

# **A Kingdom Divided**

## **Emerging Risks in Saudi Arabia's Political and Geopolitical Landscape**

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**Introduction:** Since 2017, when crown prince MBS (Mohammad Bin Salman) announced his Vision30 plan, Saudi Arabia has undergone several major socio-economic transformations—the massive anti-corruption purge, clean energy initiatives, and education reforms that oscillate between moderate conservatism and progressivism. Even though the nation has gone beyond significant checkpoints in the past few years, there are still several risks that must be taken into account. The key category of risk is social risk—since both the scale and probability of conflict in this category are highest. Moreover, Saudi’s social risks could be triggered by events in other risk categories—for instance, Saudi’s geopolitical risks spill over to its social risks. If the Iran-Saudi geopolitical rivalry drastically deepens, the Shi’ites would have a stronger incentive to initiate a national revolution.

**Assumptions:**

- 2-year time horizon since 2025 is the benchmark of Saudi Arabian political, social and economic transformation as it is one five-year span away from the Vision30 reform deadline
- Client is a multi-national corporation seeking to establish a joint investment initiative in Dammam, a city located in the eastern provinces of Saudi Arabia
- There are five tiers for each risk: low, low to medium, medium, medium to high, and high. Low risk means that there is little likelihood of detrimental outcomes, medium risk means that there is some likelihood of detrimental outcomes, and high risk means that there is strong likelihood of detrimental outcomes

**1. Social risks: Medium to High**

a. The Sunni majority's conflict with Shia minority

*Risk level: High*

Saudi Arabia's Shia minorities represent around 12 percent of the population. However, they do not enjoy proportional political participation. Shi'ite "notables," selected by the government, have ties to the Sunni leadership but only insofar as they are expected to control their neighborhoods<sup>1</sup>. This is the extent of Shia influence, as any additional expression of opinions by this minority is unlawful and may be punished.

Moreover, Saudi Arabian society systematically discriminates Muslim religious minorities. Twelver Shi'ites and Ismailis are severely discriminated in the nation's education and justice systems. They are treated as "second-class citizens" who do not have access to religious freedom and employment prospects. This could be reflected, for instance, in the latest round of executions, in which 41 Shia men were executed on March 15, 2022 on the basis of unfair trials<sup>2</sup>. Saudi Shi'ites are also banned from the public expression of their religious beliefs, and the government has not put any effort in changing public norms and stigmas<sup>3</sup>. Hence, the Shi'ites have strong incentives to uphold a revolt and liberalize themselves from the iron grip of the Sunni majority.

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<sup>1</sup> <https://www.hudson.org/content/researchattachments/attachment/1288/teitelbaum.pdf>

<sup>2</sup> <https://www.hrw.org/news/2022/03/15/saudi-arabia-mass-execution-81-men>

<sup>3</sup> <https://foreignpolicy.com/2021/05/11/mohammed-bin-salman-mbs-saudi-arabia-still-treats-shiites-second-class-citizens/>

The Sunni-Shia social divide presents a high level of risk to Saudi Arabian society. The Shia minorities are the pre-dominant demographic by population in the eastern provinces, where the oil fields are centralized and most fertile in the country. If the Sunni-Shia conflict escalates in the future, there is a possibility of civil war. That could result in Shi'ites' capturing oil fields, the most significant asset in Saudi Arabia's exports. Moreover, the Saudi Arabian government suspects that Shi'ite communities within Saudi Arabia have continuously received funding from Iran and has arrested suspected Iranian spies within those communities. This might trigger future Shi'ite responses because the alleged spies were arrested and charged on the basis of Saudi government's claims, but not with a fair trial. Within the span of two years, if Iran publicly announces its support to the Saudi Shi'ites or if the divide between the Sunni-Shia relationship keeps escalating, these events could pressure the Shi'ites to rise up for independence.

**Shock event:** The discovery of Iranian links with the Shi'ite communities in Saudi Arabia. If the Saudi Arabian government finds out that some Shi'ites living in Saudi Arabian communities have indeed received support from Iran and constitute a threat to national security, it would further abuse the Shi'ites and potentially lead to an internal civil revolt.

b. Terrorism

*Risk level: Medium to High*

Saudi Arabia has a bad reputation for funding rampant terrorist organizations, and there are two branches of terrorism actively involved in Saudi affairs. For one, Wahhabism has been practiced in Saudi Arabia for long and it promotes Islamic extremism. This branch of Islamic extremists cause damage to infrastructure, hurt local tourist industries by harming foreign tourists and inflicting collateral damage on local citizens<sup>4</sup>. Till this day, organizations endorsed in Wahhabism are still actively recruiting members. Therefore, many governments hold Saudi Arabia accountable for Wahhabism-related terrorist attacks. The second branch of terrorism is ISIS extremists who aim to expel all non-Islamic people from the Arabian Peninsula. Militants used a range of armories, from IEDs to guns and UAS, to operate a handful of terrorist attacks<sup>5</sup>. On April 21, 2019, ISIS detonated an explosive suicide belt and harmed three Saudi security officials during exchanges of gunfire. In recent years, ISIS has carried out terrorist operations on oil facilities in Saudi Arabia.

Although the frequency and quantity of terrorist attacks within Saudi Arabia are high, the scale of these attacks have remained minor. Hence, the public does not fear terrorist attacks. Furthermore, Saudi Arabia works closely with the West in terms of anti-terrorism, using established information networks and scrutinization methods to crack down upon terrorist operations. However, Saudi Arabia still has a long way to go in its anti-terrorist struggle since many of the support to terrorism comes from non-state actors made up of locals who support Islamic extremism. These actors are oftentimes affiliated with the ruling regime and claim high

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<sup>4</sup> <https://www.ft.com/content/07607fb0-6f5d-11e0-952c-00144feabdc0>

<sup>5</sup> <https://www.state.gov/reports/country-reports-on-terrorism-2019/saudi-arabia/>

positions such as Defender of the Faithful<sup>6</sup>. This means that it is unrealistic to wipe out all traces of terrorism within Saudi Arabia. Moreover, a possibility of Wahabi backlash could occur under the context of the Vision30 social revolution. As the MBS government aims to eradicate more and more conservative values, the Wahabi extremists might attempt to use terrorism as a signal to the government<sup>7</sup>. Therefore, the presence of terrorism, mainly internal, still threatens the well-being of Saudi citizens and non-citizens to a large extent.

c. Resistance to education reforms

*Risk level: Low to medium*

Under the rule of MBS, Saudi Arabia has undergone significant education reforms but met the resistance of religious revivalists, whose aims include inflaming hatred against non-Islamists and separate the Sunni majority from the Shia minority by increasing the significance of religion in the education system. The revivalists' aims contradict MBS's objectives since MBS aim to promote more critical thinking skills and STEM education, which can improve human resources, innovation, and the overall competitiveness of the Saudi economy<sup>8</sup>.

The religious revivalist movement is led by conservatives, many of them clerics, who are important allies of the ruling Al Saud family<sup>9</sup>. Therefore, as this resistance to Saudi education

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<sup>6</sup> <https://www.brookings.edu/testimonies/the-u-s-saudi-arabia-counterterrorism-relationship/>

<sup>7</sup> <https://www.wilsoncenter.org/publication/will-saudi-arabias-social-revolution-provoke-wahhabi-backlash>

<sup>8</sup> <https://thearabweekly.com/saudi-educational-reform-progressing-not-without-resistance>

<sup>9</sup> <https://www.ft.com/content/07607fb0-6f5d-11e0-952c-00144feabdc0>

reforms comes from people within the sphere of political influence, MBS is facing difficulties going through with his education reforms due to family and political pressure. An example of this is how radical clerics have gone so far as to threaten to bring lawsuits against the minister of education for allowing co-ed classes and supposedly corrupting female students [1]. In response to this, the education minister might soften the pace of education reform and compromise to the clerics.

However, the religious revivalist movement may not threaten the prospect of MBS's education reforms to such a great extent since it could only mobilize the extreme religious fundamentalist families. On the other hand, the majority of families believe in the more popular narrative that math and STEM education are connected to Islamic studies and help nourish more competitive work forces. Currently, women and girls in Saudi Arabia enjoy more education opportunities than any other time since the fall of the Shah. New scholarship programs are helping them achieve higher levels of education, enter the realms of research, and make contributions to diversifying the economy. This has led to women's empowerment and the receding gender gap in society<sup>10</sup>.

## **2. Political risks: Medium to Low**

### **d. Alleged Coup Attempt**

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<sup>10</sup> <https://www.arabnews.com/node/2038011/saudi-arabia>

*Risk level: Medium*

MBS has initiated an unprecedented wave of anti-corruption purges within Saudi Arabia. In 2017, 11 princes, along with businessmen and other officials, were arrested by the police under the order of MBS<sup>11</sup>. Two senior members of the royal family were arrested in an alleged coup and detained<sup>12</sup>.

This event highlights the possibility of an internal coup since MBS has accumulated a large number of political foes – the people that MBS locked up, including business owners and other princes, and the conservatives led by religious leaders. This risk could escalate if MBS expands the scale of his purge in the next one or two years, and it is in MBS's interest to assert further authority—if he fails to expand the scale of the purge, more senior officials may resist the Vision 30 reforms. Therefore, it is foreseeable that more conservatives will be involved in coup schemes beside the family members and supporters affiliated with the jailed elites.

e. Response to Democratization

*Risk level: Medium*

Following the Arab Spring, a call for democratization swept across the Arabian Peninsula, not

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<sup>11</sup> <https://www.vox.com/world/2017/11/6/16613088/saudi-arabia-princes-arrested-mohammed-bin-salman>

<sup>12</sup> <https://www.dw.com/en/saudi-arabia-arrests-two-princes-over-coup-attempt-reports/a-52675947>



excluding Saudi Arabia<sup>13</sup>. The Saudi Arabian government has used economic incentives, propagandas teaching obedience, and security measures to quiet internal dissent, but these measures are not enough to quash the increasing level of democratic discourse. In the status quo, the Sunni majority's desire to democratize has significantly lowered due to the relatively stable economy. During the pandemic, the pro-democratic voices were fewer since the autocratic government handled the pandemic relatively well. On the other hand, the Shia minority are actively using social media as a medium to express their growing frustration with the government. However, this does not seriously pose a threat to the government given that MBS uses hard deterrence against pro-democratic protests. For instance, he exiled a group of pro-democratic dissidents pushing for political reform<sup>14</sup>. The young generation, exposed to western liberal ideologies, will be pushing for democratization in the following years. This group, very capable of using social media to spread their voice, has an incentive to push for a pro-democratic movement given mass-scaled youth unemployment that will be later analyzed in this essay.

Abroad, Saudi Arabia has also tried containing pro-democratic revolts in Tunisia, Egypt, and Libya to prevent the regional spread of democracy. The Saudis have actively aided other autocratic and non-liberal regimes, such as Tunisia, for long and it has turned out to be a win-

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<sup>13</sup> Gerges, Fawaz A. "Saudi Internal Dilemmas and Regional Responses to the Arab Uprisings." *The New Middle East: Protest and Revolution in the Arab World*, Cambridge University Press, New York, 2014.

<sup>14</sup> <https://www.nbcnews.com/news/world/saudi-dissidents-form-pro-democracy-political-group-defiance-crown-prince-n1240860>

win relationship<sup>15</sup>. The risk of a regional democratic outbreak is low, and the resurgence of autocrats has been an evident trend in the recent years.

f. Multilateral Foreign Sanctions on the MBS Government

*Risk level: Low*

Biden's foreign policies are aimed at punishing Saudi Arabia's transnational repression (the act of targeting and killing abroad critics) and Saudi Arabia's aid to other authoritarian regimes<sup>16</sup>. Biden has spoken about MBS's murder of journalist Jamal Khashoggi although the charge was rejected by Saudi officials. The message Biden sent is clear – MBS is a murderer and needs to be held accountable. If this narrative is echoed by more western leaders, it can significantly reduce MBS's legitimacy as a crown prince given that no leader wants to establish connections with a government led by an autocratic murderer.

However, western and foreign multilateral sanctions have not seriously challenged MBS's legitimacy. MBS not only counters Biden's charges by stating that the U.S. military tortured Iraqi prisoners in the past, but also asserted that the U.S. needs to reflect on the killing of Palestinian-American journalist Shireen Abu Akleh<sup>17</sup>. Thus, MBS has bailed himself out of any accountability. Knowing that future attempts to de-legitimize the MBS government would only

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<sup>15</sup> Frederic Wehrey. *The Authoritarian Resurgence: Saudi Arabia's Anxious Autocrats*, pp.71-85, John Hopkins University Press, Volume 26, No. 2, April 2015

<sup>16</sup> <https://freedomhouse.org/article/opinion-its-not-just-khashoggi-saudi-issue-biden-cant-ignore-0>

<sup>17</sup> <https://edition.cnn.com/2022/07/16/middleeast/biden-mbs-khashoggi-abu-akleh-intl/index.html>

cast more doubts upon the legitimacy of U.S. operations, the West will probably cease to taint MBS' reputation. In a two-year span, when the West makes the transformation to clean alternative fuels, it could re-assert democratic values in the Middle East and call MBS out. The extent of this risk is low, however, since trans-national organizations or even national entities couldn't hold MBS accountable by merely tainting his reputation without any pragmatic action. So far, there is no sign of action.

### 3. Economic risks: Medium

#### g. Unemployment

*Risk level: Medium*

Saudi Arabia's current data for Unemployment rate is at 7.4%, a high number despite Saudi Arabia's steady recoveries from the Covid-19 pandemic<sup>18</sup>. The current number still exceeds the targeted number, which was 7%.

Saudi Arabia's youth unemployment rate, 28.84% (estimated in 2021)<sup>19</sup>, is among the highest in the globe. Fresh Saudi graduates from universities at home and abroad have taken to social media out of concern for the high unemployment rates awaiting them, and the corrupt

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<sup>18</sup> <https://data.worldbank.org/country/saudi-arabia?view=chart>

<sup>19</sup> <https://www.statista.com/statistics/812955/youth-unemployment-rate-in-saudi-arabia/>

employment system that prioritizes social connections over merits<sup>20</sup>. Unfortunately, many who are vocal about these issues are arrested amid government censorship, and hashtags like “Unemployed and we won’t stay silent” are banned from social media.

**Shock event:** another wave of major pandemic. If another wave of a new pandemic variation, like Covid, hits as a result of relaxing national health control measures, the unemployment rate could surge up again and potentially drive many unprotected immigrants into severe poverty. Such a shock event would be detrimental to the Saudi economy and society, given that tension from the unemployed has been gradually building. Research shows that unemployment drives terrorism<sup>21</sup>, and that will further damage the Saudi economy by re-creating its notorious reputation of a terrorists’ haven.

#### h. Inflation

*Risk level: Medium*

Saudi Arabia’s consumer goods inflation rate was calculated in 2021 and it turned out to be 3.1%<sup>22</sup>. On the surface, this seems not that severe. However, the ever-rising food inflation is detrimental to the disenfranchised poor.

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<sup>20</sup> <https://www.middleeasteye.net/news/saudi-arabia-unemployment-youth-graduates-complain>

<sup>21</sup> <https://www.al-fanarmedia.org/2016/04/arab-youth-survey-finds-unemployment-drives-terrorism/>

<sup>22</sup> <https://www.worlddata.info/asia/saudi-arabia/inflation-rates.php>

Saudi Arabia's food prices are inflating at around 5% recently, and the meat prices are unaffordable to the poor. Facing rising food prices and inflation in transportation cost, the poor have to depend on government aid to sustain their lives<sup>23</sup>. On the up side, it is expected for Saudi Arabia to enjoy lower and stabler levels of inflation<sup>24</sup>. This signifies a medium-level crisis for the country since food and transportation are essential for the economy to operate.

However, a future swing in oil price could further hurt the country's economy and pressure the government to print more money, further exacerbating inflation. Recent evidence of this can be found from 2015-17, when the Saudi Arabian government printed more currency due to poor revenue gained from the oil market, which suffered from low demand. In status quo, the Ukraine War could exert long-lasting effects and bring down energy prices since it pressures the West to substitute alternative fuels in place of oil and natural gas. This will significantly decrease the demand for oil, thus bringing down the energy revenues for Saudi Arabia<sup>25</sup>. Moreover, as China's economy is experiencing a gradual slowdown, Saudi Arabia will have to look for alternative markets that amend its energy revenue dealt from China's large demographics. Fortunately, the West's alternative energy plans is not likely to markedly reduce demand for Saudi oil in the near future, nor will China replace its demand for oil in the short term. Therefore, the future risk of inflation is moderate.

#### i. Structural Weakness

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<sup>23</sup> <https://www.bloomberg.com/news/articles/2022-07-04/saudi-arabia-becomes-latest-to-earmark-inflation-relief-for-poor>

<sup>24</sup> <https://www.arabnews.com/node/2101841/business-economy>

<sup>25</sup> <https://www.imf.org/en/News/Articles/2022/06/17/saudi-arabia-staff-concluding-statement-of-the-2022-article-iv-mission>

*Risk level: Medium*

Although MBS plans to modernize the economy with the Vision30 reforms, structural weakness still exists in the country's economic regulatory system.

For instance, the transparency for economic data is quite low in the status quo. MNCs and FDIs are still reluctant to operate within Saudi Arabia since they cannot predict nor access the general trends of the Saudi economy<sup>26</sup>. Thus, investors cannot prepare for economic repercussions on their occurrence. Even though the general business environment is adequate, Saudi Arabia's economy will only open up if they improve transparency.

Moreover, Saudi Arabia's economic regulatory system is flawed—there lacks financial scrutiny toward high and medium-risk companies, which is the reason they're getting loans. The regulatory framework's index ranks below the global average, and it could lead to an exposure of macroeconomic risks in the near future<sup>27</sup>.

#### **4. Geopolitical risks: Medium to low**

##### **j. Confrontation with Iran**

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<sup>26</sup> <https://www.zawya.com/en/press-release/data-the-key-to-improved-transparency-in-the-kingdom-of-saudi-arabia-j62c3jop>

<sup>27</sup> <https://edition.cnn.com/2022/07/16/middleeast/biden-mbs-khashoggi-abu-akleh-intl/index.html>

*Risk level: Medium*

Saudi Arabia and Iran are long-time geopolitical rivals, and the conflict originates from a religious schism, which has brought on “cold war” that may never end<sup>28</sup>.

In the past, the Iran-Saudi tensions were among the highest in the Middle East during proxy conflicts between Saudi-led groups and Iran-backed militants. The American nuclear treaty with Iran in 2015 did little to cool the relations, but there are still hopes. President Biden attempted to revive the nuclear deal with Iran, which, if achieved, would ease Saudi geopolitical concerns<sup>29</sup>. Saudi Arabia has also reached out to Iran in an attempt to improve the two countries’ relationship<sup>30</sup>. Nevertheless, the Saudi-Iran religious schism still remains, and could escalate their conflict if the oppression on Shia minorities continues.

**Shock Event:** escalation of Iran-Saudi proxy conflicts, such as the Yemen civil war. Given the religious factors, such as the Shia-Sunni dynamic, proxy-conflicts between Saudi Arabia and Iran could escalate at any time and grow into a huge geopolitical risk.

k. Houthi-Saudi conflict

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<sup>28</sup> <https://ebooks.ohiolink.edu/viewer/cddca423-7be1-4c2d-a6d2-2232ad7a690a>

<sup>29</sup> <https://www.worldpoliticsreview.com/israel-iran-saudi-arabia-battle-for-supremacy-in-the-middle-east/>

<sup>30</sup> <https://www.cnn.com/2022/05/24/saudi-arabia-says-the-kingdoms-hands-are-outstretched-to-iran.html>

*Risk level: Medium*

Saudi Arabia's involvement in Yemen has led to accusations of war crimes from humanitarian organizations<sup>31</sup>. Following international pressure put by investigations on war crimes, the U.S. announced its withdrawal of military support toward Saudi Arabia's airstrikes and ground troops. For now, Saudi Arabia is left alone in the pool of accusations.

the Yemen-based Houthi militants take revenge time and again within Saudi Arabia, threatening Saudi Arabia's security. They have responded by carrying out terrorist attacks in several airports, harming both Saudi and foreign civilians.

However, Saudi's leading role in the Yemen civil war means that it will probably not pull out in the near future. Even if it does, the retreat will be a very gradual process—in two years, a complete withdrawal from Yemen seems unlikely since the Saudi government demonstrated no sign of retreat. Hence, Houthi-led cross-border attacks will continue to pose a threat to Saudi Arabia's border security<sup>32</sup>. There is a slight possibility of escalation since the Saudi-led coalition has increasingly used the "double-tap" strategy in direct crossfire, deploying a first wave of airstrikes against the rebels and then deploying a second wave against the people who came to rescue the rebels<sup>33</sup>. Given that the war has become more inhumane and violent, the Houthis have an incentive to escalate the conflict. Indeed, they launched multiple cross-border

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<sup>31</sup> <https://www.washingtonpost.com/investigations/interactive/2022/saudi-war-crimes-yemen/>

<sup>32</sup> <https://www.state.gov/houthi-terrorist-attack-in-saudi-arabia/>

<sup>33</sup> <https://www.bbc.com/news/world-middle-east-29319423>



attacks using ballistic missiles against targets in southern and western parts of Saudi Arabia very recently. The number of missiles Houthi rebels launch could increase in the near future.

I. U.S.-Saudi relationship

*Risk Level: Low*

The U.S. and Saudi Arabia have very fluctuant relationships. Prior to the Ukraine War, president Biden named MBS as the killer of journalist Khashoggi. The two nations' relationship declined drastically after the public accusation. However, after the Ukraine War, United States has been actively trying to reconstruct a cooperative relationship with Saudi Arabia due to the oil leverages that MBS holds.

MBS is confident in that he believes the U.S. dare not take a stronger stance. The Biden administration wants Saudi Arabia to increase oil production and so MBS could use this as leverage<sup>34</sup>.

Nevertheless, the U.S.-Saudi relationship could exacerbate in a time span of two years since the U.S. recently achieved progress on its path to shake off reliance upon oil and natural gas<sup>35</sup>.

As its renewable energy market expands, the domestic demand for oil will contract and

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<sup>34</sup> <https://www.forbes.com/sites/arielcohen/2022/07/23/bidens-saudi-adventure-an-oil-strategy-failure-and-beyond/?sh=400b2e8e340b>

<sup>35</sup> <https://www2.deloitte.com/us/en/pages/energy-and-resources/articles/renewable-energy-outlook.html>

therefore lead to Saudi Arabia losing the advantage of oil export. Then, the U.S. could retaliate and hold Saudi accountable for its humanitarian abuses in the past decade. All in all, the impact of this exacerbation does not compose a serious geopolitical risk, but could definitely decrease the level of support Saudi gets when dealing with foes like Iran.

**Recommendations:** enter the Saudi market but change location of strategic operation

Saudi Arabia's risks are quite balanced among all of its four categories. Due to a high risk of Shia-Sunni conflict and that the main battlefield in the case of a conflict will be the eastern provinces, Dammam is not an ideal location for construction or sustainable development projects. Economic risks are mainly problematic macro trends but do not affect core consumers, the middle to upper class citizens who are employed and could certainly afford amenities. In fact, Saudi Arabia plans to allocate more of its workforce into the tourist industry, which is beneficial toward the corporation if it plans to recruit workers for the construction of "future city" prototypes. On the other hand, the nation's political and geopolitical risks are not grave enough to threaten the outlook and operation of a construction project. Therefore, it is recommended for the corporation to enter the Saudi market but change its headquarters to cities like Jeddah.