

# Challenges for the House of Saud

One of the greatest of all surviving myths is that Saudi Arabia is a wealthy country. Before we take on that myth here is a brief historical perspective.

On 14 February 1945, Abdul Aziz Ibn Abdul Rahman Al-Saud, the King of Al Mamlakah al Arabiyah as Sudiyah, secretly met Franklin Delano Roosevelt, the President of the United States of America. The USS Murphy, the first US warship ever to enter the Port of Jeddah, carried the King to the Great Bitter Lake in the Suez Canal where the President was waiting onboard the USS Quincy.

The USS Quincy became the venue for the King and the President to ink the historic 'oil-for-security' deal. Since that February of 1945 Saudi Arabia has had just four monarchs; King Saud Ibn Abdulaziz, King Faisal Ibn Abdulaziz, King Khalid Ibn Abdulaziz and King Fahd Ibn Abdulaziz.

The Yom Kippur War quadrupled the price of oil. In 1980, the average per capita income in Saudi Arabia skyrocketed to a high of \$23,830 a year. Kings Faisal Ibn Abdulaziz and Khalid Ibn Abdulaziz lorded over a generation of Saudis where foreign guest-workers did all the work, where princes made millions in commissions from government contracts, *mullahs* got generous state dole outs, tribal leaders were patronised and the Kingdom's physical infrastructure improved faster than in any other developing nation.

By 1998, the price of oil had fallen to its pre-Yom Kippur War level. For all the years since 1938 — when the very first major commercial discovery of oil was made at the Dammam field — Saudi Arabia has remained almost entirely dependent on oil. By 2001, the average per capita income in Saudi Arabia had divided to \$2,563 a year.

Who would vote for a government responsible for bringing average annual per capita income from \$23,830 down to \$2,563? Thank God, monarchs don't need votes.

Next, the myth that Saudi Arabia is a wealthy country. As a matter of record, Saudi Arabia has one of the highest levels of domestic debt (almost 100% of GDP). Saudis already face an unemployment level in excess of 30%; nearly every family has one or two members who are not working. On 12 May 2002, *The Sunday Times* (Scotland Ed.) reported that a "\$100 million payment came due to Barclay's Capital in April. The Saudis missed the payment because of 'cash-flow problems'."

According to a July 2003 estimate, Saudi Arabia's population stands at 24,293,844 (including 5,576,076 non-nationals). More than 40% of the population is under 14 years of age with a population growth rate of 4% a year. The Saudi economy must therefore create 7 million new jobs over the next 10 years. That would mean that the economy would have to grow a wholesome 7% a



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year. That would also mean adding more than 300,000 barrels of oil per day to the current level of production (there has been little or no exploration success over the past 40 years and many Saudi oil fields are now showing signs of decline). In all likelihood the House of Saud will not be able to create 7 million new jobs neither can the House make the economy grow at 7% per annum.

The other popular myth is that Saudi Arabia has a lot of surplus crude production capacity. According to Matt Simmons, a energy investment banker and head of Simmons and Company, many of Saudi Arabia's "aging fields are showing increased water cuts. Water cuts, water produced along with crude oil that is later separated, are a sure sign that a field is headed into decline." Ghawar, Saudi Arabia's largest field, "now produces over 1 million barrels of water a day along with nearly 4.5 million barrels of crude. With Ghawar accounting for 60% of the country's 7.5 million barrels per day of crude production, there is little hope Saudi Arabia can keep production flat if Ghawar continues to water out."

The House of Saud now faces at least

three rather potent challenges. First, the House itself has been politically undermined in the eyes of its own home constituency. Second, Saudi Arabia's clergy that has long been in a mutually beneficial relationship with the House of Saud now stands discredited in the eyes of ordinary Saudis. Third, the loyalty of Saudi security forces is now surely of Saudi Arabia.

Crown Prince and First Deputy Prime Minister Abdullah Ibn Abdulaziz Al-Saud, the de facto King, is between a rock and a hard place. The House of Saud is itself deeply divided. Extreme social polarisation is just waiting to explode. The House of Saud has long financed and supported a staunchly radical version of Islam. That same faction has now come back to haunt the House itself. Crown Prince Abdullah is inclined to push reforms. A number of other senior princes, however, seem convinced that reforms will only hasten the demise of the House of Saud.

Over the past 60 years Saudi Arabia has exported oil worth a trillion dollars. Where has all that money gone? No more than 20% of the trillion dollars has been spent on Saudi Arabia's infrastructure and defence. A fortune in excess of \$800 billion has either been wasted, spent away or hoarded away by some 7,000 members of the Saudi Royal Family in the form of foreign real estate and private bank accounts. A large chunk of

the \$800 billion worth of Saudi foreign assets is now under threat of being frozen by the US District Court for the District of Columbia (a multi-million dollar lawsuit has been filed against members of the Saudi Royal Family and Saudi banks "for their financial and conspiratorial support for the attacks on America"; John Doe v Al Baraka Investment and Development Corporation).

Bush now seeks lower oil prices in order to get re-elected while the House of Saud needs higher oil prices to survive a little longer. Bush needs oil to retain the White House while the House of Saud will become a House of Cards if oil went under \$20 a barrel and remained there for too long.

America no longer needs Saudi Arabia as much as it used to. On 11 December 2002, US Defence Secretary Donald Rumsfeld and Qatar's Foreign Minister Hamad bin Jassim bin Jabr al-Thani inked an agreement. General John Abizaid, the four-star Commander-in-Chief of the United States Central Command, has since moved his HQ from MacDill Air Force Base in Tampa, Florida to Al Udeid Air Base in Doha (Gen Abizaid reports directly to the Secretary of Defence, who in turn, reports to the President of the United States). Most crucial of all, Al-Saud's countrywide patronage system — the very basis of the Saudi monarchy — is crumbling.