

“Aren’t the Saudis your friends?” the Australian Prime Minister, Malcolm Turnbull, once asked President Obama.

“It’s complicated”, Obama replied.

At present the House of Saud has adopted a zero-sum perspective in its relations with the Islamic Republic of Iran and consequently, any and all of Iran’s gains are perceived as inimical to Saudi interests. Therefore, the Kingdom has positioned itself on a path of perpetual antagonism with Tehran and the spectre of amicable relations has been ruled out.

The heightening of tensions in the current regional feud between Riyadh and Tehran is both a cause and an effect of Obama’s Middle East policy. Despite the staunch commitment of successive American administrations since the time of Franklin Roosevelt to the strategic partnership - between the American security-guarantor and the oil-producing House of Saud - the Obama Doctrine has overseen the gradual withering of decades-old orthodoxies that underpin the US-Saudi alliance.

Obama’s wavering attitude manifested itself through the prolonged negotiations and the eventual conclusion of the July 2015 Nuclear Accord between Iran and the P5+1, led by the United States. One of the world’s most sophisticated sanctions regimes was lifted on the Islamic Republic and accordingly Iran has begun trading in oil once more whilst starting to mobilise up to \$80 billion worth of previously frozen assets.

The security dilemma from Riyadh’s perspective is clear: if Iran can bolster the Assad regime in Syria, support the Ansar Allah (also known as the Houthis) in Yemen, and finance Hezbollah in Lebanon whilst it faces a period of deep isolation, then what can Tehran achieve when it becomes fully reintegrated with free and full access to all of its assets and power?

To compound their fears, the Saudi Kingdom has correctly perceived Obama’s predisposition towards multilateral diplomatic solutions over the unilateral military interventions of his predecessor. Thus, Uncle Sam’s *carte blanche*, which underwrites Riyadh’s security, looks more likely than ever to bounce.

Yet given the magnitude of the shift, the response of Riyadh has been characterised by a lack of foresight and strategy; favouring rash and impetuous adventures.

There is the case of Yemen. At present, the Royal Saudi Air Force reign over Yemeni skies with the expressed objective of targeting the Houthis; a group which enjoys support from Iran. The year-long bombing campaign, ostensibly a proxy war fought with British supplied-weapons, has not been able to defeat opponents nor reinstate President Hadi.

The Yemeni campaign signals a departure from a traditionally cautious and tactful foreign policy. Since the succession of King Salman, an assertive and audacious foreign policy has been relentlessly pursued under the auspices of the young Foreign Minister, Adel al-Jubeir and Defence Minister, Mohammad bin-Salman.

The existing equation that wealth from oil could purchase regional aggrandisement and hegemony, specifically through promotion of Wahhabism abroad, has been shelved. Alternatively, Riyadh has favoured raising the stakes through flexing its military muscle in Yemen and communicating a willingness to engage ground troops in Syria. All of which reflects the uncertainty surrounding the anticipated revival of Iran as a regional power.

In addition, some analysts have suggested that the execution of the Shia cleric Sheik Nimr al-Nimr was anticipated by Riyadh to invoke a scathing reaction from Tehran, the self-proclaimed bastion of Shia Islam. The execution came just one day before the Implementation Day of the Nuclear Agreement.

By using sectarianism as a political tool, Riyadh hopes to alienate Iran along religious lines and foster the growth of Iranophobia as the majority of Muslims in the Middle East are Sunni. Equally, Riyadh is hopeful the sectarian weapon can be utilised to compensate for the shortcomings of battling Iran in proxy-contests such as Yemen and Syria.

In Lebanon too, the Saudi Kingdom has displayed a lack of prudence. Riyadh recently cancelled £3.2 billion worth of weapons for the Lebanese Army which came around the same time that the Gulf Cooperation Council (GCC) and the Arab League designated Hezbollah as a terrorist organisation. The Lebanese economy is partly dependent on hundreds of thousands of its workers in the Gulf monarchies which face the threat of being expelled. If the actions of Riyadh have been bred from hostility towards Hezbollah and Iran, it remains unclear how exactly these measures will curtail the influence of Shia forces.

In all of these policies, the seeds of inevitable failure have been sowed in the Kingdom's domestic context over numerous decades. Understanding Riyadh's domestic constraints highlights that Saudi's reach greatly exceeds its grasp.

The rise of petro-power in the Persian Gulf since the 1970s has seen Arab states soar to the heights of unprecedented wealth. However, the sole reliance on oil as a tool for stemming domestic discontent and a weapon to ascertain regional hegemony glistens more than it resembles gold. In the words of Adam Smith, "the income of men who love to reap where they never sowed" is unsustainable.

In other words, power derived from the export of oil is a double-edged sword. On the one hand, it has afforded Gulf monarchies vast revenues (as long as the oil price remains high),

to be lavishly smeared both internationally in promoting good relations as well as domestically in affording comfortable lifestyles for its citizens.

On the other hand, however, Saudi Arabia and other GCC countries suffer from a severe shortage of productive industries outside the oil sector. When oil prices are low, as they are at present, Riyadh faces financial strains as it runs a budget deficit of 15-20%.

It is significant that oil prices have plummeted from over \$100 per barrel to around \$40. The Saudi Kingdom jeopardises its own stability as much as its adversaries by over-supplying world markets with oil. Riyadh hopes to prevent Tehran from reclaiming its market share now that Iran is beginning to ramp-up its oil production.

Yet in a country where youth unemployment is up to 30% and half of the entire population is under the age of thirty, Riyadh requires high prices to cater for its citizens.

Even at times of high oil prices, the capital intensive nature of the oil industry provides little boost for other sectors. Consequently, across the GCC, 70% of total employment emanates from government jobs. Even with the relatively small sector of labour-intensive jobs, the Arab states import Asian labourers which further compounds the problem of an unskilled domestic workforce.

To withstand the situation, Riyadh relies on its huge foreign exchange reserves built up over decades of accumulating dollars from the sale of oil. Estimated at around \$750 billion, these reserves are nonetheless plummeting at around \$12 billion a month to sustain public expenditure. Not even Riyadh's decision to accelerate borrowing is a long-term remedy, but rather a shot-term palliative.

Therefore, as oil remains below \$100 per barrel, the foreign reserves will continue to dwindle and upon depletion, Gulf citizens who no longer can enjoy low taxes and huge subsidies may become increasingly restless and begin to question expensive military campaigns.

In contrast, the history of Iran places it in a much stronger position. The irony of the 1979 Islamic Revolution is that the isolation imposed on the country for over four decades has in reality spared Iran from the same development trajectory as the Arab Gulf states. The rampant accumulation and sole reliance on petrodollars as a means of state survival has made the Arab oil states the prisoner of Western expertise, capital and security. Instead, Iran's isolation from the flow of Western capital has engendered a greater degree of self-sufficiency.

With a much larger population of around 80 million and a highly educated and diversely employed middle class, Iran is much less dependent on its oil and gas reserves even though

it can begin to enjoy the benefits of increased production following the removal of sanctions.

The administration of President Rouhani has continued to shift state reliance on oil exports towards taxation. In late 2015, for the first time, the state earned more from taxation than oil exports - signs of an increasingly productive population. This means Iran is not a prisoner of oil prices, unlike its Arab neighbours, allowing it to derive its revenues from sources that are less dependent on prevailing geo-strategic circumstances.

Militarily, Iran proved itself a formidable foe in an eight-year struggle against Iraq despite the turbulence of the Islamic Revolution. The Revolutionary Guards, exceedingly well trained, have also been present in the battlefields of Syria. Some reports suggest they command sizeable divisions of the Syrian Army. Moreover, as a capital for cutting-edge scientific research and boasting a growing missile programme, Iran has not relied on foreign patronage to the same extent for its security and development.

Compared to the Arab Gulf states, Iran harnesses advantages in manpower, military strength, the skill of its population and in the size of various industries. Such assets cannot be fought with petro-power alone. The structural inadequacies of petro-power states ensure they are ill-equipped for a prolonged struggle with the region's ascendant power.

Because sustained regional hegemony in the Middle East cannot be built on foundations of oil wealth alone, the prescription for the Saudi condition is as follows: to revert to a prudent and tactful foreign policy and one absent of debilitating military interventions and proxy-conflict. By seeking to quell the antagonism with Iran, Riyadh can rather address the domestic conditions that threaten its own stability.

Specifically, a policy of *détente* with Iran can be achieved through adopting a positive-sum perspective. There is nothing - besides the perceptions of certain leaders - that dictates that Riyadh and Tehran cannot both gain in the rapidly changing regional environment.

Supporting the peace talks with the Houthis is a small step to reducing military overstretch and quelling a huge drain on Saudi resources. Equally, the time for Syria acting as a theatre of proxy-conflict is coming to an end and resources would be better expended through attempting to shape the outcome of political negotiations. Additionally, entering into negotiations with Iran on the market share of oil would be conducive to the rise of oil prices - something that would greatly favour both parties.

And so, although it is said that people in glass houses shouldn't throw stones, in this case it is more prescient to say that those living in sandcastles shouldn't provoke the tide of Iranian resurgence. If it is true that the latter is set to greatly advance over the coming decade, it would be shrewd for Riyadh to take measures to peacefully assimilate Tehran into the fabric of the regional system - whilst it is still possible.