

November 20, 2017

Moving Fast and Breaking Things: Mohammad bin Salman, Part I

(N.B.: Due to the Thanksgiving holiday, the next edition of this report will be published December 4.)

Last summer, King Salman surprised the Kingdom of Saudi Arabia (KSA) by demoting Crown Prince Muhammad bin Nayef and replacing him with one of the king's sons, Mohammad bin Salman (MbS).¹ In the months preceding the event, the king's son had been building his power base, gaining control of key parts of the economy and the security sectors. After being named crown prince, MbS further consolidated power and boosted his profile. He was given responsibility for the war in Yemen and, later in the summer, MbS and the king accused Qatar of supporting Iran and the Muslim Brotherhood. When the KSA was unable to force Qatar to acquiesce to rather stringent demands, the KSA and the rest of the Gulf Cooperation Council (GCC) nations² implemented a blockade on Qatar.³ To date, the war in Yemen continues to drag on without any obvious conclusion and Qatar is managing to prosper despite measures taken against it.

Despite these disappointments, MbS continues to charge forward. He has unveiled his plans to restructure the economy in a program called Vision 2030.⁴

In recent weeks, he also showed plans to build a new massive mega-city on the country's north coast that would be a hub for growth and innovation.⁵ To pay for all these changes, the KSA plans to sell at least 5% of Saudi Aramco to foreign investors. MbS has also implemented other economic reforms and a degree of economic austerity to build savings for these aggressive economic reforms. The crown prince is essentially in charge of all these efforts as well.

For all this to succeed, MbS has two audiences he needs to sway. The first audience is the majority of Saudi citizens. Due to a rapid rise in birth rates, Saudi Arabia has a very young population; 61.5% of the population is under the age of 35.⁶ The youth of Saudi Arabia are disgruntled with social restrictions, slow economic activity and the general ossified nature of the KSA's ruling structure. Over the years, the ruling al-Saud family has selected its kings from the sons of Ibn Saud. These men are aging and the consensus management has led to political stagnation.⁷ Although there is little evidence of a rebellion, the rising youthful majority does have to be addressed before it becomes a rebellion.

The second audience is foreign investors. The economic reforms being considered by MbS will need significant funding that will require outside investment. Thus, MbS must

¹ See WGR: [A Coup in Riyadh](#), 7/31/17.

² The GCC consists of Bahrain, Kuwait, Oman, Qatar, the KSA and the UAE.

³ See WGRs: The Qatar Situation: [Part 1](#), 8/7/17; and [Part 2](#), 8/14/17.

⁴ <http://vision2030.gov.sa/en>

⁵ <https://www.bloomberg.com/news/articles/2017-10-24/saudi-arabia-to-build-new-mega-city-on-country-s-north-coast>

⁶ <https://www.populationpyramid.net/saudi-arabia/2016/>

⁷ See WGR: [Saudi Succession](#), 1/20/15.

project not only an air of progress and excitement but also stability and a clear ability to execute. That is a fine line to navigate.

We chose the title of this series deliberately. It is the motto often ascribed to the management of major technology firms.⁸ Primarily started by young men, their goals are to disrupt whatever industry they move into and bring change. However, as time has passed, the negative externalities of “breaking things” as part of their behavior has becoming increasingly apparent. It appears to us that MbS is adopting the mindset of the tech industry in remaking the KSA...for better or worse.

This discussion brings us to the tumultuous weekend of November 4. Over that weekend, there were mass arrests, a missile attack and the resignation of Lebanon’s prime minister. And, just before that fateful weekend, there was a crackdown on the religious establishment of the KSA. In this series of reports, we will discuss these events in detail, the broader geopolitics of the region and American foreign policy drift. Specifically, Part I will focus on the sweeping arrests. Part II will examine the resignation of Saad Hariri, Lebanon’s former PM, the missile attack on Riyadh and the crackdown on the clerics. Part III will discuss these events within a broader geopolitical context and examine the drift in U.S. foreign policy. As always, we will conclude the series with market ramifications.

The Long Weekend: The Arrests

On the weekend of November 4, social media began signaling that major events were occurring in the KSA. As the hours passed, media reports confirmed that 11

⁸ <https://www.amazon.com/Move-Fast-Break-Things-Undermined/dp/0316275778>

princes had been arrested.⁹ The most notable arrest was Prince Mutaib bin Abdullah, the son of former King Abdullah. Mutaib was the head of the Saudi National Guard, one of the three security organs of the KSA.¹⁰ The Abdullah branch of the al-Sauds had been in charge of the National Guard from 1962 until this arrest. The late King Abdullah was responsible for this force until 2010 when he became king and bequeathed power to his son. As part of this arrest, the National Guard is now under the auspices of MbS. Removing Mutaib eliminates one of the most likely threats to MbS’s eventual elevation to king.

Other notable princes were also detained. Prince Al-Waleed bin Talal, a billionaire businessman with investments across the world, was arrested. Others included Prince Turki bin Abdullah, the former governor of Riyadh, and Prince Fahd bin Abdullah bin Mohammed al-Saud, former deputy defense minister. There were reports that Prince Abdul Aziz bin Fahd was killed resisting arrest, but presently it isn’t clear whether he actually died as other reports argue he is alive and well. However, at the time of this writing, there have been no confirmed sightings. Prince Mansour bin Muqrin, former deputy governor of the Asir region and son of the former crown prince, allegedly died in a helicopter crash as he was fleeing the country.

Other figures were arrested as well, including the heads of two major media organizations and the chairman of the Bin Laden construction firm. Although reports vary, at least 200 and perhaps as many as

⁹ <https://www.nytimes.com/2017/11/04/world/middleeast/saudi-arabia-waleed-bin-talal.html>

¹⁰ The three security elements are the KSA Army, the National Guard and the forces of the Interior Ministry.

500 are under arrest in some form.¹¹ Because the KSA does not have a prison system for the royal family,¹² they are being held at the Ritz Carlton Riyadh.¹³ Those arrested appear to have had their mobile phones taken and upwards of 1,700 financial accounts have been frozen.¹⁴ The crackdown could lead to the confiscation of up to \$800 bn in assets.¹⁵

Officially, the reason given for the arrests was corruption. In fact, the king appointed MbS to head an anti-corruption initiative that had been formed days before the detentions. There is some skepticism over whether the actual primary focus of the initiative was to address corruption or whether it was, instead, cover for a purge.

Initial reports raised fears that the purge may have been a counter coup. King Salman's efforts to promote his son as his successor directly contradicted years of protocol and tradition; primogeniture was not used to determine royal lineage in the KSA because Ibn Saud had so many sons. His second generation selected the next king based on broad consensus, although, in recent years, the sitting king was given a larger voice in selection. However, the third generation has so many claimants to the throne that the former consensus method was unwieldy. If King Salman is creating a system of primogeniture and his son does successfully

¹¹https://www.nytimes.com/2017/11/06/world/middleeast/ritz-carlton-riyadh-saudi-princes.html?_r=0

¹² <https://theintercept.com/2017/11/05/what-happened-in-saudi-arabia-last-night-and-how-washington-corruption-enabled-it/>

¹³ Op. cit., footnote 11;

https://www.nytimes.com/2017/11/06/world/middleeast/ritz-carlton-riyadh-saudi-princes.html?_r=0

¹⁴ <http://www.reuters.com/article/us-saudi-arrests/saudi-graft-inquiry-spreads-beyond-borders-as-uae-examines-bank-accounts-idUSKBN1D91BL>

¹⁵ <https://www.wsj.com/articles/saudi-arabia-expands-crackdown-on-elite-1510062385>

replace him, given MbS's youth, his replacement could potentially be a fourth generation al-Saud, and very likely one of MbS's sons.

Needless to say, MbS should have lots of enemies. There are potentially hundreds of princes who are "king capable." Thus, a massive purge could have been in response to a coup threat. However, the overall reaction in the wake of the purge suggests a coup was not underway or was in the very early stages of planning. Usually, when a counter coup is underway, there are signs that coup leaders are trying to take control of the government.¹⁶ No evidence of this seems to exist.

Instead, this looks like a real purge. There are two probable goals from this action. First, it is highly likely that King Salman is paving a clear path to the throne for his son. Although the king has recently indicated he has no intention of abdicating,¹⁷ he is 81 and rumored to have dementia; he also suffered a stroke but has mostly recovered. At his advanced age, ensuring that his son faces no potential claimants to the throne is prudent.

Second, in defense of the arrests, the KSA does have a reputation for being corrupt.¹⁸ It appears that corruption is common among the royals and well-connected non-royals. In general, it is estimated that 10% to 25% of all government contracts are "skimmed" to fund the lifestyles of the princes. Prince

¹⁶ For a recent example, see WGR: The Turkish Coup, [Part I](#), 7/25/16; [Part II](#), 8/1/16; and [Part III](#), 8/8/16.

¹⁷ <https://www.bloomberg.com/news/articles/2017-11-12/saudi-king-will-not-relinquish-throne-senior-official-says>

¹⁸ In fairness, the KSA isn't in the "major leagues" of corruption, ranking 62nd out of 176 countries (1 being least corrupt) by Transparency International. For example, Italy ranks 60th. See: https://www.transparency.org/news/feature/corruption_perceptions_index_2016

Mutaib was said to be involved in a scheme to supply bulletproof clothing to the military and interior forces that was overpriced by 10 times.¹⁹ Another famous case occurred in Jeddah, where a massive sewer project turned out to be a series of manhole covers with no piping underneath.²⁰ One way that MbS can get the funding he needs for his Vision 2030 program and for his new city is by cutting down on corruption so that projects are actually funded. Authoritarian regimes can fall victim to corruption because there are few effective checks and balances on illicit behavior, e.g., a free press and an independent judiciary. However, there is an argument that corruption can increase efficiency by allowing for an informal way to address rigid regulations or by improving the decision-making process.²¹ In the case of the KSA, the act of centralizing bribery at the level of MbS would likely improve the efficiency of projects. However, it will also deny thousands of princes a source of income and lead to unrest among the royals.

¹⁹ <https://www.ft.com/content/f5a9340e-c60f-11e7-a1d2-6786f39ef675?segmentId=a7371401-027d-d8bf-8a7f-2a746e767d56>

²⁰ https://www.washingtonpost.com/news/global-opinions/wp/2017/11/05/saudi-arabias-crown-prince-is-acting-like-putin/?utm_term=.a9e03c414a7b

²¹ <https://www.globaldashboard.org/2012/03/09/is-corruption-one-word-or-many/>

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Reducing corruption would address the two key goals of MbS—there are reports that young people in the KSA resent the lavish lifestyles of the al-Sauds. Showing that he can crack down on this group and use the money otherwise lost to corruption to improve the lives of average Saudis would improve MbS’s popularity. In addition, anything to address corruption would be seen as favorable by most foreign investors as it would give them confidence that their investments are less likely to be squandered on the care and support of the royal family. Furthering this second aim will probably require the trial process to be transparent, something that, up until now, hasn’t occurred. If those arrested simply head off to jail or worse, it will look like a purge to foreign investors and undermine the case that the arrests were tied to reform.

Overall, our take is that the purge was executed primarily to pave the way for MbS to eventually become king. However, it does appear that it could also improve the investing environment and raise the standing of King Salman and his son if the “wheels of justice” appear fair and impartial.

Part II

In the next edition we will continue to discuss the events of November 4.

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