

GEOPOLITICAL RISK OBSERVATORY

# Saudi Arabia

## **An overview**

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## GRO Country Profile: Saudi Arabia

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### Summary

- Saudi Arabia is a centralized Islamic absolute monarchy with concentrated decision-making under the King and Crown Prince. Regime resilience since 1945 has relied on hydrocarbon revenues, alliance-building, and coercive capacity. Stability appears high but depends on redistribution and repression, while youth unemployment, inequality, and limited political participation create latent vulnerability.
- The Kingdom retains geopolitical weight as a leading oil exporter and OPEC actor, but fiscal strength and foreign policy flexibility remain tied to energy markets. Exposure to chokepoints such as the Strait of Hormuz and Bab el-Mandeb, rivalry with Iran, and Yemen spillovers heighten security risk, prompting multi-vector diplomacy balancing US and China.
- Vision 2030-driven state investment generates opportunities in infrastructure, energy transition, logistics, and technology, yet diversification remains incomplete and reliant on public spending. Long-term global energy transition poses fiscal risks. Strong state dominance, evolving regulation, and localization requirements require investors to adopt strict compliance and strategic partnership approaches.

### Basic Parameters

Indicator	2020	Latest Value
GDP (PPP, USD bn)	1.500	2.520 (2024)

Population (mn)	31.5	36.9 (2025)
Urban population (% of total)	84	85 (2025)
Population under 25 (%)	40.1	37 (2026)
Population over 65 (%)	3.0	3.5 (2026)
Unemployment rate (%)	7.7	3.5 (2026)
Youth unemployment (% ages 15–24)	29.4	11.3 (2025)
CPI inflation (% annual average)	3.4	1.9 (2026)
General government debt (% of GDP)	29.7	32.1 (2026)
FDI inward flows (USD bn)	1.62	15.74 (2024)

Sources: World Bank Open Data (Population; Urban population; Population under 25; Population over 65; Youth unemployment rate); International Monetary Fund (IMF), World Economic Outlook Database, April 2025 (GDP at Purchasing Power Parity; Unemployment rate; CPI inflation; General government gross debt); United Nations Conference on Trade and Development (UNCTAD), World Investment Report 2025 – Country Fact Sheet: Saudi Arabia (FDI inward flows)

### Historical context

At the end of World War II, Saudi Arabia consolidated its position through a strategic alignment with the United States anchored in energy and security. The 1945 meeting between King Abdulaziz and US President Franklin D. Roosevelt institutionalized the oil-for-security bargain that shaped Saudi foreign policy throughout the Cold War. Oil revenues expanded rapidly from the 1950s, strengthening central authority and enabling state-building without major political liberalization. Regionally, Riyadh positioned itself as a conservative monarchic counterweight to Arab nationalism and socialism promoted by Egypt’s Gamal Abdel Nasser in the 1950s–1960s.

The 1973 oil embargo, imposed by Arab OPEC members during the Arab Israeli war, marked Saudi Arabia’s arrival as a global energy power, demonstrating its capacity to wield oil as a geopolitical tool. In 1979, two distinct shocks exposed regime vulnerabilities. The seizure of the Grand Mosque in Mecca by domestic militants challenged the Kingdom’s internal religious legitimacy and highlighted the risks of radical dissent within Saudi society. In parallel, the Iranian Revolution overthrew a key US ally and introduced a revolutionary, sectarian model of governance, intensifying Saudi Iranian rivalry and reshaping regional geopolitics. In response, the Saudi leadership reinforced its Islamic credentials at home and expanded support for conservative religious institutions domestically and abroad.

Security alignments deepened after Iraq’s invasion of Kuwait in 1990, when Saudi Arabia hosted US-led coalition forces. This protected the monarchy but also generated domestic backlash over foreign troops on Saudi soil. After the attack on the Twin Towers, Saudi Arabia faced reputational and security pressures, leading to extensive counterterrorism cooperation with Western partners and tighter internal security policies. The period confirmed a pattern of resilience through alliance-building and resource-backed state capacity.

Since 2015, under King Salman and Crown Prince Mohammed bin Salman, Saudi Arabia has combined an assertive regional policy, evident in the Yemen intervention launched in 2015, with economic and social reforms under Vision 2030. A rapprochement with Iran in 2023, mediated by China, illustrates a pragmatic shift toward de-escalation and multi-vector diplomacy. Despite diversification efforts, hydrocarbon revenues remain central to fiscal capacity, external balances, and social spending, linking domestic stability and foreign policy flexibility to oil market dynamics. While Vision 2030 has attracted substantial foreign investment and expanded non-oil activity, diversification remains partial, with non-oil sectors accounting for roughly 40% of GDP and still heavily reliant on state spending. Structural risks associated with “Dutch disease”, where hydrocarbon revenues crowd out competitive private-sector development, persist.

Looking ahead, the challenge extends beyond cyclical price volatility. According to International Energy Agency (IEA) projections, global oil demand could decline by 20–30% by 2040 under accelerated energy-transition scenarios, particularly if post-2030 climate commitments strengthen. A sustained reduction in global demand would exert structural pressure on fiscal revenues, external balances, and the social contract underpinning regime stability. As a result, Saudi Arabia continues to prioritize energy market influence, OPEC+ coordination, and regional stability as core strategic objectives, while attempting to hedge against long-term transition risks through controlled diversification and strategic investment.

### **Institutional Set-Up and Structural Challenges**

Saudi Arabia is a unitary Islamic absolute monarchy in which executive, legislative, and judicial authority formally rests with the King under the framework of Sharia and royal decrees. In practice, decision-making power is highly concentrated in the hands of the Crown Prince, who oversees key policy, security, and economic portfolios. Political parties are not permitted, and national governance is centralized within the royal court and the Council of Ministers. Succession remains confined to the Al Saud family, ensuring regime continuity. Policy formulation is strongly top-down and coordinated through state institutions.

Government stability is high by regional standards in observable terms, reflecting strong coercive capacity, centralized authority, and extensive control over political space. However, the absence of competitive elections, independent media, and autonomous civil society makes it difficult to assess societal consent and latent protest potential. Public participation is largely confined to consultative bodies and local councils, while organized political opposition is not permitted. Large-scale

protests are rare and quickly contained by security forces. As in many highly centralized authoritarian systems, stability coexists with potential brittleness, as political grievances lack institutional channels for expression. Apparent stability is sustained not only through security control but also through public-sector employment, subsidies, and redistribution financed by hydrocarbon revenues. Yet structural pressures, including youth unemployment around 13-14%, income concentration with roughly half of national income accruing to the top decile, and visible wealth disparities, may generate latent resentment, particularly during periods of economic stress. The conspicuous lifestyle of segments of the elite can further strain the leadership's moral and religious legitimacy, especially given its claim to guardianship of Islamic values. The main forward-looking political variable remains leadership succession dynamics within the royal family; short-term destabilization risk appears low, but longer-term uncertainty cannot be excluded.

Governance metrics show that regulatory quality and government effectiveness have improved in connection with economic reforms, digitalization, and administrative modernization. Rule-of-law and accountability indicators remain weak, reflecting the personalized nature of authority and limited judicial independence. Anti-corruption campaigns have increased oversight but also reinforced centralized control over economic elites.

Saudi Arabia's economy and public finances remain structurally dependent on hydrocarbon revenues, which account for the majority of export earnings and a large share of fiscal income. While sovereign wealth assets and fiscal buffers mitigate short-term price volatility, this economic model faces a longer-term structural challenge as global decarbonization, and energy transition policies progressively reduce hydrocarbon demand. Vision 2030 seeks to address this imbalance by promoting diversification into industry, logistics, tourism, and technology, but the scale and speed required raise uncertainty over its ultimate success. The persistence of a state-led, capital-intensive growth model, dominated by public and state-linked entities, limits private-sector dynamism and may constrain employment creation, making diversification outcomes uncertain and elevating long-term risks to fiscal sustainability, social stability, and international influence. Hydrocarbon dependence also exposes Saudi Arabia to geopolitical chokepoints. A significant share of exports, around 7 million barrels per day, transits through the Strait of Hormuz, a critical artery handling over a quarter of global seaborne oil trade and vulnerable to regional escalation involving Iran. Alternative routes via the Red Sea and east-west pipelines reduce but do not eliminate this exposure; moreover, persistent security threats around the Bab el-Mandeb, including attacks linked to the Yemen conflict, highlight ongoing maritime risk for trade flows and energy shipments. Such chokepoint exposure ties economic stability directly to regional security dynamics.

In parallel, Saudi Arabia exhibits high military and technological dependence on external partners. The Kingdom imports the vast majority of its advanced weapons systems, primarily from the United States and the United Kingdom, and relies on foreign training, maintenance, and operational support for sophisticated platforms. Military operations in Yemen since 2015 have provided operational experience, largely through air campaigns, but have also underscored

continued reliance on external intelligence, logistics, and technical expertise. This dependence exposes the Kingdom to potential delays, restrictions, or embargo risks, as illustrated by temporary arms export suspensions by some Western partners following the 2018 Khashoggi case. High defence spending therefore does not fully translate into strategic autonomy.

From a social perspective, Saudi Arabia has a young population, rising female labour participation, and ongoing labour market nationalization, but youth unemployment and skills mismatches remain persistent structural challenges. Income and wealth inequality, while partially mitigated by state transfers, risk generating latent social resentment in a context where political expression is tightly constrained. Social cohesion is further shaped by regional and sectarian disparities, most notably in the Eastern Province, where economic grievances intersect with religious identity.

Externally, Saudi Arabia maintains core security ties with the United States, particularly in defence and intelligence, while expanding economic, technological, and investment relations with China and other Asian partners. This strategy of diversified alignment reflects a form of multi-vector diplomacy designed to hedge against geopolitical uncertainty. Direct conflict spillover risk stems mainly from regional tensions, particularly Yemen, and is assessed as low probability in the short term but potentially high impact, especially for infrastructure, trade routes, and investor confidence in the event of escalation.

### **Business implications**

#### *Opportunities*

Saudi Arabia offers significant opportunities for foreign investors driven by its state-led diversification strategy under Vision 2030, which is an official national program aimed at reducing hydrocarbon dependence and expanding non-oil sectors. Priority areas identified by the Saudi government include renewable energy, mining, logistics, tourism, digital economy and advanced manufacturing. Large public investment programs primarily made by the Public Investment Fund (PIF) provide co-investment opportunities and long-term project pipelines, particularly in infrastructure, transport, and giga-projects.

The regulatory environment for foreign investment has been progressively liberalized. According to the Ministry of Investment of Saudi Arabia (MISA), reforms include 100% foreign ownership in many sectors, streamlined licensing, special economic zones, and improved bankruptcy and company laws. The business climate has improved due to the digitalization of government services and regulatory reforms that have reduced administrative burdens. These measures aim to attract technology transfer, regional headquarters, and export-oriented investments.

Saudi Arabia maintains relatively low public debt levels compared to many G20 economies and benefits from substantial sovereign financial buffers. Its strategic geographic position connecting Asia, Europe, and Africa underpins logistics and trade ambitions. Stable currency pegs and predictable fiscal capacity, supported by hydrocarbon revenues and sovereign assets, provide a degree of macroeconomic stability valued by long-term investors.

### *Challenges*

- *Security challenges:* Saudi Arabia is not experiencing internal armed conflict, but it faces spillover risks from regional conflicts, particularly Yemen and Iran. Since the start of the Yemen conflict in 2015, cross-border missile and drone attacks by the Houthi movement have intermittently targeted southern regions and energy infrastructure, and the risk has not fully disappeared. Moreover, the confrontation involving Iran remains a significant source of regional instability. Since February 2026, regional tensions have intensified and reports of retaliatory missile strikes targeting locations in Saudi Arabia, including energy infrastructure, have reinforced concerns over the vulnerability of critical assets. The risk of further attacks and disruptions to maritime routes, energy infrastructure, and oil markets remains a key concern for businesses, increasing the potential for damage to assets, supply chain disruptions, and threats to personnel safety, particularly in the energy, logistics, and industrial sectors.

Saudi Arabia has significantly strengthened its counterterrorism capacity since the 2000s through robust security reforms, intelligence coordination, and financial monitoring. Current travel advisories assess terrorism risk as present but contained, with security forces maintaining a strong preventive posture. For businesses, this implies high security and compliance requirements but limited day-to-day operational disruption. Petty crime and social unrest remain limited, with protests generally localized and quickly contained.

*Saudi Arabia's security challenge level is assessed as medium.*

- *Regulatory challenges:* Saudi Arabia has undertaken significant regulatory modernization under Vision 2030, but the system remains state-directed and evolving. Progress has been made in business licensing, insolvency frameworks, and digital government services but regulatory predictability can be affected by administrative discretion and shifting policy priorities. Sector-specific rules, regarding media, technology, energy, and professional services, can involve additional approvals or local partnership requirements. Official Saudi investment regulations now allow high levels of foreign ownership in many, but strategic sectors remain restricted or require special authorization. Localization policies, including Saudization, impose quotas for employing Saudi nationals. These policies support domestic

employment objectives but raise labour costs and constrain hiring flexibility for foreign firms. Companies may also face requirements related to local content and procurement when participating in government-linked projects. Saudi Arabia is integrated into the global trading system through WTO membership, and it is not subject to broad international sanctions. However, firms operating in or with Saudi Arabia must comply with export control regimes and dual-use technology restrictions especially in defence and technology sectors. Financial transactions are monitored under international anti-money laundering and counter-terrorism financing standards increasing compliance expectations for foreign businesses. The main challenges for businesses stem from evolving rules, localization requirements, and administrative discretion rather than from international sanctions. Regulatory risk is manageable for firms with strong compliance capacity and local legal expertise.

Saudi Arabia's regulatory challenge level is assessed as medium.

- *Governance challenges:* Saudi Arabia's legal system is based on Sharia, supplemented by royal decrees and statutory regulations. Courts have undergone modernization and codification efforts in recent years, but judicial independence and predictability remain weak by OECD standards, reflecting the concentration of authority and limited separation between political and judicial power. For businesses, this can affect the consistency of contract enforcement and dispute resolution, particularly in complex or high-value commercial cases involving state-linked entities.

Saudi authorities have publicly prioritized anti-corruption, notably through the Oversight and Anti-Corruption Authority and high-profile enforcement campaigns. However, integrity risks remain structurally embedded in an economic system where the state plays a dominant role as regulator, investor, and market participant. The government drives economic activity through large-scale public investment, ownership of key industries, and regulatory control, with the Public Investment Fund acting as the primary vehicle for economic transformation. This concentration of economic power heightens exposure to conflicts of interest, particularly in public procurement, licensing, and strategic projects, increasing compliance risks for firms.

The strong presence of state-owned and sovereign-linked entities enables rapid mobilization of capital and execution of large projects but may create perceived advantages for well-connected actors and weaken the level playing field. Foreign investors can operate successfully but typically require local partnerships and careful stakeholder management to navigate institutional networks. Saudi Arabia has improved fiscal reporting, digital governance, and alignment with international financial standards, yet public-sector transparency and formal accountability mechanisms remain limited, reducing visibility on regulatory intent and policy direction for private actors.

Saudi Arabia’s governance challenge level is assessed as medium.

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