finance indicates that government expenditures in 2013 are budgeted at about \$219 billion, mainly funneled to sustainable economic growth, new employment opportunities, education, science and technology projects, e-government, health, social and security services.²⁰ However, Saudi Arabia cannot get away from her "rentier state syndrome" that easily. Shifting global energy trends because of the uncertainty of global oil prices encourages the kingdom to explore its own shale gas resources that, according to estimates, might hold the world's fifth-largest deposits after China, the US, Argentina and Mexico.²¹ However, one major problem impedes Saudi unconventional hydrocarbons revolution; huge amounts of water are needed for the hydraulic fracturing in shale gas production, and water in Saudi Arabia is scarce.

Saudi Arabia contains around 265 billion barrels of proven oil reserves, so, one could argue that there is no urgent need to add new energy supplies. But, the soaring domestic oil demand due to strong industrial growth and subsidized prices, is estimated to jump to

over 8 million barrels per day by 2030 (in 2012, Saudi Arabia consumed approximately 3 million bbl/d) if there are no advancements in energy efficiency.²² Because of this unsustainable trend, Saudi Arabia's ability to increase its export potential is restricted. This therefore also limits the future ability of the country to finance 80 percent of public expenditure through vast revenues deriving from oil exports, which so far have been enabling Saudi officials to buy off social tranquility and conduct proactive foreign policy. Consequently, Riyadh finds itself before a dilemma; either to reduce its economic dependence on oil exports or to suppress domestic oil demand by phasing out subsidies.²³

In conclusion, Saudi Arabia has been endowed with vast amounts of oil, which, throughout years, have provided her with sufficient room for maneuver in regional politics and allowed her to play a fundamental role in the geopolitics of energy. However, her major vector of influence is expendable and the world stands at the threshold of the post-fossil fuel era. As a consequence, the exploration of Saudi Arabia's new financial might appears inescapable.

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