FAZ - WELTWIRTSCHAFT

PREMIUM SERIES: Middle Powers without a World Order

Saudi Arabia's pursuit of regional hegemony

GUEST POST by Martin Wiesmann

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Modern and attractive to investors – this is how Saudi Arabia presents itself; pictured here is the city centre of Riyadh. dpa

Middle powers face the challenge of reducing their dependence on the great powers, the USA and China. In this series, we examine how individual states are tackling this. We begin with Saudi Arabia, which is striving for modernisation at home and stability abroad.

Late January, four weeks before the start of the US attack on Iran, Ibrahim bin Ahmed Al-Suwayed, Saudi Arabia's Deputy Minister of Defence, hosts the World Defence Show (WDS), held about 70 kilometres outside Riyadh. This conference and trade fair, which is growing in size year on year, forms part of the Kingdom's strategy to boost the domestic value creation of its defence sector and reduce its dependence on the US, which accounts for nearly three quarters of Saudi arms imports. Yet the Deputy Minister opens the discussion on a political, not a business, note: "We want peace and stability in order to build a Europe of the Middle East." Less than four weeks later, both are - for the time being - a thing of the past.

Ever since the US failed to defend Saudi Arabia against Iran's attack on the Abqaiq and Khurais oil facilities in 2019, the Kingdom has been seeking security and stability through two avenues: reconciliation with the regime in Tehran, and a deeper cooperation with the United Arab Emirates (UAE). With the war against Iran, this strategy is in tatters. And Saudi's vulnerability to decisions taken in Washington is clearer than ever.

Illustration: Sarah Wehrlin

At the same time, the war with Iran has led to a significant downward revision of the International Monetary Fund's (IMF) growth forecast for 2026 from 4.5% to 3.1%. Apart from a further planned sale of shares in the state-owned oil company Aramco, all major investment decisions across the entire region are now on hold. Under the pressure of the current situation, it is hard to imagine the states of the Gulf Cooperation Council (GCC) moving closer together politically. Already before the war, the central Saudi Arabia–UAE axis was under severe strain, and it has been further weakened by the UAE's recently announced withdrawal from the Organisation of Petroleum Exporting Countries (OPEC). Since the Gulf states, whilst organised within the Cooperation Council, have neither a seat nor a vote in the negotiations between the US and Iran, it is clear that the door is wide open to further fragmentation in the region.

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The end of religious extremism

In 2018, at the Future Investment Initiative Forum (‘Davos in the Desert’), Crown Prince Muhammad Bin Salman proclaimed that the Middle East would become the ‘new Europe’. This reflects the Crown Prince’s ambition to counter the spirit of Machiavelli with a positive, politically and economically attractive vision, as set out in ‘Vision 2030’: "Our vision is based on three pillars: a vibrant society, a thriving economy and an ambitious nation." His aim is to develop Saudi Arabia into a “model of global excellence”. The results have been mixed. Socially, the Crown Prince has revolutionised the country. Economically, a path to transformation has been set. Politically, however, Saudi Arabia has so far failed in its ambition to stabilise the Middle East as a regional hegemon and thereby create, through its own efforts, reliable framework conditions for its transformation.

Saudi Arabia aims to move away from fossil fuels; nevertheless, oil and gas exports continue to account for 65 to 75 percent of its total exports. dpa

Religious extremism and a ‘vibrant society’ are mutually exclusive – Muhammad Bin Salman has firmly put an end to the rule of the religious police in public spaces. Since then, the legitimacy of the House of Saud has been systematically derived from pre-Wahhabi references and shaped into a national identity through a wide-ranging modernisation of the economy and society.

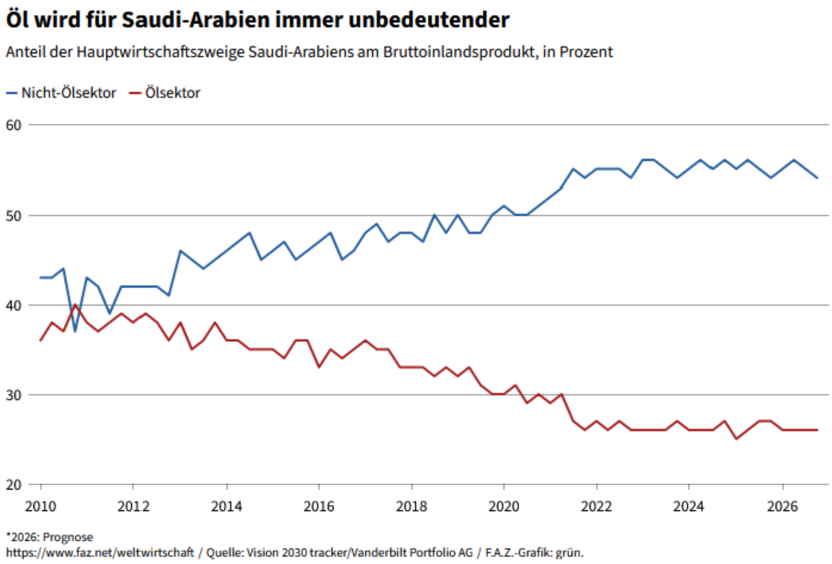
The level of support for the Crown Prince, particularly amongst the younger generation, as well as the positive response to the national holiday introduced in 2022, are indicators of a widespread desire to continue the course of social modernisation. The codification of the Islamic legal system is creating more reliable conditions, whilst the new technocratic elite is credited with a strong work ethic. Pressure on the housing market has prompted the Crown Prince to introduce a rent cap; pressure on the labour market can only be alleviated if Vision 2030 fulfils its promise to develop and revitalise the private sector.

Saudi Arabia wanted more foreign investment

Despite massive investment, however, the share of private household spending has stagnated at around 45% of gross domestic product (GDP) for a decade. The massive efforts to attract foreign investment – and with it, investment in technology – have, in some cases, yielded remarkable successes, including among German SMEs. For instance, the family-owned company Knauf announced in 2026 that it would acquire a majority stake in the Saudi building materials firm United Mining Industries. But both foreign investment and investment in technology continue to fall significantly short of the ambitious targets set out in ‘Vision 2030’. Whilst the Kingdom aims for foreign investment to account for 5.7% of GDP by 2030, the figure most recently stood at only around 2-3%.

Moreover, a thriving economy doesn’t just depend alone on bringing in more foreign investment. It remains to be seen whether an economic system being reformed from above, and operating under conditions of tight social control, can generate the necessary momentum for innovation and growth. The state-run Public Investment Fund (PIF) has accordingly adjusted its course and is no longer omnipresent in the start-up space. And at the same time, there are even some privatisations in the public sector (health, education) being prepared.

Oil is becoming less and less important for the Kingdom



In view of falling oil and gas revenues - which still account for up to 65% of government revenues - many of the ambitious infrastructure projects are being scaled back, and the PIF will reduce the proportion of its foreign investments to around 20% in order to focus more strongly on domestic transformation. The success of this is evident in the share of the economy generated by non-oil-dependent activities, which rose from 41% to 58% between 2010 and 2025.

Close ties to the Trump family should pay off

Saudi Arabia's export sector is still dominated by oil and gas, to the tune of about 65-75%. Here, too, the transformation is not quite proceeding at the lightning speed the Kingdom had set itself. But it is happening, strategically driven by the "MBS learning system", as Abdullah Hamidaddin, head of Saudi Arabia's King Faisal Centre for Research and Islamic Studies think tank, has characterised it. Rather than simply exporting raw energy products, the competitive advantage of low energy costs is also being translated into new business models. Among petrochemical products, fertiliser exports are growing particularly rapidly, making the Kingdom one of the world's largest fertiliser exporters.

Another example: former Aramco manager Tareq Amin aims to develop Saudi Arabia into a global hub for artificial intelligence, through his company Humain. He promises to roughly halve OpenAI's token costs. During a 2025 visit to the White House, the Crown Prince secured a deal with Nvidia worth around $1bn for the high-performance chips crucial to this endeavour. The deal demonstrated that Saudi's close ties to the Trump administration are not merely political in nature – note also that the PIF has funded Jared Kushner's investment vehicle in the order of about $2bn.

Stability without hegemony?

Regional stability depends mostly on containing Iran – but not exclusively, and Saudi Arabia has sought to damp down other sources of tension. Following their Yemen intervention, the Kingdom has sought compromise with the Houthis. It came to the aid of the new Syrian government by settling Syria's debts to the IMF. In Sudan, it supports the central government.

Relations with the UAE are particularly complex. For several years, the UAE were a key partner for the Saudis, particularly in the fight against radical Islamic forces in the region. But their joint blocade of Qatar - imposed in 2017 to protest Qatar's relations with Iran – failed, and was lifted in 2021. In Yemen and Syria, the UAE has for years been working ever more closely with Israel, which supports both the secessionist aims of this regional stabilisation effort and the systematic weakening of the Muslim Brotherhood's influence. The Kingdom, by contrast, relies on cooperation with traditional state structures.

Now, with the war against Iran, the conflicting interests with the UAE have tended to grow even further. The extent to which the Emirates align themselves with Israel and the US stands in the way of a deeper security partnership.

The Saudis have built additional strategic flexibility through growing a partnership with Pakistan that has existed for decades, and through the strengthening of relations with China. Having been a dialogue partner of the Shanghai Cooperation Organisation (SCO) since 2023, and a BRICS member with candidate status since 2024, the Kingdom drew on China's support as the host of the 2023 Iranian-Saudi rapprochement. Furthermore, Saudi Arabia is accomodating China's interest in the internationalisation of the renminbi, through the use of the Chinese currency in some bilateral trade and the settlement of oil exports. For now, this is small beer: the volume of these trades is likely to be well under 10% of the total. The term 'petroyuan' remains, for the time being, merely a buzzword.

None of these additional relationships, however, resolve the fundamental issue of Saudi Arabia's security or the stability of the region. If a regime change happens in Iran, including the return of the Shah, Saudi Arabia would have to undertake a complete reassessment of its regional position. As the guardian of Arab heritage and Palestinian interests, the country would find itself isolated to such an extent that even an enhancing of its partnership with China would scarcely be able to compensate. In return, this would lead to a further strengthening of relations with Pakistan and further drive the rapprochement between Saudi Arabia and Turkey.

Lacking the capacity to act as a regional hegemon, the question of the benevolent hegemon America arises again. This hegemon, the USA, after the Second World War helped Europe to establish the structures that today enable the EU to act collectively, at least in some key policy areas. Whilst in the conflicts of the Middle East, the USA has not been able to find a similar regional balance, from Riyadh's perspective the USA has remained an irreplaceable partner for internal and external stability.

The Saudi-Riyal remains pegged to the US dollar. High-tech chips continue to come from the US. And whether the US seeks a compromise with the Iranian regime at the expense of the Gulf states or continues the war after all remains, as ever, a decision that America itself will take.

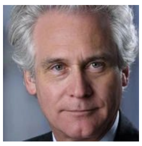


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Photo*: private*

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