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Saudi Arabia and Kuwait: A Trip Report

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From February 15-25, the research team of Brandeis University's Crown Center for Middle East Studies and members of its Advisory Board traveled to Kuwait and Saudi Arabia.** The group was joined by Tamara Cofman Wittes of the Brookings Institution. The trip included structured dialogues, individual meetings with experts and government officials, interactions with members of civil society, and a special journey to the southern region of Saudi Arabia adjacent to the Yemen border. A few weeks earlier, one of the co-authors of this report also visited Oman. This report summarizes the two authors' reflections regarding the domestic and foreign policy challenges currently facing these three Gulf Arab states and how they are confronting those challenges, including in relation to one another.

The countries we visited, together with most if not all members of the Gulf Cooperation Council, are facing three interlocking challenges:

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*The report reflects only the impressions of its two co-authors. It does not represent the views of the Crown Center, its Advisory Board, or the other members of the group who traveled to Kuwait and Saudi Arabia.
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First, the effects of the violent fracturing of four Arab states (Iraq, Syria, Libya, and Yemen) resulting in the breakdown of the power balance in the region, and leading to a fierce competition for influence and positioning amongst regional and external powers, including Iran, Turkey, and Russia.

Second, uncertainty about American policy and specifically the degree of U.S. commitment to its traditional role of preserving regional security against revisionist challengers.

Finally, political and economic models, rooted in rentierism (non-tax income from energy resources), that are strained by economic globalization and youthful demographics and must now confront historic changes in global oil markets, making lower oil prices and smaller market share a reality for the foreseeable future. In turn, these challenges demand long-delayed revisions to these states' domestic social contracts.

Each of the countries we visited is responding differently to these three challenges – but all share certain concerns, including anxiety over Iranian influence, frustration over penetration into the region by Turkey and Russia, and dismay at what they perceive as withdrawal of American presence and influence in the Middle East.

The Transformational Effect of "Lower for Longer" Energy Prices

To varying degrees, in Kuwait, Oman, and Saudi Arabia, one impression seems inescapable: namely, the sense that the existing economic model of these states is unsustainable and that deep structural changes are therefore unavoidable. While this point has been made repeatedly since the 1950s, and while some such reforms have been implemented since the 1980s, there seems to be an understanding that deeper changes are now required and that their implementation is more urgent than ever. Thus, after decades of talk about the need for reforms to curb inefficient state social welfare systems and meet the needs of a large youth bulge, there is now real urgency to the reform agenda.

Largely, this urgency is driven by the sharp drop of oil prices from their peak in 2014, and by broader changes in global energy markets that mean prices are likely to remain lower for the foreseeable future. New supplies from West Africa and North America, and the development of diverse energy sources for growing markets, mean that the oil producers of the Gulf can no longer either set or stabilize global prices. This year, for example, the United States is expected to produce more oil than the Kingdom of Saudi Arabia.

Domestically, lower energy prices and large youthful populations make the old social contract rooted in expansive social welfare a budget-busting proposition for the Gulf states; without reforms, they will deplete their carefully-built sovereign wealth funds on domestic spending and build up large debts in a matter of a few years.

To varying degrees, this conclusion has led almost all Gulf states to give greater priority to a common imperative: to reduce their economies' dependence on oil. Thus, from Saudi Arabia's Vision 2030 to Kuwait's Plan 2035, the basis of all Gulf macro-economic plans is similar: to reduce the relative importance of crude oil

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sales to economic growth and government revenue by growing non-oil and downstream industries (and in Saudi Arabia, by introducing new forms of taxation and by demonstrating a greater commitment to collecting such taxes); to curb government spending by shrinking public-sector employment and reducing subsidies; and to create more jobs for citizens entering the workforce by growing the private sector and reducing expatriate labor.

At heart, this set of reforms would transform the citizens of Gulf Arab countries from entitlement-based consumers of government resources to shareholders in the national economy – both as stewards of national oil wealth and as wealth creators themselves. Inevitably, this transformation must involve a shift, not only in what government provides, but in what citizens expect. The social and political implications of such change may be far-reaching and not easily managed, which is one reason why these reforms have been resisted for so long.

Promises and Risks in Economic Reform

As noted, Kuwait and Saudi Arabia are taking very different approaches to this challenge. Kuwait is perhaps the best poised to manage low oil prices: its production costs are low, its sovereign wealth fund is well-established and legally protected, and its government budget rests on a lower price assumption (under $50/barrel, according to the IMF) than any other Gulf producer. Still, Kuwait is planning for a deficit in 2018-2019, and its parliament presents a tough obstacle to any significant shrinkage in government welfare programs. Members of Kuwaiti Parliament often give voice to the concerns of Kuwaitis who are employed by or benefit from the public sector and fear being "left behind" by the proposed reforms. Changes to the structure of parliamentary representation might be the only way to shift the political balance and open new possibilities for compromise on a reform agenda.

Saudi Arabia's Vision 2030 has caught the world's attention as the most ambitious reform plan put forward by the Gulf Arab states to manage a future in which oil plays a much smaller role. After decades under aging and conservative leadership, the pace of decision making and the breadth of vision evident in the new Saudi leadership is striking and, for many of our Saudi interlocutors, eminently refreshing. Indeed, it is difficult to remain indifferent to the palpable enthusiasm Saudis we spoke to expressed for the "brave new world" that Mohamed bin Salman's planned reforms promise. We spoke to older Saudis who have been advocating some of these reforms for years, as well as some who have been more cautious; both groups made clear that the reforms of Vision 2030 are not only urgently necessary but desirable for the future of the country. One described the imperative to change to accommodate the younger generation as "riding on a runaway train." We also spoke to younger Saudis both in government and out who believe that Vision 2030 offers them opportunities for personal and professional growth that they did not expect to have when they were growing up. Less tangibly, we heard a sense that the young crown prince understands and can relate to the hopes and frustrations of Saudi's majority: its young people. For example, while some expressed alarm about the sudden arrests of royals and businessmen last November, they also expressed relief that the crown prince understood public concerns over corruption, and sought to spread wealth more widely.

This enthusiasm, which some western journalists and policy experts have found irresistible, should not, however, prevent us from seeing the risks associated with the planned reforms. Some of these risks are inherent to the enterprise: altering longstanding structures of power and privilege necessitates risk-taking. Politically, King Salman and his son are laying the basis for the first transfer of power to a grandson of the Kingdom's founder, Abdul Aziz al-Saud. They are also shifting the monarchy's political base from a network of royals and elites who live off state patronage to a wider, more populist base in Saudi's overwhelmingly large rising generation. Making this shift requires sidelining those invested in the status quo, and Mohamed bin Salman is doing that largely by centralizing power in his own hands, marginalizing and discrediting other royal family members, and promising young Saudis better services, greater social freedom and wider economic opportunities.

The key question is whether the young crown prince can build his new political base faster than his opponents amongst the old, alienated base can regroup and mobilize against him, and do so while his father is still there to provide full and effective backing to his son's daring moves. The "losers" of the reform process include some branches of the royal family, conservative clerics (those who enjoyed autonomy over certain government offices as well as those with large independent followings), and, of course, the many who are presently employed by bloated bureaucracies and who would find it difficult to adjust to the very different requirements and pace of private-sector jobs.

So far, the crown prince's strategy has been to push through change from the top – issuing royal decrees at a breakneck pace, replacing underperforming officials with more business-minded individuals, and circumventing recalcitrant bureaucracies by establishing ad-hoc commissions that report directly to him. With the king's blessing, Mohamed bin Salman did not wait to build a supporting coalition within the royal family or other major families for his plans. The crown prince has also pre-empted and suppressed dissent through arrests – not just of business figures, but more notably of clerics, journalists, human rights activists, and political and civil-society activists, many of whom have been detained without trial since last September. Aside from what this means in the realm of basic human rights, this climate of intimidation created by increased repression may also prove costly for the desired economic reforms, as people may be deterred from reporting conceptual gaps and failures of implementation, thus depriving decision makers of necessary feedback to ascertaining the success, failure, and consequences of the reforms. This top-down approach also means that some of the country's elites can be expected to "jump ship" at the first sign of significant failure. The possible movement of Saudi capital out of the Kingdom in the coming year or two will bear close scrutiny as a measure of how these elites evaluate the prospects for Vision 2030's success.

Economically, the reforms of Vision 2030 represent a big bet: that the Kingdom can catalyze new growth and investment in the Saudi economy faster than the drop in oil prices and the burdens of social services and regional power projection (including an expensive war in Yemen) are draining government reserves. Some observers both in the Gulf and in the West are concerned at the delay in listing Saudi ARAMCO, the national oil company, for an initial public offering – a central feature of Vision 2030 that is crucial to raising cash for a new sovereign wealth fund, domestic spending, and kick-starting the domestic private sector. The delays raise questions about the government's commitment to transparency, but also about how long Vision 2030's math can work without a sale: the Saudi government has gone to foreign markets to raise capital each of the last two years; given the outlook for lower energy prices over the longer term, a debt-laden Saudi Arabia will not be as good a prospect for investors.

Other categories of risk in Vision 2030 also bear watching, especially issues left unaddressed in the reform plan so far. For example, in government privatizing public-sector companies and catalyzing private-sector industries, who will benefit? Our conversations raised concerns over whether this process would be open and merit-based, or whether these enterprises might end up in the hands of the "better connected" and lead to the rise of a new class of Arab oligarchs, just as Russia's privatization empowered a new class tied tightly to the Kremlin. How will the reforms address poverty in the Kingdom, which the government already has trouble acknowledging? And although hundreds of thousands of young Saudis have studied abroad over the past decade, millions more have not had an education that prepared them to succeed in a new, private-sector-driven economy. Might Vision 2030 inadvertently entrench a two-tier society of haves and have-nots?

Indeed, even if successful, Vision 2030 will have profound unintended consequences on society. Already, Saudi Arabia's population is more than 80% urbanized, and that percentage is expected to rise above 90% in the coming decades. This rapid urbanization has produced a dire need for better urban infrastructure, including housing and schools, even as it erodes the traditional tribal hierarchy of family structure in the Kingdom. The government laudably now recognizes that middle-class Saudi families in cities now require two salaries to live comfortably, and thus has placed a priority on increasing female participation in the labor force, eliminating the driving ban and curbing the power of the virtue police to enforce gender segregation. But these shifts will inevitably produce further changes and pressures. Male guardianship is less sustainable when men and women are both working and earning money and women are able to travel more freely – indeed, the legal system of male guardianship over women represents a hard constraint on women's economic participation, especially in entrepreneurship. How long will it survive? The increased focus on the welfare of the nuclear family, women's economic empowerment, and the already-dramatic decline in children per family amongst middle-class Saudis will likely further reduce the force of tribal authority in people's lives, which will also further diminish a traditional component of the Kingdom's social cohesion and social control. The political consequences of such likely developments are hard to foresee.

These prospects raise a final risk to consider as Vision 2030 plays out: having put forward a laudably ambitious vision for the future, King Salman and his son must manage the expectations of a population that is two-thirds under the age of thirty: mobilized, excited, used to the government providing for them, and impatient for future promises to be realized. The Arab Spring uprisings emerged amidst such unmet expectations, when rising economic growth produced spikes in inequality and anger over corruption. In Iran in 2017, protests were driven in part by the government's releasing an austerity budget that contradicted public expectations of a benefit from the lifting of international sanctions. How will the Saudi government respond if it can't meet these expectations?

Will it continue to act aggressively against expressions of dissent or disappointment, doubling down on abuses of human rights? Potential challengers to Mohamed bin Salman, whether rival family members or ultra-conservative clerics, will undoubtedly look to capitalize on any missteps.

Reform Challenged by a Region in Turmoil

Notwithstanding all these risks, the domestic reforms currently attempted in Saudi Arabia, as well as the less dramatic changes evident in the smaller GCC states, are long overdue. By contrast, some regional policies pursued by the very same leaders have ranged from puzzling to disastrous. Indeed, if not soon amended, these regional trajectories could undermine the proposed economic reforms, just as the Vietnam War buried President Lyndon Johnson's Great Society.

Policies like Saudi Arabia's relentless war in Yemen can be understood as self-help strategies driven by leaders who perceive their regional preferences as under assault by rivals, and who perceive U.S. policy as insufficiently assertive to contain the threats. (We must note, though, that both Obama and Trump have been quiet partners in Saudi Arabia's Yemen war.) While these leaders vary in the degree of intimacy they enjoy with the Trump White House, many of them share a skeptical view: that while the rhetoric of the current administration is different from that of the Obama administration, in reality Trump walks the same path of retrenchment that began during Obama's two-term presidency.

Gulf Arab leaders fear that this retrenchment increasingly leaves the region at the mercy of other influences, notably Russia, Iran, and Turkey as well as China. The Sochi summit convened by Putin over the fate of Syria, with Iranian and Turkish participation but with no Arab governments present, was cited by one of our interlocutors as an acute, and shameful, manifestation of the situation Arab Gulf nations now face, in which others are determining the shape of their neighborhood.

Dynamics within the GCC

For the smaller GCC states, Saudi Arabia's regional policies are seen as exacerbating these negative developments. The most serious of these is the Kingdom's heavy involvement in Yemen. Our interlocutors outside the Kingdom view the war in Yemen as a distraction from the core of the Iranian geo-strategic challenge: the extent of Iran's investment in its Houthi allies is relatively minor, but Saudi Arabia chose to escalate the conflict there, diverting its resources from the higher-priority effort to curtail Iran's influence in Iraq and Syria. While Riyadh's more recent outreach to Iraqi Shi'a leaders and to Baghdad won plaudits, having intervened in Yemen (with the support, it must be noted, of all GCC states except Oman), Saudi Arabia is now bogged down militarily, with no diplomatic exit strategy and facing differences of opinion with the UAE over tactical priorities and their support of different local allies.

Why the Saudi Kingdom allowed itself to fall into the Yemen trap – and has likewise failed to extract itself from it – was a question repeatedly raised by our Gulf interlocutors. The smaller GCC states are left to make their own choices about how to balance competing pressures and incentives from Riyadh, Tehran, Ankara, Moscow, and Washington. Kuwait, long a balancer in the Gulf, has made a strategic decision to invest heavily in support of Haider al-Abadi's government in Baghdad as a bulwark against more sectarian and pro-Iranian Shi'a political factions. Kuwait has made clear it is willing to invest heavily in Iraq, should Prime Minister Abadi's coalition succeed through the elections to be held in May in forming a new government. Kuwait's government is also preparing to establish a new trade-focused economic "city" north of Kuwait City, closer to the Iraqi border.

The rift between three GCC states (Saudi Arabia, the United Arab Emirates, and Bahrain) and Qatar continues, and seems unlikely to resolve as both sides are deeply dug in and the grievances are intense. Our Kuwaiti and Omani interlocutors were critical of Qatari behavior, but they see the ongoing dispute as fracturing and weakening the GCC. Those we spoke to emphasized the value of the GCC as the last remaining cohesive inter-Arab mechanism, and thus as a crucial instrument both in restoring regional stability and in holding off Iranian aggression. Working with Secretary of State Rex Tillerson, Kuwait's emir sought early on to mediate the Qatar dispute, but clashing messaging from the White House compromised that effort (a problem that seems now to have been resolved). The emir's persistence did suffice to prevent further escalation of the conflict, and Kuwait managed to host a GCC summit in December, even if most heads of government stayed away.

But the fracturing also reveals the extent to which the smaller Gulf states feel pressured within the GCC by the preferences of their far larger and more powerful neighbor, the Kingdom of Saudi Arabia. This concern was more manageable when the Kingdom was under more cautious and consensus-minded leadership; a Saudi leadership that is acting boldly and demanding absolute fealty makes it much harder to preserve unity within the GCC. The result of the strategic errors in Saudi regional policy is that some smaller GCC states no longer feel they can rely on consensus-based judgment from the Kingdom to protect their own interests and help preserve their own security. In one way or another, each of these states is now looking to hedge its bets; we heard sympathy, for example, for Qatar's recent defense agreement with Turkey.

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The Saudi bet on economic diversification and social liberalization is the bet that other Gulf states are praying pays off. If reforms in long-stagnant Saudi Arabia work out, they will strengthen the logic of the reform road the smaller Gulf states have been traveling for years. If reforms in Saudi Arabia fail, and major economic or social disruptions result, the consequences for the region might be dangerously destabilizing.

Recognizing this, it's understandable why so many observers and analysts choose to cheer on Mohamed bin Salman and advocate for a shoulder-to-shoulder approach to relations with Riyadh. Yet hope is not a policy, and those concerned to promote regional stability must look to mitigate the risks of change even as they seek to promote it, and look for opportunities to resolve regional conflicts and build alliances. These goals require soft power at least as much as hard power – and wielding soft power seems a lost art in today's Middle East.