

IRAQ AND SAUDI ARABIA: RISK FACTORS

Amin Saikal

As two oil-rich states and significant members of OPEC, Iraq is in the grip of a devastating conflict and Saudi Arabia is confronted with a serious legitimacy crisis. They both face much uncertainty over the next few years, although from different sources and in different degrees. The world has been able to cope with Iraq being an erratic oil producer since 1991, with its production at times falling to negligible amounts. Saudi Arabia, however, has been towards the other end of the spectrum during the same period. It has been OPEC's largest and most stable pro-Western producer with a capacity to increase production whenever necessitated either to meet demand for more oil or to moderate oil prices to the extent required to maintain stability in world market and economy. This can no longer be taken for granted. While international demand and oil prices have risen amidst uncertainties about Iraq, technical problems such as the limited availability of shipping and accidental supply disruptions, soaring demand for energy in East Asia, and the incapacity of Russia to increase production, the Saudi political and security environment has correspondingly become a key source of growing concern. If this concern is not alleviated, the Iraqi situation is not stabilised and alternative sources are not found, the international oil market is likely to remain volatile. Oil prices at around \$40 per barrel over the next two years are a possibility.

Of course the risk factor is presently much higher with Iraq than with Saudi Arabia. The 28 June hand-over of power to the Iraqis is unlikely to signify a landmark step, as promoted by President Bush and his allies, in the Iraqis' arduous and bloody journey to achieving democracy, prosperity and viability. The Iraqi Interim Government is essentially an outgrowth of the US-installed Iraqi Governing Council. It suffers from the same lack of legitimacy, credibility and enforceability that had rendered its predecessor ineffective. The only way that this government can survive, and possibly hold a Constitutional Convention by January 2005 and a general election a year later for a popularly mandated government as a prelude to Iraq's transformation into some kind of

stable democratic state, is for the United States and its allies to remain in Iraq on a long-term basis.

There are a number of reasons for this. First of all, given the experience of Afghanistan, the timeline for the interim government to establish the foundations and procedures for a stable political order within a secure national environment is very short. There is little possibility that it would be able to hold a fair and free election within at least three years. Second, the Iraqi law and order enforcement and security maintenance institutions will not be ready to replace the US forces and those of their allies for at least 5-10 years. In Afghanistan, in three years since the overthrow of the Taliban, the US and its NATO allies have not been able to train more than 10,000 troops, whose loyalty has not been tested yet. Iraq has a stronger civic culture than Afghanistan, but the inculcation of strong national values and discipline upon which a professional military force must be based will remain a major challenge for any US-sponsored Iraqi leadership. Third, the Iraqi resistance is most likely to persist for as long as the foreign forces are in Iraq and an Iraqi government which could enjoy widespread popular support as well as rule enforcement apparatus of its own has not been established. The resistance is not only composed of die-hard Saddam Hussein supporters, but also includes many Iraqi nationalists and Islamists as well as foreign Jihadis linked to Al Qaeda and associated groups. Iraq has become as much of a battleground for their future and that of the region as it is a litmus test for the US-led war on terrorism and for US efforts to reshape the Middle East and counter radical political Islam.

Three scenarios could eventuate in Iraq in the next two years.

The first is that the present situation of violence, insecurity and uncertainty will continue. No amount of tough measures, including imposition of martial law, by the Interim Government and US-led enforcement of those measures may work to stem the tide of violent opposition to enable the interim authority to improve, within a reasonable time, much-needed services and security, and draw up a legal-rational framework for a workable system of governance. Under these circumstances, Iraq's oil production will be

disrupted either severely or moderately from time to time. Without adequate security for the oil fields and infrastructure, and for the technical experts needed to oversee the massive investment required for oil infrastructure rehabilitation and expansion, Iraqi oil exports may not exceed 3 million barrels per day. One of the outcomes would be continued nervousness in the international market and no major contribution from Iraq to ease the shortage in global oil supply.

The second is that Iraq descends into a civil war. Although the threshold for such a conflict has not been approached yet, this is a possibility that no serious analyst can exclude. A civil war can eventuate under a number of conditions. First, if the Interim Government either fails to deliver on the objectives for which it was created or disintegrates. Second, if Iraq's non-Arab Kurdish minority, which is closely allied with the US and Israel, but highly suspected by the country's Arab Sunni minority and Shia majority, as well as Iraq's three important neighbours – Turkey, Iran and Syria - decides actively to seek (even if it does not declare) independence. Kurdish leaders would be under pressure to do so if they were to become convinced that the situation was moving in a direction which would deprive them of the autonomy that they have built for themselves, under US protection, since the 1991 Gulf War. Other groups and neighbours will be opposed to a Kurdish control of the Kirkuk oil fields. Third, if the measures implemented by the Interim Government result in either empowerment of the Shia majority to lead an Islamic government or deprive the Shia from securing political dominance, the fallout would be difficult to contain. In any case of civil war, among many devastating consequences, one would be serious disruption in Iraq's oil production, with the possibility of the country's oil infrastructure laying in ruin and oil fields set ablaze, unless the US and allied forces take over the fields and facilities to defend them.

The Third is that President Bush is defeated in the forthcoming election and his Democratic successor decides to abandon Iraq for fear of greater American casualties and material losses. Although this scenario is a remote possibility, not least because of its implications for the war on terror and US interests in the region and beyond, it is nonetheless one that cannot be discounted entirely. In this situation, Iraq would be left at

the mercy of its various micro-societies and neighbours to play it out, as was the case with Afghanistan in the early 1990s following the withdrawal of Soviet forces from that country.

The US is now involved in a very damaging war. The consequences of leaving Iraq sooner rather than later could prove to be as damaging as those of staying in for the long haul. If it opts for an accelerated pullout, this could easily spell the end of American political dominance in the Middle East and reflect very badly on the efforts of the US and its allies in Afghanistan and the war on terror. If it stays on course 'for as long as necessary', neither President Bush nor his successors can be sure the American public will be prepared to wear the costs, being mindful of sinking America into an Iraq syndrome similar to that of Vietnam. The futility of the Iraq conflict is now set not only to haunt the United States and its allies for a long time to come, but also to serve as an important factor in the stability of the international oil market.

The prognosis for Saudi Arabia is not as bad as that for Iraq, but the Kingdom is nonetheless in a situation that could keep the world oil market jittery and oil prices high for the foreseeable future.

The spate of recent kidnapping and killing of foreigners, including the beheading of US engineer Paul Marshal, and massive bomb blasts, have shattered the image of Saudi Arabia as a safe, secure and stable oil-rich state. The opposition is not in a position to break all the security barriers to inflict such damage on the Saudi oil fields and facilities as to cripple the country's oil industry. It is well-defended, and has a range of outlets for exports that will ensure the oil can be kept flowing under virtually any circumstances short of wholesale war. Also, despite the departure of the non-essential staff of some Western diplomatic missions and companies due to an upsurge in violent opposition activities in recent months, the Saudi oil industry still remains lucrative and secure enough to enable the regime to keep the West engaged in the kingdom. While urging reform, President Bush, whose family has reportedly had close business ties with the Saudi royal family, has been very careful not to say or do anything that could undermine

the Saudi regime and make the kingdom vulnerable to regional and international isolation. But the oil market is driven by perceptions as well as practicalities. And on that score, Saudi Arabia at present is faring badly.

The problem is rooted not in Al Qaeda and its associated violent activities but rather in a stubborn reluctance by the ruling Ibn Saud family - a close regional ally of the US for 60 years - to create a viable, institutionalised system of governance, and to manage Saudi Arabia's immense oil wealth in such a way as to promote the common good and democratic values. Its intensified campaign against terrorism will yield little unless it is accompanied by structural reforms to enable many Saudis not to feel alienated and threatened with a loss of their Islamic identity through the association of their rulers with the United States.

The regime has rested on spent political capital for too long. Its traditional formula based on an interactive manipulation of politics, Islam (and a very narrowly interpreted version of it at that) and oil wealth to generate a foundation of political legitimacy is coming unstuck. While seeking to project a benevolent and reformist image, in reality it has failed to build a polity where political inclusiveness, the rule of law, the separation of powers, an independent judiciary and observance of human rights underpin the operation of state and society. It has done little, even by the standards of the Arab and Muslim worlds, to generate legitimate avenues for public participation in policy-making arenas.

Power entirely rests with a small oligarchy of elderly brothers, which presides over a royal family of some 7000 members. The oligarchy, which has a determining share in every aspect of Saudi society, has treated Saudi oil wealth as its private property and spent it as it has seen fit. The veteran Saudi ambassador to the US, Prince Bander Bin Sultan, has claimed that of the \$400 billion spent on modernisation of Saudi Arabia since the early 1970s, only \$50 billion of it may have gone astray!

The cumulative effect has been catastrophic: a growing alienation of many (especially young) Saudis, who do not trust their government in either Islamic or democratic terms,

and a growing sense of disappointment and frustration that the Saudi economy has not been managed in such a way as to provide the employment opportunities for younger Saudis that they believe they deserve.

Two kinds of underground opposition forces seem to have benefited most from this: Islamic radicals and democratic reformists. The former have criticised the regime for being too pro-American, un-Islamic, deceptive, manipulative and wasteful. With no legitimate avenues of participation open to them, some of these have become receptive to Al Qaeda, with increasing admiration for Bin Laden as a source of political salvation. It is estimated that there are some 7,000 of such elements, penetrating the Saudi structures at all levels. On the other hand, the regime's democratic opponents, many of whom are also devout Muslims but who have shunned Al Qaeda and its violent methods, have been subjected to the same repression as their radical Islamic counterparts, with some operating in exile.

Dangerously for the regime, when it comes to their demands for inclusiveness and representativeness, the Islamist and democratic opposition share a common platform. Their position is reinforced by the criticism levelled against the regime by some neoconservative elements within the Bush Administration, since the 11 September events. The regime has been accused in the United States of having nurtured a kind of Islam and supported a kind of Islamic education at home and abroad which have helped to spawn radical Islamism.

A combination of potential domestic instability and exogenous pressure has left the Ibn Saud rule in a state of limbo and in a weaker position than at any time in the post-World War II period. This does not mean that the regime is in serious danger of collapsing or Saudi Arabia sinking in a revolution in the near future. As a matter of fact, despite all the regime's shortcomings and an upsurge in violent activities against it, neither a majority of Saudis will be willing to see it overthrown, nor, as noted earlier, is the oil industry at serious risk. But given its links and influence with other, smaller oil-rich Arab states in Gulf, and its position as the largest and most determining producer within OPEC, any

degree of eruption or uncertainty associated with the kingdom could easily have wider impact. It could reflect to cause instability in other GCC members. Without ringing the alarm bells, the effect of a perception of Saudi instability on the international oil market and economy itself may be enough to keep the prices of oil high close to \$40 rather \$30 per barrel. The only way that the situation could be remedied is for the regime not only to become more resolute in its prosecution of domestic violent opposition activities, but also to reform and to reform fast to prevent many of its young people from being attracted to extremism.

The bottom line is that if (and it is a big if) the Iraqi situation improves, with the country's oil production reaching beyond 4 million barrels per day on a sustained basis, and if the Saudi regime engages in structural reforms to diminish the gap between state and society in its policy existence and behaviour, the oil market stands to stabilise and prices remain between \$30-40 per barrel within the next two years. However, if this does not eventuate, the oil price and oil market stability is anybody's guess.

Amin Saikal is Professor of Political Science and Director of the Centre for Arab and Islamic Studies (the Middle East and Central Asia) at the Australian National University