ECONOMIC COMPETITION FOR REGIONAL SUPREMACY: IRAN VERSUS SAUDI ARABIA (AND QATAR)

Thierry Coville

The competition for regional supremacy between Iran and Saudi Arabia, which has reached a new level of intensity with the war in Syria, has an important economic dimension too. In fact, the rivalry between these two countries also takes the form of a competition between two economic powers. This paper will explore this power struggle through three main issues. Firstly, Iran and Saudi Arabia are major energy providers, so their ability to efficiently manage these huge energy resources is one of the key elements that will determine the outcome of this rivalry. The second issue is the way each of these countries manages to integrate into the global economy. The third and final aspect that needs to be analysed is the relative strength of these two economic systems with respect to their political and social environments.

Competition in the energy sector

Oil

Iran and Saudi Arabia are among the most important actors in the Organization of the Petroleum Exporting Countries (OPEC). Although there are some uncertainties as to the real level of oil reserves claimed by the largest oil producers, it is established that Iran and Saudi Arabia are among the biggest powerhouses in the world in terms of oil reserves and production. Saudi Arabia and Iran have, respectively, the second and fourth largest reserves in the world.

Table 1. Iran and Saudi Arabia's oil reserves and production (% of world total)

	Iran	Saudi Arabia
Proved reserves	9.4	15.9
Production	4.2	13.3

Source: BP Statistical Review of World Energy, June 2013

Oil production trends

Both Iran and Saudi Arabia are oil economies. Their economic systems are heavily dependent on oil exports, which represent 86.9% of exports and 91.8% of government revenues in Saudi Arabia, and 69.5% of exports and 42.7% of government revenues in Iran (Table 2). The Iranian oil sector has been affected by US sanctions since the Islamic Revolution of 1979. An embargo was imposed on the Iranian oil industry in 1995 by an executive order of the US president. The same year, the US Congress passed the Iran–Libya Sanctions Act (ILSA), which prohibited any US and foreign investment of more than $20 million in the Iranian oil industry.[41] Nevertheless, the Iranian government had no trouble selling its oil to Europe and Asia. The ILSA constrained foreign investment in Iran's energy sector, but some European companies (such as Total and ENI) still invested in Iran, despite these sanctions. In the end, the sanctions did not effectively affect the level of Iranian oil production. However, Iran did lose out on some revenues that it could have benefited from had there not been US opposition to the use of Iranian pipelines to export oil extracted from the Caspian Sea, or to Iran investing in the development of Azeri oil in 1995. In contrast, the good relations between Aramco,[42] the public Saudi Arabian oil company, and the US is an established fact. Saudi Arabia, which is the only country in the world with the ability to significantly increase its oil production, has always played a key role in maintaining stability in the world oil market.

Table 2. Oil as a proportion of total exports and government revenues in Iran and Saudi Arabia in 2012 (%)

	Oil exports/Total exports	Oil revenues/ Total revenues
Iran	69.5	42.7
Saudi Arabia	86.9	91.8

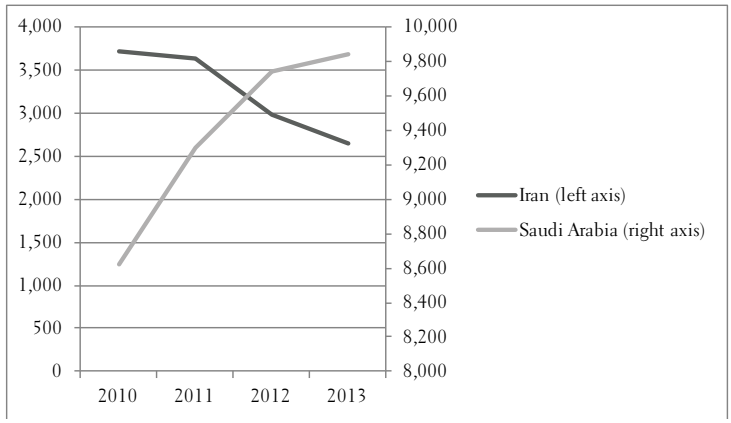
Sources: Central Bank of Iran, Saudi Arabian Monetary Agency

41 The Iran–Libya Sanctions Act became the Iran Sanctions in 2006. See Kenneth Katzman (2007). *The Iran Sanctions Act (ISA)*. Washington D.C.: Congressional Research Service Report for Congress, October 12, http://www.fas.org/sgp/crs/row/RS20871.pdf [Consulted 4 December 2013].

42 US oil companies had some equity participation in Aramco until 1980.

Since 2011, the US sanctions on the Iranian financial system and the EU embargo on Iranian oil[43] have led to a decrease in Iranian oil production, from 3,600 thousand barrels per day in 2010 to 2,600 thousand barrels per day in September 2013. Considering that Iran needs around 1,500 thousand barrels per day for internal consumption, that means Iranian oil exports have decreased by around 50%. In 2012, the main clients for Iranian oil were China and India (50%), South Korea and Japan (21%), and Greece, Italy, Spain and Turkey (14%).[44] This change in situation has led to a huge macroeconomic shock in Iran. According to government figures there was a recession in 2012, with GDP declining by -5.8%, after a growth of 3% in 2011. The lack of foreign exchange has led to a very large depreciation of the Iranian currency since 2010, which caused inflation to accelerate from 12.4% in 2010 to 41.6% in September 2013. It is important to consider that Saudi Arabia played an important role in the success of the sanctions, as since 2011 it has gradually increased its level of production in order to compensate for the decreased oil supply from Iran (Graphic 1). The main geographical destinations of Saudi oil in 2012 were Asia (54%), the US (15%) and Europe (15%). In 2012, Saudi Arabia was the second oil supplier to the US after Canada.[45]

Graphic 1. Iran and Saudi oil production (thousand barrels/day)



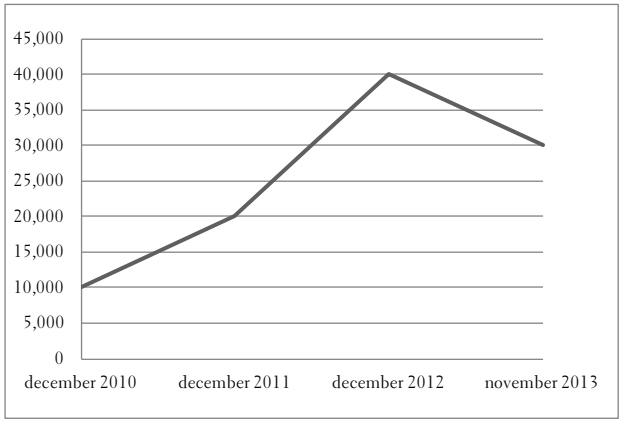
Source: Organization of the Petroleum Exporting Countries

In both Iran and Saudi Arabia, a sensible acceleration of non-oil exports has taken place in recent years (Graphic 3). In the case of Saudi Arabia, its non-oil exports may have benefited from the country's membership of the World Trade Organization (WTO) since 2005. In the case of Iran, there has obviously been a 'sanctions effect'. The decrease of its oil exports, due to the sanctions, forced the Iranian government and private sector to look for

43 EU countries stopped buying oil from Iran in July 2012.
44 U. S. Energy Information Administration, http://www.eia.gov/ [Consulted 13 February 2014].
45 *Ibidem.*

alternative sources of foreign exchange. Due to the fall in value of the Iranian currency since 2010, following the imposing of sanctions, Iranian competitiveness has improved. The value of the dollar against the Iranian rial on the black market increased from 10,000 rials in 2010 to nearly 36,000 rials at the end of 2012 (Graphic 2). Dependency on oil for foreign trade seems less acute in Iran. Non-oil exports represented a higher proportion of total exports in Iran than in Saudi Arabia in 2012 (Table 2), with Iranian agricultural and industrial goods making up a greater part of exports than in Saudi Arabia[46] (Tables 3 and 4). Iranian foreign trade has also lowered its dependency on oil revenues at a quicker pace than in Saudi Arabia. In Iran, the ratio of non-oil exports to imports has increased from 28.4% in 2006 to 45% in 2012.[47] During the same period, the same ratio has gone from 17.6% to 21.3% in Saudi Arabia. What is interesting is that there is now a real consensus in Iran among the government and the private sector on the necessity to improve private-sector competitiveness in order to increase non-oil exports. The government of President Rouhani has stated clearly its willingness to support the private sector.[48] The new government is also thinking about increasing the size of the private sector in the economy and simplifying firms' legal requirements.[49]

Graphic 2. Exchange rate $/rial on the black market



Source: Author's estimations

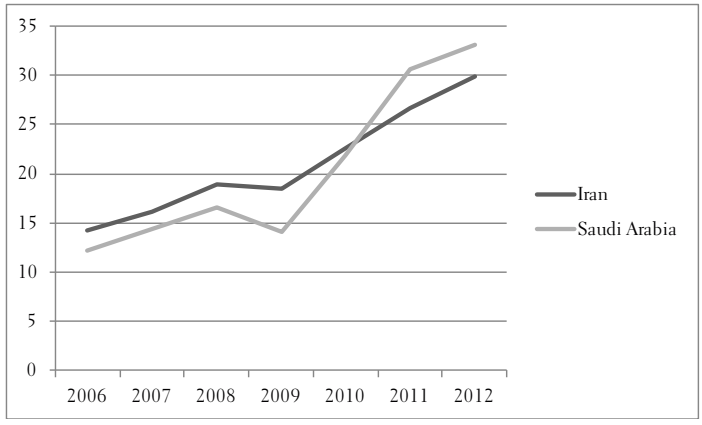
46 This data on non-oil exports is based on national sources. Some modifications were made by the author to make the data for Iran and Saudi Arabia comparable. So there is some degree of uncertainty as to its statistical reliability.

47 This ratio had a net increase in 2012 as a result of the lower level of imports, due to the sanctions. Nevertheless, it is also a reflection of the ability of the Iranian economy to decrease its oil dependency.

48 See 'Willingness to cooperate between the economic team of Rohani and the private sector', *Donia Eqtesad*, 3 December 2013, http://www.donya-e-eqtesad.com/news/750954/ [Consulted 4 December 2013].

49 See 'To suppress non-obligatory regulations, the priority of Namatzadeh (Minister of Industry, Mines and Commerce)', *Eghtesadonline*, 25 August 2013, http://www.eghtesadonline.com/fa/content/24811/ [Consulted 4 December 2013].

Graphic 3. Iran and Saudi Arabia's non-oil exports (billion dollars)



Sources: Central Bank of Iran, Saudi Arabian Monetary Agency

Table 3. Composition of Iranian exports in 2012 (%)

Oil	69.5
Agriculture	5.9
Petrochemicals	10
Industrial goods	13.6
Total	100

Source: Central Bank of Iran, Clawson (2013)[50]

Oil dependency is also less acute in Iran's public finances. Oil revenues represented 42.7% of total revenues in Iran in 2012, against 91.8% in Saudi Arabia. It is true that the economic sanctions have led to a decrease in the relative importance of oil to total revenues in Iran since 2010, when oil revenues represented 53% of its total revenues. At the time, the Iranian fiscal system was already less dependent on oil revenues than Saudi Arabia. But it is clear that the impact of sanctions on oil revenues convinced the Iranian authorities to accelerate their reforms of the fiscal system.

50 Patrick Clawson (2013). 'Iran Beyond Oil?', *Policy Watch*, 2062, Washington Institute for Near East Policy. See http://www.washingtoninstitute.org/policy-analysis/view/iran-beyond-oil [Consulted 4 December 2013].

Table 4. Composition of Saudi Arabian exports in 2012 (%)

Oil	86.9
Agriculture	0.9
Petrochemicals	8.5
Manufacturing	0.9
Other	2.7
Total	100

Source: Saudi Arabian Monetary Agency

Despite its lower dependency on oil revenues, it is fair to say that the management of oil revenues by the Iranian government during recent years has not been exempt from criticism. The government of Mohammad Khatami in 1999 created an Oil Stabilization Fund (OSF), the objective of which was to invest oil revenues in order to support the private sector and act as a stabiliser against fluctuating oil revenues (only a budgeted amount of oil revenues would flow into the treasury, with the surplus allocated to the OSF). But, under Mahmoud Ahmadinejad's presidency (2005–2013), the OSF funds were misallocated and used to finance government expenditure. Then, in 2011, the OSF was replaced by a National Development Fund (NDF). It was decided that a minimum of 20% of the country's oil and gas export revenues would be injected into this fund, which would only be available for long-term capital investments (especially strategic and hi-tech investments). So the NDF was not designed to act as a stabiliser against fluctuating oil revenues, like the OSF, but to be an investment fund. Due to the large decrease in Iran's oil revenues in 2012, this fund was mainly used to finance government expenditure. In October 2013, the total assets of this fund reached $18.1 billion—$14 billion less than the previously estimated figure of $32 billion, said the fund's board of directors in a statement.[51] It is expected that the new government will improve the transparency of this fund and effectively use it to finance the private sector.[52]

In Saudi Arabia, several sovereign wealth funds have been established. The largest, the Saudi Arabia Monetary Authority (SAMA) Foreign Holdings manages oil surpluses (if oil revenues are higher than what was budgeted). The SAMA, the country's central bank, manages this fund, which is the second largest in the world, with total assets of $675.9

51 See 'National Development Fund's assets $14 billion less than thought', *Tehran Times*, 26 October 2013.

52 See Bijan Khajehpour (2013). 'Development Fund to fill new role hopes Iran's private sector', *Al Monitor*, 3 October 2013, http://www.al-monitor.com/pulse/originals/2013/10/hope-for-iran-private-sector-national-development-fund.html# [Consulted 4 December 2013].

billion in 2013.[53] The SAMA Foreign Holdings strategy has never changed, despite oil price variations and Saudi Arabian budgetary constraints. It has always acted as a stabilisation fund, with a strategy aimed at maintaining the initial value of the assets through safe investments in financial markets.[54] In 2008, the SAMA had 85% of its assets invested in dollar-denominated fixed income securities. Despite the sub-prime crisis, the SAMA did not change its investment strategy.[55] The significance of the assets it manages and the fact that most of the SAMA's portfolio is invested in US financial markets can clearly be considered important elements in defining Saudi soft power. Here, Saudi Arabia has a clear advantage over Iran, which almost never invested its sovereign fund assets outside of the country.

Iran and Saudi Arabia are also very dependent on oil as a domestic source of energy. Due to population growth and low energy prices, internal consumption of oil has increased in the two countries. It is a strategic issue for both, as increasing internal consumption is depleting the amount of oil that can be exported (Graphic 3). In 2010, Ahmadinejad's government launched an ambitious plan to decrease energy subsidies in Iran. The policy was based on a clever scheme of compensating increasing energy prices through financial transfers to the population. This plan faced strong criticism due to its inflationary impact and the lack of support for companies that had to meet higher energy prices. Nevertheless, despite all its shortcomings, the plan was implemented and led to a decrease of oil consumption in Iran between 2010 and 2011.[56] That was the first time in Iran that a government had dared to decrease energy subsidies. Saudi Arabia has not yet implemented such a reform, and even if its potential for oil exports is still huge, the present trends in oil consumption could lead in the long term to a significant decrease of oil exports in the country (Graphic 4).

The recent nuclear deal in Geneva between Iran and the P5+1 (the five members of the United Nations Security Council, plus Germany) could obviously change the competitive environment in the oil sector. If there is a final deal in six months or one year, one could expect an increase in Iranian oil production. The macroeconomic impact on the Iranian economy should be positive in terms of higher growth and lower inflation. The impact of a possible increase of Iran exports on the oil price will depend on Saudi Arabia strategy. If it decides to decrease production, that could maintain oil prices at the present level. Other consequences could include an increase of Foreign Direct Investments (even from the US)

53 Sovereign Wealth Fund Institute, http://www.swfinstitute.org/swfs/sama-foreign-holdings/ [Consulted 13 February 2014].

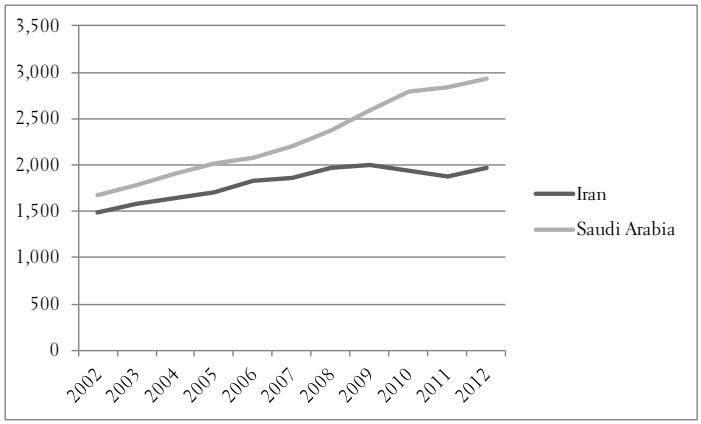
54 Sara Bazoobandi (2013). *The Political Economy of the Gulf Sovereign Wealth Funds: a case study of Iran, Kuwait, Saudi Arabia and the United Arab Emirates*. Oxon: Routledge, p. 66.

55 *Ibidem*, p. 66.

56 Thierry Coville (2012). La suppression des subventions en Iran: une révolution économique?, in *Djamshid A. (ed.). La Rente en République islamique d'Iran*. Paris: L'Harmattan, pp. 75–88.

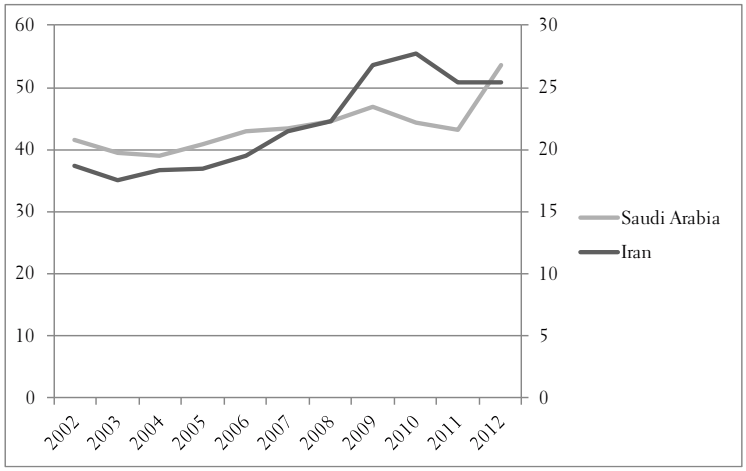
in the Iranian oil sector.[57] It will also be interesting to see if the recent emphasis in Iran on non-oil sector development will resist a return to normal for oil revenues.

Graphic 4. Oil consumption in Iran and Saudi Arabia (thousand barrels/day)



Source: BP

Graphic 5. Oil consumption in Iran and Saudi Arabia[58] (% of production)



Source: BP

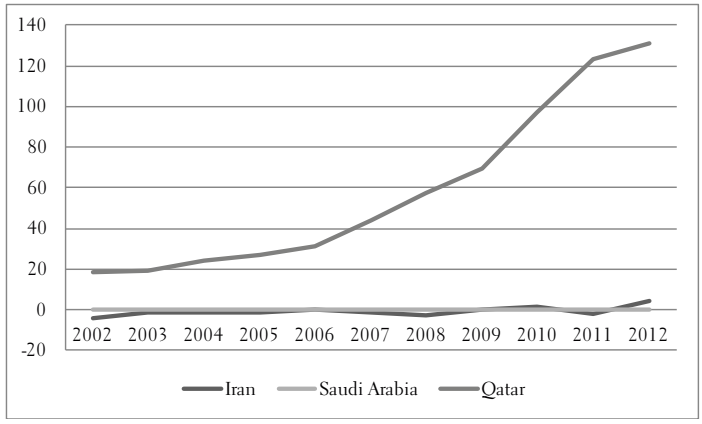
57 This raises the question of at what pace will all the relevant sanctions be abolished. There is no simple answer, if one considers the complexity of laws supporting sanctions against Iran. See International Crisis Group (2013). 'The Spider Web: The Making and Unmaking of Iran Sanctions', *Middle East Report*, 138, Brussels, February 2013.

58 The increase in Iranian oil consumption (in % of oil production) in 2012 is a result of the decrease in oil production, due to the sanctions.

Natural gas

There is competition in the field of natural gas between Iran and Saudi Arabia, which possess, respectively, the largest and fifth largest natural-gas reserves in the world. But the environment has been completely transformed by the arrival of a new player, Qatar, which has the third largest reserves in the world. Out of these three countries, Qatar has been the most successful in developing its exports (Graphic 6). This is due to an active policy of attracting foreign investment to develop production and exports (due to the low consumption of Qatar's small population). Iran and Saudi Arabia have not been developing their natural-gas production at the same pace. In Iran, development has been impaired by a poor investment climate and the sanctions. In Saudi Arabia, the sector has only been opened gradually to foreign investors. And in both countries, the priority has been to allocate natural gas for internal consumption. The Qatari strategy, based on developing natural-gas exports, has led to a huge increase in living standards in the country. With a gross national income of $76,010 per capita in 2011,[59] Qatar is now among the richest countries in the world. It has created a sovereign wealth fund, the Qatar Investment Authority, which in November 2013 was managing $115 billion in assets.[60] The Qatar Investment Authority is the 11th largest sovereign fund in the world. The importance of the investment realised by this fund in different key industries in Western Europe and the US is constitutive of Qatari soft power. Again, it is an area where Iran is at disadvantage compared to its Arab neighbours.

Graphic 6. Natural-gas exports of Iran, Qatar and Saudi Arabia (billion cubic metres)



Source: BP

59 The World Bank, http://data.worldbank.org/country/qatar [Consulted 13 February 2014].
60 Sovereign Wealth Fund Institute, http://www.swfinstitute.org/ [Consulted 13 February 2014].

The recent, transitory nuclear agreement between Iran and the P5+1 could have an impact on the development of Iran's natural-gas sector too. The Iranian authorities need foreign investment to develop the country's natural-gas fields, especially the South Pars field (which is jointly owned by Iran and Qatar and is the largest natural-gas field in the world). The new Iranian government has also emphasised its willingness to develop natural-gas exports. Foreign direct investment (FDI) and technology (to develop Liquefied Natural Gas) in this sector could lead to an increase in Iran's natural-gas exports. The European market could be one of the outlets, since the European Union needs to diversify its natural-gas suppliers in order to avoid excessive reliance on Russia. Another project that could be restarted, if the sanctions disappeared, is the Peace Pipeline, which would export natural gas from Iran to Pakistan and India.

In the long run, the continuous increase of US oil and natural-gas production, due to the extraction of shale resources, could lead to a decrease in US energy imports from OPEC countries. This means that the geopolitical importance of Iran and Saudi Arabia as energy producers could decrease—another reason for the two countries to focus on diversifying their economies away from hydrocarbons. In this respect, it seems that Iran (mostly due to unfavourable external circumstances i.e. the sanctions) has been able to build a more diversified economy.

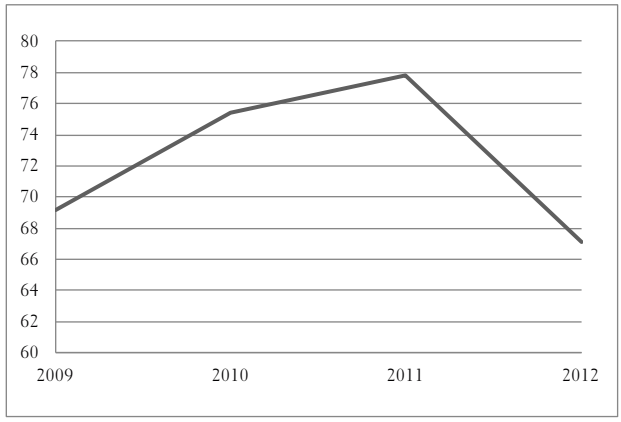
Integration in the global economy

Saudi Arabia has been a member of the WTO since 2005. And the Gulf Cooperation Council, of which Saudi Arabia is a member, launched a Customs Union in 2003. Iran is not a WTO member and is not part of any regional trade agreement. Iran's access to the WTO has been opposed by the US for political reasons. Yet even without US opposition it is not certain whether Iran would have become a member, as the magnitude of tarifs on Iranian imports and of subsidies in the Iranian economy is a significant obstacle to membership. WTO membership means that Saudi Arabia is more integrated in the global economy. According to the WTO, foreign trade in Saudi Arabia represents 81.3% of GDP (2010–2012) compared to 51.3% in Iran (2009–2011). The Saudi Arabian market is less protected than in Iran, with import tariffs on all goods at 5.1% in 2012, against 26.6% in Iran.[61] More recently, Iranian integration in the world economy went even further backward, as a result of the impact of sanctions.[62] The depreciation of the Iranian currency and the refusal of a large number of banks to work with Iran, due to the fear of being exposed to US sanctions, led to a decrease in Iranian imports (Graphic 7).

61 The data for Iran relates to 2011. It can be assumed it did not change in 2012.

62 For more on US sanctions against Iran, see Kenneth Katzman (2013). Iran Sanctions. Washington D.C.: Congressional Research Service Report for Congress, July 26, http://fpc.state.gov/documents/organization/212999.pdf [Consulted 4 December 2013].

Graphic 7. Iranian imports of goods ($ billion)



Source: Central Bank of Iran (CBI)

Saudi Arabia has also been able to attract more foreign direct investment than Iran. In 2012, FDI inflows in Saudi Arabia reached $12.2 billion, which represented 10.1% of gross fixed capital formation. In Iran, during the same year, FDI inflows amounted to $4.9 billion, equivalent to only 3.4% of gross capital formation. The dismal performance of Iran in attracting FDI is a result of the long list of US sanctions. The Iran Sanctions Act aimed to prevent foreign investment in the country's energy sector. More recent sanctions, focused on financial organisations dealing with Iran and even specifically at car companies working in the country, have also been influential in decreasing the attractiveness of Iran for foreign investment.

Iran has many advantages that could be of interest to foreign investors, such as a large population, a well-educated and consumer-orientated middle class, significant mineral resources and a strategic geographic location (between Europe and Asia; the Persian Gulf and Central Asia). Yet its business environment is clearly not attractive enough for national and foreign investors. Iran is positioned 152nd (out of 189 countries) by the 2013 World Bank *Doing Business* report, which ranks countries according to the ease of doing business.[63] By comparison, Saudi Arabia is at number 26. In terms of business, Iran is especially bad at dealing with construction permits and getting electricity. There have been numerous reports and studies on the unattractiveness of Iran's business environment due to its excessive number of laws and regulations.[64] The Iranian business environment is also characterised by very high levels of corruption. Iran ranked 133rd (out of 176 countries) on Transparency International's 2012 Corruption Perception Index, while Saudi Arabia ranked 66th.

63 See Doing Business, http://www.doingbusiness.org/rankings [Consulted 4 December 2013].

64 United Nations Industrial Development Organization (UNIDO) (2003). *Strategy document to enhance the contribution of an efficient and competitive small and medium-sized enterprise sector to industrial and economic development in the Islamic Republic of Iran*. Vienna: UNIDO, February 2003.

However, it's important to note that Saudi Arabia's integration in the global economy mostly relates to its energy industry. As mentioned earlier, the proportion of non-oil exports in total exports is higher in Iran (30.5%) than in Saudi Arabia (13.1%). Iran has a more diversified industrial base. The Iranian private sector and government, constrained by the sanctions, had to focus on non-oil exports.[65] It seems that Iran was quite successful in this respect, benefiting from price competitiveness and a favourable political and cultural environment in neighbouring markets. During the first half of 2013, China, Iraq, United Arab Emirates, Afghanistan and India were the main markets for Iran's non-oil exports. These exports have also increased significantly in Central Asian markets. It is clear that there is potential for further growth of Iranian non-oil exports in the region.

The business environment in Iran could become more attractive in the coming months too. The possible progressive annulation of sanctions could lead some foreign companies to think increasingly of Iran as a destination for investment. The Rouhani government has also made statements concerning its willingness to improve the Iranian business environment and increase the size of the private sector.[66] It is interesting to consider that in both Iran and Saudi Arabia a common objective is to reduce the size of the public sector. This objective, if realised, will have deep political implications, as the rent-seeking nature of both economies has created strong interrelations between the economic and political structures of the two countries.

Political economy challenges

In oil economies such as Iran and Saudi Arabia, there are complex relationships between the economic and socio-political structures. Historically, economists tended to look at oil economies through the 'rentier state' theory, which concluded that a government able to rely on oil revenues for its resources did not have to develop a real tax system. This also reduces the democratic accountability of these states, as they do not have to tax their constituents and hence do not have to bargain with them.[67] Nowadays, it is not realistic to describe the Iranian or Saudi state as completely isolated from their citizens when they define and apply economic policy. Recent works have emphasised the complex relations in both countries between the state and different socio-economic groups.[68] There is an unofficial social pact between the state and the population, according to which the state will officially promote and defend certain collective values (Islam, nationalism, social

65 Patrick Clawson (2013). 'Iran Beyond Oil?', *Op. Cit.*

66 See 'To suppress non-obligatory regulations, the priority of Namatzadeh (Minister of Industry, Mines and Commerce)', *Op. Cit.*

67 Hussein Mahdavy (1970). The Patterns and Problems of Economic Development in Rentier State: the Case of Iran, in *M. A. Cook (ed.). Studies in the economic history of the Middle East: from the rise of Islam to the present day.* London [u. a.]: Oxford University Press, pp. 428–467.

68 For Iran, see Thierry Coville (2002). *L'économie de l'Iran islamique: entre ordre et désordres.* Paris: L'Harmattan; for Saudi Arabia, see Steffen Hertog (2011). *Princes, Brokers and Bureaucrats: Oil and the State in Saudi Arabia.* New York: Cornell University Press.

justice etc.) that form the basis of its legitimacy among the people. In addition, there is formal and informal financial support for some socio-economic groups whose support is important for the state. In Iran, groups such as the *bonyads* (charitable foundations), *bazaris* (big merchants specialising in imports) and the *Pasdarans* have greatly benefited from a large number of financial transfers, thanks to low taxation, easy and subsidised bank credits, access to foreign exchange at a subsidised rates etc. In Saudi Arabia, princes from the royal family and powerful administrative spheres have also benefited from large financial redistribution by the state.

Today, due to the modernisation trends of Iranian and Saudi societies, this social pact is becoming more fragile. The changing demographic patterns highlight these social changes. In Iran, the fertility rate (the number of children a woman can expect to bear during her lifetime) has decreased from an average of 6.5 for 1980–1985 to 2 for 2005–2010, and in Saudi Arabia from 6.2 to 3.[69] These changes can be explained by higher education levels and reflect a complete change of values, or *weltangschauung* (the view of the world), in both countries.[70] This means that clientelism is no longer accepted by large parts of society. In Iran, sociological analysis reveals that there is demand for a change from a relations-based society to a rules-based society.[71]

Young people in both countries also reject this social pact. During the first quarter of 2013, the unemployment rate in Iran was officially estimated at 12.4%.[72] But this does not give a true measure of the unemployment problem in Iran (someone who works one hour per week is not considered unemployed). Unemployment is affecting young people in large numbers as, due to demographic trends, at least 600,000 people join the labour market every year. In Saudi Arabia, the lack of skilled young Saudis led to an unemployment rate of 30% for 15–29 year olds at the end of 2012.[73] To create more jobs in both countries, the social pact must be re-engineered from the logic of wealth redistribution towards the logic of wealth creation. The policy of creating public-sector jobs by increasing the size of the public sector must change to a policy of promoting private-sector development. These changes are gradually taking place in both

69 United Nations Development Report, http://hdr.undp.org/en [Consulted 13 February 2014].

70 For an analysis of the change in Iran's demographic behaviour following the Islamic Revolution, see Marie Ladier-Fouladi (2003). *Population et politique en Iran: de la monarchie à la République islamique.* Paris: Inst. National d'Études Démographiques; for a study of the societal changes in Iran following the Islamic Revolution, see Thierry Coville (2007). *Iran, la révolution invisible.* Paris: La Découverte.

71 Fariba Adelkhah (2000). *Being Modern in Iran.* New York: Columbia University Press.

72 Again, the sanctions are one of the factors that explain the large numbers of unemployed people in Iran, but they are not the only cause. The redistributive nature of the economic system is the main cause of unemployment in Iran. See Thierry Coville (2012). La suppression des subventions en Iran: une révolution économique? *Op. Cit.*

73 International Monetary Fund (2013). *Saudi Arabia: selected issues.* Washington D.C.: IMF Country Report 13/203, July 2013.

countries,[74] but further reforms would suggest deep transformations of the 'old' social pact, as described previously.

Other social groups can feel discriminated by this social pact too. Some provinces where there are Sunni majorities, such as Sistan–Baluchestan, Western Azerbaijan and Kurdistan, are lagging in terms of literacy rates (Table 5). This may have been caused by a lack of public investment in these provinces.[75] Ethnic and religious minorities in Iran (who are not part of the Persian–Shia majority) are also not getting a fair share in this economic system, as these groups live in the less-industrialised provinces of Iran: Sunni Baloutchs in Sistan–Baluchestan; Sunni Kurds in Western Azerbaijan, Lorestan and Kordestan; Arabs in Khuzestan etc. (Table 6). Nevertheless, one should also consider that even the most backwards provinces in terms of economic development have also been affected by the modernisation trends. In 2010, in Sistan–Baluchestan, more than half of the university students were female (Table 7). In Saudi Arabia, economic neglect of the Eastern province where the Shia minority lives and the main oil fields are located even led to large protests between 2011 and 2013.[76]

Table 5. Literacy rates in the provinces of Iran in 2006 (%)

Tehran	91.3
Semnan	88.7
Yazd	88.1
Esfahan	87.5
Fars	86.6
Bushehr	86.4
Khorasan-e-Razavi	86.2
Qom	86.2
Qazvin	85.7

74 For Saudi Arabia, see Steffen Hertog (2011). *Princes, Brokers and Bureaucrats: Oil and the State in Saudi Arabia. Op. Cit.*; privatisation is part of Hassan Rouhani's economic programme. See 'Willingness to cooperate between the economic team of Rohani and the private sector', *Op. Cit.*

75 See Thierry Coville (2009). 'Les inégalités fragilisent la République islamique', *Alternatives Internationales*, 43.

76 Frederic Wherey (2013). *The Forgotten Uprising in Eastern Saudi Arabia*. Washington D.C.: Carnegie endowment for International Peace, June 2013. See http://carnegieendowment.org/files/eastern_saudi_uprising.pdf [Consulted 4 December 2013].

Mazandaran	85
Total	**84.6**
Markazi	83.9
Khuzestan	83.6
Gilan	83.1
Kerman	82.8
Hamedan	82.6
Chaharmahal–Bakhtiari	82.5
Hormozgan	82.4
Kermanshah	82.2
Golestan	82.1
Ilam	82.1
Kohgiluyeh–Boyerahmad	81.7
Zanjan	81.7
East Azerbaijan	81.6
Lorestan	81.1
South Khorasan	81.1
Ardebil	80
North Khorasan	79.1
West Azerbaijan	77.8
Kordestan	77.4
Sistan–Baluchestan	68

Source: Statistical Centre of Iran

Table 6. Number of manufacturing establishments with 10 or more workers/1,000 inhabitants in the provinces of Iran, 2009

Semnan	1.57
Qazvin	0.63
Markazi	0.47
Qom	0.44
Esfahan	0.42
Yazd	0.41
Tehran	0.28
Chaharmahal–Bakhtiari	0.26
Mazandaran	0.24
Ardebil	0.23
East Azerbaijan	0.22
Gilan	0.21
Hamedan	0.21
South Khorasan	0.20
Khorasan-e-Razavi	0.20
Zanjan	0.20
Golestan	0.16
Fars	0.16
Kermanshah	0.14
Hormozgan	0.12
West Azerbaijan	0.12
Bushehr	0.12
Ilam	0.11

Khuzestan	0.10
North Khorasan	0.10
Kordestan	0.09
Kohgiluyeh–Boyerahmad	0.07
Lorestan	0.06
Kerman	0.06
Sistan–Baluchestan	0.04

Source: Statistical Centre of Iran

Table 7. Percentage of students who are female in the provinces of Iran, 2010

	Female students (%)
Khuzestan	63.6
Lorestan	61.2
Chaharmahal–Bakhtiari	60.7
Fars	59.8
Ilam	59.4
Hormozgan	59.1
Esfahan	57.7
Kermanshah	57.6
Hamedan	57.6
North Khorasan	57.3
Kerman	57.2
Bushehr	56.9
Qazvin	56.9
South Khorasan	56.6

Khorasan-e-Razavi	56.0
Total country	**55.9**
Gilan	55.7
Zanjan	55.7
Kohgiluyeh–Boyerahmad	55.5
Tehran	55.4
Ardebil	55.4
Markazi	55.1
Golestan	54.8
Kordestan	54.4
Semnan	53.4
Yazd	53.3
East Azerbaijan	52.3
Mazandaran	51.7
West Azerbaijan	51.4
Sistan–Baluchestan	50.4
Qom	48.9

Source: Statistical Centre of Iran

The 'old social pact' is largely criticised in both societies due to modernisation trends, economic discrimination and economic inefficiency. However, the fact that the modernisation trends of Iranian society seem to be more pronounced than those of Saudi Arabia (looking at demographic figures), combined with the 'relative' flexibility of the Iranian political system, could lead observers to believe that peaceful change is more probable in Iran.

In conclusion, it is clear that there is a real economic competition between Iran and Saudi Arabia. Saudi Arabia's economy has a prominent place in the world oil market as the only producer able to significantly increase its production if necessary, which has led to a strategic partnership with the US. As Saudi Arabia has been able to increase its oil production since 2011 to compensate for the lower production levels of Iranian oil, the country was very important to the success of the sanctions that have recently crippled the Iranian economy. Saudi Arabia has also been using its sovereign wealth fund in a consistent way to consolidate its geopolitical relations with the US. There is also an economic competition between Iran and Qatar. Qatar has been much more successful than Iran in developing its natural-gas production and exports. This has led to Qatari economic success and global soft power—through the use of its sovereign wealth fund. On the other hand, one can see that there is perhaps more economic resilience in the Iranian economy. Iran, under pressure due to the sanctions, has been able to develop its non-oil sector at a much quicker pace than Saudi Arabia. Moreover, the modernisation of Iranian society is a real asset that could lead to a more efficient and privatised economic system. 'Last but not least', the possibility of a new geopolitical alliance between Iran and the United States could have far-reaching economic implications, which could benefit Iran in its quest for regional supremacy.

AUTHOR BIOGRAPHY

Thierry Coville is a research fellow at IRIS, the French research centre for international and strategic studies, and professor of economics at Novancia, a business school belonging to the Paris Chamber of Commerce. He was a research fellow in the French Institute of Research in Iran from 1991 to 1994 and an associated research fellow in the Iran Department of the National Centre for Scientific Research from 1991 to 2006. He worked as an economist in the Centre of Forecasting at the Paris Chamber of Commerce from 1996 to 2006. He was also the editor-in-chief of the magazine of the Paris Chamber of Commerce, specialising in international affairs. He has published a large number of articles and books on Iranian affairs, including *L'économie de l'Iran islamique: entre ordre et désordres*, L'Harmattan (2002); *Perspectives Iran*, Nord Sud Export (2002); *L'Iran: la révolution invisible*, La Découverte (2007). He has also consulted for firms interested in Middle East markets.

ABSTRACT

The competition for regional supremacy between Iran and Saudi Arabia has an economic dimension. Saudi Arabia has been able to increase its oil production since 2011 to compensate for the lower output of Iranian oil production, and was very important to the success of the sanctions that recently crippled the Iranian economy. There also exists an economic competition between Iran and Qatar. Qatar has been much more successful than Iran in developing its natural-gas exports. Yet Iran, under pressure due to the sanctions, has been more successful than Saudi Arabia in diversifying its economy and developing its non-oil exports. Moreover, the modernisation of Iranian society could lead to a more efficient and privatised economic system in the country. Last but not least, the possibility of a new geopolitical alliance between Iran and the United States could benefit the Iranian economy.

KEYWORDS

Oil, natural gas, non-oil exports.

الملخص

يأخذ التنافس بين إيران و المملكة العربية السعودية من أجل التفوق الإقليمي بعدا إقتصاديا قويا؛ إذ إستطاعت هذه الأخيرة الزيادة من إنتاجها للنفط سنة 2011 لتعويض الإنخفاض في الإنتاج الإيراني، لتلعب بذلك دورا حاسما في العقوبات التي شددت الخناق في الآونة الأخيرة على الإقتصاد الإيراني. و يحدث كذلك تنافس إقتصادي بين إيران و قطر التي تعرف نجاحا أكبر من الأولى في مجال تطوير صادرات الغاز الطبيعي؛ لكن، من جهة أخرى، فإن إيران قد أحرزت نجاحا أكبر من المملكة العربية السعودية في تنويع إقتصادها، لأنها إستطاعت تطوير صادراتها الغير النفطية تحت ضغط العقوبات. أكثر من ذلك يمكن للتحديث الذي يميز المجتمع الإيراني أن يقود إلى تحولات مهمة نحو نظام إقتصادي مخوصص و أكثر نجاعة في البلاد .أخيرا و ليس آخرا، يمكن للتحالف الجيوسياسي ما بين إيران و الولايات المتحدة الأمريكية أن يكون مفيدا للإقتصاد الإيراني.

الكلمات المفتاحية

النفط، الغاز الطبيعي، الصادرات الغير النفطية.