

**Moving Away from Oil: Explaining Shifts in Foreign Policy of
Saudi Arabia**

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Abstract

Since 2015 Saudi Arabia radically shifted its foreign policy by adopting a more active role in the region. This shift is mirroring rise to powers of the Salman branch of al Saud royal family. These changes span from Saudi involvement in Yemen to growing cooperation with Israel as well as their opposition to Iranian nuclear deal. All of these changes are challenging structural realist theories as they are deliberately decreasing Saudi capabilities and posing more security threats. This paper is using literature on oil export countries as a core of the argument that it's essential for MbS to reform their economy. While this is the main priority of the state's everything else, also foreign policy is subordinated to it. However, these reforms pose significant risks of population backlash even revolt. MbS with the adoption of the diversionary policies aims to prevent protests, shift focus elsewhere, and increase his own popularity and popularity of his reforms.

Keywords: Saudi Arabia, Rentier State, Foreign Policy, Oil, Diversionary policy, Mohammed bin Salman

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Introduction

“Norah O'Donnell: You're 32 years old. You could rule this country for the next 50 years.

Mohammed bin Salman: Only God knows how long one will live, if one would live 50 years or not, but if things go their normal ways, then that's to be expected.

Norah O'Donnell: Can anything stop you?

Mohammed bin Salman: Only death.”¹

Mohammed bin Salman bin Abd Al-Aziz Al-Saud also known as MbS is a Crown Prince of Saudi Arabia in his thirties. He represents a new generation that will reshape both Saudi Arabia and the Middle East in the upcoming years. His determination, a sense of purpose and goal to increase the power of Saudi Arabia through modernization, is clear. However, the Middle East is a region that experienced numerous attempts for modernization and regime changes that resulted in instability and some cases, by the collapse of the ruling families. Middle East dominates world news almost daily spanning from topics such as rise, expansions, and fall of the Islamic State of Iraq and Levant (ISIL), revolutions, human rights violations but it's also home to three major religions. This is often perceived as a troubling region dominated by clashes on the lines of identities based on sectarian and ethnic divisions. In the Middle East, states and especially state leaders play a crucial role in maintaining fragile peace since the role of international organizations and communities is minimal. It is essential to understand the motivation of those that lead these states and those that influence their decision. By understanding how they make international decision community, but also other states from the region can adopt policies tailored to match their behavior. One of the most significant powers in the region is Kingdom of Saudi Arabia (KSA) with its natural resource wealth, and a strategic partnership with the United States it plays a significant role in the

¹ O'Donnell, 2018, CBS

politics of the Middle East. Saudi Arabia is also home to two holy sites of the Muslim religion, and all of these factors make it a vital partner in stabilizing and securing long-lasting peace in the region. Therefore, the understanding motivation of Saudi leaders is essential for drafting peace plans and engaging KSA in any projects in the area, such as resolving Palestinian and Israeli conflict.

This paper aims to contribute to the literature on decision making, changes in foreign policy by analyzing recent shifts in the foreign policy of Saudi Arabia under King Salman and his son Crown Prince Mohammad bin Salman, heir to the throne but the de facto ruler. It was just in 2015, when Salman clan replaced the previous king when KSA changed their foreign policy. Previously, KSA didn't take an active role in the region and instead supported their allies financially when necessary and passively observe. This shift from passive to active foreign policy is one of the most significant changes that impact the whole world.² There are numerous reasons why should politicians, experts, but also business care about the Middle East and key players in the region and their motivation.

First and foremost, OPEC members represents 81.82% of entire crude oil reserves while out of those 65.36% of OPEC are in the Middle East.³ First and foremost, OPEC members represent 81.82% of entire crude oil reserves, while out of that, 65.36 % of OPEC is in the Middle East. In addition to this, there are one of the busiest maritime trade routes in the region; these are just a few factors that in the case of full-scale conflict might cripple the world economy. For example, in 1973-1974 during the oil crisis, OPEC members threatened to cut 5% of their oil production, and they caused one of the biggest energy crises in the

² Oxford Analytica, Daily Brief, 29.09.2016, Iran-Saudi Arabia tensions will increase instability

³ "OPEC Share of World Crude Oil Reserves." OPEC. Accessed May 20, 2019.
https://www.opec.org/opec_web/en/data_graphs/330.htm.

history of humankind. Imagining consequences of full-scale war in the region on the international economy should be sufficient motivation for everyone to focus on this region and this topic. Furthermore, one of the most significant changes undertook under this radical foreign policy shift was Saudi's military intervention in Yemen. The Yemeni conflict is currently one of the worst humanitarian crises in past years threatening millions of lives, and it's likely that millions will be displaced reigniting refugee crisis that shook European Union in 2015-2016. There is another parallel with Syria, and that is potential for ISIL and Al-Qaeda gaining grounds in chaos, suffering, and vacuum of power created in Yemen. Saudi's because of their status as a regional power but also as religious one is a key stakeholder in securing peace and stability in the region. From peace talks in Yemen, to Palestinian deal and Lebanon Saudi's government is influential and therefore, it's vital to understand motivation a rationale behind these radical changes.

However, a more active role in the foreign policy isn't the only change that occurred under Salman clan. For decades Iran was framed by Saudi's as enemy and threat for their security. However, when Salman took over these verbal attacks and attempted to isolate Iran intensified. MbS is framing Iran as "new Hitler," implying that Iran isn't an only a regional threat but a global one. This enmity even pushed KSA to improve relations with Israel, however because of years of fighting and boycotting Israel, KSA denies any cooperation with Israel despite numerous reports both from Israel and KSA reporting otherwise. For years, Israel was framed as an enemy of all Arabs and Muslim and assistance with this regime would be unimaginable. On the other hand, alliance and cooperation with other Sunni regimes were vital for the balance of powers in the region after the fall of Saddam Hussein. However, it was again only under MBS when years of good relations with Turkey and Qatar started to decline. Furthermore, Saudi's under MbS multiple times defied United States leadership by their

opposition of US-led JCPOE and with arms sales. While some of these shifts in the foreign policy or domestic policy, such as Saudi's growing cooperation with Israel, their opposition to JCPOE, and dispute with Qatar had so far little impact on Saudi's. However, there are other actions which resulted in tremendous losses and some are still "bleeding" out Saudi's budget. For example, following murder of Jamal Khashoggi \$650m were pulled out of the Saudi equity market just in 10 days following Khashoggi's murder. In addition to this, during Davos in the Desert several prominent businessmen pulled out as a result of the medialized report of Saudi's report on.⁴ Furthermore there are calls for new measures against Saudi regime within the United States. All of these actions are continuously weakening power capabilities of KSA and threatening their security, yet MbS refuses to change them. And this poses a serious problem from structural realist explanation.⁵

These cases are puzzling mainly because the United States provides security guarantees to the KSA. While looking at all of these puzzles through structural realist arguments it opens multiple questions and problems about its applicability. Authors affiliated with this theory argue that states are not seeking power, but they are forced to seek it by the international system. Since there is no higher authority and states are left in the constant state of anarchy, and since there is no one to provide security thus they are forced to seek their survival through maximizing their capabilities.⁶

Authors such as Kim and Woods in their paper show that petrostates, which they define as states where majority of revenue comes from oil and gas sector, are more likely to

⁴ Cheetham, Joshua. "Firms Defy Pressure over Saudi Summit." BBC News. October 18, 2018. Accessed May 25, 2019. <https://www.bbc.com/news/business-45893078>.

⁵ Waltz, Structural Realism after the Cold War, 2000

⁶ Mearsheimer, structural realism, 2006

engage in aggressive behavior when supported by great power.⁷ While this theory might be able to explain shifts to more interventionist foreign policy in Yemen and Syria it fails to explain why would Saudi's adopt this more active foreign policy only in 2015 with rise of MbS. Furthermore, its limited just to conflicts which prevents explaining all the puzzles used as cases in this paper. However, this paper uses petro-state theories as a backbone for its main argument.

The main contribution of this paper is an attempt to open debate about the impacts of the natural resource curse and petro-theories on foreign policy. While there is written extensively on implications of the resource curse on the political system, economy, structure of society, there isn't much about impacts on foreign policy. There is some work on conflicts in connection to resource wealth. For example, Haftendor deals with disputes over natural resources in this case of water.⁸ While Peters argues that oil exporting countries are more likely to be part of the conflicts because superpowers are trying to secure their energy supplies by invading and protecting these states.⁹ Other authors are looking at the use of oil as a weapon.¹⁰ Most of these authors show how vast natural wealth can impact development trajectory and what consequences are there on these states. However, in terms of connecting petro-state theories to foreign policies, there is very little written on how former impacts the latter. There is the literature of foreign policy of petro-state, but most of this revolves around wars, and even these are limited to the intrastate ones.¹¹ While others looked on this issue from the other way, how to trade and what's the nature of goods being traded impact the likelihood of wars and conflict among states.

⁷ Inwook Kim & Jackson Woods, 2016

⁸ Haftendor, 2000

⁹ Peterson, 2005

¹⁰ See Blair, Yali & Hagt 2006; Licklider 1988, Stern 2006

¹¹ Colgan (2010), Polachek (1980), Handrix (2015)

All of this raises a question what allows MbS to break with these norms both domestically and internationally, furthermore, why would he push for such extensive reforms? And are these reforms connected to the foreign policy shifts? MbS managed to consolidate and centralize powers inside the kingdom by breaking years of consensus inside the ruling family. Secondly, he acknowledged the problematic state of economy and society of the kingdom. As a result, he identified modernization and diversification as the only way how to reverse Saudi's worsening situation. In order to modernize and pull the kingdom from this unfavorable situation, MbS needs to reform country almost in all aspects from economic to social. However, history showed how similar societies react to swift changes, especially when their well-being is threatened, in this scenario, its necessary to project power and strength to a domestic audience. Previous kings used royalties from oil to fund social benefits, subsidies, and other perks in exchange for their obedience and loyalty. In order to cut all of these benefits without facing uprising, MbS uses fear mongering against Iran as a threat around which Saudis can rally. He frames Iran as an existential enemy of all Saudi citizens uniting conservative clerics, members of the royal family, as well as citizens, can rally around as their country is threatened, at least based on MbS's projections. Saudi Arabia substantially changed its foreign policy and recently undertaken risky endeavors that cannot be explained by a structural realist framework.

This paper hypothesizes that the rise of Mohammad bin Salman to power fundamentally changed policies of KSA. Main driving engine behind all the radical shifts in the foreign policy is needed to rapidly execute reforms of the economy, which also requires social changes. However, fear of potential revolution fueled by infighting in the royal family and conservative clerics pushed MbS to adopt diversionary foreign policy and keep framing

Iran as antagonistic evil regime allowing him to push for policies aimed to “counter” Iran in the region from Yemen, Syria, Qatar perhaps even to cooperate with Israel. This adoption of diversionary foreign policy allows him to push for painful and risky domestic reforms which are the result of years of negative development spiral as a byproduct of the oil wealth as outlined in the petro-state and rentier state theories.

For all of the reasons mentioned above it's essential for academics, analysts, and also policymakers, to understand what drives state to adopt often risky and seemingly reckless policies. By understanding their motivation, policy-makers can adapt their strategies to deal with these states effectively. In addition to this, by explaining these policies, an analyst might be able to predict the behavior of Saudi Arabia in the coming years. Last but not least, for the future peace and stability in the Middle East, it's essential to have a better understanding of what is important to whom and what are the red lines. This research aims to contribute to the discussion by showing that for MbS is adopting a diversionary foreign policy to cover domestic problems caused by his attempts to shift Saudi Arabia from oil. MbS being aware of historical facts that contributed to the fall of Shah in Iran as well as series of surprising during Arab Spring were rooted by some extent in inequalities, social problems and in case of Iran in rapid and large scale reforms aimed to resolve these problems.¹² Therefore, the state cannot ignore domestic issues, but it's also dangerous to adopt rapid changes, especially in the conservative society. This paper shows that Saudi Arabia, just like other oil rentier states, is trying to cope with the changing nature of the oil sector by adopting reforms.

First, this paper looks at the main empirical problems which are Saudi's opposition to Joint Comprehensive Plan of Action, Saudi cooperation with Iran under OPEC; each is looked

¹² Walt, 1996 p. 211 & Kamrava 2005

upon by using structural realism aiming to explain these shifts. The second chapter offers an alternative explanation using petro-theories and diversionary foreign policy as an explanation for these empirical puzzles. And finally, the last chapter tries to address a potential issue with this explanation. They are explaining these radical shifts in the foreign policy through diversionary foreign policy to prevent unrests and revolutions back home too as a result of reforms. However, this is not the first time that oil prices were low, so why such shifts in foreign policy never happened before?

Chapter 1. Empirical Problems

1.1 Saudi Arabia and Their Opposition Joint Comprehensive Plan of Action

This chapter looks at these most important and most radical shifts in the foreign policy of KSA and how structural realism in some cases fails to convincingly explain why is KSA behaving this way. First problem for structural realism is explaining Saudi opposition to the nuclear deal that significantly reduced threat of Iran developing nuclear weapons in next few years in exchange for lifting international sanctions. In total, there are three elements to this deal that are puzzling from structural realist perspective. For structural realists, it would be rational to seek such agreements backed by international powers, especially US that is providing security umbrella for KSA, that eliminate ultimate weapon from Iran. However, KSA with GCC allies were criticizing this deal as insufficient and opposed it from the beginning.

In exchange for Iranian nuclear program, international community agreed to lift sanctions imposed on Iran throughout the years. First sanctions were imposed on Iran in 1979 as a reaction of the United States over hostage crisis. From that year bilateral relations of the United States and Iran were worsening with each administration. Iran was developing their nuclear and ballistic programs while supporting various Shia groups perceived by many as extremist. At the end, numerous international sanctions were imposed on Iran. And in 2006 United Nations Security Council passed resolution 1737 imposing new sanctions over Iranian nuclear program.¹³ As a result of these sanctions, exports from Iran were reduced by \$17bn, oil production output was decimated and whole Iranian economy stagnated.¹⁴

¹³ Walt and Mearsheimer, *The Case for Offshore Balancing*, p. 79

¹⁴ Devarajan & Mottaghi, 2015

14th of July, 2015 permanent members of the United Nations Security Council (UNSC) plus Germany (P5+1) and European Union signed international treaty with Iran Joint Comprehensive Plan of Action (JCPOA) also known as the Iran nuclear deal. This deal aims to reduce the “breakout time”, time necessary for state to develop nuclear weapons. Deal was result of years of negotiation between the signatories especially pushed by US administration under President Barrack Obama. This deal essentially controls scale of Iranian nuclear program. For limited time international community through expert observers has oversight over all Iranian nuclear power plants and facilities. Deal, as agreed decreases 98% of the low enriched uranium and 100% of medium enriched uranium. In addition to this, it reduces amount of first generation of centrifuged machines necessary for future enrichment. Another condition was complete elimination of all advanced centrifuges in Iran and limiting all the enriching processes and operations to one plant, the Natanz plant.

All of these conditions combined, eliminating substance, equipment and limiting place where enriching can occur, reduce Iranian ability to enrich uranium by one third thus significantly prolonging time necessary for Iran to produce nuclear weapons. This deal also prevents Iran to build any new facilities for enriching uranium for fifteen years and Iran agreed to triple the number of expert inspectors from Atomic Energy Agency (IAEA) allowed to be overseeing Iranian entire supply chain for their nuclear program and program itself. In exchange for all these concessions signatories, essentially leaders of the international community agreed to lift sanctions imposed on Iran over their nuclear program. However, sanctions imposed as a result of their ballistic missile program were not included. While these two programs are unrelated, they became point of dispute and campaign topic for back then, republican presidential candidate Donald Trump.¹⁵

¹⁵ Joint Comprehensive Plan of Action, 2015

Based on structural realist theories, it would be rational for KSA to support this deal first of all because it removes potential nuclear weapon from the arsenal of Iran. Furthermore, it gives more guarantees that even if they decided to resume their nuclear program it would be detected. In addition to this, this would allow international community as well as GCC and KSA to take necessary steps to deal with this problem. Therefore, this deal removes insecurity of not knowing what the stage of their nuclear program is and prolongs time necessary for development.

However, it was Saudi's with other GCC members and Israel that opposed JCPOE first instance of cooperation among Arab Gulf states and Israel. Essentially, Saudi and their allies opposed measure intended to prevent their "enemy" from acquiring the ultimate weapon contrary to what realist would expect them to do. Mearsheimer and Waltz in their paper explicitly argue that it is irrational for United States to engage militarily with Iran and other states in their attempt to prevent their nuclear program. They argue, that states usually seek these weapons when they feel threatened and there are just trying to balance against a threat. Furthermore, it's impossible to completely prevent states to acquire them only with force. Force can be used to slow down but not to prevent, therefore they suggest that United States should retreat from the region removing threat from Iran¹⁶

Based on this argument, Saudi's and their allies should behave similarly. They should be concerned with Iran being able to develop nuclear weapons in the shorter time. This are two levels to this problem from realist perspective. First problem already mentioned is fact that without JCPOE Iran was capable developing enough uranium in couple of months.

¹⁶ The Case for Offshore Balancing, Mearsheimer & Walt p. 79 & Waltz 2012 Why Iran Should Get the Bomb

Furthermore, international community had no idea about scale and progress of their program. In theory, gave Iran capability to develop bomb undetected. However, it can be argued that Saudi and Israeli concerns were justified based on insufficient control over the deal. Even if Iran decided to break the deal and start with the development it is highly unlikely that they would manage to do it without being simply because of the long time necessary to do so. Furthermore, by being bound with the international treaty gives international community better tools how to eventually punish Iranian misbehaving. While imperfect, this deal without doubt decreased overall risk of Iran developing nuclear weapon than vice versa.

Secondly, KSA opposed US and lobbied for scrapping the deal and publicly criticized it. This seemingly insignificant move is however problematic based on realist assumptions. While their action did not result in any punishment by the US, essentially, they risked losing already decreasing support during Obama administration. Based on Waltz and Mearsheimer it would be rational to follow the lead and do everything to preserve powerful ally providing security for KSA. Instead, Saudi's under leadership of MbS decided to defy American interested and risked backlash.¹⁷

However, one of the possible structural realist explanations is not rooted in nuclear weapons but rather in economic capabilities. For Liberman resources and economic power are part of the power capabilities that states take into account in their decision making.¹⁸ It could be argued that for MbS threat of reintegration of Iran into the international community poses significant security threats. By lifting sanctions, untapped Iranian economic potential would be unleashed brining new sources of income. For example, Ibish argues that Gulf countries

¹⁷ Waltz, Why Iran Should Get the Bomb, 2012

¹⁸ Liberman, 1996

are less concerned with the nuclear program of Iran and more with their support for proxies and overall growing Iranian influence in the region. He argues that potential economic benefits of JCPOE for Iran pose far greater threat to these states.¹⁹ And indeed JCPOE provided significant economic boost to Iran, in 2016 GDP growth was 13.4% in 2016 while 3.8% in 2017 and -1.5% once sanctions were reintroduced. Shortly after sanctions were lifted Rouhani toured Europe and, in few months, signed deals worth several dozens of billions across different sectors such as aviation, oil and gas, manufacturing, automotive, and others. However, while this is a valid argument Iranian economy is most diversified in the region as a result of the sanctions. While other economies predominantly depend on oil rent Iranian economy is for decades did not export almost any oil. However, while this poses to some extend a rational explanation its questionable how would these additional economic capabilities contribute to growth of Iranian influence in the region. And once again, Saudi's are under security umbrella of the United States and therefore should not feel threatened by Iran.

2.1.II JCPOE: Window for Closer Cooperation?

Apart from purely military and economic capabilities, which are in the forefront of the structural realist theory there was another side of this deal. JCPOE offered a great chance for KSA to restart relations with Iran and reintegrate it with the international community. Iran even repeatedly made attempts to improve these relations and potentially cooperate with KSA. Before JCPOE both sides were highly critical and they blamed each other by intervening in domestic affairs, spreading dangerous ideologies and supporting militias across region. Usually, they used every opportunity or misstep by governments or their militaries to leverage this. However, before JCPOE was signed and afterwards Iran made several attempts to improve bilateral relations. Behravesht describes perhaps most interesting example of such

¹⁹ Ibish, 2015

attempt by Iran from 2018 when opportunity to mock and rhetorically attack Saudi occurred Iran showed restraint and waited for three weeks.

In 2018 Saudi Arabia made the news when shocking report came out that Jamal Khashoggi, journalist born in the Saudi Arabia was murdered at the Saudi consulate in Turkey. Khashoggi worked for Washington Post and he was a outspoken critic of Saudi domestic and foreign policy especially crown prince Mohammad bin Salman. Exact details of the actions are still unknown and there are conflicting version and stories coming from different sources. However, what is clear is that Saudi alleged intelligence officers with ties to MbS or people close to him arrived to Istanbul, murdered and dismantled body of Khashoggi.²⁰ It took three weeks for Iran to make a statement about Khashoggi's murder, it was only on 24th of October when Iranian President Hassan Rouhani made a public statement condemning this murder and criticized MbS and Saudi regime. However, not only it's interesting to see how Iran waited but also when they decided to make a statement. It followed meeting in which Saudi Arabia and Bahrain agreed to add Islamic Revolutionary Guards Corps and some Iranian military personnel to their terrorism list just day before.²¹ Other example of such Iranian restraint and attempt to improve relations occurred when minister of foreign affairs, Javad Zarif offered talks to improve bilateral relations following problematic public statement by American president. However, this was once again ignored by MbS and Saudi leadership.²² And multiple other attempts and statements of Hassan Rouhani.²³ From realist perspective, it would be prudent to work on improving relations with Iran when their allies providing their security are pushing for such policy.

²⁰ "Jamal Khashoggi: All You Need to Know about Saudi Journalist's Death." BBC News. December 11, 2018. Accessed May 25, 2019. <https://www.bbc.com/news/world-europe-45812399>.

²¹ Maysam Behavesh, 2018

²² Zarif Javad, Twitter, 2019

²³ Al Jazeera, Rouhani Ready to restore Ties with Saudi Arabia, 2019

1.1.III From JCPOE Back to Nuclear More Radical Iran

Iranian Supreme Leader Grand Ayatollah Ali Khamenei and other hardliners were criticizing policies of President Hassan Rouhani and his negotiations with the United States and his attempts to improve relations with Sunni neighbors. JCPOE was negotiated under his leadership and he was one pushing it through in Iran. In promise of economic benefits for Iranians he rallied support not only for concessions to the Americans and JCPOE as a whole but also to his administration during last elections in 2017 when he managed to defeat conservatives' challengers. In those elections he repeated his success from 2013, when he replaced hardliner Mahmoud Ahmadinejad. However, American decision weakened Rouhani and made hardliners more assertive, more likely to replace Rouhani next elections.²⁴ Once again Iranians showed restraint and only after several months responded by rolling back some of the policies adopted as part of the JCPOE. However, when Hassan Rouhani announced that Iran, as response to American unilateral decision, will break some of their commitments under JCPOE Iranian media siding with hardliners criticized this move. They criticized this move as insufficient response to such violation and also as very late response.²⁵ Clear sign that hardliners are increasing their push and presence increasing likelihood of hardliners winning Presidency again.

By opposing JCPOE Saudi's are threatening their own security, undermining reformist, moderate and cooperation-oriented President Rouhani helping hardliners gain popularity. These policies are pushing Iran once again against US and other power that signed JCPOE. During campaign trail, now President Donald Trump repeatedly criticized President Obama for his approach towards Iran. Finally, on May 8, 2018 President Donald Trump

²⁴ Dehpghanipisheh, 2019

²⁵ Ibid

decided not to “renew” the US involvement in the JCPOE. Based on how was deal accepted by the United States it allowed President to review Iranian compliance and made a decision whether continue or reimpose sanctions. President reaffirmed their committed every 180 days until May 8. However, President Trump did not reimpose sanctions on the ground that Iran was breaking JCPOE, he argued to their other activities not related to the nuclear program.²⁶ Furthermore, he blamed previous administration for negotiating “bad” deal in its core.²⁷ These reimpose sanctions came into action on November 4th, 2018 targeting Iranian business and officials essentially preventing US, but also other companies working in Iran or with Iranian companies.²⁸

Without doubt this had significant impact on Saudi’s foreign policy as their opposition to Iran was supported by their ally. However, it fails to explain why would MbS risking opposing US, EU member states, Russia and China when deal was negotiated and signed. While other signatories of JCPOE called Iran to restrain from reacting and to continue their obligations under JCPOE. However, Trump administration reimpose sanctions on Iran once again hurting Iranian but also European and American companies. EU unanimously disagrees with the unilateral decision of the United States to pull out from the JCPOE and thus decided to launch Instrument in Support of Trade Exchanges (INSTEX) a Special Purpose Vehicle to allow European companies operating and trading with Iran. High Representative for the Foreign Affairs and Security Policy, Federica Mogherini in her statement said that EU will uphold their commitments while Iran does the same.²⁹ Especially when IAEA confirmed in 13 reports that Iran is compliant with the JCPOE.³⁰ Yet, despite commitment of all other

²⁶ White House, Statement from the President, August 6 2018, <https://www.whitehouse.gov/briefings-statements/statement-president-reimposition-united-states-sanctions-respect-iran/>

²⁷ <https://edition.cnn.com/2018/05/08/politics/donald-trump-iran-deal-announcement-decision/index.html>

²⁸ <https://www.treasury.gov/resource-center/sanctions/programs/pages/iran.aspx>

²⁹ https://eeas.europa.eu/delegations/japan/57475/statement-high-representativevice-president-federica-mogherini-creation-instex-instrument_en

³⁰ https://eeas.europa.eu/delegations/japan/57475/statement-high-representativevice-president-federica-mogherini-creation-instex-instrument_en

signatories it won't allow Iran to operate as intended because of the dominance of the financial system operating in dollar as well as all companies also operating in the United States. However, following American decision to reimpose sanctions Iranian hardliners, conservative clerics and supreme leader Ali Khamenei that were skeptical about the deal from the beginning are now rejecting any new talks about reopening and renegotiating the deal.³¹

Following Trump's decision to reimpose sanctions, President Hassan Rouhani claimed to ordered their scientist to be ready to restart nuclear program when necessary.³² Therefore, we see that JCPOE opposition only threatens Saudi's by pushing Iran to restart their nuclear program to secure their safety, it gives ground for hardliners to critic's current leadership that is open to diplomatic solutions and by preventing Iran to be reintegrated to the International community. All of these represent far greater threats to the KSA that any potential economic capabilities could under JCPOE.

2.2 Saudi Arabia and Their Cooperation With Iran Under OPEC

However, if we accept that Saudi's were concerned with the potential economic benefits for Iran and how these funds could be used it opens new problem and that is explanation of cooperation of Saudi's with Iran as part of OPEC. Years of international sanctions decimated oil sector in Iran. Before JCPOE, Iran was still using outdated technology to extract oil with low efficiency and high breakeven point, price necessary to extract oil. Furthermore, sanctions prevented other states from buying Iranian oil. This resulted in minimal role of oil sector in Iranian economy that preserved their oil reserves and currently Iran hold fourth largest oil reserves.³³ However, as part of JCPOE deal Iranian

³¹ Bozorgmehr 2018

³² <https://edition.cnn.com/2018/05/08/politics/donald-trump-iran-deal-announcement-decision/index.html>

³³ EIA, Country Analysis Brief: Iran, 2018
https://www.eia.gov/beta/international/analysis_includes/countries_long/Iran/iran.pdf

sanctions were lifted and several deal worth several millions were signed with western oil companies to give drilling rights.

On 10th of December 2016 during OPEC's 171st meeting historical deal was reached. Declaration of Cooperation (DOC) which is official name of the deal is an outcome of Joint OPEC-Non-OPEC Producing Countries' Ministerial Meeting. Here, for the first time ever OPEC and non-OPEC countries together coordinate policy move on oil production. In total, 10 countries Azerbaijan, Bahrain, Brunei Darussalam, Kazakhstan, Malaysia, Mexico, Oman, Russian Federation, South Sudan and Sudan joined back than 14 OPEC permanent members. In total in DOC OPEC and non-OPEC countries agreed to decrease overall oil output by approximately 1.8 millions of barrels per day (m/bd). OPEC agreed to adjust their production by 1.2 m/bd while non-OPEC members agreed to adjust their production by 558 000 m/bd.³⁴ However, what preceded this declaration was internal OPEC deal from 30th of November 2016 where Saudi Arabia and Iran cooperated and agreed on future steps. Under growing fiscal problems as a result of low oil prices gulf states under leadership of Saudi Arabia agreed to cooperate with Iran and together adjust their production to be able to reach deal with non-OPEC members.³⁵ 171st meeting in Vienna was historic for numerous reasons and this cooperation was one of those.³⁶ Furthermore, to ensure that all members are compliant another milestone was reached when OPEC members and non OPEC members agreed to create commission tasked with monitoring how states are upholding their commission. Five countries created Joint Ministerial Monitoring Committee (JMMC) consisting of two non-OPEC members, Oman and Russian Federation alongside with three OPEC members Algeria

³⁴ DOC, p. 3

https://www.opec.org/opec_web/static_files_project/media/downloads/publications/Declaration%20of%20Cooperation.pdf

³⁵ Commodity Markets Outlook, 2017, p. 14

³⁶ Oil Price Volatility, 2016

Kuwait, and Venezuela.³⁷ Cartel, in order to increase oil prices reintroduced price targets and calculate production adjustments based on this. This policy, of deliberate cuts to control price was abandoned two years before 171st meeting by Saudi's decision to shift their oil strategy.

Puzzle for realists comes when closely examining details of the deal as agreed. In total, OPEC members agreed to decrease their production by 1.2 millions of barrels per day (mb/d). However, following months of negotiations over amount of adjustment by each state OPEC members finally reached consensus. Based on these negotiations, Saudi's were scheduled to decrease their oil production by 0.49 mb/d. But the puzzle comes when looking at Iran's projected, that was allowed to increase their production by 0.009 mb/d. While this is insignificant number on its own, it shows first sign of Saudi willingness to work with Iran. Essentially, this deal allowed Iran to increase their oil production increasing their market share and by improving oil prices Saudi's helped Iranian, as well as theirs economy. While this was first significant sign of potential cooperation with Iran for Saudi's it wasn't the last one. In November 2017 OPEC and non-OPEC countries agreed to extend these production cuts to the end of 2018.³⁸ And they once again repeated this policy in December 2018 when they agreed to cut the production by another 1.2 million mb/d while exempting Iran, Venezuela and Libya once again.³⁹ Interestingly, both sides complied with their commitments and Kuwait and Saudi Arabia even decreased their production below what they initially agreed. Iran increased their production as projected but remained in the spectrum as outlined in the deal. However, prices did not increased as OPEC and non OPEC members expected because United States increased their shale oil production which resulted in increased oil exports that met with most of the oil demand and therefore prevented oil price increase in this

³⁷ DOC, p. 3

³⁸ <https://www.reuters.com/article/us-opec-meeting/opec-russia-agree-oil-cut-extension-to-end-of-2018-idUSKBN1DU0WW>

³⁹ <https://www.nytimes.com/2018/12/07/business/energy-environment/opec-russia-oil-prices-production.html>

period.⁴⁰ By allowing Iran to increase their oil output Saudi Arabia contributed to the increase of economic power of state that aims to destroy them thus posing a problem to explain from realist perspective. Especially, when looking at this problem after analyzing JCPOE which can be explain through realist lenses when we accept that threat was based in economic benefits of JCPOE for Iran. Thus, if this was indeed what motivated Saudi's to risk breaking alliance with the United States, they should have followed the same logic with the OPEC deal.

1.3 Saudi Arabia and Arm Sales

Another puzzle while looking at Saudi behavior under MbS is Saudi's expenditures on weapons. Walt describes regional balancing against threats, that's why for him South Korea and Israel moved towards United States to balance against regional rivals.⁴¹ By the same logic, assuming that Iran is a threat it would be rational for KSA not to upset the guarantor of their security, United States. However, earlier that year, first MbS in May visited Moscow followed by King Salman's visit in October during this trip they signed multiple contracts and agreements. One of them was Russian Direct Investment Fund (RDIF) announced that it will help Saudi's build their Neom project. In addition to this Saudis to buy S-400 defense system from Russia with battlefield weapons, as well as building AK-103 Kalashnikov plant in Saudi Arabia. Shortly after this meeting US also agreed to sell their state-of-the-art air defense system Terminal High Altitude Area Defense (THAAD) to the kingdom.⁴² Interestingly, Trump's administration reacted much more harshly to Turkey's plan to buy S-400s from Russia. United States repeatedly warned Turkey that proceeding with the purchase may result in terminating their contract for Lockheed Martin F-35 and even sanctions.⁴³ While KSA and

⁴⁰ Oil-cut deal threatened by exempt nations and by shale, 8 February 2017

⁴¹ Alliances in a Unipolar World – Stephen M. Walt, 2009, p. 111

⁴² Oxford Analytica Daily Brief, Russian-Saudi interests too divergent for partnership

⁴³ Al Jazeera, Russia Condemns US Ultimatum

Russia for years talked about arms trade, they signed multiple agreements but never carried with them. First, Saudi's agreed to substantial deal in 2008 when Tehran and Moscow started to get closer, later in 2013 when campaign Against Assad was intensifying and against in 2017 when Assad future looked complicated again.

Its clear that Saudi's are using weapon transfers as a diplomatic tool. Furthermore, there was agreement that Russia would contribute to the development of the nuclear program in the Saudi Arabia, however this seems to be not the case anymore since satellite images from April 2019 shows that KSA made significant progress on their nuclear development.

Most likely United States provided support for their development as also in April it became clear that Trump administration authorized transfer of nuclear technology to the kingdom. Furthermore, KSA at this point did not inform International Atomic Energy Agency about this progress nor did they request inspections. This only opens new speculations about the use of this nuclear plant. Plan of the kingdom was initially to contribute at least with 10% from the nuclear energy.⁴⁴ Also, RDIF and PIF signed memorandum of understanding where PIF will invest \$10bn in Russian economy. Iranian military is lacking technological capabilities because of years of isolation under international sanctions pose little competition for Saudi Arabia in terms of military.⁴⁵ Even MbS himself said so during CBS interview with O'Donnell:

„Iran is not a rival to Saudi Arabia. Its army is not among the top five armies in the Muslim world. The Saudi economy is larger than the Iranian economy. Iran is far from being equal to Saudi Arabia.“⁴⁶

⁴⁴ Riyadh will push nuclear to diversify energy mix, 1 May 2019

⁴⁵ Sadeghi-Boroujerdi, 2017

⁴⁶ CBSN, O'donnell, 2018

TIV of arms imports to the top 50 largest importers, 2000-2018

Figures are SIPRI Trend Indicator Values (TIVs) expressed in millions

Figures may not add up due to the conventions of rounding.

A '0' indicates that the value of deliveries is less than 0.5m

For more information, see <http://www.sipri.org/databases/armstransfers/sources-and-methods/>

Source: SIPRI Arms Transfers Database

Generated: 12 May 2019

Rank 2000-2018	Rank 1999-2017	Recipient	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2000-2018
1	1	India	995	1200	2031	2758	2225	1204	1488	2267	1845	1863	2909	3596	4395	5376	3334	3065	3021	2917	1539	48027
2	2	China	2521	2819	2875	2342	3284	3566	2862	1654	1856	1381	1034	1102	1675	1372	1137	1169	1041	1190	1566	36445
3	3	Saudi Arabia	85	61	567	167	1170	167	206	230	391	824	1083	1222	1033	1615	2741	3334	2923	4060	3810	25689
4	4	South Korea	1396	773	528	752	1059	805	1651	1755	1683	796	1282	1574	1078	184	721	272	1113	1068	1317	19807
5	5	UAE	247	186	222	685	1211	2171	2023	919	753	561	607	1200	1119	2275	791	1266	1193	1074	1101	19602
6	6	Australia	338	1236	663	801	472	459	727	677	445	777	1511	1559	868	236	919	1464	1025	1813	1572	17561
7	8	Egypt	837	832	719	630	654	797	722	690	333	159	686	630	281	675	420	1438	1684	2403	1484	16073
8	7	Pakistan	186	423	563	650	477	443	360	692	1071	1186	2199	1108	993	1075	770	849	864	752	777	15438

Source: SIPRI Arms Transfers Database

Historically, weapons played significant role for Saudi's as they were used as a foreign policy tool. By weapon purchases from key allies in exchange for their political support. KSA ranks third in arm transfers as a recipient after India and China respectively based on the data from Stockholm International Peace Research Institute (SIPRI).⁴⁷ In the period from 2014 to 2018 KSA became largest importer of weapons in the world while United States still remains the biggest exporter. Biggest client of US arms manufacturers was Saudi Arabia with 22% of American exports going there this is 2.8 times higher than the second largest importer Australia. Second and third clients, Australia that accounts only for 7.7%, and United Arab Emirates that account for 6.7% of American exports highlights importance of KSA as a key partner of the United States.

However, Saudi's are also the third biggest client of third largest arms exporter France with 7.4% of all their exports. Biggest client of the sixth biggest arms exporter, United Kingdom with 44% of all exports.⁴⁸ For Saudi's US accounts for 68% of all supplies, UK

⁴⁷ Stockholm International Peace Research Institute,

⁴⁸ SIPRI Fact Sheet, March 2019, p. 2, https://www.sipri.org/sites/default/files/2019-03/fs_1903_at_2018_0.pdf

represents 16% while France 4.3%. From strategic and operational perspective, it makes little sense for Saudi's to buy weapons from such diverse group of suppliers. These weapon systems are often unable to communicate, or it significantly complicates in combat use of these systems together. In addition to this, all of them require unique spare parts, knowledge for upkeep and their use. All these factors add up price for maintaining these capabilities.

One of the possible explanations might be that Saudi's are in fact balancing against other threat. When looking at the regional alliances and rhetoric of the Saudi's only reasonable threat besides Iran might be Israel. However, both states are under security umbrella of the united states and it is very unlikely that either of the states perceives each other as an enemy. In addition to this, there was an unprecedented talks and interaction among Israel and Saudi Arabia in the past years. In 2016 Saudi delegation led by retired general visited Tel Aviv and met with minister of foreign affairs and Knesset members lobbying for Arab Peace Initiative.⁴⁹ In 2017, MbS summoned Mahmoud Abbas to the kingdom and ordered him to either accept US peace deal or resign.⁵⁰ Israel PM Netanyahu met with the ministers of foreign affairs of Arab countries during peace conference in Warsaw organized by United States. MbS describes supreme leader of Iran as new Hitler.⁵¹ According to the Israeli officials, relations among Arab gulf states and Israel are best in decades and that a lot is happening under the radar. Potential normalization of the relations with Israel is still unacceptable for many citizens of Arab monarchies and royal families are worried about potential backlash.⁵² Furthermore, there were numerous report claiming that MbS visited

⁴⁹ Behraves, 2018 & Pillegy 2016

⁵⁰ Behraves, Maysam. "Commentary: The Unlikely Mideast Alliance That Threatens Iran." Reuters. January 25, 2018. Accessed May 20, 2019. <https://www.reuters.com/article/us-behraves-iran-commentary/commentary-the-unlikely-mideast-alliance-that-threatens-iran-idUSKBN1FC358>. & Spencer, Richard, and Anshel Pfeffer. "Saudi Prince Orders Palestinian President to Accept Jared Kushner's Peace Plan." The Times. November 14, 2017. Accessed May 20, 2019. <https://www.thetimes.co.uk/article/saudi-prince-orders-palestinian-president-to-accept-jared-kushners-peace-plan-xjdt8338>.

⁵¹ Black, 2019

⁵² Ibid

Israel in 2017 while officially denied by the Saudi's however few Israeli officials confirmed that MbS visited Israel.⁵³ This cooperation again common "enemy" Iran, started when King Abdullah died, and King Salman replaced him in 2015.⁵⁴ Israel is seeking for a long-time good relationship with Saudi's and other Sunni regimes as a sign that they are a significant power in the region.⁵⁵

Deepening political hostility between Turkey and Saudi Arabia. This is a reverse in long tradition of alliance between Turkey and Saudi's when Saudi's perceived Turkey as allied Sunni regime. However, recently Islamic media in Turkey targeted Saudi over their softening position on Israel. Turkey supported Qatar during the initial phase of the blockade and provided crucial support and Turkey even increased their military presence and military aid in for Qatar.⁵⁶

However, realist may argue that Saudi's are behaving rational by working with Israel against Iran as desired by the United States as a concession to align with their alliance. This would be able to explain their willingness to break with other GCC and Sunni states that are not contributing to Saudi's security. However, if we accept this logic it fails apart in explaining Saudi's opposition to JCPOE as outlined in the previous section (see chapter 2.1).

1.4 Saudi Engagement in Yemen

Coalition of nine states led by KSA started in 2015 intervention in Yemen after Houthi rebel toppled president Abdrabbuh Mansur Hadiseized and seized capital Sana and manage to control area from Sana an northern part of Yemen. There are two key problems when looking at Saudi's engagement in Yemen trough realist lenses. First, Saudi's actions are essentially

⁵³ Ibid

⁵⁴ Ibid

⁵⁵ <https://mondediplo.com/outsidein/why-iran-took-so-long-to-react-to-jamal-khashoggi>

⁵⁶ Oxford Analytica, Daily Brief, 3 January 2018, Turkey's rift with Saudi Arabia will not end soon

decreasing their powers by spending resources, manpower and time on engagement in these countries. Secondly, their actions are preventing resolution of the crisis thus contributing to the ongoing instability and suffering of the local populations and creates and grows resentment against Saudi's.

First and main problem with engagement in both Yemen are costs associated with it. While it's unclear what are the exact costs of these missions, they are without doubt substantial. While some estimated costs to maintain current levels of Saudi engagement in Yemen are around \$7bn annually, other estimations go as high as 25% of annual Saudi military budget.⁵⁷ Mearsheimer describes states that behave in such a way to maximize their power position of the state relative to the other states this analysis is problematic when looking at Saudi and their engagement in Yemen. While it may be able to explain why Saudi's decided to oppose JCPOE which essentially decreased economic capabilities of Iran.⁵⁸

However, it was only when Saudi's coalition got involved in Yemen Houthi's started attacking KSA. In addition to this, while Iran is supporting groups in Yemen, he is not controlling them. Just like in the United States, as Mearsheimer argues terrorism was exaggerated and did not pose existential threat to the United States. Rather, government used fear of terrorism as "fear mongering" to maintain their power and generate support for their policies based on fear of this non existing threat.⁵⁹

⁵⁷ Saudi privatization will privilege state interests, July 10 2017 & Hussain, 2016

⁵⁸ Mearsheimer, Tragedy of Great Power Politics

⁵⁹ Mearsheimer, 2011, p. 90-92

This poses another puzzle that poses a problem for the realist theory. By attacking Houthi's in Yemen Saudi Arabia is contributing to the maintaining vacuum of power in country thus contributing to the rising risk of growth of Al-Qaeda and ISIL cells as happened to the United States with their interventions and invasions.⁶⁰ Same argument was articulated in reports by Oxford Analytica, arguing blowback from Saudi's involvement in Iraq, Syria and Yemen poses serious security threat by increasing likelihood of terrorism posed by Saudi's involvement in these countries. Islamic State through their social media channel Al-Angal, announced that ISIL would move to Saudi Arabia as reaction to the "liberal" social reform such as allowing women to drive and reopening of cinemas and Saudi alliance with the United States in Syria. Islamic State already declared two provinces in the KSA but without any significant presence so far. Saudi Arabia formed the Islamic coalition against ISIL. It consists of 34 Islamic countries dedicated to eliminating this terrorist organization. Instability, civilians resentment and vacuum of powers in these countries could be leveraged by the Islamic State and al-Qaida increasing Saudi security threat as well as risking further destabilizing region.⁶¹ UN in their report says that more than 20m people are food insecure, 10m of those suffering from extreme levels of hunger while almost 18m lack access to clean water and at least 17 000 civilians died as a result of fighting while millions are displaced.⁶² Yemeni citizens chanting anti-Saudi slogans.⁶³

Even Waltz and Mearsheimer says in their essay arguing for offshore balancing of the United States that threats such as Al-Qaeda and ISIL cannot be eliminated with military operations. They argue that US managed to kill several prominent leaders and numerous

⁶⁰ The Case for Offshore Balancing, Mearsheimer & Walt p. 70

⁶¹ Oxford Analytica, Daily Brief, Saudi internal security threats could multiply, 27 January 2017

⁶² Humanitarian Crisis in Yemen, UN News, 2019

⁶³ Khashoggi, 2018

members of these groups, but new individuals just assumed their positions.⁶⁴ Shia minority dominated regions are posing another security threat because of the crackdown on the minorities, numerous executions of those charged with being affiliated with Iran and by fighting Shia militant groups in Syria and Yemen.⁶⁵ By further fueling instability and conflict Saudi's are ignoring prudent and rational choice, to support peace talks contribute to the stability of the country, secure their borders and help with the state building process. However, instead Saudi's are supporting government in their offensive against Houthi's despite agreed peace treaty from earlier this year. Based on realist arguments it would be rational to save their resources and manpower instead of depleting them on Yemeni ongoing civil war. At the end, Houthi rebels that Saudi claim are supported by Iran are far from securing any meaningful victories. However, besides Sunni Salafi-jihadist groups it's also oppressed Shia minority, and blowback from Yemeni engagement that pose serious security threats for KSA.⁶⁶ Trump administration is joining others calling on KSA to get involved with the peace talks and. Back then secretary of State Pompeo and defense secretary said that they want both sides to start peace negotiations within 30 days and called for end to a conflict bipartisan legislature was passed by congress to halt weapon sales and training to KSA while involved in Yemen. This clearly poses problem from point of view of structural realist that would expect Saudi's to comfort and do everything possible to maintain their powerful alliance. Once again during his interviews for CBS he justified their actions against Houthi rebels and intervention in Yemen as counter measure to balance Iranian influence.

*„The Iranian ideology penetrated some parts of Yemen. During that time, this militia was conducting military maneuvers right next to our borders and positioning missiles at our borders. “*⁶⁷

⁶⁴ The Case for Offshore Balancing, Mearsheimer & Walt p. 70

⁶⁵ Oxford Analytica, Daily Brief Saudi Arabia will use security risks to manage dissent, 28 September 2017

⁶⁶ Oxford Analytica, Daily Brief, 28 September 2017, Saudi Arabia will use security risks to manage dissent

⁶⁷ O'Donnell, CBS

MbS implies that these militias posed threat to Saudi by their “military maneuvers” and missiles. However, it’s hard to imagine most powerful army in the Middle East equipped with the latest military equipment being unable to defend themselves against these militias with weapons that one might call obsolete. Even when one accepts Saudi argument that Iran is supplying weapons to these groups, as stated before Iranian military capabilities are limited and one of the reasons is weapons from 90s. However, as stated before it was only when Saudi’s started their bombing when rocket attacks on Saudi soil began.⁶⁸ Realist explanation might be able to explanation motivation and behavior of the MBS to go in and protect Eastern province.

However, from realist perspective it would be rational to stabilize situation, prevent Houthis from gaining more support by stopping fighting but most importantly to lower their costs by being present in Yemen. This is conclusion and policy recommendation of Mearsheimer and Waltz in their work, *Offshore Balancing*. In their work they propose to shift from policy regions to simple leaving them and rather focusing on dealing with potential competitors for hegemony. This strategy proposal counts with very limited engagement of the United States and rather focusing on countering emerging powers and maintaining hegemony over the western hemisphere. They say, among other things, that US presence and attempt to spread democracy usually causes backlash and increase in terrorism and hostilities against the United States.⁶⁹

Not only there were numerous peace plans proposals, Houthi’s explicitly offered to stop with the rocket attacks. One of the senior Houthi representatives said that they repeatedly

⁶⁸ The Case for Offshore Balancing, Mearsheimer & Walt p. 74

⁶⁹ The Case for Offshore Balancing, Mearsheimer & Walt p. 74

told Saudi diplomats that if they stop airstrikes, they will stop with the rocket attacks.⁷⁰

However, all of these proposals were rejected by the Saudi's questioning validity of their concerns with the attacks. Other analyst may argue that indeed Houthi militias do not pose any serious threat to the Saudi territory precisely because of the all defense systems and far superior military. However, they may argue that Saudi's are rejecting all the peace plans and they are continuing their engagement to secure their source of income, oil exports. Houthis are attacking Saudi oil tankers by firing missiles as well as mining naval routes complicating routes for both cargo and oil tankers. While Saudi air defense and superior military is capable of defending their border and airspace, they cannot protect their ships as effectively.

1.5 Qatar end for GCC?

On 5th of June 2017 Bahrain, Egypt, Saudi Arabia announced cutting diplomatic and economic ties with Doha. Several other smaller countries joined this coalition however their impact isn't that significant.⁷¹ Saudi's and their allies argued that Qatar is supporting Muslim Brotherhood, that they are undermining their allies by supporting terrorist groups and on top of that they are working with Iran. However, Qatar needs good relations with Iran because of their shared oilfield. Furthermore, during previous clashes with Iran it was Qatar that mediated their talks. However, during the boycott it was Tehran and Ankara that provide support and brought Qatar closer to them going against interest of the Saudi's and GCC block.⁷² As a result of this dispute with Qatar, GCC as single market and as a concept of cooperation is permanently damaged. Furthermore, Saudi Arabia failed to coerce Qatar like in 2014 which project weakness of the Kingdom and MbS as such.⁷³

⁷⁰ Al Jazeera, Why Did Houthis Attack Riyadh?

⁷¹ Oxford Analytica, Daily Brief, 7 June 2017, Surrender to Riyadh will raise domestic risks for Doha

⁷² Oxford Analytica, Daily Brief, April 26 2018, Omani-Saudi-Emirati tensions may rise in the Gul

⁷³ Oxford Analytica, Daily Brief, June 26 2017, Arab enemies may impose new sanctions on Qatar

Just few days before OPEC summit in 2018, Qatar minister of energy announced that they are leaving OPEC. They argued that this move is not politically motivated and that they just want to focus on their gas production and exports policies and energy minister even explicitly mentioned blockade as not part of their decision. Qatar isn't a meaningful contributor to the overall OPEC oil exports (less than 2%) however Qatar's LNG policies aren't really affected by OPEC. Therefore, this move justified by economic arguments is clearly a political move for Doha to show that they are breaking from Saudi and UAE. While this move means almost nothing for OPEC as organization focusing on oil exports, it's a significant blow for GCC and shows how fragile their relations truly are. Ramani argues that Saudi's isolation of Qatar can be perceived as an attempted gamble by MbS to diplomatically coerce Qatar behavior and to accept Saudi's hegemony over GCC and foreign policy over Middle East.⁷⁴

2011 Arab spring fear, GCC spillover potential and consequences of instability – IS al-Qaeda. As a result, Saudi, UAE, Kuwait and Qatar each pledged \$10 bn to Oman, Bahrain and \$5bn to Jordan and Morocco to Jordan and Morocco to help their economies and lower pressure of the monarchs by giving back to the citizens. But later diverged on how to support and whom to support that contributed to the Qatar blockade.⁷⁵ Again, in 2018 Bahrain received \$10bn bailout plan over next five years to help them sustain low oil prices from 2014 and faced problems onwards.⁷⁶

⁷⁴ Ramani 2018

⁷⁵ Oxford Analytica, Daily Brief, 18 September, 2018, Blowback may eventually restrain Gulf interventionism

⁷⁶ Yaakoubi, 2019

Chapter 2. Petro-State theories

2.1 Theoretical background

There is large literature about impacts of natural resources on the development of state. Theories focusing on rentier state, resource curse, Dutch Disease and others highlight how economic growth in countries that possess significant resources is slower than in those without them furthermore it prevents local economy from diversifying and prospering.⁷⁷ Ross in his work on Dutch disease explains why oil exporting states have small private sector without influence.⁷⁸ While most of the oil rich countries are developing countries and share some similarities with other developing countries, they are very different as a result of oil wealth. Rapid influx of petrodollars shaped and altered their development trajectory. Furthermore, it's also this wealth that is an obstacle in their development which creates and maintains negative circle of development.⁷⁹

Not only are petro-states like other rentier states, building their authority from extracting rent from external economies and subsequently distributing it domestically. These states are extreme cases of this because of the nature of oil.⁸⁰ While there is an apparent advantage of having natural resources, as many authors described it causes problems when these recourses are found by developing state.⁸¹ These states have obvious fiscal advantage by massive cash flow as a result of natural wealth. However, ironically, it's this wealth that triggers spiral of negative development choices. These states are able to run without deficit,

⁷⁷ Sach & Warner, 2001; Auty, 2001; Yates 1996

⁷⁸ Ross, 2012 p 1150 & Ross, 2013

⁷⁹ Karl, 1999, p. 34

⁸⁰ Ibid, p. 36

⁸¹ Ross 2012, Karl 1997, Karl 1999

they are able to support social policies as well as infrastructure development however because of the abundance of the finances basic free market mechanisms are not working. Due to this wealth bureaucrats are not forced to fight for their project and after some time ineffective bureaucracy is developed. There is no civilian control over spending as there are no stakeholders like in systems where citizens are funding their governments. This results in lavish, grandiose but ineffective constructions just like King Abdullah Economic City.

Another feature is marginal role of private sector which results in need of state to resolve and manage all problems that require high state interference with economy that in return creates even more barrier and obstacles for private sector to develop.⁸² Key features of petro-states as a result of this similar development is homogeneity across petro-states. While these states are very different culturally, politically, geographically they share set of similarities. Its economy is dependent on one sector which is oil, as a result of this dominance entire economy and state apparatus is designed to priorities needs of this sector, high use of the natural wealth reserves and leaders of these states perceive need for rapid acceleration of reform until they have oil to secure post oil economy.⁸³ These need for rapid acceleration of reform is backbone of this paper. It's exactly this trigger that allows divergence policies to take place.

However, when looking for work on foreign policy and natural resources especially oil one finds very little. Most of the research is focused on intrastate conflicts looking at who, how and why starts conflicts. Recently there was a shift with increased work on argument supporting that petro-states are not only targets of the aggression but that they are the

⁸² Karl, 1999 p. 35

⁸³ Karl, 1999 p. 34

aggressors.⁸⁴ This literature shows that petro states are more willing to use force to resolve interstate disputes. However, these authors and this literature is predominantly concerned with the intra state conflicts and not with civil wars and interventions.⁸⁵ However, these states when engaging with conflicts are predominantly concerned with protecting source of their income oil. Nature of petro-states prevents barriers for reforms despite the fact that they see them as necessary it allows them to postpone them.⁸⁶ Rentier states are economies dominated by extracting rent from abroad and draw their support from redistribution of this rent to the population.⁸⁷

These reforms are key in Saudi Arabia as all revolves around them. Since introduction of the Vision 2030, reform project of MbS all their attempts were to push these reforms through. Some, as described before, already passed. However, there are others that require significant investments. But as Karl says, for petro-states everything is subordinated to the needs of oil sector and that's also the case in Saudi Arabia. This need for reform however poses significant security threat of MbS, and like other leaders that are facing problems, or are expecting them adopts adequate policies.

One of those policies is to wage war. This literature first emerged as a puzzle on why leaders in democracies enjoy bigger approval ratings in war times. With time this literature significantly progressed and now there is a huge amount of literature on the role of diversionary foreign policy, whether it is effective and if it is really something that pushes

⁸⁴ Anita Kelog 2017, p. 40, see also Colgan (2010, 2013); Ross and Voeten (2015); Schultz (2015); Meierding (2016)

⁸⁵ Anita Kellog 2017, p XXX

⁸⁶ Karl, 1999 p. 36

⁸⁷ Karol, 1997, p. 12

leaders to behave this way.⁸⁸ Core argument of these theories is that state leaders, both in democratic and undemocratic regimes are more prone to engage in adventurous diversionary policies to overshadow domestic problems and prevent loss of their position.⁸⁹ This theory looks inside the state arguing against structural realist theories that ignore domestic realities. For this theory, its domestic environment, political climate, but also personal scandals that affect likelihood of state actor engaging in this action.

Role of the diversionary foreign policy is to diverge focus from domestic problems, low approval rates, and to sway attention away from domestic to international issue. This literature looks at whether leaders that are in crisis or they are facing domestic problems are more likely to engage in conflicts. Main argument of this theory is that leaders look for opportunities to engage outside of their borders to improve their approval. There is clear link between conflicts and growth of support for leaders.

Mearsheimer argues that states will sometimes go to war even when they know their chance for success is low simply because it is in their political interest to do so.⁹⁰ And this paper argue that Saudi's while knowing that they are unable to completely eliminate Houthis they are doing this as a diversionary measurement aligning with some of the realist views on conflict and perception. However, he also says that states that are dissatisfied with the Status Quo will engage in wars to change this.⁹¹ It is highly unlikely that Saudi's ware interesting in reversing current status quo in which they are the leading power in the region. On contrary by engaging in Yemen they are increasing risk of losing status of the main power in the region.

⁸⁸ Morgan and Bickers (1992), (Kisingani and Pickering (2007), Sobek (2007), Smith (1996), DeRouen and Goldfinch (2005), Brule (2008),

⁸⁹ Smith, 1996, p 133

⁹⁰ Mearsheimer, *Conventional Deterrence*, 2018, p. 3

⁹¹ Mearsheimer, *Conventional Deterrence*, 2018, p. 7

As those working on petro-states suggest there needs to be a target and a right opportunity for this strategy to work and not to backfire.⁹² Once again going back to the O'Donnell interview in which MbS describes Iranian leader as new Hitler clearly framing him as a global threat to peace and security:

*“Because he wants to expand. He wants to create his own project in the Middle East very much like Hitler who wanted to expand at the time. Many countries around the world and in Europe did not realize how dangerous Hitler was until what happened, happened. I don't want to see the same events happening in the Middle East.”*⁹³

All of this is in line with the diversionary literature and those foreign policy decision of Saudi Arabia under MbS can be categorized as reckless, confrontational that even contradicts each other from time to time are indeed just like that. They are not calculated hyper rational ways how to deal with enemy and achieve hegemony. These are tools how to maintain his power back home. In some instances, MbS goes against American interest or policy approach. In other, he breaks years of consensus built around idea that Israel is an enemy while Arab regimes are allies. While structural realist theories, as shown in the first chapter might be able to explain some of the shifts it fails to explain most of them especially when looking at all of them together and not as isolated cases. However, as outlined in the previous section of this chapter Saudi Arabia, as a result of oil wealth they developed structural problems ironically caused by this wealth. As petro-theories suggest this pushes leader to adopt reforms. However, all previous attempts for diversification always failed under first signs of backlash from the society.

⁹² Karl, 1999 p. 34

⁹³ O'Donnell, CBS

MbS affected by the low oil prices during 2015-2016 period, Arab Spring experience as well as changing oil sector pushed him to revisit diversification plans that were here before and push to avoid financial crisis that would result in cuts that might trigger uprising. During Salman's interview with O'Donell, on the side she asked one of his close advisors about how close was kingdom to the financial crisis he replied:

„I don't think it was extremely close, but it was heading in that direction.“⁹⁴

Need for reforms pushed MbS to adopt diversionary policies as a tool how to deal with the domestic problems. This is why MbS is framing Iran as an enemy and shifted from passive to active regional foreign policy. Furthermore, this approach is able to explain why is MbS not willing to talk with Iran and why he decided to isolate Qatar. Smith argues that some states will try to remove potential of being targeted as an object of the diversionary foreign policy. They will try to improve relations and cooperate with state that might be considering such a move.⁹⁵ However, talks and negotiation would eliminate, or at least lower his options of engaging militarily in the region as an “counter” measure against Iran.

2.2 Economy of Saudi Arabia

Saudi Arabia based on the rentier state theories outlined in the previous section is a petro-state since most of their revenue comes from oil. KSA is the largest exporter of petroleum in the world, with oil sector accounting for 87% of their budget income, 47% of GDP and 90% of all export revenues.⁹⁶ Saudi's also holds at least 4.5% of global gas reserves and 15.6% of oil reserves.⁹⁷ When oil prices fell by 80% in period of 2014-2016 oil price plunge. Saudi's budget deficit reached 8.3% of GDP for fiscal year 2017, as a result Saudi's

⁹⁴ O'Donell, CBS

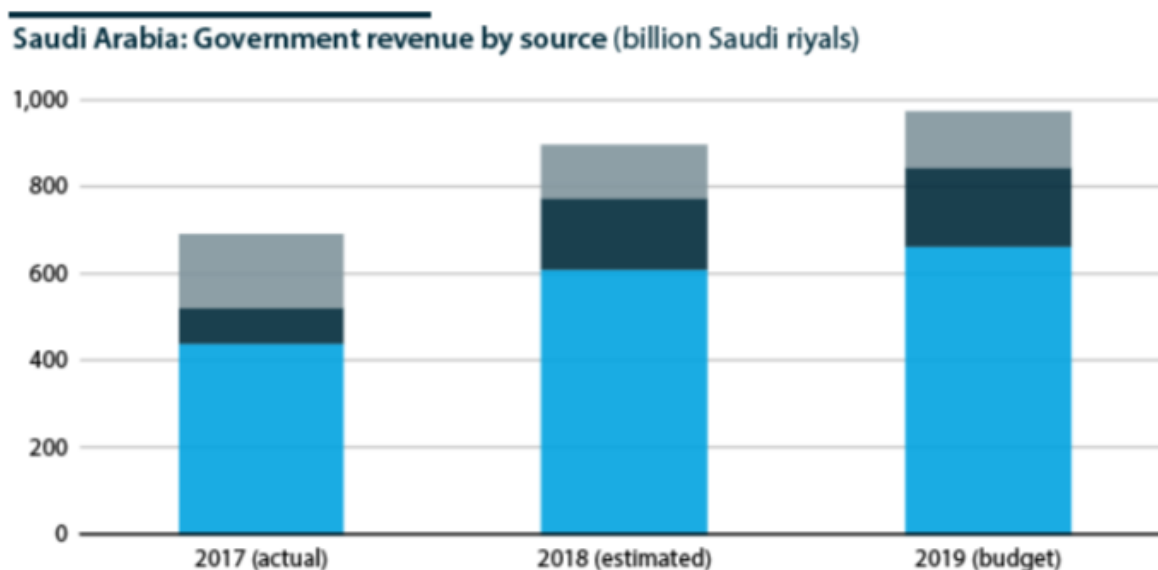
⁹⁵ Smith, 1996, p. 150

⁹⁶ The World Factbook: Saudi Arabia." Central Intelligence Agency

⁹⁷ Korteweg, European Parliament, 2018 p.9

decided to sell foreign bond sales and to use financial reserves to finance the deficit.⁹⁸ It's crucial for Saudi's to keep their economy afloat to make sure that they are capable of financing their extensive welfare program, as least for now. Slowly, Saudi's reduced subsidies for water, electricity, petroleum and introduced value added tax (VAT) of 5%.⁹⁹ However, also when Salman introduced VAT he was forced to reintroduce some of the subsidies out of the fear of potential backlash. First subsidies were introduced in Saudi Arabia in 1970 and there were multiple attempts to reduce scale of the subsidies they were usually brought back when crisis hit. As oil prices collapsed so did Saudi's economic projections so did they GDP.

While in 2015 they were projected to grow by 4.1% and in 2016 1.7% GDP in 2017 it was -0.9% of GDP. This is key rationale behind reform program proposed by the MbS. As highlighted in the previous section, Karl and others writing on petro-state writes how state becomes main source of growth and this can be seen on GDP consumption. For Saudi Arabia it is 41.3% household while government consumption 24.5%.¹⁰⁰ For Turkey it is only 14.5% for government and only 14% for Iran.



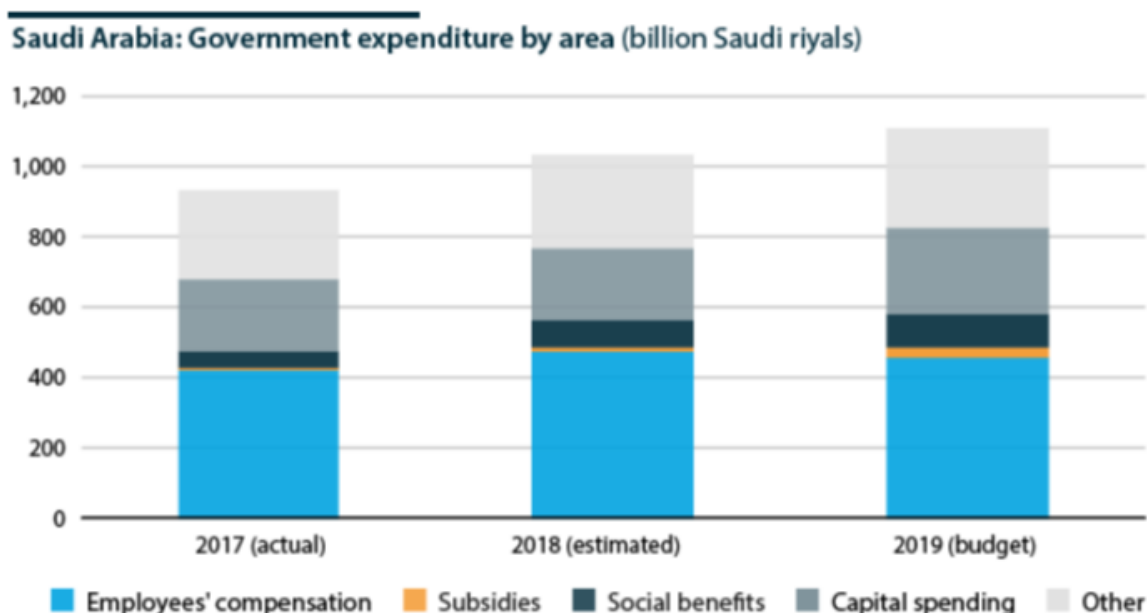
⁹⁸ World Economic Prospects, World Bank, January 2019

⁹⁹ The World Factbook: Saudi Arabia." Central Intelligence Agency

¹⁰⁰ The World Factbook, 2018

(Source: Oxford Analytica, Daily Brief, 17.01.2019 added Saudi risk will deter many investors)

Besides oil rent, there is very little to support budget of the KSA without reforms. With enormous profit yet budget being in deficit it's important to look on what is kingdom spending its wealth. While not as big as other expenses, but without doubt politically important is the royal family itself. This provides another level of "customers" that rentier state needs to redistribute wealth to. However, these royals are also involved in rent collecting as they often hold positions in the oil related sectors. Therefore, its essential for KSA to support these princes and maintain their loyalty and support. While exact number is not known estimates are that in 2003 there were 3200 immediate family members of the king's royal family branch. However, there are other branches of the royal family and families into which princes and princesses married, when all these members are included number can be as high as 30 000 members. It's unclear how much is KSA spending on supporting these family members, but number can be as high as \$10bn per year.



(Source: Oxford Analytica, Daily Brief, 17.01.2019, added Saudi risk will deter many investors)

Chapter 3. Context

3.1 History

In order to explain how, and why is rule of MbS such a deviation from normal policies of Saudi Arabia it's important to provide historical as well as factual background on Saudi Arabia, how it functions and why are reforms as proposed by MbS radical. However, Saudi case is special because of the role of religion and without explaining reforms in this sector one would miss scope of these reforms and how radical they are. As mentioned before, Middle East is region affected by sectarian fighting over the last couple of hundreds of years since the death of prophet Muhammad, and Saudi Arabia is no different. For Saudi Arabia, religion played crucial role from its begging of unification (unified in 1932). Gulf region was home to hundreds of tribal villages and clans that formed alliances and fought against each other. However, Muhammad ibn Al Saud wanted to unify these tribal clans under one kingdom. His powers were insufficient, so he reached an agreement with conservative religious leader, Muhammad Ibn And al-Wahhab. Al-Wahhab helped al-Saud family in the unification process of Arabian Peninsula by conquering them or forcing to obey their rule. In exchange for this help al-Saud recognized form of Islam as preached by al-Wahhab as dominant and main religion of Saudi Arabia preaching Salafism.¹⁰¹

Salafism, coming from “pious ancestors”, *al-salaf al-salih*, claims to represent pure form of the Islam. Main difference is that it considers only Quran and the Hidith as the authentic text that Muslims must follow and rejects all other new teachings and forms. This form of Islam was preached by the Mohammed ibn Abd al-Wahhab and his followers and

¹⁰¹ Matthiesen, 2013, p. 21

therefore became integral part of Saudi society. This form of Islam spread across the Saudi society through bureaucracy, religious teaching but also education from elementary school to as high as up to the university level where this teaching is still influential. Because of early partnership between al Wahhab and al Saud, Wahhabi clerics and their teaching became influential across the kingdom. From the early days of Saudi Arabia Wahhabi clerics gained control over education and all questions and issues related to religion. However, historically Saudi Arabia allowed numerous religious scholars and clerics, referred to as muftis to issue Fatwas. Fatwa is a non-binding legal opinion or interpretation on Islamic law, Sharia.¹⁰² In most of the Muslim states these Fatwas usually have little impact on day to day life since legislation is controlled by other organs. In Saudi Arabia, country officially ruled by Sharia law, without codified personal law means that in courts judges rule based on their interpretation of Islamic law.¹⁰³ Therefore, these clerics and muftis were able to affect and in some instances control laws. Later on, religious policy Mutawa was institutionalized that allowed them to arrest citizens on grounds of violating these religious laws. In 2010 King Abdullah bin Abdulaziz al Saud issued royal decree that prohibits everyone apart from the muftis in *Majlis Hay'at Kibar al- 'Ulama*, also known as Senior Council of Ulama to issue Fatwas. This move, officially justified by fight against spread of extremist ideology was perceived by some as an attempt of state to control religion.¹⁰⁴ However, it's more likely that clerics around King managed to further consolidate their powers. Ulama is official highest religious body of the Saudi Arabia and its members are appointed by King.

This council evolved from historical role of Wahhabi clerics as advisors of King and became institutionalized. Officially this body was established to provide advice to the King on

¹⁰² Merriam-Webster dictionary

¹⁰³ Unicef, Regional Overview for the Middle East and North Africa 2011

¹⁰⁴ Abdullah Alaoudh, 2018

religious matters, however since most of the actions are in one way or another connected with the Islam they often comment on foreign and domestic policies. Some even say that previously they confirmed numerous foreign policies of KSA.¹⁰⁵ This meant that decision and policies undertaken by king were widely supported inside royal family as well as among religious leaders, this policy of consensus meant that regime was stable and avoided infighting. MbS with his social reforms is easing some conservative policies that evolved from this Wahhabi legacy. However, these social reforms are essential for the economic reforms to be effective. Challenge comes with the potential backlash of these clerics and conservative members of the society.

However, because of the oil revenue and dominant position of religion allowed Salafi ideology to expand across continent to other places affecting Muslim communities. For Wahhabism's it was an obvious thing to do to spread "true" form of Islam. On other hand, for Saudi monarch's religion became geopolitical tool. Based on religious cleavage of Sunni and Shia Muslim states supported various religious programs and support different groups across the region.¹⁰⁶ However, its only under King Salman and Crown Prince when we see increased diminishing power and importance of this Ulama and religious clerics as a whole and reign based on consensus.

3.2 Rapid changes

For decades, leadership succession was decided by the consensus of the most powerful members of the royal family, just like much of the policies of the Saudi Arabia and process by which new king is selected is a result of years of conflicts and numerous crisis and problems within the royal family. First, in 1964 when king decided to appoint his inexperienced son as

¹⁰⁵ Gause 2002

¹⁰⁶ Beydoun & Zahawi, 2016

his successor, other members of the royal family revolted and forced him to change his decision. As a result, new norm was established for King of Saudi Arabia to follow rule of seniority and not primogeniture, custom by which the firstborn son of the monarch inherits the throne. However, in 1992 this was changed by King Fahd and codified by adopting the Basic Law legislature. First, this law allowed other members of the royal family, that married into the original al Saud family to be heirs to the throne. This allowed future kings to pick most suitable candidate instead of those born into the right family. Furthermore, this law stated that the most upright should be selected as successor to the throne. While it was King's decision to select the most upright implies that this selection should be based on informal consensus. Therefore, from the early days of the kingdom it was logic of most suitable candidate first by the custom and later by the law to replace the king.

However, in 2007 King Abdullah again modified this system by introducing the Allegiance Council to select heir instead of king. This council functions till this day and it consist of 35 most senior members of the royal family selected by King and most powerful princes from the family. Their names are not public and kept as a secret even for the members of royal family. Since 1953, all rulers of Saudi Arabia were full brothers and sons of the founder of dynasty King Abdulaziz also known as the Saudairy Seven. When one king from this line died his younger brother replaced him, and throughout their lives they held senior positions within the government. However, when King Abdullah died and his younger brother Salman bin Abdulaziz Al Saud, replaced him in 2015 he appointed his full nephew Muhammad bin Nayef as his successor by royal decree removing from succession his youngest brother Murquin bin Abdulaziz al Saud and with the same decree appointed his own son as Deputy Crown Prince, second in line for throne.¹⁰⁷ This decree essentially

¹⁰⁷McDowall, 2015

foreshadowed end of the reign for Saudairry Seven and a new generation of monarchs.

Interestingly, when MbS in 2018 replaced crown prince bin Nayef it was without approval of the Allegiance Council. Council only in the retrospective approved MbS as heir to the throne signaling another change for the policy of consensus inside the al Saud family.¹⁰⁸ Mohammad bin Nayef, was respected, reliable and trusted partner among KSA allies especially US thanks to his anti-terrorism commitments. By replacing him as Crown Prince MbS also replaced him as a minister of interior overseeing most of the security forces in country.¹⁰⁹

As one of MbS key proposals was Vision 2030, an ambitious diversification plan that essentially aims to change all the problems caused by the petro-state development trajectory just in few years. Vision 2030 aims to increase participating of private sector on the GDP, increase FDI inflow, improve efficiency of the bureaucracy, decrease subsidies but also to change laws to attract foreign workers and companies.

As part of diversification KSA with BAE Systems opened assemble facility for Hawk training jet. This is drive some of the gulf state to diversify their arm supplies. States doing so are UEA and Saudi's that will spend significant recourses to locally manufacture weapons. First, it makes little sense to procure aircrafts (and tanks and other heavy machinery) from multiple sources. However, Qatar just like UAE and Saudi's are doing so and using their capital as a political tool. Defense is key component for MbS diversification plans. He aims to create up to 40 000 jobs by 2030 by creating in 2017 Saudi Military Industries (SAMI) to facilitate this. SAMI signed contracts with France, Spain, French and Belgium military companies.¹¹⁰

Presence of oil wealth made Saud royal family immune from public demand and criticism

¹⁰⁸ Oxford Analytica, Daily Brief, 29 December, 2017 Gulf monarchies may update power structures

¹⁰⁹ Oxford Analytica, Daily Brief, 27 January 2017, Saudi internal security threats could multiply

¹¹⁰ Oxford Analytica, Daily Brief, 1 April 2019 Gulf arms sector localization may be slow and patchy

since their provided benefits and required just obedience from their citizens.¹¹¹ However, oil as a commodity was always volatile and now new challenges are facing this industry. No longer can KSA look at this as irreplaceable and strategic resource, there are several new factors affecting oil prices that changed situation for MbS and generation of young Saudis.

However, Vision 2030 isn't first attempt to diversify nor to create technological and economic hubs, previous major project was King Abdullah Economic City. This city was an attempt by King Abdullah's administration to create brand new hi-tech city that would be economic engine where international companies would operate from. City stands but it failed to meet its goals and ambitions to attract talent and companies. While these plans were never of this size and ambition, they are comparable in their nature and they highlight underlying problem with these plans, it's not enough to build brand new hi-tech city with favorable taxation. You need more than economic incentives with brand new construction in appealing environment. As Richard Florida argues in his work on urban planning, it takes certain culture to attract talent. Companies know that their employees would not be willing to move to country with restrictive laws. And this is exactly what Neom addresses, Saudi's learned from King Abdullah Economic City and in Neom they accompanied construction, economic incentives with special status that gives residence of this area special privileges. They would not be bound by Saudi laws but new more "western" like regime will be applied here. However, if Vision 2030 and MbS want to change whole Saudi economy they need to change conservative elements in their society with restrictive legislation to attract talent. Yet in 2019, after years of talk about modernizations and return to moderate Islam Saudi Arabia executed thirty-seven predominantly Shia minority members. They were executed and crucified in one

¹¹¹ Anderson, 1987

of the largest mass executions in the history of Saudi Arabia on charges of adopting terrorist and extremist thinking.¹¹² Shia minority represents only one tenth of the whole Saudi population, but their rights are still repressed, and they often face persecution.¹¹³ However, Shia minority is located in the Eastern province of KSA where majority of oil reserves are located. This increases overall Saudi security concerns especially their fear of revolt or spillover effect in case of uprising in other countries.

Mohammad bin Salman Al-Saud's strategy, Vision 2030 is articulated in the National Transformation Plan another economic strategy that was previously adopted. Vision 2030 is economic reform of the Saudi Arabia that plans to diversify the economy from the oil in 15 years. Among many other Vision 2030 goals, there is a goal to increase non-oil revenues from SAR 163 bn to SAR 1 trillion, increase government effectiveness index from current 80 to 20. Increase private sector contribution to the GDP from 40% to 65%. Increase Public Investment Fund assets from SAR 600bn to over SAR 7 trillion. Increase FDI, increase women participation in the workforce, lower unemployment and increase small and medium enterprises (SMEs) contribution to the GDP.¹¹⁴ And to reduce subsidies for water, in order, that cost of the water represents 100% of the costs from current 30%.¹¹⁵ Enormous governmental expenditures are expected. Not only the direct cost of the reform itself but also with its implementation. This reform plans with partial privatization of the state-owned Aramco, in order to raise the capital necessary for the implementation. As mention in the previous chapter, King Salman and Saudi Arabia as a whole is silent about recent executive order that prohibits entry of certain nationalities. It is due to the fact that Saudi Arabia rely on America, even with the new administration over its security but also reform itself. Successful

¹¹² Al Jazeera, 2019, Saudi Arabia executes 37

¹¹³ The World Factbook, 2018

¹¹⁴ Royal Saudi Embassy, Vision 2030

¹¹⁵ Feteha, Nerim & Mahdi, 2016

implementation of this reform would lead to stronger position of the Saudi Arabia both internally and externally. It would result in less volatile economy; more stable and predictable income would allow for better budget planning.

Last but not least, it would allow Saudi Arabia to again use oil as strategic tool without having it major effects on themselves. This reform poses potential risk from the conservative clergy. Radical reforms led to revolution in Iran being led by the clergy when country was weakened and citizens unhappy. Reforms in Saudi Arabia needs to be implemented with caution in order to avoid Shah's scenario. Saudi government is attempting to leverage FDI and other investments in the region by requiring portion of the investment to be sources domestically. Saudi ministry announced that they will be required 30% of all components to be produced domestically. Experts in their analysis doubt that KSA has ability and capacity of the workforce to do so. Angola, another petro-state, for example in some of their project required up to 70% to be locally hired only 30% were despite this requirement being only applying to low skill jobs. Furthermore, contrary to what was expected local production of the raw material and other building material did not grow as a result of massive infrastructure projects.¹¹⁶

However, they see this as an opportunity for FDI particularly from Chinese companies working in solar sector and others that are rapidly developing across the Middle East.¹¹⁷ With these reforms, he definitely gambles of losing support of the religious conservative clerics that perceive liberal reforms as threats and by alienating them would cause enormous security problems for his rule and regime as it is now.¹¹⁸ As a concession to the introduction of VAT

¹¹⁶ Grigoryev, Movchan, Zotin 2017

¹¹⁷ Oxford Analytica, Daily Brief, Middle Eastern momentum for solar power will grow

¹¹⁸ Oxford Analytica, Daily Brief, 21 March 2017, Saudi social change will lag, especially for women

king Salman announced to allocate more monthly payments to state employees, to increase student stipends and to give bonus to the soldiers fighting in Yemen.¹¹⁹ Just like Karl, identifies as one of the problems for petro-states and their attempt to introduce reforms. In his interview he acknowledged that current Sharia law is too restrictive and harsh. However, he talked a lot about how Saudi Arabia was different in the 60s and 70, about working women with less conservative society. MbS is not only framing Iran as a threat to well-being of all the Saudi's he is arguing that Saudi is restrictive and conservative because of Iran. Therefore, rage and anger should be on Iran not on Al Saud family.

Chapter 4.3 Consolidation of Power

As Karl says, for petro-state its typical to centralize power in hand of the few that extract the rent.¹²⁰ Furthermore, MbS needs to eliminate potential rivals and all those able to challenge his reform plans necessary for Saudi economy to diversify. On November 4th 2018, MbS started his “anti-corruption” purge in Saudi Arabia he created and chaired anti-corruption committee tasked with finding and punishing corruption inside KSA government. Initially, over 500 individuals were arrested and some immediately released, precise numbers are not known and depends on source and news outlet. On 30th of January 2019, this committee declared end of its mission and claimed to summon 381 individuals, out of those 87 confessed and accepted settlements with government while 64 refused and are still waiting for trial. Committee claims that this campaign recovered up to \$106bn back to the state.¹²¹ However, many suspects that this number was much higher, and majority of funds just went to MbS and his family instead. During interview MbS said that this campaign was never about recovering these missing funds but about punishing those that are corrupt.¹²² Among those

¹¹⁹ Oxford Analytica, Daily Brief, 9 January 2018, Saudi Arabia, may build up to bolder fiscal reforms

¹²⁰ Karl, *Paradox of Plenty* 1997, p. 167

¹²¹ Stephen, Reuters, 2019

¹²² O'Donnell, CBSN

detained, were prominent members of royal family, ministers as well as leading businessman of Saudi Arabia.

One of those members of the royal family that MbS decided to jail was also Miteb bin Abdullah third son of the previous king Abdullah. While his claim to throne is almost nonexistent, he still posed threat to MbS. Miteb was from 2010 until 2013 chief of Saudi Arabian National Guard (SANG) when this position was abolished, and new ministry of national guard was established, and he became its minister. Prince Miteb was responsible for National Guard, a 250 000 strong body of tribal fighter and its special forces that are tasked with protecting royal family.¹²³ He was stripped of his positions and released when he settled his issues with the authorities, exact sum how much he paid for his release is unknown. Previously, based on balance of powers and consensus most powerful family branches controlled different ministers. Salman branch-controlled defense ministry, Nayef line controlled the interior ministry while Abdullah branch was in charge of National Guard for five decades. With popularity of Miteb's father former King Abdullah, this raised international concerns for potential problems from National Guard however Salman managed to crush any potential revolt. After MbS took over another royal decree was issued by King Salman that reshuffled ministry of interior. As a result, those loyal to MbS were appointed to the leading positions and those loyal to Nayef demoted or removed from this position. With his promotion to Crown Prince and this purge Salman branch managed to consolidate entire security forces within its control either directly or through close allies.¹²⁴

¹²³ Oxford Analytica, Daily Brief, 2017, Saudi internal security threats could multiply,

¹²⁴ Oxford Analytica, Daily Brief, 2017 Saudi Arabia will use security risks to manage dissent

Among others arrested were also minister of planning Abdel Faqih, former governor of Riyadh and Mitab's brother Turki, commander of the navy, numerous members of Abdullah branch, as well as Khalid al-Tuwaijri in charge of the Royal Court under King Abdullah and Abdullahs former finance minister Ibrahim al-Assaf. Among business leaders was Prince Waild bin Talal possible the richest Saudi at that time apart from King Salman and MbS. Talal still is prominent businessman with control over biggest Arabian media network Rotan. However, there were also other media moguls arrested such as Saleh Kamel, Walid Ibrahim owner of MBC. But also, Bakr bin Ladin that transferred his shares in the Saudi Bin Ladin Group, one of the largest construction conglomerates in the region, to the government. Its unclear how exactly most of them settled their issues with MbS, while some gave up stakes in their business's others paid undisclosed sums.¹²⁵ This consolidation of power was another confirmation that MbS is currently following all the traits of petro-state. In order to prevent backlash, he is adopting these radical and risky diversionary policies.

However, some sceptics may argue that petro-state theories and diversionary may be able to explain MbS behavior but question why remains. Why now to do all these radical things and not before when they faced budgetary problems before? Saudi Arabia didn't experience low oil prices for the first time and it never resulted in such a radical shift in foreign and domestic policies. Therefore, this simple critique can be summarized as, why now? However, while that's true and Saudi's experienced low oil prices before this time it's different for multiple reasons. Main one is decreasing importance of oil and scale of the last crisis.

¹²⁵ Oxford Analytica, Daily Brief, 3 November 2017, Prospects for the Gulf states in 2018

There was a fundamental shift in the assumptions about the oil sector. From previously assuming that reserves will decrease, and demand grow we see demand decreasing and supply growing by significant technological progress that allows re-activation of the oil drills and decreases price to produce barrels. Another factor is increased progress in the fracking technology allowing even low quality oil to be competitive with high quality crude one from Middle East. And for oil, highly inelastic supply and demand is crucial for determining its price. Since market is imperfect, there are various factor impacting demand and supply and thus price of oil. Furthermore, because of its volatility and strategic importance oil is often used as tool for various strategies on the stock market.¹²⁶ Because oil sector is characterized by inelasticity of both supply and demand states often adjust their production based on their overall strategy towards market. While some are trying to dominate market by gaining bigger market share others are interested in maximizing their profit. However, from 1960 when states started to coordinate their oil policies under OPEC leadership either formally or informally, they had the position of power in this case.

Furthermore, technological progress in the renewable sector means that solar energy became cheaper than all other rival energy sources in the Middle East and its adoption is being more and more widespread across the region. Growth of the energy sector in the Middle East is currently around 6.4%. On one hand, it highlights changes on the energy market and what problems might this development mean for countries exporting energy from the carbon sources such as oil and gas. On other hand, as Oxford Analytica in their analysis argues it unlocks new opportunities for these regimes. It allows these states to meet the domestic energy domain with the renewable sources and export more thus generating more revenue and being able to spend more on the investments.¹²⁷ Shortly after MbS got more power energy

¹²⁶ Mottaghi, 2016, p. 3

¹²⁷ Oxford Analytica, Daily Brief, Middle Eastern momentum for solar power will grow

minister Khaled al-Falih announced plans to attract FDI as part of overarching diversification and modernization program of MbS Vision 2030. However, upon examining actual numbers as reported by the Saudi ministry Saudi's are experiencing slowest growth in the private sector in the non-oil related sector in the past nine years. Analysts from Oxford Analytica even expects Saudi's to recall some of the reforms as they are harming their economy more than helping it.¹²⁸ Last but not least, oil crisis in 2014-2016 highlighted all these problems and challenges where even coordinated OPEC action with non-OPEC producers increased oil price only marginally. It's clear that situation from 2014 onwards will be very different for oil producers and importance of oil will be decreasing while its supply growing.

¹²⁸ Oxford Analytica, Daily Brief, 28 January 2019, Riyadh likely to cut expat worker levy to fuel growth

Conclusion

To conclude, this paper looked at foreign policy shifts of Saudi Arabia in the past few years. These shifts can be traced back to 2015 when Salman clan started to take over powers in KSA. These radical shifts in the foreign policy of KSA pose a problem for a structural realist to explain. This theory is unable to explain often contradicting policy choices that go against the logic of balancing against perceived threats and maximizing power capabilities. Saudi's are instead repeatedly weakening themselves and increasing resentment against them by being involved in Yemen, Syria, and Iraq. While it is true that structural realism might be able to explain why Saudis are engaged in Yemen, it is unable to explain their opposition to JCPOE and at the same time their cooperation with Iran as part of OPEC. If Saudi's were genuinely concerned with Iranian economic growth as a result of JCPOE and thus opposed to deal to prevent Iran from gaining financial capabilities, they behaved irrationally when cooperating with Iran under OPEC leadership. Furthermore, because a key element of MBS rational is to remove threats to his reform plan, he is consciously framing Iran as a threat and as an enemy that allows him to adopt all these risky policies. Even possibility of Iran going to war with the United States as a result of failed JCPOE and escalation would be in favor of KSA when looking at these policies as part petro-state motivated reforms and diversionary foreign policy to prevent backlash.

The main argument of this paper is that MbS is motivated by years of negative development trajectory as described by rentier state and petro-state literature. This development resulted in economy completely dependent on oil revenues, despite massive investment in both private sector and infrastructure have little impact on overall GDP growth from non-oil sources. One of the key problems that KSA needs to overcome is ineffective

bureaucracy, and regulations preventing growth of the private sector. All of these factors combined urges MbS to push for reform and prevent the collapse of the Saudi economy. This need for rapid reforms is key feature of states that are petro-states. However, once again, because of the nature of Saudi society that heavily rallies on state rent and subsidies as a result of the oil wealth it puts up additional barriers for these reforms. Furthermore, because of the historical development of Saudi Arabia, where sectarian politics and Islam played a key role represents another obstacle in successful economic reforms. All of this is informed by the previous reaction of Saudi citizens on proposed cuts for subsidies, as well as experience from Arab spring and Iranian revolution pushed Mohamad bin Salman to prevent potential unrests and revolution by using diversionary foreign policy and move spotlight elsewhere. This theory can explain more precisely and consistently, these radical shifts in the foreign policy that MbS were adopted only under his reign. While also other monarchs tried to diversify the economy, they always failed because their projects did not involve social reforms and thus, they were unable to attract foreign investments and companies. Furthermore, eventually, all cuts to the subsidies were reversed with the first sign of problems in the kingdom. Therefore, it's prudent, based on diversionary theories, for MbS to engage in any conflicts that are not directly threatening their existence just to divert attention from domestic problems while he pushes for radical reforms. The last chapter describes why are these reforms risky for MbS and why is this situation different from all previous attempts.

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