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# UNDERSTANDING ECONOMIC RELATIONS BETWEEN SAUDI ARABIA AND RUSSIA

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## UNDERSTANDING ECONOMIC RELATIONS BETWEEN SAUDI ARABIA AND RUSSIA

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## INTRODUCTION

**T**he Middle East region was redesigned in the aftermath of the First World War according to the balance and interests between the world powers of the period. Between the two world wars, there had not been much change in local societies and political mechanisms in the Middle East region. After the Second World War, especially since the 1950s, this region has had an important place in the power struggle between the United States of America and the Soviet Union. In the new global order that emerged after the end of the Cold War, the Middle East region continued to undergo regional fluctuations under the influence of new power dynamics. The United States, which was the only global superpower in the 1990s, was acting according to its own interests with its hegemonic power both in world politics and in the Middle East. However, since the 2000s, the world order has become more polarized, and Russia's interest in the region has increased together with China's.

The main focus of this report is to examine the main driving motives behind the economic and trade relations that were formed between the Kingdom of Saudi Arabia (hereinafter the KSA) and the Russian Federation (hereinafter the RF) since the 1990s. One of the main arguments set forward in this report is that the course of the economic relations between KSA and RF has been guided by the changing political balances and power relations at the global and regional levels.

It is clear that explaining bilateral economic relations between countries with only one dimension and simple political (or economic) concepts will be highly unrealistic and extremely insufficient. It is also clear that an explanation based merely on simple economic concepts such as foreign trade, exchange rates, and profit maximization would be incomplete. For these reasons, we find it appropriate to analyze the diplomatic and political relations and developments in the Mos-

Since the collapse of the USSR, Russia has been conducting military operations for the first time in a region outside the former Soviet territory. From a global perspective, we observe that Russia's foreign policy has had a significant impact, particularly on Middle Eastern affairs.

cow-Riyadh axis by utilizing an interdisciplinary approach. The perspective of the global political economy offers a powerful explanatory model. In the most recent decades both Moscow and Riyadh have been following proactive foreign policies, and their policy behaviors resemble a complicated mechanism fed from multiple sources.

Russia's national economy has been stagnant due to the recent decline in oil prices. Despite the weakening budgetary resources and the economic stagnation, Russia's foreign policy moves are heading towards an extremely proactive trajectory. The important events of the 2000s are the September 11 terrorist attacks, invasion of Iraq by the US, Color Revolutions in the former Soviet geography, 2008 global financial crisis, and the Arab uprisings that have shaken the Middle East since 2010-2011 and their repercussions. These changes have deeply affected the world political system and global governance issues. The Moscow elite focused on two aspects of these changes and developments: the survival of the state and increasing security threats.

These major events have fed into Russia's highly assertive and aggressive foreign policy behavior. Military engagement with Georgia in 2008, rapprochement with China and Iran, as well as the improvement of diplomatic relations in the Middle East are some examples in this regard. In particular, Russia's proactive foreign policy behaviors have accelerated since 2012 with Putin's third term as president, reaching a peak in 2015 when Moscow surprised the international community by actively involving in the Syrian civil war. Since the collapse of the USSR, Russia has been conducting military operations for the first time in a region outside the former Soviet territory.<sup>1</sup> From a global perspective, we observe that Russia's foreign policy has had a significant impact, particularly on Middle Eastern affairs.

Russia's relationship with the Middle East is based on three pillars: restoration of prestige in the global power struggle, security interests, and economic interests (Wasser, 2019).<sup>2</sup> These factors, to a certain extent, also apply to Russia's bilateral relations with the KSA. Another critical factor in the course of bilateral relations between Sau-

<sup>1</sup> Kozhanov, Nikolay. "Russian Foreign Policy in the Middle East: New Challenge for Western Interests?" *The Russia File. Russia and the West in an Unordered World*. Center for Transatlantic Relations, Johns Hopkins University, Washington DC. Retrieved from <https://transatlanticrelations.org/publications/the-russia-file> (2018).

<sup>2</sup> Wasser, Becca. *The Limits of Russian Strategy in the Middle East*. RAND, 2019. Available at [https://www.rand.org/content/dam/rand/pubs/perspectives/PE300/PE340/RAND\\_PE340.pdf](https://www.rand.org/content/dam/rand/pubs/perspectives/PE300/PE340/RAND_PE340.pdf)

di Arabia and Russia is the changes in the US perception of global and regional security threats. Especially after the terrorist attacks of September 11, 2001, Saudi Arabia, like all Gulf countries, had its share from the aggressive approach of the US. In the face of Washington's aggressive and unconstructive attitude, the Gulf monarchies had to take some steps for the protection of the status quo. Historically, the relations between the KSA and Russia were mostly shaped by the state of relations between Riyadh and Washington.<sup>3</sup> Yet, the relations between the KSA and Russia have evolved to include economic and political interests in addition to the indirect effects of the power struggle among global powers.

Russia's active engagement in the Middle East and the Gulf has both geopolitical and regional dimensions. From the geopolitical point of view, Moscow always looks at the region through the lens of its goal of projecting power at the global level and confronting the West—or simply the US. Thus, regional priorities play a secondary role.<sup>4</sup>

Analysts and experts have focused on Russia's foreign policy actions, including Moscow's partnership with China, the war against Georgia, conflicts with Ukraine, the annexation of Crimea, military intervention in Syria, and the increasing activism in the Eurasian Economic Union, which can be considered to be in line with Russia's strategy of balancing the West.<sup>5</sup> Such measures are part of a broader strategy aimed at undermining the cohesion in the rival axis, (US, NATO, and the European Union)

thus making the Western alliance unable to plan, formulate, and implement a policy on Russia and its near abroad.<sup>6</sup> As an example of the challenge posed by Moscow to the US and its global liberal order, in June 2021, Russia declared that it would remove its dollar assets and replace them with gold and euros.

There is a lack of analytical studies that examine Putin's era in the Russian Federation from a political economy perspective.<sup>7</sup> Many crucial issues and questions are yet to be addressed. The most important question in this regard is what are the main factors behind Moscow's recent activism in the Middle East? This report tries to answer this question by focusing on the interplay of global power dynamics, ideational and domestic sources of Russian foreign policy under the rubric of the global political economy.

In the following sections, the study reviews the bilateral relations between the KSA and RF after the Cold War. In the subsequent section, the main pillars of Russian foreign policy are outlined with a political economy approach. Later, the report reviews the macroeconomic characteristics of these two countries. In the fourth section, the study focuses on bilateral relations in a historical context. In the fifth section, the bilateral relations are discussed under the headings of trade, energy, and investment, to shed light on all those issues. In particular, the study offers an in-depth analysis of trade, investment, and energy questions, where we examine the complex interdependency and other dynamics in the global

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<sup>3</sup> Issaev, Leonid, and Nikolay Kozhanov. "Diversifying relationships: Russian policy toward GCC." *International Politics* (2021): 1-19.

<sup>4</sup> Issaev and Kozhanov, 2021.

<sup>5</sup> Korolev, 2017; Götz, Elias and N. Macfarlane. "Russia's role in world politics: power, ideas, and domestic influences." *International Politics* (2018): 1-13.

<sup>6</sup> Stronski, Paul. A difficult balancing act: Russia's role in the Eastern Mediterranean." <https://carnegieendowment.org/2021/06/28/difficult-balancing-act-russia-s-role-in-eastern-mediterranean-pub-84847>

<sup>7</sup> Sutela, Pekka. *The political economy of Putin's Russia*. Routledge, 2013.

energy markets that, to some extent, shape the Russian Federation. The final section concludes the report.

## POLITICAL ECONOMY OF RUSSIAN FOREIGN POLICY IN THE NEW MILLENNIUM



President Vladimir Putin

Vladimir Putin rose to power in the RF in the late 1990s when he became the chief of FSB (Russia's intelligence organization). In August 1999, Yeltsin appointed him as acting prime minister of Russia. Boris Yeltsin publicly declared that his successor would be Putin. In a surprise move, on 31 December 1999, Yeltsin announced his resignation from the Russian Presidency on TV. As provided by the Constitution of Russia, Putin became the acting president of the RF. Putin outright won the Russian presidential election held on 26 March 2000 with 53% of the votes. During his early years as president, he had to deal with re-establishing the state authority, the war with Chechnya, and corruption matters. To restore the RF state authority, Putin initiated many reforms in security, taxation, and bureaucracy areas. Most importantly, he restrained the power of oligarchs who monopolized Russia's economic apparatus through privatization. After dealing with domestic issues in a certain order thanks

to the reforms, Putin was now ready to put foreign affairs in a more confident and institutional framework.

There are different theoretical and conceptual approaches in explaining Russia's foreign policy. To properly evaluate Moscow's decisions on foreign issues, it would be more useful to pay due attention to power-related, ideational, identity-based, normative, and domestic factors. Many scholars agree that complex calculations that cleverly combine different variables are needed to draw a more comprehensive model. Russia expert Andrei Tsyganov (2016) maintains that considering both ideational and material factors help better understand Russia's domestic policies.

As an alternative to the aforementioned approach, foreign policy scholars present independent variables such as distribution of material power in the international system<sup>8</sup>, (for

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<sup>8</sup> Götz, Elias and N. Macfarlane. "Russia's role in world politics: power, ideas, and domestic influences," *International Politics* (2018): 1-13

**In the eyes of the Russian elite, the international environment has been destabilized due to the unfair and destructive actions of the US and the EU.**

Russia it is mainly hydrocarbon and commodity prices) or ideational/identity factors.<sup>9</sup> For material drivers, scholars maintain that the United States has been losing power particularly after the 2008–2009 financial crisis; and military operations in Afghanistan and Iraq brought unbearable consequences. There have also been deep divergences within the EU. In the face of these external developments, the Russian elite believes that Moscow is significantly stronger in the 2010s than it was in the 1990s, and it might follow a more assertive and ambitious foreign policy agenda. We believe that this self-appraisal is important in explaining Russia's recent assertiveness in foreign affairs, especially in the Middle East.

Consequently, with Putin's rule, the Russian Federation has assumed a new state identity. The Russian state identity and political economy dynamics that have emerged in the 2000s may help us understand the RF foreign policy. Therefore, in this section, we discuss the RF foreign policy under two main headings: processes in RF's conception of dynamic national role and political economy structures.

## 1. RF's National Role Conception

Kalevi J. Holsti introduced the national role theory to international politics. According to this theory, foreign policy decisions and actions are guided primarily by policymakers' role conceptions, domestic needs and demands, and critical events or trends in the external environment. Decisionmakers continuously reshape their perceptions about their own state and the external environment.<sup>10</sup>

According to this model, it becomes easier to explain foreign policy when one understands how a state perceives itself and other actors, and what role it deems appropriate for the fulfillment of the necessities stemming from this predetermined role. Looking at the official documents and speeches of the elite, it is obvious that Moscow sees itself as a great power that must gain status as a leading power in global politics. Since Putin's first term as president of the RF, tensions have continuously increased between Russia and the West, particularly with the United States. That is why the RF, under the Putin administration, has mainly focused on regaining Russia's status in the global political equation as a great power.

<sup>9</sup> Tsygankov, 2016.

<sup>10</sup> Holsti, K. J. (1970). National role conceptions in the study of foreign policy. *International studies quarterly*, 14(3), 233-309.

In the eyes of the Russian elite, the international environment has been destabilized due to the unfair and destructive actions of the US and the EU. Similar to these views, Mearsheimer argues that Russia's aggressive policies were the natural result of the wrong and provocative policies of the West, particularly the enlargement decisions of NATO and the EU.<sup>11</sup> The NATO enlargement process started in the mid-1990s with invitations to former socialist countries Poland, Hungary, and the Czech Republic, and official talk about enlarging NATO to include Ukraine began in 2008. Moscow's elite considered these measures of the Western world to be hostile and a challenge to Russia's traditional sphere of influence.<sup>12</sup>

Since 2003, anti-western voices have significantly increased in Russia, and the 2008 financial crisis proved that the US could not play its superpower role due to its weakening power. The Russians maintained that the international balance had shifted in favor of Russia and its claims to play a global role.<sup>13</sup> Acting together with Beijing in many global governance issues, Moscow believed that a multipolar world order was emerging and that Russia should maintain its position based on the sovereignty of nations and non-interference in countries' internal affairs.<sup>14</sup>

In the first decade of the new millennium, there were mass protests that were later labeled as Color Revolutions in the post-com-

munist countries. The region witnessed the "Bulldozer Revolution" in Serbia (2000), the "Rose Revolution" in Georgia (2003), the "Orange Revolution" in Ukraine (December 2004), and the "Tulip' Revolution" in Kyrgyzstan (2005). In all these Color revolutions, the Soros Foundation allegedly played a role. At the center of the mass protests, there were disputes about the results of elections and the role of civil society. In the second decade of the new millennium, Putin started his third term as president in 2012. He thought that all of the Color revolutions along with the Arab Spring movements were alarming for the survival of his regime. Moscow explained the social uprisings within its traditional narrative of accusing the West of attempting to destabilize the international system with Color Revolutions and to impose its improper democratic values on other nations.<sup>15</sup>

The Russians, who see the infiltration of Western political institutions and their set of values as a real threat, established their own soft power system and developed a tactic consisting of soft and cyberwars against Western institutions while promoting Moscow's own values in its sphere of influence. Russians initiated influence operations to undermine social cohesion in the West, provided support to far-right parties in the West aimed at creating distrust to democratic values of the West and its institutions. Russia provided financial aids to many political parties and politicians who advocated closer ties with Russia.

<sup>11</sup> Mearsheimer, John J. "Why the Ukraine crisis is the West's fault: the liberal delusions that provoked Putin." *Foreign Aff.* 93 (2014): 77.

<sup>12</sup> Marten, Kimberly. "Putin's choices: explaining Russian foreign policy and intervention in Ukraine." *The Washington Quarterly* 38.2 (2015): 189-204.

<sup>13</sup> Andrew Monaghan, "An enemy at the gates' or 'from victory to victory'? Russian foreign policy," *International Affairs*, Volume 84, Issue 4, July 2008, pp. 717-733

<sup>14</sup> Garcia, Henrique Alves (2018). "Evolution of Russian Foreign Policy and the Middle East". *JANUS.NET e-journal of International Relations*, Vol. 9, N<sup>o</sup>. 1, May-October 2018.

<sup>15</sup> Kozhanov, 2018.

Another major component of the RF's national role was ethnic Russians in the former Soviet countries. Although Moscow has been careful in its national and state narratives, "the ethnic Russians issue" was perceived as a threat by Estonia, Latvia, Kazakhstan, and Moldova, all of which have significant Russian ethnic minority populations. Another important factor is the Muslim minority in Russia (Koc, 2020).<sup>16</sup> A considerable Muslim minority lives in Russia, and the risks that this minority may pose disturbs Russia. In the past 30 years, a critical belief has been built around the observations that the Wahhabi jihadist movements caused significant damage to Russia while it negatively influenced the Muslim minority in the country.<sup>17</sup>

## 2. Political Economy and the RF Foreign Policy

International (or global) political economy shows us that world events cannot be explained only by economic dynamics. The discipline of economics focuses on efficiency and profit-making. By solely relying on economic parameters, we cannot understand the events such as the oil embargo of the 1970s, Russia's cutting off the gas it sold, or that the US stopped the delivery of F35 aircrafts to Turkey.

Global political economy consists of four main sub-structures: production, trade, security, and knowledge. Russian external relations have been predominantly affected by its major production structure (hydrocarbon sector), its production of energy, and its export strat-

egies. All these structures have been shaped and reshaped by a complex web of stakeholders both at home and abroad, and all these four political economy structures have fed into each other. Global political economy analyzes complex relations between societal actors, state institutions, and global economic dynamics.

The Russian economy has evolved from the Soviet system and transformed; however, Russia is still predominantly a statist economy. In the 1990s, production facilities were largely privatized, yet the energy and security sectors are still under the control of the state economy. In examining Russia's foreign policy through the lens of political economy, the most important actors in the society-state-global economy triangle are different from the ones found in democratic states. In the case of Russia, the deep state structure of Moscow, the security bureaucracy, and the power relationship between the oligarchs are decisive. It is noteworthy that while Putin nationalized industrial firms in the defense, energy, and raw materials sectors, he appointed to key ministerial positions his close network and personal friends, especially his colleagues from KGB.<sup>18</sup>

Amelia Hadfield emphasizes that "...essential to international political economy, energy has emerged as both a foreign policy issue and a foreign policy instrument that states are prepared to use in pursuit (or defense) of their national interest." For example, in 2006 Russia temporarily stopped the flow of natural gas to Ukraine, and this seriously impacted the Euro-

<sup>16</sup> Koç (2020) . Rusya'nın Ortadoğu'da Taktiksel Hamleleri: Rusya ve Suudi Arabistan İlişkileri. MANAS Sosyal Araştırmalar Dergisi, 9(3), pg. 1956-1969.

<sup>17</sup> Koç (2020) . Rusya'nın Ortadoğu'da Taktiksel Hamleleri: Rusya ve Suudi Arabistan İlişkileri. MANAS Sosyal Araştırmalar Dergisi, 9(3), pg. 1956-1969.

<sup>18</sup> Marten, Kimberly. "Informal political networks and Putin's foreign policy: The examples of Iran and Syria." *Problems of Post-Communism* 62.2 (2015): 71-87.

pean markets. This stoppage of gas has shown that energy could be used as a hard power instrument.<sup>19</sup> Overall, as of 2016, the EU has an energy dependency rate of approximately 53% for all fuel products, 44% for solid fuels, 88% for crude oil, and 65% for natural gas, with an overall 39% dependence on Russia.<sup>20</sup>

When we look at Russia's foreign policy towards the Middle East in the last 20 years from the perspective of global political economy, several points should be underlined concerning Russia's objectives. The first is to put Russia's energy-based economy in a more advantageous position. The second is the market search of defense-technology-oriented companies together with Russia's giant security bureaucracy. Third, Russia wants to expand its geopolitical sphere of influence by forming new partnerships in addition to its traditional Soviet allies.

In addition, Russia maintains military and diplomatic relations with Iran in stark contrast to the US. Furthermore, it is observed that the GCC countries and Russia have relatively good relations in energy and other economic fields, albeit with some problems. In particular, the military,

political, and economic ties that Russia has recently developed with these countries should be considered as an effort to show the importance of Russia in geopolitical equations. In addition to these geopolitical and domestic security concerns, several other factors are in line with economic interests. For example, in the case of RF-KSA, although the trade volume between the KSA and Russia is not high, global energy governance is the key driver shaping economic relations.

Another driver of the Russian political economy is the well-documented defense sector and Moscow's arms sale to the Middle East. Russia has played an active role in Syria and recently in Libya. For influential Russian strategist Trenin, the MENA region is crucial for the Russian defense industry as in 2015, these countries accounted for 36% of Russia's defense exports.<sup>21</sup> In addition, the reason for Russia's close relations with these two countries is Putin's informal networks. The Russian military has deployed personnel and equipment in these two Middle Eastern nations. Wagner mercenaries are currently deployed in Jufra Airbase located in central Libya and Ghardabiya Airbase in Sirte. In Syria, Russia has two bases.

**For influential Russian strategist Trenin, the MENA region is crucial for the Russian defense industry as in 2015, these countries accounted for 36% of Russia's defense exports.**

<sup>19</sup> Amelia Hadfield, 2016. "Energy and foreign policy: EU-Russia energy Dynamics," in Steve Smith et al Eds. *Foreign Policy: Theories, Actors, Cases*, Oxford University Press, pp. 451-466.

<sup>20</sup> Amelia Hadfield, 2016.

<sup>21</sup> Trenin, Dmitri. *What is Russia up to in the Middle East?*. John Wiley & Sons, 2017.

Marten informs that from 2006 to 2010, Russia supplied 48 percent of Syria's arms imports. Though this was the case, Syria remained a relatively small client for Russia, constituting less than 5 percent of its foreign arms sale.

Russia's two biggest clients were China and India (60% of the total sales). In the past years, Russia's arms export to the Middle East has significantly increased, and the largest buyers became Syria, Algeria, and Egypt.<sup>22</sup>

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<sup>22</sup> Marten, Kimberly. "Informal political networks and Putin's foreign policy: The examples of Iran and Syria." *Problems of Post-Communism* 62.2 (2015): 71-87.

# ECONOMIC OVERVIEW



## 1. Macroeconomic Overview of the RF

Energy resources are central to the RF economy and Moscow's foreign policy. Since the 2000s, hydrocarbon exports, especially oil and natural gas, have been used as a very effective tool in Russia's foreign policy. In the global natural gas market, Russia ranks second in production behind the US; first in terms of gas exports, while Qatar remains a distant second; and first in terms of proven reserves, well ahead of Iran (International Energy Agency 2021). The vast majority of Russian energy activity is carried out by the Russian state-owned companies: Gazprom (gas), Rosneft (oil), and Transneft (pipelines).

Based on 2019 data, Russian Federation is the eleventh largest global economy (6th on a purchasing power parity basis) with a gross national product of approximately \$1.7 trillion (See Table-1). The share of agriculture, industry, and service sectors are around 5%, 32%, and 63% respectively. In terms of conventional instability indicators (i.e., inflation and unemployment) Russian economy is within a

decent range where both variables take value around 5% without significant swings. The share of hydrocarbon products in total export is more than 50%, implying that foreign exchange earnings depend heavily on the export of oil, natural gas, and related products. Moreover, the share of the export of these products in GDP lies around 10-15% range.

From 2000 to 2020, the average economic growth rate of the Russian economy is about 3.3% (See Figure-1). However, the average growth rate is about 7% during 2000-2008 while the average is only 0.9% from 2009-2020. The global financial crisis in 2008 caused a dramatic contraction in the Russian economy due, to a great extent, a fall in global demand for natural resources. Russian economy recovered quickly and showed positive growth performance from 2010 to 2013. However, after 2014, as shown in Figure-1, the economic growth deteriorated dramatically. From 2014 to 2020, the economy virtually stagnated as the average annual growth rate almost hit zero (0.6%). Some observers argue that after 2014, since Putin could no longer satisfy the

Table-1: Main Economic Indicators for Russian Federation

	2015	2016	2017	2018	2019	2020 (*)
<b>GDP Nominal</b> (Billion US\$)	1,360	1,275	1,570	1,670	1,700	1,630
<b>GDP per capita</b> (US\$)	9,460	8,840	10,890	11,550	11,765	11,400
<b>Population</b> (Million)	144,1	144,3	144,5	144,5	144,4	144,4
<b>Unemployment</b> (%)	5,6	5,6	5,2	4,8	4,6	5,8
<b>Inflation</b> (%)	15,5	7,0	3,7	2,9	4,5	3,5
<b>Export</b> (Billion US\$)	341	282	353	443	420	395
<b>Import</b> (Billion US\$)	193	191	238	249	255	214
<b>Energy Exports (HS27)</b> (Billion US\$)	216	145	186	238	222	164
<b>Share of energy export in total export</b> (%)	63,3	51,4	52,6	53,7	52,8	41,5
<b>Share of hydrocarbon export in GDP</b> (%)	15,8	11,4	11,8	14,3	13,1	10,1

Source: World Development Indicators, various reports of IMF and also UN comtrade.com

(\*) Estimation based on various news.

Russian people with high economic growth and rising standard of living, he opted for small victorious wars instead, first by fighting against Georgia in August 2008, then by annexing Crimea in March 2014 (Åslund, 2020).<sup>23</sup>

The economic stagnation after 2014 stemmed from several interconnected geopolitical, political, and economic factors. Among others, these factors include low oil prices, the decline in confidence in the Russian economy, the international economic sanctions imposed on Russia (due to Russian annexation of Crimea and the Russian military intervention in Ukraine), political corruption, the lack or inadequate growth of inclusive institutions that can generate a favorable investment and business climate, and the erroneous monetary policies in dealing with economic turbulence.

The inability to reverse the economic decline after 2014 also affected Russian society, de-

teriorating living standards. Real disposable incomes are still about 10% below levels reached before Putin's 2014 annexation of Crimea that triggered international sanctions (Andrianova, 2021).<sup>24</sup> However, the war against Ukraine provoked substantial Western sanctions, notably financial sanctions from July 2014, which depressed Russian economic growth by 1-1.5 percentage points each year, but also severe personal sanctions against Putin's closest collaborators (Åslund, 2020). No sign of retreat from the Ukraine issue, as well as from the military operations in Syria and other countries have unsettled the Western countries. In addition, in April 2021, a serious military build-up was made on the Ukrainian border by Russia to test the West. Although Russia has withdrawn some of its troops from the region, the build-up still makes the Western countries very nervous. Due to Russia's aggressive behaviors, the sanctions have been tightened gradually, and given the re-

<sup>23</sup> Åslund, A. (2020). The Russian economy in health, oil, and economic crisis. Retrieved from: <https://www.atlanticcouncil.org/commentary/long-take/the-russian-economy-in-health-oil-and-economic-crisis/>

<sup>24</sup> Andrianova, A. (2021). Russian Economy Rebounding From Covid Slump After Lockdown. Russian Economy Rebounding From Covid Slump After Lockdown. Retrieved from: <https://www.bloomberg.com/news/articles/2021-04-01/russian-economy-continues-climb-from-covid-slump-after-lockdown>

cent tension with Ukraine, it is likely that the sanctions will remain for some time.

With its military presence in Syria and Libya and as well as paramilitary support to the Central African Republic, Russia has assertively projected its state power over very long distances, including engagements with the Nicolás Maduro regime in Venezuela. Russia has notably increased its engagement in the Middle East and North Africa, most prominently through its military intervention in Syria. Russia has secured arms deals and energy contracts (oil, gas, and nuclear) across the Middle East and North Africa in the past years.

The defense and security relations that Russia pursues in the Middle East and other countries where it has intense engagements include military cooperation agreements, exports of high-tech weapons and other defense materials, and the assignment of military advisors and private security firms. In some cases, security cooperation is accompanied by concessions to operate African countries' energy sectors as well as mineral and precious metal resources for private Russian-based firms, some of which have ties to Russia's national security system.

Russia has deepened relations with many states in the Middle East, including Syria, Iran, Turkey, Egypt, Libya, Algeria, and Qatar among others. As of 2020, Turkey is Russia's seventh-largest trading partner; and Egypt is the second-largest regional trading partner of Moscow with a trade volume of \$7.5 billion in 2018.

Important agreements were signed between Egypt and Russia in 2019. Cairo and Moscow

signed an agreement for a large industrial zone around the Suez Canal, envisaging large Russian investments. There are many details in the package, including nuclear power generation. Bilateral relations also include the security sectors. Russian warplanes can now use Egyptian bases and have recently conducted naval exercises with Egypt. In the last two decades, Russia has also exported around \$4 billion worth of weapons to Egypt.<sup>25</sup>

Moscow's interests are not limited to Egypt. Russia also aims to establish a logistics center at one of Eritrea's ports. Somaliland is another place where Russia has an interest in a strategic port. Before the dissolution of the Soviet Union, Moscow had the privilege to maintain a base at Berbera port in Somaliland. This port is a strategic outlet on the Red Sea, near Djibouti. Russian security firms, sometimes called Wagner, also launched their search for gold in Sudan in 2017 through companies named "Meroe Gold" and "M Invest". These companies trained military personnel of the Sudanese army. The US administration included "M Invest" in its sanctions list on 15 July 2020. There is a variety of sources in the media about Wagner's activities in Africa. Russian mercenaries have been deployed in several countries, including Sudan, the Central African Republic, Libya, Zimbabwe, Angola, Madagascar, Guinea, Guinea Bissau, Mozambique, and possibly the Democratic Republic of Congo.<sup>26</sup> It was claimed that Russian Wagner deployed in Libya, South Africa, Sudan, and Mozambique train local armies, protect high-profile figures, fight rebel and terror groups in addition to protecting the resources of diamond, gold, and uranium.<sup>27</sup>

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<sup>25</sup> International Policy Digest, (June 27, 2021): "The Regional Implications of the Abrogation of Russia's Port at Sudan <https://intpolicydigest.org/the-regional-implications-of-the-abrogation-of-russia-s-port-at-sudan/>

<sup>26</sup> Anadolu Agency (5March2021), Russia's Wagner Group reportedly deployed in Africa. <https://www.aa.com.tr/en/world/russias-wagner-group-reportedly-deployed-in-africa/2165414>

<sup>27</sup> Anadolu Agency (5March2021), Russia's Wagner Group reportedly deployed in Africa.

Russian involvement in the Central African Republic started in 2017 when the government asked for help from Moscow to protect its diamond trade from the rebel groups. Based on a classified UN report, New York Times revealed that the CAR hired the Wagner Group owned by Russian billionaire Yevgeny Prigozhin. Russian Wagner group committed war crimes in the CAR, killed civilians, looted homes, and shot dead worshippers at a mosque. Russian mercenaries were deployed in the guise of military advisers. Yevgeny Prigozhin was charged with financing "information warfare" and disrupting the 2016 American election.<sup>28</sup>

In the media reports, it was claimed that Russian and Algerian officials discussed an arms deal with an estimated value of \$7 billion to purchase advanced Sukhoi 57 and Sukhoi 34 jet fighters; Algiers and Moscow had previously signed a deal for 12 Sukhoi 32 jets.<sup>29</sup> In Libya, Russia backed General Khalifa Haftar and his Libyan National Army. Moscow supplied weapons, mercenaries, and even aircraft to Haftar's forces.

Due to international sanctions and some structural problems (the dependency on energy export, corruption, the scanty economy promoting institutional climate, etc.), the Russian economy has been under significant stress in recent years. COVID-19 outbreak further aggravated the economic problems. In the first three quarters of 2020, the economic conditions in Russia worsened due to lockdown measures, but in the fourth quarter, the economy has appeared to rebound from the pandemic-induced recession. In Russia Economic Report prepared by the World Bank, the Russian economic growth is projected at -4 percent in 2020 and the report also states that consumer and business confidence is expected to improve assuming a vaccine deemed safe and effective is rolled out; this would pave the way for a gradual rebound at 2.6 and 3.0 percent in 2021 and 2022 respectively (World Bank, 2020).<sup>30</sup>

Russian Finance Minister Anton Siluanov said that Russia would implement a significantly expansionary fiscal policy in 2021 in order to

Figure-1: Russian GDP Growth Rate from 2000-2020 (%)



<sup>28</sup> New York Times, 27June2021, Russian Mercenaries are driving war crimes in Africa, UN Says"

<sup>29</sup> Middle East Monitor, July 2, 2021, Accessed at 6 July 2021: <https://www.middleeastmonitor.com/20210702-algeria-to-seal-7bn-arms-deal-with-russia/>

<sup>30</sup> World Bank (2020). Russia Economic Report. December 2020. Retrieved from: <https://www.worldbank.org/en/country/russia/publication/rer>

reverse the economic slowdown (prevalent for some time) and the economic contraction observed during the COVID-19 pandemic. Siluanov further stated that the Russian government is planning to boost infrastructure spendings this year, including by tapping its \$182 billion wealth fund (Andrianova, 2021).<sup>31</sup>

## 2. Macroeconomic Overview of the KSA

As of 2019, the KSA is the largest country in the Gulf Region in terms of both national income and population, with a population of 34.7 million and a national income of \$793 billion. The agriculture sector is very small, with a contribution to GDP of about 2.5% in 2018. The share of the service sector is about 53%, and the share of the industrial sector is 44.5%. Depending on global oil prices and the amount of oil sold in global markets, the share of oil rents in GDP varies between 20-50%.

The state's budget is virtually shaped around oil sales. Revenue from the petroleum sector supplies about 70-75% of Saudi government revenue. In 2018, the government spending to

GDP ratio was about 36.8% (\$288 billion), and total revenue was about 30.9 % (\$242 billion). Almost 70% of the total public revenues (\$163 billion) consists of the share of oil revenues transferred to the budget. Non-oil revenue for 2018 was around \$79 billion.

Although the country's population is the largest in the Gulf region, almost one-third of the population consists of immigrants. Moreover, although overall unemployment appears not to be in the critical range, youth unemployment is close to 30%. The economy's heavy reliance on oil revenues and youth unemployment are two significant fragilities that may also contribute to other economic and social problems. According to Gvosdev and Marsh, Saudi Arabia needs to have a guaranteed floor at global oil prices, as Riyadh needs the income for sustaining the Saudi state's welfare. After the Arab Spring movements, "the Saudi government is well aware that regimes in Tunisia and Egypt, which collapsed in 2011 due to sustained popular unrest, were unable to meet the economic needs of the citizens".<sup>32</sup>

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<sup>31</sup> Andrianova, A. (2021). Russian Economy Rebounding From Covid Slump After Lockdown. Retrieved from: <https://www.bloomberg.com/news/articles/2021-04-01/russian-economy-continues-climb-from-covid-slump-after-lockdown>

<sup>32</sup> Gvosdev, Nikolas K., and Christopher Marsh. *Russian foreign policy: Interests, vectors, and sectors*. CQ Press, 2013.

Table-2: Main Economic Indicators for Kingdom of Saudi Arabia

	2015	2016	2017	2018	2019	2020 (*)
<b>GDP Nominal</b> (Billion US\$)	655	645	690	787	793	701
<b>GDP per capita</b> (US\$)	20.630	19.880	20.800	23.340	23.140	20.140
<b>Population</b> (Million)	31,7	32,4	33,1	33,7	34,2	34,8
<b>Unemployment</b> (%)	5,6	5,7	5,9	6,0	6,1	8,2
<b>Inflation</b> (%)	1,2	2,0	-0,8	2,5	-2,1	3,6
<b>Export</b> (Billion US\$)	218	201	240	315	286	184
<b>Import</b> (Billion US\$)	247	198	202	210	219	170
<b>Energy Exports (HS27)</b> (Billion US\$)	153	136	170	232	202	---
<b>Share of energy export in total export</b> (%)	70,2	67,7	70,8	73,7	70,6	---
<b>Share of hydrocarbon export in GDP</b> (%)	23,4	21,1	24,6	29,5	25,5	---

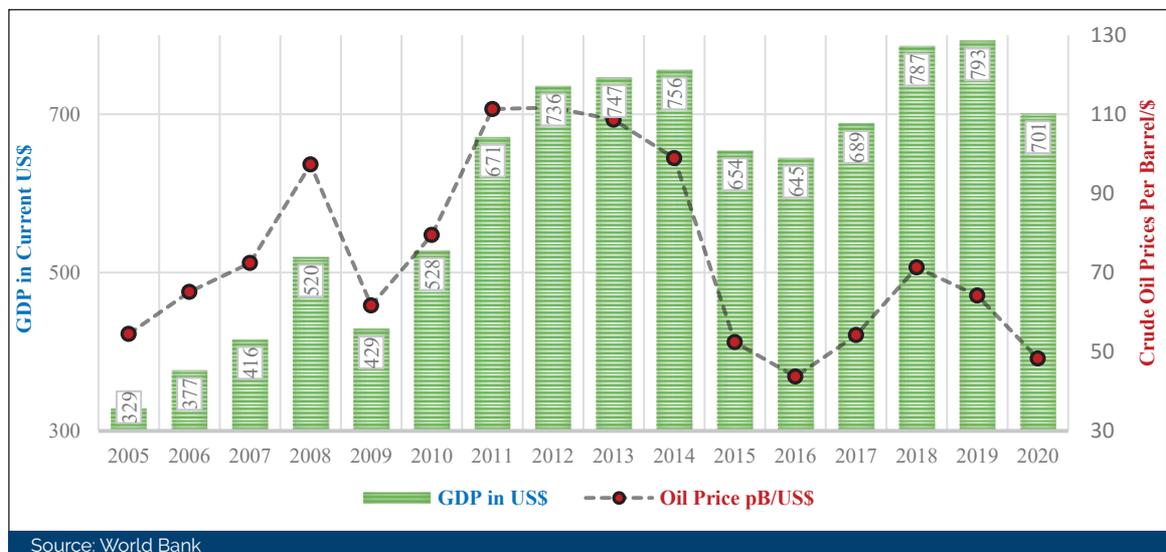
Source: World Bank, various reports of IMF and also UN comtrade.com  
(\*) Based on projections.

As Figure-2 shows, there is a significant correlation between KSA's economic performance and global crude oil prices. While the decrease in oil prices in global oil markets negatively affects KSA's GDP, the economic growth increases in the years when crude oil prices are high. Note also that global oil prices

and the amount of crude oil exported by the KSA display some fluctuations.

In 2020, due to market reduction in global oil demand coupled with low oil prices, KSA's oil revenue contracted, which in turn caused a substantial reduction in GDP, from \$793 billion in 2019 to \$701 billion in 2020 (See Figure-2).

Figure-2: KSA GDP Growth (%) and Crude Oil Prices (pB/\$)



Source: World Bank

To compensate for lower oil revenues during the outbreak, the KSA leaned more heavily on government-controlled funds, resulting in a budget deficit and the GDP ratio climbing to 12.4% in 2020. The Budget Bill for 2021 shows that the Kingdom will cut spending by 7.3% to reduce the budget deficit. However, even with these substantial austerity measures, the budget deficit to GDP ratio is projected to be around 5% in 2021 (Nereim et al.,2020).<sup>33</sup> Ac-

ording to the IMF (2021), the KSA is expected to grow 2.9% and 4% in 2021 and 2022 respectively.<sup>34</sup>

Table-2 shows that about 20-30% of the GDP is generated by energy exports, which creates a significant vulnerability for the KSA economy. Although serious efforts have been made to diversify the economy in recent years, the fruits of these efforts will take many years to reap.

<sup>33</sup> Nereim, V., Abu Omar, A., and Martin, M. (2020). Saudi Arabia Plans Spending Cuts in 2021 as Economy Recovers. *Retrieved from:* <https://www.bloomberg.com/news/articles/2020-12-15/saudi-arabia-sticks-to-spending-cuts-as-2021-budget-announced>

<sup>34</sup> IMF (2021). World Economic Outlook. Data Mapper System. *Retrieved from:* <https://www.imf.org/external/datamapper/datasets/WEO>



## HISTORICAL BACKGROUND OF RUSSIA-SAUDI ARABIA RELATIONS



Russia's President Vladimir Putin met with King Salman bin Abdulaziz Al Saud of Saudi Arabia at the Kremlin Grand Palace.

Abdulaziz Ibn Saud became the Sultan of Hejaz in 1926. Najd came under his control in 1927. In 1927, the treaty of Jeddah was signed between the United Kingdom and Ibn Saud, and the so-called Kingdom of Hejaz and Najd became sovereign (Al Zumor, 2019),<sup>35</sup> The sovereignty of the Kingdom of Hejaz and Najd was recognized by the UK, followed by the then USSR, the US, and many other countries (Al Zumor, 2019).<sup>36</sup> The official name of the state was changed in 1932 to its current name, the Kingdom of Saudi Arabia.

Although the Soviet Union was first to recognize the independence of the new Saudi state in 1926, bilateral relations did not improve due to several reasons. Saudi Arabia aligned itself with the United Kingdom first, and after World War II it preferred to establish close relations with the United States.

Riyadh viewed the USSR as a destabilizing force that aimed to overthrow the traditional regimes in the Middle East. Both ideologically and economically it was very hard for the KSA and Soviet Union to find a common ground. Despite the USSR's early diplomatic recognition of the KSA, bilateral relations remained relatively cold until the early 1990s. Although many factors were at play in keeping relationships stumped, Soviet ideology was the main cause. The Soviet invasion of Afghanistan, Soviet support for nearby Marxist regimes in South Yemen and Ethiopia, Marxist revolutionary movements in the area, and Soviet arms sales to radical Arab regimes disturbed Riyadh.<sup>37</sup> In other words, the main culprit was not the Soviet Union's ideology *per se*, but the activities thereof. The economy was another reason for weak bilateral relations. Saudi Arabia's large oil reserves and export volume al-

<sup>35</sup> Zumor, A.Q.A. (2019). Language planning in Saudi Arabia (1927–2019): Arabic and other languages. *Trames*, 23(73/68), 4, 409-424.

<sup>36</sup> Zumor, A.Q.A. (2019). Language planning in Saudi Arabia (1927–2019): Arabic and other languages. *Trames*, 23(73/68), 4, 409-424.

<sup>37</sup> Katz, 2001.

so proved very damaging to the Soviet Union, which itself depended on oil exports for more than 50% of its hard currency earnings. The Saudi decision to increase oil production in 1985 drove down global oil prices, causing significant harm to the Soviet economy, which was already in recession. Dmitri Trenin argues that Russian historians blame the Saudis for their contribution to the fall of the Soviet Union, as a result of driving down the oil price in the mid-1980s.<sup>38</sup>

During Gorbachev's presidency in the early 1990s, there were some favorable signs. Despite these positive signals, there was no significant improvement in bilateral relations. Moscow normalized its relationship with the Gulf states, including Saudi Arabia, Oman, and other Gulf emirates. The KSA granted \$2 billion in aid to the USSR from 1990 to 1991 to help stabilize the Soviet economy.<sup>39</sup> Despite these positive gestures, a lot of disagreement remained between the RF and KSA during the 1990s, especially on the situation in the North Caucasus. Throughout the 1990s, Russia claimed that individuals from the Gulf countries including the KSA were funding Islamist radical groups in the North Caucasus. During the Soviet Union's military operation in Afghanistan, which started in 1979 and lasted for about 10 years, Saudi Arabia was the most important supporter and financier of local Afghan mujahideen. After the disintegration of the Soviet Union, the Russians continued to have concerns over Saudi Arabia's attitudes and actions, as the radicalization of the former Soviet geography with the radical Wahhabi ideology created fear in Moscow.<sup>40</sup> According to

US sources, charitable organizations from the Gulf countries channeled millions of dollars to Chechen fighters. Security officials noted that many young Saudi extremists were captured during the US operations in Afghanistan following 9/11, who were fighting for the Taliban and had been initially radicalized during the second Chechen war in 1999-2000.<sup>41</sup> In the early 2000s, Russia was infamous among the Muslim world due to the second Chechen war. The Saudi representative at the Organization of the Islamic Conference (OIC) called Russia's operations an 'inhumane act against the Muslim people of Chechnya' and an attack on the right to national self-determination.<sup>42</sup>

After the terrorist attacks in New York on 11 September 2001, the US-Saudi cooperation quickly deteriorated. The US blamed the Saudi government for funding Islamic charities affiliated with jihadist groups. The Washington elite claimed that Saudi Arabia had become a dangerous opponent of the US. This situation proved to be suitable for the improvement of Russia-Saudi Arabia relations. Aggressive and indecent behaviors of the United States against the Gulf States, especially the Saudi government, caused these countries to reconsider their overdependence on the United States. The next stage of rapprochement between Saudi Arabia and Russia was also linked to the US invasion of Iraq in 2003. Moscow opposed the unlawful US invasion, yet Washington turned a blind eye to the reaction of the Saudi Kingdom that brought criticism both to the invasion itself and to the anti-Iraq coalition

<sup>38</sup> Trenin, 2017.

<sup>39</sup> Gvosdev&Marsh, 2013.

<sup>40</sup> Trenin, 2017.

<sup>41</sup> Dannreuther, Roland. "Islamic radicalization in Russia: an assessment." *International Affairs* 86.1 (2010): 109-126.

<sup>42</sup> Dannreuther, Roland. "Islamic radicalization in Russia: an assessment." *International Affairs* 86.1 (2010): 109-126.

When the US severed its ties with the Gulf countries, Moscow wanted to fill the vacuum. To enhance ties throughout the region, Putin declared in 2003 that Russia would cooperate with the Arab world, and he visited Egypt, Algeria, Jordan, Iran, and some other regional countries. In September 2003, Prince Abdullah became the highest-ranking Saudi official to travel to Moscow. Russia softened its earlier criticisms about Riyadh, while the KSA government publicly declared that Chechnya was an "internal affair" of Russia. Pro-Russian Akhmad Kadyrov (president of Chechnya in 2003) met with King Abdullah in Moscow and subsequently traveled to Saudi Arabia for pilgrimage in 2004. In January 2004, Saudi Arabia recognized Akhmad Kadyrov as a legitimate representative of the Chechen people. This symbolic visit further strengthened the RF-KSA relations.

In 2003, Putin attended the OIC summit, which was chaired by Qatari Emir Hamad bin Khalifa al-Thani. But hopes of deepening cooperation were dashed in 2004, when one of the Chechen leaders, Zelimkhan Yandarbiyev, was killed in Doha by the Russian security forces.<sup>43</sup>

In February 2007, Putin visited Saudi Arabia, the UAE, and Qatar to assert Russia's new role and influence in the region.<sup>44</sup> Russia started to engage in closer relations with the entire Muslim world.

According to the RF's official "foreign policy concept"<sup>45</sup> issued in 2008, Moscow wants "to enhance its interaction with the States of the Islamic world, Russia will take advantage of its participation as an observer in the work of the Organization of the Islamic Conference and the League of Arab States, and play an active role in implementing the G8 Partnership with the Broader Middle East and North Africa Region. Priority attention will be paid to developing mutually beneficial economic cooperation, in particular in the energy sector, with countries of this region, which is of strategic importance to Russia's national interests."

Putin noted that the RF and KSA were finding ways to strengthen the bilateral relations particularly to ensure that two of the world's leading producers of energy did not find themselves pitted against each other. Saudi Arabia wanted to diversify its international relationships as Ri-

**When the US severed its ties with the Gulf countries, Moscow wanted to fill the vacuum. To enhance ties throughout the region, Putin declared in 2003 that Russia would cooperate with the Arab world, and he visited Egypt, Algeria, Jordan, Iran, and some other regional countries.**

<sup>43</sup> Issaev & Kozhanov, 2021.

<sup>44</sup> Steven Rosefelde, 2020, "Putin's Russia: Economy, Defence And Foreign Policy," World Scientific Publishing.

<sup>45</sup> Russian Federation, 12 July 2008. [https://russiaeu.ru/userfiles/file/foreign\\_policy\\_concept\\_english.pdf](https://russiaeu.ru/userfiles/file/foreign_policy_concept_english.pdf)

yadh began to be concerned about its deteriorating relationship with the United States, and it pushed for a new initiative, "Russia vector." Foreign and defense ministers from the KSA and RF signed a landmark defense cooperation agreement in July 2008. In the same year, after the conflict in South Ossetia, King Abdullah said that he "understands Russia's actions".

During Putin's third term as president, Russia substantially changed its vision of the Middle East. The Russian authorities took measures to increase Russian presence in the MENA. Moscow also deepened its interaction with regional organizations, including the OPEC. When Putin returned to the Kremlin for his third term (May 2012), the impacts of the 2008 financial crisis and the US's ambiguous global leadership were still felt in global politics. Additionally, Putin started his new term immediately after the Arab Spring movements that affected the Russian security community deeply.

The 2012–2014 period was stagnation years in terms of RF-KSA relations. This era was associated with the negative reaction of the GCC States to the Russian support to the Assad regime in Syria. In February 2012, the UN Security Council drafted a motion calling for Bashar Assad to resign, but Moscow vetoed it. The Gulf countries, mainly the KSA, reacted strongly to this veto. King Abdullah complained to Medvedev, "The Russian friends should have coordinated with the Arabs before Russia used its right to veto in the Security Council." To repair some of the damage caused by the Syrian crisis, Foreign Minister Sergei Lavrov traveled to Saudi Arabia in November 2012.<sup>46</sup>

Later, overall rapprochement continued alongside Moscow's increasing presence in the region, changing dynamics of the US relations with Russia and with the GCC, the evolution within energy markets, existing tensions between Middle Eastern countries, as well as the transformation of the GCC foreign policy vision.<sup>47</sup>

On the other hand, Katz (2012) argues that three important factors induced both sides to refrain from deepening the ties:

- 1) Despite all efforts in the early 1990s onward, Russia was reluctant to become an OPEC member.
- 2) Due to the strategic security concerns, Russia always maintains good relations with Iran, and this strategic collaboration has created suspicion among monarchies in the Gulf region.
- 3) The conflicts in the North Caucasus during the 1990s caused deterioration in the relations and caused distrust.

Nikolay Kozhanov categorizes Moscow's increasing concern towards the Middle East in three groups:

- 1) economic (to compensate for the negative political and economic implications of the tension experienced with the West,
- 2) political (to promote dialogue between the main actors of the Middle East),
- 3) security (to restrict potential threats to Russia's security in non-European parts of Eurasia by combating international terrorism, Islamic radicalism, the proliferation of weapons of mass destruction.

<sup>46</sup> Gvosdev&Marsh, 2013.

<sup>47</sup> Issaev and Kozhanov, 2021.

Recently, it has become important to highlight Moscow's careful observation of the domestic war in Yemen, its support to General Khalifa Haftar in Libya, active cooperation with Saudi Arabia and the UAE in the OPEC+ , and readiness to set the stage in Syria for the economic presence of GCC countries.<sup>48</sup> As is known, the Coalition led by Saudi Arabia launched a military operation in Yemen; and the vote on UNSC Resolution no. 2216 of 14 April 2015 made no mention of the actions of the Arab Coalition, blaming instead the Houthis (UNSC 2015). The Russian delegation abstained, which meant that Moscow implicitly supported the actions of Riyadh, and gave the green light to the Saudi leadership in its brutal actions towards civilians in Yemen.

According to Issaev and Kozhanov, none of the regional or internal conflicts in the Middle East are vital to Russia's interests; therefore, Putin's support to or silence on these conflicts is purely a bargaining chip, giving him ample room for maneuver. In the context of its economic structure deteriorating in the face of sanctions, Moscow wants to pursue its main interest: hot money. For the Gulf states, which have their own vital interests in Yemen, Libya, and Syria, Moscow's support is important. On the other hand, the prospect of developing investment and energy cooperation with the Gulf region seems extremely attractive for sanction-hit Russia.<sup>49</sup>

Traditionally, Washington is the regional stabilizer. Before the Obama administration, the strategic cooperation between the US and

Gulf monarchies was quite obvious. However, during the Obama administration, the KSA's perception of the US changed dramatically. The US policy that worried the KSA (and even Israel) the most during Obama's term was that Obama put the signing of a nuclear agreement (albeit at the cost of damaging all the dynamics in the region) before anything else. The Saudis were highly suspicious of the nuclear talks and viewed the nuclear deal as a possible opening gambit in an overall regional pivot by the United States away from Saudi Arabia and toward Iran.<sup>50</sup> Although the Obama administration took some robust steps to change the KSA's unfavorable perception towards the US (e.g., arms sales to the KSA, open support of the KSA's intervention in Yemen, etc.), these reassuring policies were not enough to eliminate the distrust of the Riyadh administration towards the US (Ivanova, 2018).<sup>51</sup> However, the circumstances changed during the President Trump era.

In order to strengthen the deterrence capacity against China, the US recalibrated its resource utilization and aimed to readjust its military assets by mobilizing the US military equipment and personnel from other parts of the world and deploying them according to its security objectives. However, given Washington's traditional role as the regional stabilizer, disengagement in the Middle East could create a power vacuum in the region, perhaps threatening the states crucial to US interests, such as Saudi Arabia (Brands and Feaver, 2017).<sup>52</sup>

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<sup>48</sup> Issaev & Kozhanov, 2021.

<sup>49</sup> Issaev & Kozhanov, 2021.

<sup>50</sup> Goldenberg, I. (2017). Here's How Both Obama and Trump Stoked the Saudi-Iranian Rivalry. *Foreign Policy*, December 7, 2017. Retrieved from: <https://foreignpolicy.com/2017/12/07/heres-how-both-obama-and-trump-stoked-the-saudi-iranian-rivalry/>

<sup>51</sup> Ivanova, I. (2018). Saudi Arabia is America's No. 1 weapons customer. *CBSNews*. Retrieved from: <https://www.cbsnews.com/news/saudi-arabia-is-the-top-buyer-of-u-s-weapons/>

<sup>52</sup> Hal Brands H., and Feaver, P. (2017). Trump and Terrorism: US Strategy After ISIS. *Foreign Affairs*, 96(2). 28-36.



## ECONOMIC RELATIONS: TRADE, INVESTMENT AND ENERGY



Within the scope of "Russian Energy Week", a session titled "Maintaining Energy Connectivity in an Unstable World" was held. Russian Energy President Aleksandr Novak and Saudi Energy President Prince Abdulaziz bin Salman participated in the session.

As briefly emphasized above, Russia's relationship with the Middle East, in general, is said to be based on three pillars: restoration of prestige in the global power struggle, economic interests, and security concerns. For the economy, energy is an essential driver for bilateral relations, but trade and investment relations are also important.

When commodities produced by two different countries compete, the basket of exportable commodities produced by these countries (to a great extent) is said to substitute one another. Energy, mainly crude oil, has a significant share in the export baskets of both Russia and the KSA, and therefore, their bilateral trade level is relatively low.

Although some of their exportable products overlap, Russia's relatively diverse range of production enables it to have a better trade balance compared to the Middle East countries. The United Nations trade data for 2018 reveal that close to 10% of Russia's total exports were to Middle Eastern countries. On the other hand, due to Middle Eastern countries'

narrow range of exported products, Russia's volume of imports from these countries was around 3% of its total imports. In other words, Russia has a significant trade surplus in terms of its trade with the region. A closer examination further indicates that Russian Federation's exports to this region are concentrated on two groups of commodities: agricultural goods (cereals) and industrial products (manufacturing, particularly weapons).

In addition to commodity trade, energy and investment relations are also important for economic relations. There has been a surge in investment relations between the two countries through sovereign wealth funds. In the field of energy, recently, it has been observed that the two countries are more enthusiastic about coordinating their policies than they were in the past.

### 1. Bilateral Trade

While the trade volume between the two countries was as low as around \$57 million in 2000, the volume increased after 2010. In this

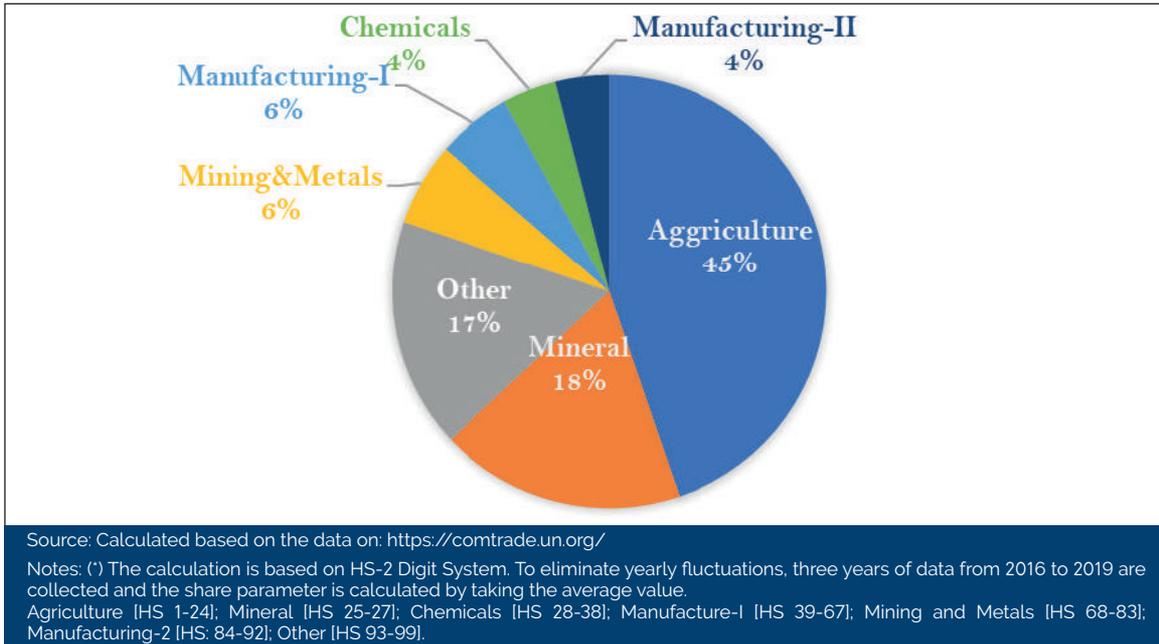
context, the trade volume in 2012 approached \$1.4 billion. Between 2012 and 2015, the volume remained above \$1 billion. However, it experienced a sharp decline in 2016, before recovering in 2017, and reached a level of nearly \$1.7 billion in 2019 (See Table-3).

Table-3: Bilateral Trade Between Two Countries (Million US\$)

Year	Saudi Arabia-Russia Trade			Total Trade Statistics of Saudi Arabia			
	Import from Russia	Export To Russia	Trade Volume	Total Export	Total Import	Trade Volume	Share (%)
	A	B	C=A+B	D	E	F=D+E	G=C/F
2000	55	2	57	77.204	28.399	105.603	0,054
2001	66	1	67	67.674	29.154	96.828	0,069
2002	137	2	139	72.129	30.466	102.595	0,135
2003	210	2	212	92.765	39.569	132.334	0,160
2004	138	6	144	125.551	44.944	170.495	0,084
2005	230	5	235	180.278	57.233	237.511	0,099
2006	273	6	279	210.824	67.681	278.505	0,100
2007	426	10	436	232.856	87.817	320.673	0,136
2008	466	22	488	312.999	112.273	425.272	0,115
2009	333	28	361	191.810	92.457	284.267	0,127
2010	298	69	367	250.577	103.622	354.199	0,104
2011	643	209	852	364.139	127.963	492.102	0,173
2012	1.089	270	1.359	387.374	151.260	538.634	0,252
2013	789	289	1.078	375.361	163.014	538.375	0,200
2014	898	267	1.165	341.947	168.240	510.187	0,228
2015	1.236	183	1.419	203.689	174.786	378.475	0,252
2016	718	142	860	183.604	140.169	323.773	0,153
2017	999	145	1.144	225.836	134.519	360.355	0,254
2018	1.221	292	1.513	294.536	135.211	429.747	0,245
2019	1.443	264	1.707	251.800	144.344	396.144	0,421

Source: <https://comtrade.un.org/>

Figure-3: Saudi Arabia Import from Russia: In Broad Category of Commodities (\*)



As emphasized above and can be inferred from Table-3, Russia has always maintained its position as a country that enjoys a trade surplus with the KSA, since both countries are rich in fossil energy and that the substantial percentage of foreign currency earnings of both countries are heavily depended on fossil energy exports. These factors have played a significant role in preventing deepening the commercial activities between the countries. Table-1 column G shows that the share of trade with Russia from 2000 to 2019 was always less than 1% in Saudi Arabia's total trade volume.

In addition to low levels of trade volume, the second important characteristic of bilateral trade is that the commodities tend to concentrate on few specific categories. To examine the pattern of trade, we collected HS-2 Digit data for the trade figures for a group of 99 commodities. To construct a simple and

meaningful table, we further classified the commodities into seven main groups shown in Graph-2 below. Furthermore, by utilizing the three-year-average values of annual data covering 2016-2019, we calculated the import-share parameters for each group for the KSA. Graph-2 shows the share of each type of group for KSA's import from Russia. It is observed that roughly half of Saudi Arabia's imports from Russia consist of agricultural and livestock products. Although it is not shown on the table, the share of cereals (alone) constitutes about 40% of total imports from Russia. By 2016, the largest buyers of Russian wheat, rye, and barley were Egypt, Israel, and Saudi Arabia, respectively.<sup>53</sup>

The share of other agricultural products is very small. Note also that the sum of agricultural and mineral products constitute almost two-thirds of total imports. While Manufacturing-I refers to low-value-added manufac-

<sup>53</sup> Kozhanov, 2018.

turing goods, Manufacturing-II commodities are generally high-tech products. Though not shown on the figure, the imports of arms and ammunition (HS 93) from Russia are very small, around \$6 million.

One of the most important niche sectors that help diversify Russia's export spectrum is its nuclear industry. Moscow's giant Rosatom has built reactors in Iran. Rosatom is also operating in Turkey and Jordan. Russia has an interest in opening to Saudi Arabia and other Gulf countries and is seeking new contracts there. Rosatom opened its first regional office in Dubai in 2016.

The KSA's procurement of military equipment is an interesting issue that requires further exploration. According to the Stockholm International Peace Research Institute (SIPRI), the KSA is a critical arms buyer from other countries. In 2019, global military expenditure reached \$1.9 trillion, or about 2.2% of the global GDP (SIPRI, 2020).<sup>54</sup>

According to SIPRI data (2020) covering the 2015-2019 period, the global arms trade increased by 5% relative to the 2010-2014 period. In this report, the financial value of arms export in the monetary figure is not given for each country, and therefore it is difficult to predict the country-specific export figures.

In SIPRI (2020) data, other important points for the 2015-2019 period are as follows:

- The US was the top arms exporter, delivering arms to 96 states. The US share in total global arms export was 36%. The Middle East is a highly profitable mar-

ket for the US where the Middle East accounted for 51% of total US arms exports.

- Russia is the second biggest global arms exporter whose share in total global arms export was 21%. Russia's arms exports to the Middle East were about 19% of its total arms export. Egypt and Iraq were the main purchasers of Russian arms in the Middle East, accounting for 49 and 29 percent respectively.

Many countries do not disclose the actual figures for arms exports, but the company-based data shed some light on this context. The sales of defense companies across the world show that the US companies dominate the market. Arms sales by the world's 25 largest arms-producing and military services companies totaled \$360 billion in 2019, and the sales of the US firms accounted for 61% of this total, or about \$220 billion (NDOS, 2020)<sup>55</sup>. According to Gvosdev&Marsh (2013), the Saudis wanted a guaranteed supply of advanced technology, and when the United States would not supply advanced technology, particularly for its nuclear program, they turned to the Russians as an alternative.<sup>56</sup>

In 2018, the KSA's military expenditure was about 240 billion SAR, or \$62 billion.<sup>57</sup> According to the SIPRI (2020), the KSA ranked first in global arms sales during 2015-2019. In this period, about 12% of the total global arms were purchased by the KSA. The arms sales of the US to KSA accounted for 24% of total US arms exports.

<sup>54</sup> SIPRI (2020). Armaments, Disarmament and International Security. Stockholm International Peace Research Institute. SIPRI YEARBOOK 2020. Retrieved from: <https://www.sipri.org/yearbook/2020>

<sup>55</sup> NDOS (2020). SIPRI Report: 2019 Global Arms Sales. New Defense Order Strategy. Retrieved from: <https://dfnc.ru/en/world-news/sipri-repoert-2019-global-arms-sales/>

<sup>56</sup> Gvosdev&Marsh, 2013.

<sup>57</sup> Forrester, C. (2020). Saudi Arabia cuts defense spending. December 18, 2020, Janes.com. Retrieved from: <https://www.janes.com/defence-news/news-detail/saudi-arabia-cuts-defence-spending#:~:text=Saudi%20Arabia%20will%20cut%20its,%25%20year%20on%20year.>

## 2. Investment Opportunities

In recent years, the poor economic performance has also pushed Russia to attract funds from Gulf countries, including the KSA (although the quality of the data is problematic regarding investments of Russia in the Middle East and vice versa). Russia has made an aggressive effort to attract investments from the region and create co-investment funds.<sup>58</sup> There are two wealth funds in collaboration: Russian Direct Investment Fund (RDIF), a Russian sovereign wealth fund, and Public Investment Fund (PIF), a Saudi Arabian sovereign wealth fund. The RDIF was established in 2011 with an initial capital of \$10 billion. As of mid-2020, the RDIF had struck co-investment deals with sovereign wealth funds and investors in Bahrain, Egypt, Israel, Kuwait, Qatar, Saudi Arabia, Turkey, and the UAE. Although a variety of deals and funds have been announced, it is not clear exactly how much investment has been realized.<sup>59</sup>

To facilitate cooperation, a new financial organization with an initial capital of \$6 billion, called the Russia-Saudi Investment Fund (RSIF) was established in 2017. Twenty-five joint projects in Russia have been approved with a total investment of more than \$2.5 billion through

RDIF. As of 2021, there are many partners within RDIF, including Emirati Mubadala, DP World, Saudi Public Investment Fund, Saudi Aramco, Ayar International Investment Company, Qatar Investment Authority, Kuwait Investment Authority, and Bahraini Mumtalakat.<sup>60</sup>

Moreover, the cooperation is expected to invest another \$10 billion later.<sup>61</sup> As of 2018, the share of the GCC countries in the RDIF investment funds (including potential projects) was estimated at 52% (Saudi Arabia accounted for 22%, the UAE for 18%, Qatar, 8%, and Kuwait, 2%).<sup>62</sup> In 2015, talks about Saudi Aramco acquired a stake in the Arctic LNG-2 project led by Novatek, Russia's largest non-state natural gas producer, which would start producing liquefied natural gas (LNG) in the next four to five years.<sup>63</sup> Furthermore, a partnership of Saudi Aramco, Japan's Mitsui, and RDIF is considering acquiring a 30 to 40 percent stake in Novatek's plant worth \$25 billion.<sup>64</sup> This project is expected to bring the Russian gas company closer to its goal of producing as much LNG as Qatar, one of the world's top LNG suppliers.<sup>65</sup>

Iran's serious progress in the nuclear field has alerted the countries of the region. The KSA, which is uncomfortable with Iran's nuclear activities, wants to embark on this field with

<sup>58</sup> Kaye D. D., Robinson L., Martini J., Vest N., and Rhoades A.L. (2021). Reimagining US Strategy in the Middle East: Sustainable Partnerships, Strategic Investments. RAND Report. ISBN: 978-1-9774-0662-0. Retrieved from: [https://www.rand.org/content/dam/rand/pubs/research\\_reports/RRA900/RRA958-1/RAND\\_RBA958-1.pdf](https://www.rand.org/content/dam/rand/pubs/research_reports/RRA900/RRA958-1/RAND_RBA958-1.pdf)

<sup>59</sup> Kaye et al. 2021.

<sup>60</sup> Issaev and Kozhanov, 2021.

<sup>61</sup> Mammadov, R. (2019). Growing ties with Russia could strain Saudi-US relations. Middle East Institute. Retrieved from: <https://www.mei.edu/publications/growing-ties-russia-could-strain-saudi-us-relations>

<sup>62</sup> Issaev and Kozhanov, 2021.

<sup>63</sup> Frolovskiy, D. (2019). Understanding Russia-GCC relations In Popescu, N., Secrieru, S. (Eds.). Russia's Return to the Middle East: Building Sandcastles?(83–93. Paris: European Institute for Security Studies. Retrieved from: [https://www.iiss.europa.eu/sites/default/files/EUISSFiles/CP\\_146.pdf](https://www.iiss.europa.eu/sites/default/files/EUISSFiles/CP_146.pdf)

<sup>64</sup> Kobzeva, O., Golubkova, K., and El Gamal R. (2018). Exclusive: Mitsui, Saudi Aramco, Russia's RDIF in talks to buy Arctic LNG 2 stakes – sources. Reuters, December 21, 2018. Retrieved from: <https://www.reuters.com/article/us-russia-novatek-lng-mitsui-exclusive/exclusive-mitsui-saudi-aramco-russias-rdif-in-talks-to-buy-arctic-lng-2-stakes-sources-idUSKCN1OK1GR>

<sup>65</sup> Mammadov, 2019.

nuclear energy production, and the first step is to acquire nuclear technology. For this reason, the KSA has recently announced an ambitious plan that includes building 16 nuclear power plants by 2032. Rosatom has recently announced that it is currently holding talks with Saudi Arabia regarding the possibility of undertaking the construction of some of the Kingdom's nuclear power plants, and if the plan materializes, it will be the biggest commercial nuclear project in the region.<sup>66</sup>

Although some investment projects have been funded between the two countries through the sovereign wealth funds along with other attempts to initiate new projects in the future, the investment relations between Russia and the KSA have always been under the influence of geopolitics and geopolitical power struggle. An extraordinary and interesting example will be useful in grasping the importance of geopolitics in shaping economic relations. Although a Russian company won the tender for a 520-km railway line in Sau-

di Arabia in 2008 worth \$800 million, Riyadh canceled this tender for no reason.<sup>67</sup> This purely political decision of the KSA leadership coincided with the next period in normalization of relations with Washington.

### 3. Global Energy Markets: Swings between Competition and Cooperation

#### 3.1. Oil Reserves and Production

As mentioned above, Russia and Saudi Arabia share specific economic characteristics. First and foremost, the strength of their economies is mainly dependent on their energy sector. Both countries have enormous fossil energy reserves. Table-1 shows that both the RF and KSA are the most prominent players in the hydrocarbon sector in terms of both reserves and production. In 2019, the KSA and RF possessed about 17.2% and 6.2% of the total global oil reserves respectively. In addition, the RF is also an important player in the global natural gas sector.

<sup>66</sup> Nakhle, C. (2018). Russia's energy diplomacy in the Middle East. In Popescu, N., Secrrieru, S. (Eds.). *Russia's Return to the Middle East: Building Sandcastles?*(83–93. Paris: European Institute for Security Studies. Retrieved from: [https://www.iss.europa.eu/sites/default/files/EUISSFiles/CP\\_146.pdf](https://www.iss.europa.eu/sites/default/files/EUISSFiles/CP_146.pdf)

<sup>67</sup> Kozhanov, 2018.

Table-4: Oil Reserves and Production in 2019

	Reserves		Production	
	Reserves <sup>(1)</sup>	Share (%) <sup>(2)</sup>	Production <sup>(3)</sup>	Share (%) <sup>(4)</sup>
<b>Venezuela</b>	304	17,5	970	1,0
<b>Saudi A.</b>	298	17,2	11850	12,4
<b>Canada</b>	171	9,9	5700	6,0
<b>Iran</b>	156	9,0	3530	3,7
<b>Iraq</b>	145	8,4	4800	5,0
<b>Russian F.</b>	107	6,2	11550	12,1
<b>US</b>	69	4,0	17050	17,9
<b>China</b>	26	1,5	3850	4,0
<b>Others</b>	460	26,5	36870	38,7
<b>Global Total</b>	1736	100,0	95200	100,0
<b>OPEC</b>	1215	70,0	35600	37,4
Non-OPECC	521	30,0	59600	62,6

Source: BP

Notes: (1) Reserve level in billion barrels; (2) The country's respective share in global oil reserves; (3) Daily production in thousands of barrels/day; (4) The share of the respective country in total global production.

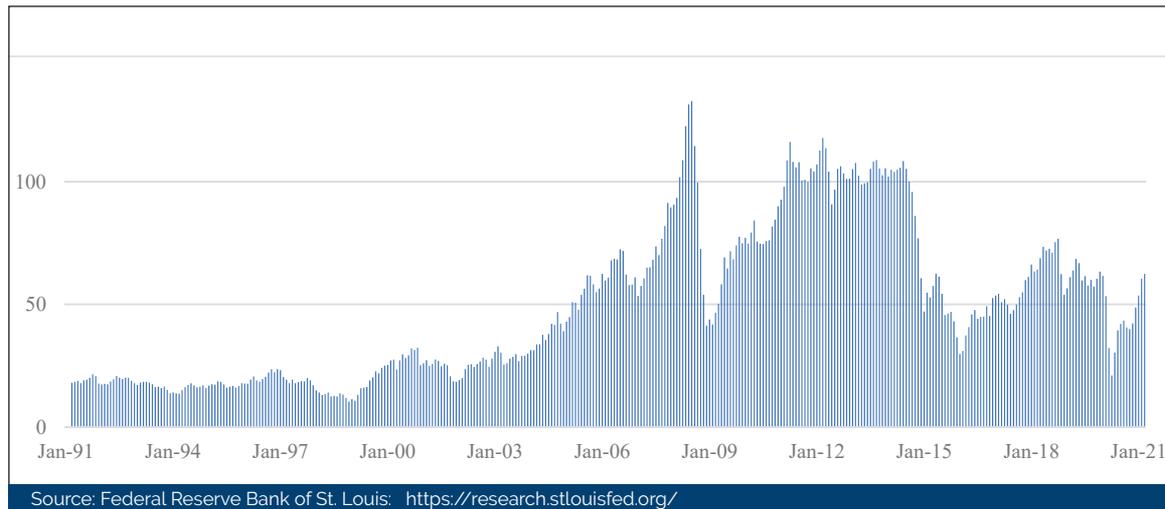
### 3.2. OPEC+ and the Coordination between KSA and Russia

After the second half of the 1990s, global economic growth accelerated, which boosted global fossil energy demand. During the 90s, however, the oil prices remained low without sharp swings, around 20 USD/barrel (See Figure-4). The positive momentum in global economic growth prompted a further surge in global energy demand, which ended up pushing oil prices up in the early 2000s. Although there have been some ups and downs, the average global oil prices were relatively high until 2014, and the oil-exporting countries

made huge profits during this 'glorious period'. Even though there was some slowdown during the 2008 global financial crisis, the oil market recovered relatively quickly.

In the mid-2000s, the US began producing shale oil, which led to significant increments in a short period. Although some oil was withdrawn from the market due to sanctions on Iran in the 2010s, the increase in the US oil supply was much faster than the growth pace of global demand. The increase in oil prices, which began in the 2000s, suddenly reversed in 2014. The RF and KSA, the world's leading oil exporters, were hit hard by the collapse of oil prices in 2014.

Figure-4: Brent-Type Oil Prices Monthly (Per Barrel/\$)



The KSA economy is much more dependent on oil revenues than Russia. The share of fossil energy revenues in the country's total revenues, in terms of exports, GDP, and budget, is extremely high. Despite this dependence, a serious financial or economic crisis did not occur in the KSA after the collapse of global oil prices in 2014. However, the country lost a significant portion of its financial reserves. In 2014, KSA's reserves were around \$744 billion, but in 2019 the reserves declined to \$515

billion, and as of early-2021, the number is around \$440 billion, which suggests that the country has lost more than one-third of its reserves.

Therefore, although the decrease in global oil prices in 2014 negatively affected the country's economy, the more critical factor in the deterioration of the Russian economy after 2014 was the international sanctions. With the Russian economy performing very poorly in 2014 and 2015 due to structural problems, falling oil

Figure-5: Developments in Total Reserves for KSA (in billion US\$)



Figure-6: Developments in Total Reserves for Russia (in billion US\$)



prices, and sanctions, Russia tried to align with OPEC to at least increase oil revenues again rather than struggle on so many fronts. After 2014, a slight decline in Russian reserves was observed, but the reserves appear to have recovered quickly due to the diverse range of exported products (See Figure-6).

OPEC was established in 1960 by five countries, and now it has 14 member countries that account for about 35-40% of total global supply and these countries possess about 80% of global proven oil reserves. The KSA is the most important player in OPEC. In the 2016 OPEC meeting, 10 non-OPEC countries (including Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan, and Sudan), declared that they would act in line with OPEC's quantity restrictions and this informal deal among OPEC and non-OPEC countries is now referred to as OPEC+ or the Vienna Group. Russia's energy minister Aleksandr Novak said that the Vienna Agreement provided Russia's budget an additional \$120 billion.

With the addition of the 10 non-OPEC countries, notably Russia, Mexico, and Kazakhstan,

the production share of OPEC+ in total global supply is 55%, and the share of reserves is more than 90%.<sup>68</sup> Although there are 10 non-OPEC nations, Russia is the most active and trendsetter among these countries. Therefore, the KSA and Russia are virtually market-makers in the global oil markets.

Historically, Russia had been requested to follow oil production (production-cut) policies in coordination with OPEC but had mostly refused to cooperate until 2016. With the shale technology revolution, the United States turned from a major energy importer into a net energy exporter in only a few years. This transformation shook the conventional global oil market dynamics and changed the fossil energy game. As mentioned above, although Russia was mostly reluctant to coordinate with OPEC in the past, this situation changed after 2016. OPEC and Russia became increasingly interested in coordinating their production after the US rapidly increased shale oil production and became an exporter, resulting in a significant increase in global oil supply and a noticeable price drop.

<sup>68</sup> Wingfield B., Dodge S., Pogkas D., and Sam C. (2020). New Decade, New OPEC Oil Curbs. Same Mixed Results. Bloomberg-February 25, 2020. Retrieved from: <https://www.bloomberg.com/graphics/opec-production-targets/>

In 2016, the so-called OPEC+ system was initiated, contributing not only to Russia's fossil energy revenues but also to its position in global energy governance. Although each OPEC member prioritizes its own interest, the KSA is the core force behind the market management strategy in OPEC.<sup>69</sup> On the other hand, Russia's leadership among 10 non-OPEC oil-producing countries has changed the global landscape in global crude oil market governance. Russia decided to coordinate its oil production with other OPEC countries. In other words, KSA's cooperation with Russia within OPEC+ helped stabilize crude oil markets, and the Kingdom, which is the world's biggest oil exporter and a key player in market stability, looks forward to furthering collaboration with Moscow.<sup>70</sup>

The coordination among these 24 countries has created a considerable potential in influencing prices (or these countries may enjoy market power) in the global oil markets, but the oligopolist market structure of OPEC+ has some weaknesses preventing long-term stability and coordination. One specific example of such weakness took place during the early phase of the COVID-19 pandemic. The negotiations between the two countries (KSA and Russia) to stop the decrease in oil prices did not come to a reasonable conclusion (in early March). Afterward, the two sides stated that they would increase their

output in the following days, which caused global oil prices to plunge to historic lows.

Another example is the competition between the KSA and RF to make more sales to China and the EU zone. While in 2019, Russia was the top oil exporter to China, it lost the lead to the KSA in 2020. In July 2019, the KSA decided to sell oil to Europe at a discounted price. This pushed Moscow to leave the OPEC+ arrangement. On the other hand, Moscow also acted opportunistically in September 2019 when Saudi oil-refining facilities in Abqaiq and Khurais were hit by the Iranian proxies, leaving Riyadh temporarily unable to dispatch its export cargoes to Asia countries, and Moscow filled the gap.<sup>71</sup>

Oil prices in the third and fourth quarters of 2020 bounced back. Oil prices remain above the \$60 band as a result of the KSA's voluntary cut of 1 million barrels, as well as its announcement to continue the cut until April 2021. However, the chances that the oil market will restabilize remain slim as of early-2021, as measures to contain the spread of COVID-19, with its more contagious variants, looms over the near-term recovery of oil demands globally.<sup>72</sup> Note, however, that due to the over-financialization of oil markets and other reasons, the price behavior in oil markets is fragile. It has been observed in the past that small supply and demand shocks may generate large swings in prices.

<sup>69</sup> Meredith, S. (2021). Oil prices jump as OPEC+ keeps production largely steady, Saudi Arabia continues voluntary cut. CNBC-NEWS, March 4, 2021. Retrieved from: <https://www.cnbc.com/2021/03/04/opec-meeting-saudi-arabia-and-russia-to-review-production-policy.html>

<sup>70</sup> Saadi D., and Griffin R. (2021). Saudi cooperation with Russia in OPEC+ helped stabilize oil markets: foreign minister. S&P Global Platts-News- January 14, 2021. Retrieved from: <https://www.spglobal.com/platts/en/market-insights/latest-news/oil/011421-saudi-cooperation-with-russia-in-opec-helped-stabilize-oil-markets-foreign-minister>

<sup>71</sup> Issaev and Kozhanov, 2021.

<sup>72</sup> IEA (2021). Oil Market Report - February 2021. Retrieved from: <https://www.iea.org/reports/oil-market-report-february-2021>



Minister of Foreign Affairs of Saudi Arabia Faisal bin Farhan Al-Saud in Moscow

## CONCLUSION

Since its establishment, Saudi Arabia has always been distant towards the Soviets and then Russia, including during the Cold War. Since the beginning of the 2000s, the shaking of the US hegemony and the establishment of new power balances have created a positive atmosphere in the relations between the two countries. Since 2003, significant improvements have been observed in the RF and KSA relations. However, periods of competition and convergence followed each other in the RF and KSA relations due to their rivalry as energy producers. Trenin argues that "... given the deep distrust between the Saudis and the Russians, their relationship is unlikely to become too close."<sup>73</sup> Russia's close ties with Iran are also an important factor limiting the deepening of Moscow-Riyadh relations. Nobody knows what the future will bring for Russia; however, it will likely remain as one of the great powers due to its nuclear power, geography, and permanent membership in the UN Security Council.<sup>74</sup>

<sup>73</sup> Trenin, 2017.

<sup>74</sup> Timothy Frye, 2021, Foreign Affairs.

Based on the information put forward so far, some important points may be inferred. In addition, considering the global and regional developments, it would be useful to make some general inferences about both the KSA-Russia relations and the future of the region.

- Historically, Russia had low-intensity relations with the KSA for a long time.
- Relations between Russia and the KSA were formed under US surveillance. That is, the United States determined the intensity of the relations between the two countries.
- Russia's unintentional refusal to confront Israel and some other factors restricting Russia's hand in formulating policies towards the region are driving countries in the region away from a strategic partnership with Russia.

- In recent years, it has been observed that cooperation between the KSA and Russia tends to be on a positive trend.
- Particularly, the cooperation in oil production (under the auspices of OPEC+) has been the most notable. Although there was an interesting price war between the two actors in the spring of 2020, this soon ended. Both actors are well aware that they need to cooperate, especially for oil prices to remain at reasonable levels.
- Although some progress has been achieved regarding financial cooperation, no concrete steps have been taken by the KSA for large-scale investment projects in Russia or vice-versa.
- Russia's policies in both Syria and Libya, as well as its cooperation with Iran, have had a profound impact on the foreign policy configuration of many countries in the region, including the KSA.
- Factors such as decreased US presence in the region as well as China's more proactive policies in the region are expected to cause major changes in regional dynamics, as well as KSA-Russia relations.
- We believe that several secondary factors, including the advances in renewable energy technology, climate changes, water, and food security will affect KSA-Russia relations in the long run.
- Finally, the possible power vacuum following the US withdrawal from Afghanistan could create a KSA-Iran rivalry in Afghanistan, similar to the one in Yemen. The scope and severity of this rivalry can vary depending on the attitude of Russia and China, as well as the attitude of the United States.

The most important parameter determining the relations with RF of both KSA and all other Middle East countries will be the course of the power equations in the global system. Again, an important factor determining the foreign policy behaviors in all oil-exporting countries, including the RF and KSA, will be the transformations in energy markets and the ability of oil-exporting countries to adapt their economies to technological development in the new era and to diversify their economies accordingly.









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