

# SAUDI STABILITY IN A TIME OF CHANGE

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## ***Executive Summary***

The MENA region has begun a process of political change and turmoil that will take years to play out, and which could destabilize some MENA countries for a decade or more as a worst case. There is a tangible risk that Saudi Arabia will be affected in the short term, and it will take continued leadership and vision for Saudi Arab to deal with its longer-term internal challenges.

Saudi Arabia is scarcely immune to protest and dissent, and has long struggled with the challenges of reform. What is most striking about the Kingdom over the past months of crisis, however, is the lack of any major challenge to government and the way it functions

This may well not continue. In today's Middle East, some demonstrations seem inevitable in every country, and no one can guarantee Saudi Arabia's future stability in a time of turmoil. Moderate Saudi intellectuals and youths have sent letters and petitions, and called for more rapid reform. A small number of Saudi women have demonstrated. More extreme voices have called for "days of rage" – mirror imaging similar calls in Tunisia and Libya – although with little meaningful result beyond token demonstrations and having some 465 Saudis sign a "Day of Rage" page on Facebook.. There have been small demonstrations by Shi'ites in the Eastern Province, although so far largely in Qatif and not the major cities and petroleum facilities on the coast.

At the same time, a small, highly vocal minority does not speak for a nation. Moreover, Saudi calls for reform compete with an extremely conservative clergy and population in a nation where change is critical to economic, political, and social development. Moreover, the government acted quickly and decisively to address the most serious material problems in Saudi society such as jobs and housing.

As a result, the most serious challenges to Saudi stability may be structural. These are challenges that will only emerge over time, and then only threaten Saudi stability if its government is unsuccessful in continuing to evolve towards reform and in meeting the needs of its people.

Some of these challenges are political and affect both the monarchy, and movement towards elections and reforms of the Saudi approach to the rule of law. King Abdullah is some 87 years old, and none of the surviving sons of Ibn Saud are clearly an adequate successor. Saudi Arabia must continue down the path towards political elections that rise to the level of its Majlis. It must continue to reduce corruption and improve its rule of law.

Material reform and progress may well, however, be more important than political progress. There are serious gaps between "haves" and "have nots," regional

differences in wealth and privilege, and tensions between Saudi Shi'ites and Saudi Sunnis that have been exacerbated by Saudi intervention in the crisis in Bahrain.

Above all, Saudi Arabia must deal with massive population growth, a "youth bulge" and underemployment, and unmet economic expectations as the other states in the MENA region. It must also deal with major social changes as the result of steadily improving levels of education, access to satellites and the Internet, and hyperurbanization (The CIA estimates that Saudi Arabia is 82% urbanized and will urbanize at a rate of 2.2% a year during 2010-2014).

At the same time, there are reasons to believe that Saudi Arabia will remain stable and continue on the path to peaceful reform and change. No country in the MENA region has done more to invest in government services, education and jobs for youth, and broadly based economic development. The monarchy is reforming, putting more emphasis on performance, improving the ruler of law, and reducing corruption.

In broad terms, governance is effective enough so that the end result of the current turmoil in other states is unlikely to present a major threat to Saudi stability, and the prompt action the government has taken to deal with the material needs of its people indicate such pressures may well end in aiding reform efforts rather than threatening the regime. Saudi Arabia also has demonstrated over decades that its leadership can adjust to change and meet popular demands, and it has a strong core within its royal family, technocrats, and business community.

Saudi Arabia will face problems in implementing some of its more ambitious plans to create jobs through industrial cities and an high rate of growth and development, but it can compensate through government stimulus of the private sector, and by reducing dependence on foreign labor which now amounts to 5.6 million by CIA estimates in comparison with a total labor force of 7.3 million (The CIA estimates that about 80% of the labor force is non-national (2010 est.)

Saudi Arabia's new programs to help ensure internal stability will have a major near-term impact on the budget, but it is important to note that they will also support many of the programs in the ninth Saudi Five Year Plan that was announced before the crisis in the region began. They will aid the momentum of development and reform rather than divert resources away from the Kingdom's needs.

Current estimates indicate that their cost will be spread out over a period years. Saudi Arabia's near term ability to maintain and expand oil production is not questioned in any recent DOE or US intelligence analysis, and it seems likely that demand for Saudi exports and oil prices will not keep Saudi Arabia from having a budget surplus

Saudi Arabia also does not share the level of internal security threats that affect many other MENA states. It has improved its counterterrorism capabilities to

the point where it has forced Al Qaida in the Peninsula to move its operations to Yemen, while avoiding the trap of relying on repression rather than cooption and reintegration. ARAMCO and SABIC are some of the most efficient petroleum industries in the MENA region, and a combination of cycles of high petroleum revenues and countercyclical government economic policies have given the Kingdom the resources to invest in both stability and development.

Moreover, outside threats – while real – are threats that can be deterred or defended against. In spite of some tensions, Saudi Arabia and the US are cooperating in creating far more effective forces to deal with Iran, Al Qaida, and risks like instability in Yemen. The Gulf will not be a stable region for the foreseeable future, but it remains a vital American national security interest, and this means the US has even more motive to cooperate with Saudi Arabia in maintaining a mixture of military and national security capabilities that will protect the Kingdom against external threats.

The US has already recognized this by sending its Secretary of Defense and National Security Advisor to Saudi Arabia in an effort to deal with tensions over the fall of President Mubarak and differences in approaches to the other crises in the region. These same visits, however, address common interests in dealing with Iran, with instability in Yemen, with the crisis in Bahrain, and with the impact of US withdrawal from Iraq, and the need to strengthen Saudi and other Southern Gulf forces. Saudi Arabia and the US scarcely have the same culture and political system, but recent events have made it even clearer that they share critical strategic interests and need to reinforce a longstanding strategic partnership.

As for the overall impact of current events on the economy, the end result may be that this is a major window of opportunity for Saudi and outside investors, rather than a time of added risk. Saudi Arabia is going to be very sensitive as to what firms do and do not maintain their investment plans and take advantage of opportunities over the next few years. So are the Saudi people, and this will be particularly true of investments in areas that have a Saudi partner, particularly ones that have won the kind of popular confidence and trust that Aramco has.

It is clear that King Abdullah will continue to support foreign investments of the kind that create jobs and ease the Kingdom's investment burdens, and that any successor is likely to do the same. Royal politics are extraordinarily unlikely to present problems for sound investments, and the same is true of the Saudi educated, technocratic and business elite. Moreover, Saudi religious politics have never opposed such investments – even among extreme clerics.

Finally, the risk in such investments will be further reduced by the fact the US cannot afford not to maintain its security presence in the Gulf, current USCENTCOM plans call for US efforts to greatly strengthen Saudi military capabilities through arms sales, and these efforts have not faced any serious opposition in the Congress or by outside lobbying efforts. This leaves terrorism as the only clear immediate risk,

and Saudi security forces are considerably more effective than those of virtually all other Gulf and MENA Arab states.

### ***Putting Saudi Stability in Context***

There is a natural tendency to focus on Saudi stability in terms of today's wave of unrest and political change in the MENA region, and this wave of unrest does mark the beginning of a critical period in the history of the region. It is important, however, to stress the word "beginning" and be very careful about focusing on the Middle East as distinguished from the much broader issue of instability in the developing world.

"Globalism" and "Globalization" are not producing the rate of economic progress in Asia, Latin America, Sub-Saharan Africa, or the MENA region that offsets common problems that affect many of the developing countries in the world. A focus on GDP growth, and abstract calculations like per capita income in PPP terms, has tended to disguise a long list of pressures:

- Rapid population growth that exceeds the ability of governments and national economies to provide adequate service and meet growing expectations, and provide a very young population with education and meaningful jobs.
- Growing gaps between rich and poor, a drop in status and relative wealth for significant elements in the middle class and traditional elites, and the perception that governments are becoming steadily more privileged at the top and corrupt in providing service, providing jobs and promotions, running their justice systems, and carrying out projects and awarding contracts. Here, expectations, real world status of career opportunities, and income distribution, and a sense of social justice are at least as critical as narrow economic indicators.
- A failure in secular political progress and governance that causes popular resentment and anger regardless of the system of government, and which is coupled to massive population movements, urbanization, and social change. The issue for the vast majority of the populations in the developing world is not how governments are chosen and whether they are elected, but their capacity to govern and meet popular expectation with some degree of equity and a minimum of corruption and repression.
- These pressures lead to a focus on religion in much of the Islamic world, but more broadly causes tensions on an ethnic, sectarian tribal, and regional level throughout the developing world, and particularly in urban areas like national capitals. Tribal tensions in Africa, Hispanic vs. indigenous tensions in Latin America, ethnic/sectarian tensions in Asia, exert the same level of pressures for instability as religion does in much of the Islamic world.

In short, the current wave of crises in the Middle East are almost certain to play out in different ways over the coming decades throughout the developing world. When the risk of local conflict is taken into account, along with the challenges posed by the emergence China and India, it is clear that there are no certain islands of stability for foreign investment in the MENA region or any other part of the world -- regardless of the current situation in any given country. The challenge in assessing

risk in Saudi Arabia and every other country is not how to avoid risk, but how to assess and manage it.

### ***A History of Concern versus a History of Stability***

This is a particularly serious problem in a case like Saudi Arabia. Every crisis in the MENA region since the time of Nasser has led to a new round of speculations about Saudi Arabia and the future of the monarchy. Yet, it has now been more than half a century since that speculation began and the Saudi monarchy has survived with little sign of either serious internal divisions or domestic challenges.

As other countries in the region have shown all too clearly, a history of stability is no guarantee for the future, but it is important to note that this Saudi stability has been the product of the fact that the Saudi government has dealt with each wave of change by making the reforms that are critical to maintaining popular support.

The current King – King Abdullah bin Abdul Aziz -- is in his late 80s, and all of his half brothers who are the sons of Ibn Saud are now old enough to present a problem in the succession. Prince Sultan, Prince Naif, and other leading princes like Prince Salman all have some age or health issues. No one can guarantee that a new king with an equal emphasis on reform will replace King Abdullah. At some point in the next few years, Saudi Arabia also must move from selecting a king from the sons of its founder -- Ibn Saud – to selecting one from the next generation in the royal family. The government has made important reform in defining how a new King should be chosen, and are many competent and experienced princes in the next generation. *But*, the choice of a new king is important and it is not clear how this political transition will take place.

At the same time, it is important to understand the underlying forces within the Saudi power structure. King Abdullah leads a much younger and technically competent government that has consistently pursued policies that made him a symbol of social, economic, and educational reform to many Saudis long before the current crisis. It is important to note that this has happened in spite of fears and predictions that Abdullah would be ultraconservative, anti-American, anti-peace and anti-Israel, the source of tensions within the royal family, and host of other fears and warnings before he came to power as de facto regent and then King.

King Abdullah has also created a formal process for choosing the succession that the leading members of the royal family seem to have accepted, and which could help make the transition to a King from the next generation of princes – a generation now in the 50s and 60s, and which has many leading “sons” who have played a major role in governing the Kingdom for decades. King Abdullah has introduced reforms that have limited payments to members of the royal family and their privileges, and improved the civil justice system in ways that limit their ability to exploit their rank.

More broadly, the Saudi monarchy has never followed Western models. It is an extended family of literally thousands of princes in which seniority has never been a substitute for competence, and the Saudi family is now intermarried with virtually every major tribal group and faction in the Kingdom.

The fact that all leading members of the royal family and key Saudi officials hold public meetings to hear petitions grievances is a major factor in winning popular support, and offsetting the Kingdom's lack of formal representative government. So is the creation of an appointed national assembly or Shoura, local councils, and various advisory bodies. These bodies have been steadily strengthened and expanded over the last decade, and could provide some of the basis for an eventual shift to something more like a constitutional monarchy.

Leading merchant families and technocrats play a critical role in a consensus-oriented power structure where most spending is clearly and publically accounted for in the reporting of the Saudi Arabian monetary funds, in the Saudi five year plans, in the reports of key industries like ARAMCO, and a variety of independent business reports. It is one of the ironies of Western commentary on the Kingdom, that it is constantly described in terms like "secretive" when it actually publishes a vast amount of data on the web and is one of the most financial transparent countries in the MENA region.

In short, the royal family has shown a remarkable ability to deal with its internal politics. It has certainly acted to its own self-advantage, but it has also made consistent efforts social and economic reform, and has supported educational reform, the adoption of new technology, and public welfare measures ever since oil exports began to turn into "oil wealth" in the early 1970s.

### ***The Challenge of a Conservative Population and Religious Leadership***

Outsiders need to understand just how much Saudi political and social dynamics differ from those of other nations in the Middle East. While Western analysts often focus on the fact that Saudi Arabia has strong private advocates of reform, "democracy," human rights, and social change; this pattern of governance faces a more serious challenge from the fact that much of the Saudi population and clergy are deeply committed to a puritanical form of Islam.

For well over half a century, each successive Saudi government has had to struggle with the tensions between religious and social custom and the need for change. The Saudi popular commitment to conservative Islamic values has steadily evolved in the process, but the Saudi monarchy must move slowly and carefully, it must constantly demonstrate its religious legitimacy and commitment to Islam, and every reform produces an inevitable series of challenges and resistance.

The King's title of Custodian of the Two Holy Mosques is not a hollow honorific; it is the bedrock of the regime's popular legitimacy and is far more important as such than political reform. The Saudi government's success in honoring and supporting Islam, in support the global flow of pilgrims to Mecca and Medina, and in honoring the Koran is absolutely critical to its popular legitimacy.

There are important exceptions to this conservatism within the clergy, and key members of the Al Shaikh family – the descendants of Muhammad al-Wahhab -- have been important voices in modernizing Saudi Arabia. Nevertheless, many of the clergy, and most of the more traditional elements of the population, resist social change when it seems to come into conflict with traditional religious and social practices. Saudi society is driven by its internal values and demands that are very different those of Western secularism, and in many ways, a modernizing elite faces problems in dealing with a conservative population.

This has some advantages for the Kingdom's stability. Mainstream Saudi religious conservatism is not extremism, but it does have a stabilizing effect in dealing with the wave of change taking place in the rest of the MENA region. The same Saudi religious conservatism that means that the Saudi government must be cautious in making reforms also limits the prospect of sudden waves of popular demands for secular reform that emerged in Egypt and Tunisia. There are many in the Saudi elite that continue to push reform forward, but there are few signs that Saudi popular conservatism will suddenly give way to broad calls for a more secular society or form of government.

### ***Economics, State Spending and the Quality of Governance***

The government does face continuing challenges in balancing the need for reform and counterterrorism with the need to show great care in preserving its religious legitimacy. It has, however, been able to greatly reduce the challenge by investing effectively in development and in meeting popular expectations and needs.

It is all too easy to focus on politics and ignore the quality of governance. The fact remains, however, that the way states actually spend their money is at least as critical a measure of their "legitimacy" as their politics. Saudi national budget and five year plans have consistently reflected the fact that Saudi leaders do not simply talk about reform and progress, they have made massive expenditures on every critical aspect of social welfare.

### **Saudi Planning and Investment by the Current Wave of Crises**

An examination of Saudi budgets, five-year plans, and the reports of the Saudi Arabian Monetary Agency (SAMA) since the mid-1970s, shows that Saudi Arabia has largely avoided the excesses of the "petroleum disease." Money has gone where it is needed and where it helps preserve stability. The government has invested massive



amounts of money in job creation and pushed hard to reduce its dependence on foreign labor. Its elite may be incredibly rich, but the vast majority of Saudi revenues have gone to national security and the broader population, including both the poor and a steadily expanding middle class.

In the summer of 2010 – long before the current wave of crises began in Tunisia -- the Saudi Council of Ministers approved a Ninth Five-Year Development Plan, which allocated \$385 billion (SR1.4 trillion) to projects across all sectors through 2014. The plan clearly addressed the kind of issues and popular demands that have been a major source of instability in other MENA states.

The Saudi government announced in October 2010 that.

The plan focuses on improving the standard of living, increasing employment, balancing economic development across all regions, and increasing the competitiveness of the country's economy. The budget for this plan is approximately 67 percent larger than the previous five-year plan.

Half of the government's spending will be dedicated to human resource development, which includes education and training – reinforcing the Kingdom's goal of creating a knowledge-based society. Social and healthcare development will receive 19 percent of the budget, while economic resource development will be allocated 15.7 percent, transportation and communications development 7.7 percent, and municipal and housing services 7 percent.

#### **Human Resources**

The Ninth Five-Year Plan includes increasing the capacity of primary, intermediate, and secondary schools to over 5.3 million students along with increasing the capacity of universities to 1.7 million students. A number of new facilities will be built, including 25 technology colleges, 28 technical institutes, and 50 industrial training institutes. The government will also expand and diversify the post-graduate programs offered within the Kingdom and seek to increase the amount of post-graduate students to 5 percent of all university students.

The plan also encourages innovation in science and technology by providing \$240 million (SR900 million) in grants for research projects each year. Other initiatives include the establishment of 10 research centers, 15 university technological innovation centers in association with King Abdullah City for Science and Technology (KACST), and at least eight technology incubators at KACST and other universities. The government will also continue to promote university collaboration with international companies. (The plan called for a 67% increase in spending on education over the previous plan.)

#### **Social and Health Services**

In an effort to provide Saudi Arabia's entire population with integrated and comprehensive healthcare, the Ninth Five-Year Plan allocates \$73 billion (SR273.9 billion) to various initiatives. Measures include the construction of 117 hospitals, 750 primary healthcare centers, and 400 emergency centers. Targets for improving the amount of hospital beds available as well as the ratio of physicians per bed have also been set.

#### **Economic Resources**

The economic resources sector includes such industries as agriculture, water, electricity, mineral resources, and tourism. In addition to continuing efforts to reduce the amount of water and energy consumed, the Ninth Five-Year Plan contains measures to nearly double the capacity of desalination plants from 1.05 billion cubic meters per year to 2.07 billion cubic meters per year

and increase the rates of reusing treated wastewater by 50 percent. Similarly, electricity production would be increased by 20,400 megawatts by the end of the plan.

### **Transportation**

In addition to the continued expansion of King Abdul Aziz International Airport in Jeddah and Prince Mohammad bin Abdul Aziz International Airport in Madinah and the completion of the country's various railways, the Ninth Five-Year Plan also calls for the establishment of a port at Ras Azzour. The development of the country's transportation infrastructure is an integral part of the Kingdom's overall economic competitiveness, as greater means of transportation yield reductions in industrial costs.

### **Communications**

The Saudi Government also aims to provide a secure and reliable infrastructure to meet the growing demand for telecommunications. The current ratio of internet users is 40.5 for every 100 people, and the Ninth Five-Year Plan seeks to raise that to 53.6 for every 100 people. Broadband coverage will also increase from 7.8 to 11.4 for every 100 people.

### **Municipal and Housing Services**

To address the lack of affordable housing in the Kingdom, the Ninth Five-Year Plan increased its allocation for municipal and housing services by nearly 53 percent over the previous plan. By the end of 2014, 1 million residential units will be built, meeting 80 percent of the projected housing demand for that period.

### **Economic Results**

All of these initiatives lead analysts to predict positive growth for Saudi Arabia in the coming years. The Ninth Five-Year Plan aims to achieve an annual GDP growth rate of 5.2 percent and reduce the unemployment rate from 9.6 percent in 2009 to 5.5 percent in 2014. Through continued investment incentives, private sector growth is expected to average 6.6 percent annually, representing 61.5 percent of GDP by the end of 2014.

Overall, the Ninth Five-Year Development Plan builds on a strong tradition of strategic planning and spending in areas that capture the Kingdom's comparative advantages to optimize economic growth and improve social welfare, education, and conservation.

## **Ninth Five-Year Plan Allocations**

| <i>Development Sector</i>       | <i>Allocation (\$ billions)</i> | <i>Share (%)</i> |
|---------------------------------|---------------------------------|------------------|
| Human Resources                 | 195                             | 50.6             |
| Social and Health               | 73                              | 19               |
| Economic Resources              | 60.7                            | 15.7             |
| Transportation & Communications | 29.6                            | 7.7              |
| Municipal and Housing Services  | 26.8                            | 7                |
| <b>Total Expenditure</b>        | <b>385.1</b>                    | <b>100</b>       |

*Source: Ministry of Economy and Planning*

While the government's language in presenting the new 5-year plan was self-serving, it is important to notice how carefully it is focused on the secular issues that matter most to Saudis as a whole, and to young Saudis in particular. Moreover, a study by the Banque Saudi Fransi (BSF) noted that,

The world's oil superpower approved the ninth five-year plan in August and it involves investment of nearly SR1.44 trillion, the highest spending level since the country started implementing development plans. Through these spending outlays, Saudi Arabia is targeting 5.2 per cent average annual GDP growth rates in the five years to 2014. If achieved, this would be the most-ambitious economic growth since the 1970s oil boom,"

The crude oil and natural gas sector is expected to grow only 1.2 per cent, on average, for the next five years – although that excludes oil refining and petrochemicals, which the government groups in with non-oil sectors. Under the plan, the private sector's GDP would expand an average 6.6 per cent per year over the plan period, raising its share of GDP to 61.5 per cent by 2014 from about 48 per cent in 2009.

The private sector would be the main engine in the economy, with the oil and gas sector's share of GDP declining to nearly 20 per cent from 28 per cent and the government sector to 17 per cent from around 23 per cent."

Plans do not mean success, and Saudi Arabia has fallen short of some important goals in the past. The BSF study warned that achieving high levels of private sector growth would be difficult. Saudi government data showed that private sector growth averaged 4.95 per cent between 2005 and 2009, a period of rapid expansion , a result of high oil prices prior to the global financial crisis. Such growth has not exceeded six per cent for a plan period since the 1970s, and BSF calculated that growth between 6-6.5 per cent annually is needed to create enough jobs to bring labor equilibrium for Saudis in the coming years."

The BSF study also indicated that government sector GDP growth has to be faster than any plan period since 1980-1984 as it is targeting, on average, real GDP growth of greater than seven per cent per year in many in non-oil sectors, including building and construction; utilities; trade, restaurants and hotels; financial services; oil refining; manufacturing and community and personal services The study also provided a key warning about the difficulties created by Saudi population growth and dealing with the needs of such a young population.

"Over the same period, expansion in the oil and gas sector is expected at just 1.2 per cent per year, while the government services sector grows 4.8 per cent..." "Setting its expectations high does not mean the targets will be fully achieved or that they cannot be achieved. Saudi Arabia missed its real GDP target under the 2004-2009 development plan by 1.5 per cent. Real GDP grew an average of 3.1 per cent during that five-year period, below a 4.6 per cent target... The plan also envisioned Saudi unemployment falling to 2.8 per cent by 2009 – whereas it rose to 10.5 per cent. One thing that is certain is the government is ready and willing to keep fuelling the economic recovery and envisages that in the near future, the private sector will reciprocate."

The new plan can, however, build on decades of investment that have included massive increases in key services like power and water. There has been an almost incredible expansion of education (now some 6% of the GDP), health care, and housing in the face of massive population growth. Government services have become much more effective while the barriers to private Saudi and outside investment have been sharply reduced.

The Saudi national oil company, ARAMCO, has become a model merit-based employee. The Kingdom has spent billions to create and expand industrial cities throughout the Kingdom, while it has opened up the rest of its economy, sought to replace foreign labor with Saudis, and begun to develop new sectors of the economy like mining and new sources of income like tourism.

### **Government Plans Since the Wave of Crises Began**

It is also striking that when the new wave of crises began, King Abdullah did not react with a wave of new security measures or the kind of empty rhetoric used by virtually every other Arab leader or government. Instead, his government quickly issued a series of royal decrees that provided a 135 billion Saudi riyal (\$36 billion US dollar) investment in stability.

This first set of royal decrees announced that this spending would include:

- \$10.6 billion (SR 40 billion) in new funding for housing loans through the Real Estate Development Fund. A critical step in a nation whose new housing needs are estimated to be some 230,000 units a year.
- \$7.9 billion (SR 20 billion) in funding to increase the capital of the Saudi Credit Bank
- \$266 million (SR 1 billion) to enable social insurance to increase the number of family members covered
- \$319.9 million (SR 1.2 billion) to expand social services.
- \$933 million (SR 3.5 billion) to help the needy repair their homes and pay utility bills
- \$126.9 million (SR 476 million) to support programs for needy students at the Ministry of Education.
- \$3.9 billion (SR 15 billion) to support the General Housing Authority
- A 15% pay increases for state employees.
- 50 percent increase in the annual allocations for charitable organizations to \$120 million (SR 450 million).
- \$26.7 million (\$100 million) annually allocation to projects of the National Charitable Fund will get SR 100 million

A second royal decree expanded these programs on March 22, 2011. It called for 350 billion more Saudi Riyals (some \$93.3billion) in investment, and the creation of some 160,000 new jobs. (Some estimates put the total eventual cost closer to 450-00 billion Saudi riyals or a maximum of \$133.3 billion)

It approved the construction of 500,000 housing units across the country with an allocated amount of SR250 billion. This was coupled to raising the upper limit in housing loans to SR500,000 from the Real Estate Development Fund, a 67 per cent increase. In addition, the royal decree called for creating 60,000 jobs under the Ministry of Interior, while a much needed minimum monthly wage has been set for government workers at SR3,000. As for those who are seeking jobs and who are unemployed, the decrees called for giving them a monthly salary of SR2,000 will help ease the job seeking process.

Jobs were a key priority because of the slow pace of Saudization in reducing the Kingdom's dependence on foreign labor, and a high level of unemployment. The CIA estimated that 80% of a labor force of 7.3 million was foreign. The Banque Saudi Fransi estimated that the Saudi government had estimated direct unemployment at 448,547 at the end of 2009, or 10.5%. The unemployment rate was estimated to be 27% for Saudis below the age of 30 and 39.35 between the ages of 20 and 24.

The new decree included the following list of measures:

- A one-time cash payment of two months salary to all government employees, including members of the military, in addition to two months worth of living stipends to Saudis studying under government scholarships.
- A monthly unemployment payment of SR2,000 to the unemployed starting from Nov. 26, the start of the Hijra year 1433.
- The establishment of a minimum wage for Saudi government employees of SR3,000 per month.
- SR250 billion allocated for the construction of 500,000 housing units across the country.
- Establishment of the anti-corruption commission within three months.
- SR16 billion allocated to the Ministry of Health to expand facilities and construct new hospitals.
- An increase in the home-building lending limit at the Real Estate Development Fund from SR300,000 to SR500,000 per loan.
- An increase in loan limits to private hospitals from SR50 million to SR200 million.
- The creation of 60,000 new jobs in the security forces under the Interior Ministry.
- Wage increases to military personnel through upgrading each member's pay grade by one step.
- Expanding branches of the General Presidency for Scholarly Research and Ifta, including the creation of 300 new jobs.
- SR200 million to the Commission for the Promotion of Virtue and Prevention of Vice for more offices across the county.
- Five hundred new positions at the Ministry of Commerce and Industry to check prices in the market and punish violators.
- The royal decree also includes the promotion of increased Saudization in the private sector. It also includes an order that the Kingdom's media organizations refrain from criticizing religious leaders.

The spending involved in these two sets of royal decrees was obviously intended to defuse popular unrest. At the same time, it is critical to note that they are not the result of some sudden rush to invest in jobs, housing, medical services, and education. They built on a history of Saudi government investment in precisely the priorities that drove the core demands of the protesters in Egypt and Tunisia, and focused on social justice, which has been key to most of the current unrest in the Middle East.

The cost of such measures was scarcely cheap. The second decree called for spending that – if it was spent in a single year and not over the real-world period of time actually involved – would have amounted to what some analysts estimated was 21% of Saudi Arabia's GDP for 2010, or 56% of its 2010 budget. Both measures would equal 29.7% of what the analyst involved estimate was its 2010 GDP and more than half of its \$203.2 billion in oil export revenues.

The fact was, however, that it would take years to fully spend the money., Furthermore, the measures were announced at a time when Saudi Arabia had a major budget surplus, a debt of less than 11% of its GDP (the lowest in the G-20), more than \$400 billion in foreign reserves and assets (it reported \$539 billion in sovereign foreign assets in December 2010). The government also acted after it was clear that the Kingdom's petroleum income would be far higher, at least in the near term, than was assumed in creating the Saudi budget and five-year plan. The *Financial Times* estimated on March 30, 2011 that OPEC export revenues would exceed \$1,000 billion for the first time in 2011, and Saudi petroleum income in 2011 could easily be 50-60% higher than in 2010. The EIA estimated revenues of only \$847 billion in December 2010, before the crisis began in Tunisia.

Moreover, the Saudi government soon added several important measures for further reform. It announced a new round of municipal elections in September. This is only a slow step toward the need for national elections of the Majlis, and the creation of the kind of political parties with the experience and moderation that can help govern the country and women will still not be allowed to vote. The election will, however, cover all 258 municipal districts with 1,632 members, rather than the 179 with 1,212 members covered in the previous election in 2005. (The other districts and representatives were nominated by the Ministry of Municipal and Rural Affairs). Procedures for voter registration and registration of candidates have also been improved, and the number of voting centers will be increased from 631 to 855..

Prince Naif announced that the government was strengthening the anti-corruption task force called the National Authority for Combating Corruption (NACC), and the Saudi General auditing Bureau and Saudi Control and Investigation Authority announced new efforts in April to reduce corruption and waste in the Kingdom's development plans. It created a new senior advisory body to examine structural solutions to the problem of unemployment – a possible step towards much stronger measures in reducing Saudi dependence on foreign labor.

Reducing dependence on foreign labor is critical. As Prince Turki al-Faisal noted in a speech on March 20, 2011, "If we gauge life in the Kingdom 50 years ago even with limited resources, we did not have such problems. Today we are employing eight million foreign workers in the Kingdom and we still have a problem with unemployment...the approach of the Five Year Plan for Saudization has been unsuccessful and we must be frank that we are still searching for a solution."

### ***Finding the Right Balance of Domestic Efforts for the Future***

History scarcely means that this means anyone can take Saudi domestic stability for granted. No one can ignore the fact that Saudi leaders face many challenges that might explode into popular unrest if they are not handled with great skill. They have to try to retain power and popular support while constantly adjusting their actions to find the right balance between modernization, social progress and the desires of a very conservative population. They have to seek the best balance between those who focus on secular needs and call for rapid change, and religious leaders whose primary focus is to preserve the values of a puritanical form of Islam.

Finding this balance means the monarchy, and Saudi elites and technocrats, must continue work within a political system and culture few Americans understand, and one that is hard to put in perspective. The Saudi monarchy's limited experiments with a carefully selected national assembly (Shoura or Majlis), and with representative local government, have moved slowly and been very limited.

The top leaders in the Saudi royal family may be firmly in charge, but they must continue to rely heavily on finding consensus within the entire royal family (now well over 5,000 members), with other leading families in Saudi Arabia, with technocrats and educators, and with its religious establishment and key leaders like the Al Shaikh family. Unlike most governments in the developing world, Saudi officials also provide direct access for complaints and petitions, and do have a good track record of anticipating and responding to popular demands.

While it seems unlikely that Saudi Arabia will face major popular unrest at this point in time, it is unlikely that some additional, and potentially more serious demonstration will not occur. The wave of change in the rest of the region will tend to polarize Saudi reformers around demands for more rapid reform and conservatives around the fear of change and the need to preserve power and traditional values.

Saudi and GCC intervention in Bahrain, and the deployment of Saudi security forces, is almost certain to create added tension between Saudi Arabia's dominant Sunni puritans and its Shi'ites, and have some impact on the security of the Eastern Province where most of the 1.1-2 million of the population that are Shi'ites live. As yet, token unrest has been quickly suppressed by Saudi security forces, but similar

tensions in the past did lead to minor sabotage of ARAMCO facilities, and Iran can be expected to try to exploit the situation.

This reflects the fact that the security situation has changed since the limited Shi'ite protests and demonstrations in the early 1980s. Nawaf Obaid reports that The government has created a 35,000 man facilities security force, and some 1.5 million Sunnis and 1.1 million foreign workers have moved into the Eastern Province and into key petroleum jobs and facilities. He estimates that the Shi'ite population in the Eastern Province is as low as 1.1 million (30%) of a total population of 3.9 million, and is largely concentrated outside the key petroleum facilities and cities in villages in the coastal area of Qatif.

While estimates differ sharply, and lack a reliable source, it is clear that the Shi'ite population is a much smaller percentage of the total, and far less critical to the Saudi economy. Moreover, the government has taken some steps to reduce discrimination in jobs and in allowing Shi'ites to worship – although much more needs to be done.

The main reasons for concern are a mix of economics and demographics that may ultimately prove to be far more of an issue than politics. Saudi Arabia has to deal with the same demographic pressures, and “youth bulge,” that have threatened or toppled regimes elsewhere in the Middle East. Saudi society is still dealing with all of the radical social changes caused by moving from a small, poor population of some 3.8 million uneducated Bedouins in 1950 to the largely settled, urbanized, and far better educated nation that exists today.

No one has an exact figure for the rate of change that is still going on, but the CIA estimates that Saudi Arabia now has the same very young population that challenges every government in the Middle East. It estimates that 38% of Saudi Arabia's 25.7 million people are 14 years of age or younger, and that some 280,000 young men and 270,000 young women enter the job market every year.

In spite of Saudi government efforts, direct unemployment is close to 11% -- and this does not account for lags in getting jobs, limits to the number of women seeking jobs, and disguised unemployment. Moreover, the charts at the end of this analysis show that the US census bureau estimates that Saudi Arabia will grow to 34 million in 2030, in spite of a sharp decline in its past rate of population growth.

As is the case with every state in the Middle East, longer-term stability involves challenges that go far beyond political reform. Saudi Arabia must find better ways of giving men education for jobs, rather than in religion. It must bring women – who are a larger percentage of secondary school and university graduates than men – a full role in the labor force and society.

The focus on “women's rights” sometimes disguised the fact that competition in a global economy requires the use of all of the labor forces in the most productive way possible. Similarly, it is extremely difficult to limit population growth and a massive



cumulative increase in the demand for jobs and services unless both women and men can have careers. Saudi society will have to find its own solutions to this challenge, but far greater economic and career equality for women is not a privilege for women, it is an economic and demographic necessity.

Finally, Saudi Arabia must cope with the fact that “oil wealth” is relative to the population. Successful governance and the search for stability must change an economy that now draws on petroleum income for 80% of its budget revenues, 45% of its GDP, and 90% of its export earnings. The US Department of Energy also estimates that this “oil wealth” only amounted to \$5,500 per person in 2010, and this narrow base of wealth explains why Saudi Arabia’s overall per capita income ranks 55<sup>th</sup> in the world.

This dependence on petroleum exports is scarcely poverty, but it helps explain why the total Saudi per capita income of around \$24,000 compares to \$145,000 per person for sparsely populated neighbors like Qatar, \$51,000 for Kuwait, and \$40,000 for the UAE (And \$47,000 in the US). It also illustrates why continued Saudi investment in jobs, education, and development is so critical to giving the Kingdom a substantially higher level of stability than most countries in the region, and why the future quality of Saudi governance, and the ability to find the right balance between conservatism and reform, will remain more important than conventional politics.

It is also striking that Prince Turki Al-Faisal Bin Abdul Aziz, one of the most sophisticated thinkers in the royal family, gave a speech in late March 2011 that called for elections for membership to the Saudi Shoura Council (the national Majlis), and warned of a “failure in the Kingdom’s job market that has led to the presence of over eight million non-Saudi workers”.

Prince Turki is the ex-head of Saudi royal intelligence, and the former Saudi Ambassador to London and the US. He is now Chairman of the King Faisal Institute of Islamic Studies. Speaking at the Jeddah Economic Forum that reviewed the two sets of Royal Decrees issued by King Abdullah, he stated that they would, “help bring about a large boom in the job market over the next 15 years...Flourishing citizenship means high dependence on qualified people of the country to achieve a comprehensive renaissance...Saudi Arabia has large human potential.

At the same time, Prince Turki warned that there were over eight million foreign workers in Saudi Arabia and said that, “There’s no question that that signifies a fault in planning and organization, and it requires more precise policies to achieve balance and secure jobs to be able to take on all young women and men. Official figures show that there are thousands of vacant job posts.” He called for greater “middle-class participation in decision-making...Participation in municipal elections and the election of members of the Shoura Council can be built on a basis of education and the results of the plans of the Custodian of the Two Holy Mosques.”

According to *Okhaz*, Ghassan Al-Kibsi, a managing partner of McKinsey & Company,

meanwhile, warned at the same conference that Saudis might not be able to enjoy the same economic status in the future: “Global forces are pushing us to reduce our standard of living due to a rise in unemployment in the private sector which suffers from low wages and productivity, promising an uninspiring future.”. He noted that, according to studies, around 90 percent of Saudi employees work in the public sector: “The sector will only be able to take on around one-and-a-half million in the years ahead...The private sector is expected to have around five million employees in the future, and that will require more training and development as well as tangible increases in salary.”

*Okhaz* also reported that meanwhile Abu Bakr Baqadir, Deputy Minister of Information and Culture, warned about a “limited-income middle class” that depended on “individual material resources...The concept of the middle class, in its modern definition, cannot be applied...For societies to aspire to becoming modern they require a package of significant changes, evidenced in their high level of urbanization and their openness to the economic and political cycle in the world. These factors have enabled societies to go beyond the transitional phase and turn their eyes instead to becoming modern societies.” (Saudi society is) “a transitional society that aspires to be a fundamental player in modern society”.

Baqadir also warned that that the greater part of the population was the 85 percent that lives in urban centers, which he said was the “fundamental core of tomorrow’s society...We have created an urban middle class that will simultaneously spread across the whole country, becoming with stability and wealth a distinctively consumer class. People now aspire to lifestyles that require large financial resources. He also said that the Royal Decrees issued Friday by King Abdullah would help to “accelerate the permanent establishing of the middle class which we feared might be disappearing...The middle class is the prime mover of society,” he said, and added: “We are witnessing a very significant change in the life of Saudi society.”

These warnings are in some ways more reassuring than anything else. They are scarcely any more striking than many of the mainstream warnings that their US counterparts issue about the future of American society and the American economy. They also show that key Saudi royals, businessmen, and intellectuals have pragmatic insights and goals for change. They do help make it clear, however, that Saudi domestic stability is probable, not certain.

Moreover, Saudi Arabia share a deeper problem that affects virtually every MENA state. Even those countries that talk about reducing the rate of population growth are moving far too slowly to address the need to approach zero population growth or produce a decline. Saudi Arabia’s problems are eased to some degree by the ability to reduce its dependence on foreign labor.

Nevertheless, if estimates like those of the US Census Bureau are correct, Saudi Arabia’s population has risen from 3.9 million in 1950 to 25.7 million in 2010, and

will rise to 40.3 million in 2050. The total for 2010 is already close to – or above – the maximum population level that Saudi Arabia can count on providing with funds as the result of an economy that will be driven by petroleum and product exports indefinitely into the future. Sheer population growth is probably the most serious structural threat the Kingdom faces and could become an absolute crisis when Saudi Arabia begins to deal with a post-petroleum economy at some point several decades from now.

### ***Dealing with Terrorism and Violent Extremism: Legitimacy and the Fight Against Extremism***

Terrorism and violent extremism still present low-level challenges to Saudi stability. This challenge is scarcely new. It has gone on since the struggles between Ibn Saud and extremist factions in the tribal forces or Ikhwan that began in the 1920s, and it has taken on a new form since 1979. This is the year an uprising by a small, radical fundamentalist group that seized the Grand Mosque in Makkah led the government to accommodate religious conservatives at the cost of letting the education system and clergy become steadily more conservative.

This situation has been changed by a combination of the rise of Al Qaida following the first Gulf War, the shock of “9/11,” and the wave of internal attacks by Al Qaida in the Arabian Peninsula AQAP that began in 2003. King Abdullah and the Saudi government have responded with major efforts to reform or limit the more conservative and radical elements of the state-funded clergy. They are slowly reforming the education system – a pace of reform dictated largely by the need to win the support of the clergy and people, and they have focused on creating jobs to eliminate the attraction of extremism.

The Saudi government has also created one of the most effective mixes of internal security and counterterrorism forces in the developing world. It has restructured key elements of the regular armed forces and the National Guard, and vastly expanded the internal security forces under the Ministry of the Interior as well as their training and equipment. This does much to explain why these forces could drive Al Qa’ida in the Peninsula out of the Kingdom and force it into Yemen. It also helps explain why Department of Defense reporting, and the State Department annual reports on terrorism, now consistently praise Saudi progress and cooperation in dealing with Al Qaida and the broader threat of terrorism.

Moreover, the Saudi regime relies more on cooption than repression. The Kingdom does have a very different justice system. It is slow to modernize and both Saudi courts and internal security practices can be repressive and still have many problems. Yet, the annual State Department report on human rights is more favorable to Saudi Arabia than in its assessments of many other developing countries.

Saudi Arabia seeks to bring moderate reformers and dissidents into the system, rather than simply silencing or repressing them. It may hunt down Al Qa'ida activists, but it has one of them most outstanding programs to reeducate and reconcile young extremists in the Middle East. The Saudi government has also created a system for taking young men who have participated in AQAP or other extremist groups, reeducating them; working with their families, giving them jobs and helping them marry. This effort at reintegration builds on a long history of cooption rather than repression, and has become a model for efforts to limit the growth of extremism in other Arab states.

### ***The Limits to External Threats***

Saudi Arabia also faces external threats, in addition to the spillover impact of the wave of political unrest throughout the region. These threats are now comparatively minor because of the current politics in each country, Saudi military strength, and the combined ability of the US and Saudi forces to deal with any military threat to the Kingdom. Nevertheless, they include:

- **Iran:** The combination of nuclear, missile, conventional, and asymmetric threats from Iran, coupled to potential covert political action and efforts by the Al Quads force in Saudi Arabia, Bahrain, and Yemen.
- **Iraq:** Iraq's uncertain future and the potential threat of an Iraqi alignment with Iran, coupled to Iraqi support of Shiites in Bahrain and Saudi Arabia.
- **"Shi'ite Axis:"** Potentially hostile alignments of Iran, Iraq, Syria, and Shi'ite elements in Lebanon.
- **Kuwait:** Tensions within the royal family, between the royal family and assembly, Islamic and service politics in the National assembly and Sunni-Shiite tensions.
- **Bahrain:** Acute tensions and civil conflict between Bahrain's dominant Sunnis and large majority of Shi'ites. Coupled with Iranian interference this has already caused the deployment of Saudi and other GCC security forces to Bahrain. It will remain an ongoing security challenge to Saudi Arabia – as well as the US, which bases its 5<sup>th</sup> Fleet in Bahrain.
- **Jordan and Oman:** The impact of the current wave of political unrest and the risk a less friendly regime might emerge.
- **Qatar:** Continuing rivalry and tension between the royal families, Qatari support of Al Jazeera, and a nascent revival of border disputes between Saudi Arabia and Qatar/UAE.
- **Yemen:** The potential collapse of the current regime, overall governance, and the unity of what is becoming an overpopulated failed state on the Saudi border. Political turmoil could give AQAP a de facto sanctuary in Yemen, and force Saudi Arabia to both create far more sophisticated border defenses and barriers, and sharply restrict Yemeni labor in Saudi Arabia.

- **Somalia and the Red Sea:** The threat to Saudi lines of communication and petroleum shipping from piracy, political instability and civil conflict, and Islamist extremist movements.

In practice Saudi Arabia has already lived with these problems in some form for at least thirty years. Most are very unlikely to take on serious form. A combination of US and Saudi forces can deter and defend against Iran, and Saudi Arabia has plans that could effectively seal the Yemeni border. No one can dismiss the probability of flare-ups, and limited clashes and confrontations. A major conflict, however, seems unlikely and particularly one that would create any major risk or damage to Saudi Arabia.

The US has already offered Saudi Arabia and all of the friendly Gulf states what Secretary Clinton has called “extended regional deterrence.” It will make advanced missile defense like SM-3 and THAAD available, if required, and already has arrangements to provide satellite warning of missile launches and attacks. The air operations center that Saudi Arabia and the US set up during the first Gulf War is still operated by Saudi forces and allows the Kingdom to conduct integrated air operations with the US center in Qatar.

The US has strong military advisory missions that help both the regular Saudi armed forces and the Saudi Arabian National Guard, and a new – less visible – assistance effort to help Saudi Arabia with counterterrorism and internal security. Regular US and Saudi air and naval exercise, along with other forces of the Gulf Cooperation Council states, create a further capability for deterrence and defense against Iran, any threat from Yemen, and major terrorist attacks.

The Saudi strategic partnership with the US has also been remarkably consistent in spite of occasional political and diplomatic tensions. Examples of key US-made systems in Saudi forces include:

- 315 M1A2 and 450 M-60A3 main battle tanks. 400 M-2 Bradley AIFVs. 3,000 M-113/A1/A2/A3 APCs. 110 M-109A1/A2 self-propelled howitzers. TOW anti-tank guided weapons.
- AH-64A and AH-64D attack helicopters. UH-60 utility helicopters. Stinger man-portable surface-to-air missiles. 4 US Badr-class missile frigates.
- Harpoon antiship missiles. 4 Addriyah class minesweepers. 70 F-15S, 66 F-15C, and 18 F-15D fighters and strike fighters. 5 E-3A AWACS 8 KC-130H and 7 KE-3A tankers. 38 C-130 transports. Patriot surface-to-air/anti-missile battalions with 160 PAC-2 systems. IHawk surface-to-air battalions with 128 Hawk MIM-23B systems.

These US systems form the backbone of Saudi capabilities for armored and air warfare, and are supported by a large array of US-made advanced missiles and precision guided weapons, support systems, sensor and early warning systems, and C4I/battle management systems. They have already done much to improve Saudi capabilities, and Saudi interoperability with US forces.

They are part of a broader pattern of such arms transfers that not only build up Saudi capabilities but also those of other Gulf Cooperation Council (GCC) states. They are steadily improving their capability to deter and defend against Iran in all forms of intimidation and warfare, as well as give Saudi Arabia and other local forces the capability to deal with any terrorist or low-level threats like the tribal attacks from Yemen into Saudi Arabia last year.

The US announced a major new set of arms sales to reinforce this partnership and recent Saudi reporting indicate that Saudi Arabia intends to further expand such efforts. Not all of the programs currently being discussed have been formally announced,, but they seem to include:

- 84 new Boeing F-15 combat aircraft, virtually ensuring Saudi air superiority over Iran for the next decade, as well as a far higher level of interoperability with US air forces. The radar equipment on these aircraft is yet to be announced, but it may give the Saudi Air Force far more capability to deal with the kind of small, dispersed target sets that match Iran's development of dispersed elements of Iran's Islamic Revolutionary Guards Corps and the threats posed by its focus on asymmetric warfare. Refurbishing and upgrading 70 existing Saudi F-15S strike aircraft that will help achieve the same objectives.
- -New air munitions, including air to surface missiles with the same precision and ability to fire from outside the range of Iranian air defenses as those used by the US Air Force.
- Up to 60 AH-64D Longbow Apache attack helicopters, and upgrades to 12 existing AH-64As that can be used to deal with threats in areas like the Yemeni border, defend coastal and offshore targets, and counter internal threats from any major terrorist attack.
- 72 UH-60 helicopters, in addition to the 22 UH-60s now in Saudi forces, greatly enhancing Saudi air mobility and capability to react to any major threat in the Gulf or on its borders.
- 36 "Little Bird" MH-6/AH-6 helicopters, giving Special Forces added mobility and firepower for counterterrorism and counterinfiltration missions.
- Upgrades to Saudi Arabia's Patriot PAC 2 missile forces that will improve both air defense against any Iranian air threat and begin to give Saudi Arabia meaningful missile defense capability against a growing Iranian missile threat.
- A mix of new patrol ships like the Littoral Combat Ship and other naval weapons that will help defend Saudi coastal waters and offshore facilities, and deal with the major emerging threat from the naval branch of Iran's Islamic Revolutionary Guards.

It is far more likely that Saudi Arabia will face a much less demanding mix of threats that include some combination of events which will create enough political turmoil in various Arab states to present a constant diplomatic challenge for Saudi Arabia, create new problems for the Arab-Israel peace process, and strengthen Al Qaida and other extremist elements outside Saudi Arabia. These developments, however, are also likely to pose only a limited challenge to the entire region and the United States.

### ***The Bottom Line: Future Saudi Stability***

The MENA region has begun a process of political change and turmoil that will take years to play out, and which could destabilize some countries for a decade or more as a worst case. There is a tangible risk that Saudi Arabia will be affected in the short term, and it will take continued leadership and vision for Saudi Arabia to deal with its longer-term internal challenges, but a small, highly vocal minority does not speak for a nation.

At the same time, there are reasons to believe that Saudi Arabia will remain stable and continue on the path to peaceful reform and change. No country in the MENA region has done more to invest in government services, education and jobs for youth, and broadly based economic development. The monarchy is reforming, putting more emphasis on performance, improving the ruler of law, and reducing corruption.

In broad terms, Saudi governance is effective enough so that the end result of the current turmoil in other states is unlikely to present a major threat to Saudi stability, and the prompt action the Saudi government has taken to deal with the material needs of its people indicate such pressures may well end in aiding Saudi reform efforts rather than threatening the regime. Saudi Arabia also has demonstrated over decades that its leadership can adjust to change and meet popular demands, and it has a strong core within its royal family, technocrats, and business community.

Saudi Arabia will face problems in implementing some of its more ambitious plans to create jobs through industrial cities and a high rate of growth and development, but it can compensate through government stimulus of the private sector, and by reducing dependence on Saudi foreign labor which now amounts to 5.6 million by CIA estimates in comparison with a total labor force of 7.3 million (The CIA estimates that about 80% of the labor force is non-national (2010 est.)

Saudi Arabia's new programs to help ensure internal stability will have a major near-term impact on the Saudi budget, but it is important to note that they will also support many of the programs in the ninth Saudi Five Year Plan that was announced before the crisis in the region began. This will be at least the fourth five year plan that addresses these issues, and most of this spending will aid the momentum of development and reform rather than divert resources away from the Kingdom's needs.

Current estimates all indicate that their cost will be spread out over a period years. Saudi Arabia's near term ability to maintain and expand oil production is not questioned in any recent DOE or US intelligence analysis. If oil prices average at or above the \$70-\$80 a barrel that Saudi Arabia describes as the "fair price" of oil, it seems likely that demand for Saudi exports and oil prices will still allow Saudi Arabia to have budget surpluses.

<http://www.eia.gov/errormsg.html?v=http://www.eia.gov:80/emeu/cabs/SaudiArabia/Background.html>

As for internal security threats, Saudi Arabia has improved its counterterrorism capabilities to the point where it has forced Al Qaida in the Peninsula to move its operations to Yemen, while avoiding the trap of relying on repression rather than cooption and reintegration. ARAMCO and SABIC are some of the most efficient petroleum industries in the MENA region, and a combination of cycles of high petroleum revenues and countercyclical government economic policies have given the Kingdom the resources to invest in both stability and development.

Moreover, outside threats – while real – are threats that can be deterred or defended against. In spite of some tensions, Saudi Arabia and the US are cooperating in creating far more effective forces to deal with Iran, Al Qaida, and risks like instability in Yemen. The Gulf will not be a stable region for the foreseeable future, but it remains a vital American national security interest, and this means the US has even more motive to cooperate with Saudi Arabia in maintaining a mixture of military and national security capabilities that will protect the Kingdom against external threats.

The US has already recognized this by sending its Secretary of Defense and National Security Advisor to Saudi Arabia in an effort to deal with tensions over the fall of President Mubarak and differences in approaches to the other crises in the region. These same visits, however, address common interests in dealing with Iran, with instability in Yemen, with the crisis in Bahrain, and with the impact of the US withdrawal from Iraq, and the need to strengthen Saudi and other Southern Gulf forces. Saudi Arabia and the US scarcely have the same culture and political system, but recent events have made it even clearer that they share critical strategic interests and the need to reinforce a longstanding strategic partnership.

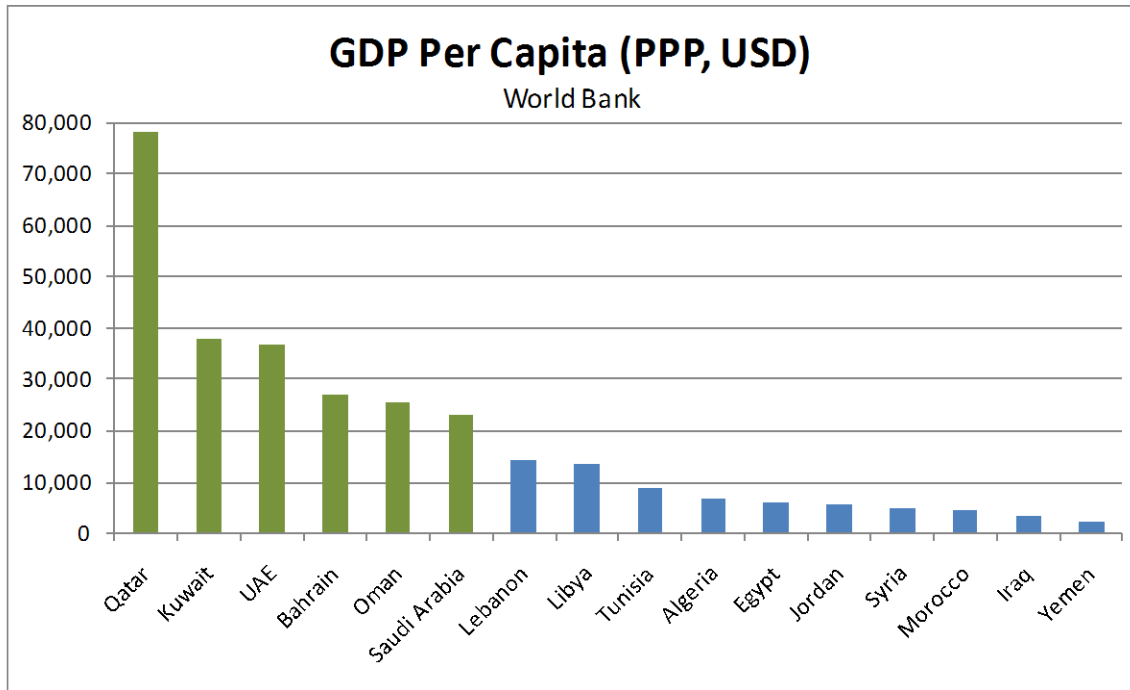
As for the overall impact of current events on the Saudi economy, the end result may be that this is a major window of opportunity for Saudi and outside investors, rather than a time of added risk. Saudi Arab is going to be very sensitive as to what firms do and do not maintain their investment plans and take advantage of opportunities over the next few years. So are the Saudi people, and this will be particularly true of investments in areas that have a Saudi partner, particularly ones that have won the kind of popular confidence and trust that Aramco has.

It is clear that King Abdullah will continue to support foreign investments of the kind that create jobs and ease the Kingdom's investment burdens, and that any successor is likely to do the same. Royal politics are extraordinarily unlikely to present problems for sound investments, and the same is true of the Saudi educated, technocratic and business elite. Moreover, Saudi religious politics have never opposed such investments – even among extreme clerics.



Finally, the risk in such investments will be further reduced by the fact that the US cannot afford not to maintain its security presence in the Gulf, current USCENTCOM plans call for US efforts to greatly strengthen Saudi military capabilities through arms sales, and that these efforts have not faced any serious opposition in the Congress or by outside lobbying efforts. This leaves terrorism as the only clear immediate risk, and Saudi security forces are considerably more effective than those of virtually all other Gulf and MENA Arab states.

**Saudi Oil Wealth is Relative: Comparative Per Capita Oil Wealth**

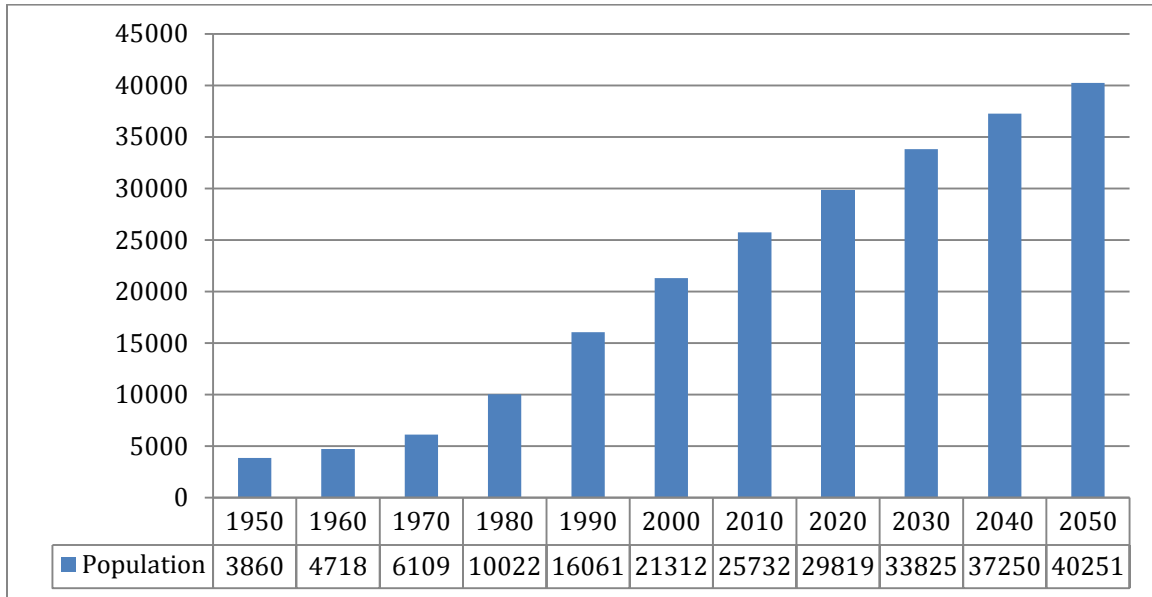


**Petroleum Export Income per Capita**

| Country      | Nominal (\$) |         |         |              | Real (2005\$) |         |         |              |
|--------------|--------------|---------|---------|--------------|---------------|---------|---------|--------------|
|              | 2009         | 2010    | 2011    | Jan-Nov 2010 | 2009          | 2010    | 2011    | Jan-Nov 2010 |
| Algeria      | \$1,243      | --      | --      | \$1,449      | \$1,110       | --      | --      | \$1,276      |
| Angola       | \$3,291      | --      | --      | \$3,825      | \$2,940       | --      | --      | \$3,369      |
| Ecuador      | \$411        | --      | --      | \$446        | \$367         | --      | --      | \$392        |
| Iran         | \$804        | --      | --      | \$959        | \$719         | --      | --      | \$845        |
| Iraq         | \$1,305      | --      | --      | \$1,458      | \$1,166       | --      | --      | \$1,284      |
| Kuwait       | \$16,683     | --      | --      | \$18,795     | \$14,907      | --      | --      | \$16,552     |
| Libya        | \$5,418      | --      | --      | \$6,124      | \$4,841       | --      | --      | \$5,393      |
| Nigeria      | \$326        | --      | --      | \$415        | \$291         | --      | --      | \$365        |
| Qatar        | \$25,204     | --      | --      | \$34,110     | \$22,515      | --      | --      | \$30,034     |
| Saudi Arabia | \$5,339      | --      | --      | \$6,298      | \$4,770       | --      | --      | \$5,546      |
| UAE          | \$10,955     | --      | --      | \$12,191     | \$9,788       | --      | --      | \$10,736     |
| Venezuela    | \$1,238      | --      | --      | \$1,358      | \$1,106       | --      | --      | \$1,196      |
| OPEC         | \$1,547      | \$1,998 | \$2,214 | \$1,814      | \$1,382       | \$1,758 | \$1,912 | \$1,598      |

Source: National Bank of Kuwait, Economic Research and US Department of Energy, Energy Information Agency, December 2010.

**Demographic Stress: Saudi Population Trends: 1950-2020  
(In Thousands)**



Source: International Census Bureau,  
<http://www.census.gov/ipc/www/idb/informationGateway.php>

### The Saudi "Youth Bulge:" Comparative Population Pyramids: 1992-2010

