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Military Spending: The Other Side of Saudi Security

By Anthony H. Cordesman

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Please provide comments to acordesman@gmail.com

Military Spending: The Other Side of Saudi Security

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The shifts in Saudi Arabia's power structure that have taken place since King Salman came to power in January 2015 have created a new set of Saudi priorities for shaping Saudi Arabia's future. These new priorities have led to major changes in Saudi Arabia's national security structure and leadership, and to calls for major social and economic reform. They have changed the leadership of the Saudi Ministry of Interior, National Guard, and Foreign Ministry. These new priorities have led to participation in a major war in Yemen, efforts to isolate Qatar that have broken up an already weak and divided Gulf Cooperation Council (GCC), and deeper tensions with Iran over its military build-up and efforts to expand its regional influence.

Most of the earlier changes at top levels of the Saudi government and security structure were motivated by new King's desire to consolidate power at the top of the government and royal family. In the process they have made Mohammed bin Salman bin Nayif bin Abd al-Aziz Al Saud (normally referred to as Mohammed bin Salman or "MBS") the Crown Prince, First Deputy Prime Minister, Minister of Defense, and President of the Council for Economic and Development Affairs – combining the responsibilities for Saudi Arabia's security, civil sector, and economic development to one man.

The more recent changes to the Saudi national security sector and military command made in February 2018 are harder to interpret. There is no way—as of yet—to put the changes in the Saudi national security sector and military command structure into perspective. One can speculate that these changes were either a further effort to assert control by a new regime, or part of a serious effort by the Crown Prince to improve Saudi military planning, budgeting & fiscal management, and military operations.

Mohammed bin Salman may have been reacting to the lack of progress in the war in Yemen, Saudi tensions with Qatar, and MBS's feelings that too much of the Kingdom's security spending has been wasteful, poorly planned, and involved some element of corruption. Speculation aside, there are no credible reports that provide a reliable "inside" picture of what is happening.

What is clear, however, is that the Kingdom has been spending far too large a portion of its economy on security priorities that have yielded uncertain results. This spending on security is large enough to compete with Saudi Arabia's ability to fund its 2030 plan to reform and modernize its economy and social structure. Saudi Arabia must better balance its civil and national security spending by reducing its security spending and using its resources far more effectively.

Saudi Arabia Does Face Major Security Issues

Saudi Arabia does face real threats and must deal with real security challenges. The Kingdom may sometimes overreact to the Iranian threat and extremist challenges, but both sets of threats are present, and affects all the other Gulf states as well as of the United States. Moreover, Saudi Arabia now faces a much broader range of security threats—many of which also affect key Saudi allies like the UAE, as well as the United States:

- *An extremist threat beyond ISIS.* Since 2003, Saudi Arabia has experienced a series of attacks, largely from elements of Al Qaida, and particularly from AQAP (Al Qaida in the Arabian Peninsula). Saudi Arabia has steadily improved its counterterrorism forces and internal security, and pushed AQAP's leadership out of Saudi Arabia and into Yemen. The extremist threat, however, continues and the threat of new attacks is likely to continue indefinitely— given the strains imposed by population growth, social instability, a national

history of religious extremism, and the broad outreach of Islamist extremist groups in the region. Saudi Arabia also cannot fully protect itself from attacks from groups in neighboring states.

- *Domestic Instability due to sectarian tension between Sunni and Shi'ite.* Quite aside from the threat from Iran and its exploitation Shi'ite populations outside the Kingdom, Saudi Arabia has long faced problems in dealing with its Shi'ite minority—in part because of discrimination against it. This inevitably links to the more serious Shi'ite vs. Sunni tensions and violence in other states --particularly Bahrain, Iraq, and Yemen.
- *A Houthi threat—tied to other internal forces and linked to Iran— in Yemen.* Saudi Arabia and the UAE are fighting the Houthi in a deeply divided Yemen, with AQAP and other violent elements. This threat originated in border conflicts that began in 2009. The threat became a serious conflict when the Houthi—then allied with Yemen's deposed President Saleh— pushed the recognized government of Yemen out of the capital and then out of the country in March 2015. The conflict has since developed into a major civil war and has been a stalemate for several years despite a major Saudi and UAE air campaign and ground effort in support of the deposed President—one that has nearly destroyed the country's economy and affected millions of civilians. Iran has had increasing influence on the conflict, and shipped land-attack ballistic missile systems to the Houthi's, who are now using the missile systems to attack Saudi Arabia. Saudi Arabia and the UAE have not reported the war's cost, but it has been well over \$10 billion, and possibly well over \$25 billion.
- *Iran's efforts to acquire nuclear weapons.* Iran has stated it has chemical weapons, although it has not reported its holdings as part of the CWC. Iran renewed the nuclear weapons program started under the Shah in the late 1980s as a result of the Iran-Iraq War, and probably would have been ready to test a fission nuclear weapon in 2018-2019 if it had not signed a nuclear arms agreement called the JCPOA on July 14, 2015 that went into effect on October 15th. The implementation of this agreement seems to have halted Iran's near-term efforts to acquire fissile materials and nuclear weapons, but Iran remains at, or near, the nuclear break out stage. The U.S. has hinted at possible nuclear guarantees, but Saudi Arabia has no nuclear reactors as of yet and no near-term options for matching Iran's technological progress.
- *Iran's ballistic and cruise missile forces.* Iran is building up a major force of ballistic and cruise missiles, and armed drones. Almost all currently of these systems lack the accuracy and/or lethality to do major damage to major military and infrastructure targets, but Iran is actively seeking to give its ballistic missiles the level of accuracy and reliability that would give them such capability. If successful, Iran will have created "weapons of mass effectiveness" even if they lack the nuclear warheads to make them "weapons of mass destruction." It is unclear much progress Iran has made in cruise missile and UCAV design and the lethality of such systems in carrying out very precise strikes. Such systems are also capable of effective line source delivery of chemical and biological weapons. Iran has a wide range of systems under development or being improved. The IISS *Military Balance* for 2018 credits Iran's IRGC with deployed long-range systems, including 22+ conventional MRBMs: 12+ *Shahab-3/Ghadr-1*(mobile); 10 *Shahab-3/Ghadr-1* (silo); and some *Sajjil-2* (developmental), plus 18+ conventional SRBMs: *Fateh 110*; 12–18, *Shahab-1/2* (€200–300 missiles); plus, some *Zelzal*. It also credits Iran with 129 Shahed high endurance Unmanned Combat Aerial Vehicles (UCAVs).
- *Iran's naval-missile-air threat to Gulf and Indian Ocean shipping.* Iran has also built up a major force of asymmetric threats to shipping and naval forces in the Gulf and Indian Ocean. These include: land, sea, and air based anti-ship missiles like the HY-2, C-704, C-801K, and C-802, 78 guided missiles and 108 other patrol boats, high speed suicide and unmanned ships with explosive payloads, smart and other mines, 3-4 kilo-class submarines, 20+coastal submarines and submersibles, marines and naval special forces, and a variety of other systems. While sometimes being described as designed to close the Gulf, they are capable of quick dispersal throughout the Gulf, at the Straits, in the Gulf of Oman, and the Indian Ocean. Iran may be seeking basing in Yemen and the Red Sea area.
- *Iran's expanding influence in the region.* Iran's growing influence includes ties to the Hezbollah in Lebanon; Palestinian elements in Gaza; the Assad regime in Syria; the central government and a wide range of paramilitary and hostile political elements in Iraq; some elements of the Hazara and warlords/political power brokers in Afghanistan; extremist elements in Bahrain; the Houthi in Yemen; and other elements hostile to Saudi Arabia that Iran may be able to use against it.
- *The broader instability of the Arab world and Middle East.* As Arab Development Reports have pointed out since 2002, the Arab world and most of the Middle East face massive demographic, economy development,

governance, water and environmental, and other challenges. Apart from Israel, no country in the region has moved towards balanced economic development, and most of the larger petrostates are experiencing declined real petroleum income per capita. No state affected by the political upheaval that began in 2011 has— as of yet— implemented major reforms. Most states have seen a sharp deterioration in their stability and development.

- *The broader impact of the political uprisings in 2011, Sunni-Shi'ite tensions, and various forms of political action and extremism.* Saudi political legitimacy and security is still heavily dependent on the extent to which Saudi Arabia is perceived as the guardian and custodian of Islam's holy places. ISIS and Al Qaida are only part of the challenge to this legitimacy. Saudi Arabia has not yet shown that it can deal effectively with political Islamic challenges like the Muslim brotherhood, or the rising level of Sunni and Shi'ite tensions that have had a major impact in Bahrain, Iran, Yemen, and Saudi Arabia's own Shiite minority. These divisions increase Iran's ability to exploit Saudi Arabia politically and in a security sense.
- *The uncertain situation in Iraq:* Largely because of the U.S. invasion of Iraq, and the way in which "de-Ba'athification" was implemented, Iraq has gone through 15 years of instability, a civil war, and a major invasion by ISIS. Saudi Arabia has never fully committed itself to trying to win influence in Iraq, to help balance the tensions and conflicts between Sunni and Shi'ite, or counter Iran's influence. Saudi Arabia faces an unstable and potentially divided or hostile state on its border. The Kingdom also faces a potentially hostile state in Iraq, where Iran's influence over its Shiites and Shiite militias may make Iran the dominant influence in Iraq.
- *A divided and Assad/Russian dominated Syria.* Neither Saudi Arab nor the U.S. responded effectively in Syria during the time Assad might have been driven from power by moderate elements. The break-up of the ISIS caliphate now seems unlikely to end the extremist threat in the region. A likely result of the current situation will see Syria largely dominated by an Assad regime (dependent on Iran, Russia, and Hezbollah) along with a possible Kurdish enclave in the east—hostile to both Turkey, and much of the Arab world. Saudi Arabia does not have a Kurdish minority but will have to deal with the complex spillover of Kurdish movements in Syria, Iraq, Iraq, and Turkey.
- *An unstable Lebanon with a hostile Hezbollah and Iranian influence.* Saudi Arabia has not been able to choose a stable approach to limit Hezbollah and Iranian influence in Lebanon or work with the Lebanese government and armed forces.
- *The lingering problem of a failed Arab-Israel peace process.* The Kingdom can probably ignore the failure of the Arab-Israel peace process for the time being, but it remains a specter that can still lead to a major political crisis or some form of conflict, that affects U.S. and Saudi relations and arms transfer, and poses a challenge to the Arab world.
- *Weaker allies: Egypt and Jordan, and a lack of other meaningful and effective Arab alliances.* Egypt has emerged from its political upheavals with a weak and security-oriented authoritarian regime, is focused on its own internal threats, and is unable to maintain its historical leadership role in the Arab world. Jordan is caught up in serious internal political and economic tensions, triggered in part by the spillover of security problems in Iraq and Syria. Saudi Arabia has tried to build new, broader security alliances since 2016 that can deal with challenges like extremism/terrorism and Iran, but they remain formative and weak. *The Saudi share of congenital Arab self-destructiveness and the failure of the Gulf Cooperation Council.* Saudi Arabia has made a number of constructive efforts to develop meaningful Arab alliances and counterterrorism over the years—including a number of new efforts in 2017. The fact remains, however, that Saudi Arabia has never consistently sought to make even the Gulf Cooperation Council an effective alliance. Saudi Arabia has made a series of decisions over the years that have effectively ended near-term prospects for improving the GCC. These decisions include: feuding at low levels with Oman and Qatar for years, failing to reach-out effectively to a post-Saddam Iraq, and most recently, joining the UAE and Bahrain in 2017 to boycott and isolate Qatar from the rest of the GCC state. These problems are compounded by several factors, including: Egypt's internal divisions and weakness; the lack of other stable—and strong—Arab states; the lack of integrated security planning and force planning between Saudi Arabia and the United States; and the mistakes made by the US since invading Iraq in 2003.
- *New tensions with Turkey.* Saudi Arabia increasingly sees Turkey's ties to Assad, Russia, Iran, Qatar, and the Muslim Brotherhood as aligning it with the broad threat posed by Iran. It is unclear whether MSB referred

publicly during a visit to London in early March 2018 to a “triangle of evil” in the Middle East made up of Iran, Islamist extremist groups, and Turkey. This rhetoric seemed to echo the phrase “axis of evil” used by the George W. Bush administration. The media in both Saudi Arabia and Turkey has, however, become steadily more hostile, and Saudi Arabia does clearly see Turkey as too closely aligned to leaders and states it sees as hostile,

- *The uncertain security policies of the United States, and declining power projection capabilities of France and the United Kingdom.* Saudi Arabia is effectively dependent on the United States and USCENTCOM as its key security partner in dealing with the Iran, and benefits from the remaining power projection capabilities of European powers like the United Kingdom and France. The level of U.S. commitment to Gulf security has, however, been uncertain, and the rise in domestic U.S. petroleum production raises questions about the future. The U.S. has made serious mistakes in dealing with the security situations in Syria and Iraq. Saudi Arabia and the U.S. have differences over key aspects of the effort to contain Iran like the JCPOA, and Saudi Arabia and the U.S.—along with the other Arab Gulf states, the United Kingdom, and France—have failed to develop effective force plans to improve cooperation. in providing for regional security

Meeting this mix of threats would pose massive problems even if Saudi Arabia did not have an equal or higher priority for civil development and reform. Saudi Arabia has had to respond to security needs, and has made major progress in creating both modern military forces and more effective counterterrorism and internal security forces. There have also been recent improvements in military and security relations with the U.S., and more effective efforts to deal with terrorism and extremism.

These are important efforts, but they also leave open-ended long-term security problems. There are no near-term prospects for solving the problems both the U.S. and Saudi Arabia face in dealing with Iran and Syria, creating a stable Iraq, ending the war in Yemen, uniting the Gulf Cooperation Council states, integrating Iraq and Jordan into an effective alliance, or eliminating extremist and terrorist threats. It is also unclear that replacing the top leadership of the Ministry of Interior, Saudi intelligence and related elements of the Royal Court, and National Guard have maintained the quality of Saudi leadership in the security sector—much less improved it.

At the same time, far too many major Saudi security decisions and investments over a period of decades have not been part of any coherent force improvement plan. Saudi security investments have been made with limited regard to cost-effectiveness as well as the budgetary trade-offs necessary to improve civil spending. Saudi arms purchases are an area of particular interest as these transactions are often political, overpriced, and focused on buying the most advanced system regardless of actual need,

Saudi Arabia has long continued to fund two sets of ground forces without a clear current rationale for funding both a 75,000 man Army and 100,000 man National Guard—as well as some 24,500 other paramilitary forces. It has focused on airpower at the expense of sea power and other security needs, and has bought systems, like its Chinese ballistic missiles, more as political gestures than a response to real world military needs. Its lack of transparency in arms imports and offset programs has also sometimes led to substantial corruption, and its efforts at supporting covert operations and non-state actors in countries like Syria have been ineffective and often serious failures.

The war in Yemen has become a particularly expensive stalemate, compounded by a growing number of additional political and security divisions in Yemen, growing Iranian influence, and missile attacks on the Kingdom. The Saudi/UAE effort to pressure Yemen has been a dismal fiasco that has further weakened and already weak and half-formed Gulf Cooperation Council. So far, it is Iran whose influence is increasing in Syria and Iraq, and the situation in other problem areas like Bahrain is not improving.

But, Saudi Arabia Must Also Increase Domestic Spending and Fund Major Economic Reform

At the same time, King Salman and Mohammed bin Salman has made it clear that Saudi Arabia has a critical priority for increased domestic spending on every domestic aspect of governance, and to fund economic and social reform. While Saudi Arabia is anything but poor, it is now a highly populated state by its past standards and faces at least a decade in which a massive youth bulge will create new demands for jobs, education, and services. Saudi Arabia's 2030 plans have clearly acknowledged that its oil wealth has serious limits in meeting these needs, and that Saudi Arabia faces major challenges in funding both its security efforts and its need for reform and improved development plans.

As Saudi Arabia's 2030 development plans— and other Arab Development Plans since 2002— point out, the Kingdom faces a wide range of social, political, governance, and economic challenges that will require a massive level of government direction and investment to correct. Saudi Arabia has serious problems in diversifying its economy, expanding its private sector, and reducing its over-dependence on the petroleum sector.

Saudi Arabia must deal with a range of issues. These issues include: an over-dependence on its petroleum sector, the threat of ideological extremism and terrorism, sectarian differences between its Sunni majority and Shiite minority, the need for social change at every level, modernizing education and making it more functional, the need to sharply reduce dependence on the state sector and create a far larger modern private sector, and the need for major reductions in corruption and crony capitalism.

Most important, Saudi Arabia is under acute demographic pressure. This is especially true if one considers disguised unemployment and work jobs that are not needed and provide no net increase in productivity. The U.S. Census Bureau estimates that its population was only 3.86 million in 1950, but rose to 4.178 million in 1960, 6.109 million in 1970, 10.222 million in 1980, 16,061 million in 1990, 21.322 million in 2000, 25,732 million in 2010, and 28,160 million in 2016. (The CIA estimates 28.6 million in 2017). The Census Bureau does estimate a declining future birth rate, but still estimates that the population will rise to 31.877 million in 2025 and 40.251 million in 2050.

The Kingdom's most critical challenge—and priority for maintaining and improving its internal security—is to properly educate, employ, and support the steady flow of young men and women that will form a "youth bulge" for at least the next decade. Well over 500,000 young Saudi men and women already reach the age where they should enter the labor force each year, and the Arab Development report for 2016 only includes some of these youth in estimating that Saudi Arabia now had over 30 percent youth unemployment. In addressing the issue of youth unemployment, Saudi Arabia must make major reductions in foreign labor and its impact on Saudi payments abroad.

Here it is critical that Saudi Arabia and all its strategic partners like the United States recognize that civil stability is Saudi Arabia's most important single security priority. All of these civil challenges interact and collectively threaten Saudi Arabia's stability and internal security. Former King Abdullah was one of the few Arab leaders to recognize this reality after the political upheavals began in the Middle East in 2011, and funded a massive multi-billion-dollar effort to create jobs. These programs and payments help, but as the analyses that have led to the 2039 plan make clear, far more must be done and far more must be spent to address these problems.

Defense and Security Spending Cost Saudi Arabia Well over 10 Percent of its GDP: Far More than the U.S. and European States Spend

Saudi Arabia can only address these challenges to civil stability if brings its security spending under control, and creates a better balance between spending on security and its civil sector. To put this issue in the proper perspective, it is necessary to consider just how much of a burden Saudi security spending puts on its economy as well as on its government budget.

The International Institute for Strategic Studies (IISS) produces directly comparable national estimates that include both military and other security spending. The IISS estimates that Saudi Arabia spent 12.51 percent of its GDP in 2015, 12.61 percent in 2016, and 11.30 percent in 2017. *This is an extraordinary level of effort for a country with some many other pressing domestic need and that is seeking to transform itself by 2030.*

In contrast, the IISS estimates that Russia now spends some \$61.2 billion a year, and that while Saudi Arabia spends 1.25 times more than Russia at \$76.7 billion. As for other leading military spenders, Britain spends \$50.7 billion, France sends 48.6 billion, Germany \$41.7 billion, and Italy spends \$22.9 billion -- all far less than Saudi Arabia.

The Real-World Limits to “Oil Wealth”

Wealth is always relative, and it must always be defined relative to the its ability to meet the needs of a population and how well it is distributed and spent. Saudi Arabia is a comparatively wealthy state by the standards of the developing world, but it is also extremely dependent on petroleum and produce exports, and its relative wealth is already limited by its high population growth.

The *CIA World Factbook* estimates that the Saudi GDP was \$1,798 trillion in purchasing power parity terms in 2017, and \$1,787 trillion in 2016 -- measured in 2017 dollars-- ranking 16th highest in the world. It was only \$678.5 billion at the official exchange rate, however, which is a more valid measure of the size of its modern economy. Its per capita income was \$55,300 in 2017, in 2017 U.S. dollars. Again, a relatively high figure ranking 21st in the world, but one where Saudi Arabia can only meet these challenges if brings its security spending under control, and creates a better balance between spending on security and its civil sector.

As the analyses that helped shaped the Saudi 2030 reform plan show, Saudi Arabia’s GDP is poorly distributed in ways that leave a large under class, ignore dependence on foreign labor and the lack of jobs and earning power for Saudi women, the scale of state overspending and waste, and the impact of corruption, cronyism, and privilege.

The number still, however, impose serious limits on what Saudi Arabia can spend on defense and security without hurting its civil economy and ability to carry out anything like the 2030 reform plan.

The *CIA World Factbook* estimates that the Saudi petroleum sector accounts for roughly 87 percent of budget revenues, 42 percent of the GDP, and 90 percent of export earnings. Given the fact that this sector is the main source of Saudi wealth, unless its 2030 plan is fully effective, it is clear that Saudi economic reform is critical. Moreover, the volatility of this income is illustrated by the impact of the major drop in oil prices in 2014.

The OPEC *Annual Statistical Bulletin for 2017* still reports relatively high figures for *total* oil export revenues, but also reports a massive annual drop in 2013-2015. It estimates that estimates that Saudi oil revenues—measures in current dollars—dropped from \$337.5 billion in 2012 and \$321.9 billion in 2013, to \$284.6 billion in 2014 and lows of \$152.9 billion in 2015, and \$134.4 billion in 2016.

The U.S. government Energy Information Administration (EIA) *OPEC Revenues Fact Sheet* for May 2017 estimates that Saudi net oil export revenues—the key source of Saudi wealth— were only \$133 billion in 2016, and \$4,132 in nominal per capita terms. It also estimates that Saudi oil revenues suddenly dropped from \$12.5 billion in 2012, \$11.9 billion in 2013, and \$10.8 billion in 2014 to lows of \$5.15 billion in 2015, and \$4.1 billion in 2016—measured in constant 2016 US dollars.

It is scarcely surprising that Saudi Arabia incurred a budget deficit estimated at 8.3 percent of its GDP in 2017, which had to be financed by bond sales and drawing down reserves. This deficit occurred long before the major costs of implementing the 2030 reform plan could impact on the Saudi budget, and highlights the need to carefully control Saudi security spending.

Saudi Defense Places a Massive Burden on Its Budget

Substantial Saudi military and security spending has been prioritized over the welfare of the economy and the effort to meet the Kingdom's rising civil needs.

Despite some strange comments by President Obama criticizing Saudi Arabia and the other Gulf states for not doing their share as strategic partners during his administration, countries like Saudi Arabia, Bahrain, Iraq, Kuwait, Oman, the UAE—and recently Qatar— have spent far more of their economies on defense than any major U.S. European ally. Saudi Arabia and a number of other Arab strategic partners in the Gulf have also made massive arms purchases, many from the U.S.

The IISS estimates that the U.S only spent a comparable 3.25 percent of its GDP on military forces and security in 2015, 3.19 percent in 2016, and 3.11 percent in 2017, using directly comparable definitions of defense spending and GDP. Russia only spent 3.82% of its GDP in 2015, 3.47 percent in 2016, and 3.10 percent in 2017. Europe averaged only 1.37 percent of its GDP in 2015, 1.33 percent in 2016, and 1.34 percent in 2017. Germany consistently spent less than 1.10 percent. The United Kingdom was the only major European power to meet NATO's 2 percent of GDP goal during this period and it failed to do so in 2017: It spent 2.03 percent of its GDP in 2015, 2.00 percent in 2016, and 1.98 percent in 2017.

From this perspective, the challenges that Saudi Arabia (and the King and Mohammed bin Salman) faces in the military and security sector go far beyond the issue of better planning, command efforts, and management of resources. Saudi Arabia is spending so much on its military forces and security that efforts to improve security threaten its domestic stability and security more than it improves it. Similarly, U.S. and other efforts to get Saudi Arabia to spend even more on security make things worse.

The exact level of Saudi security spending is difficult to determine and the Saudi budget is less than transparent on the subject. Reports by Jane's and Bloomberg, however, indicate that Saudi Arabia will set a new budget record in 2018 of some \$261 billion versus \$250 billion in 2017.

Saudi Arabia still projects relatively low petroleum export earnings compared to peak years, and it plans for a 2018 deficit of 195 billion riyals (\$52 billion), or 7.3 percent of gross domestic product. This compares with 230 billion riyal deficit in 2017—some 8.9 percent of GDP. (The planned deficit was 198 billion riyals.) Saudi Arabia is also hoping for more non-petroleum sector growth -- although its goal of a 3.7 percent seems unrealistic, given the fact it only grew by 1.5 percent in 2017.

IHS Jane's reports that the Saudi Ministry of Finance reports that that 210.0 billion Saudi riyals (\$56.0 billion US) will be spent on security, a 10 percent increase over 2017. There are few details, but 10.2 billion riyals would go to “new development programs and projects;” 26.5 billion riyals would go to enhancing military capabilities and readiness, including supporting the defense industry. and 3.5 billion riyals to military education.

To put this spending in perspective, Jane's estimates that actual defense spending in 2017 is expected to reach 224 billion riyals, a 17.4 percent increase over the SAR190.9 billion approved in the initial 2017 budget. Accordingly, while the 2018 budget is a 10.2percent increase over the approved 2017 budget for 2017, it is 6.7 percent lower than expected real spending.

Given the stalemate in—and probable current and future cost of—the war in Yemen, this means that spending of at least 225 billion riyals (\$60 billion US is more likely) reduction compared to expected levels of expenditure for 2017. Even 210 billion riyals (\$56 billion) for military spending, however, is larger than the 192 billion riyals allocated to education and far larger than the 147 billion riyals the kingdom intends to spend on health and social development.

Security Spending Adds to the Burden

Military spending is also only part of the total level of security spending. The Saudi budget statement for 2018 notes that there are two major sectors for Saudi military and security spending:

Security and Regional Administration Sector:

SAR 101 billion is allocated for Security and Regional Administration. The sector's budget includes allocations for new projects and the expansion of ongoing ones, with a total cost of SAR 12.6 billion. The funding aims to provide security requirements incorporating facilities, supplies, equipment, weapons, and ammunition. Spending on projects currently being implemented will continue, most notably of which is the Custodian of the Two Holy Mosques Project for the Development of Security Headquarters, which has five stages and includes establishing 1,296 security sites during 2016-2020. The number of security sites that are to be handed over during 2016- 2018 will be 551 or 43 percent of the total planned number for the five years (2016-2020). Further, projects in this sector cover the establishment of 14 residential complexes consisting of 10,000 residential units in five regions. The number of complexes that are to be handed over during 2016-2018 will be two or 14 percent of the total planned number for the five years (2016-2020). The two complexes will include 600 residential units or 6 percent of the total planned units for the five years (2016-2020). The construction of two medical cities, with a capacity of 2,500 beds, is underway and will not be completed at the end of the fiscal year 2018.

Military Sector:

SAR 210 billion is earmarked for Military. The sector's budget includes allocations of SAR 10.2 billion for new development programs and projects covering building advanced systems and capacities. In addition, SAR 3.5 billion is allocated for military education, covering military colleges and King Saud bin Abdulaziz University for Health Sciences. Moreover, SAR 26.5 billion are designated for military medical services

besides allocations for development initiatives that embrace developing weapon and defense systems, improving military readiness, reinforcing capabilities, increasing performance efficiency, updating strategic planning mechanisms, developing military bases, supporting the nationalization of military industry, and developing accommodation and service facilities. The sector's budget also incorporates salaries and wages of military personnel. Spending on operational and support programs and military construction and service projects needed will continue.

Guesstimating the Total Military and Security Burden on the Saudi Budget

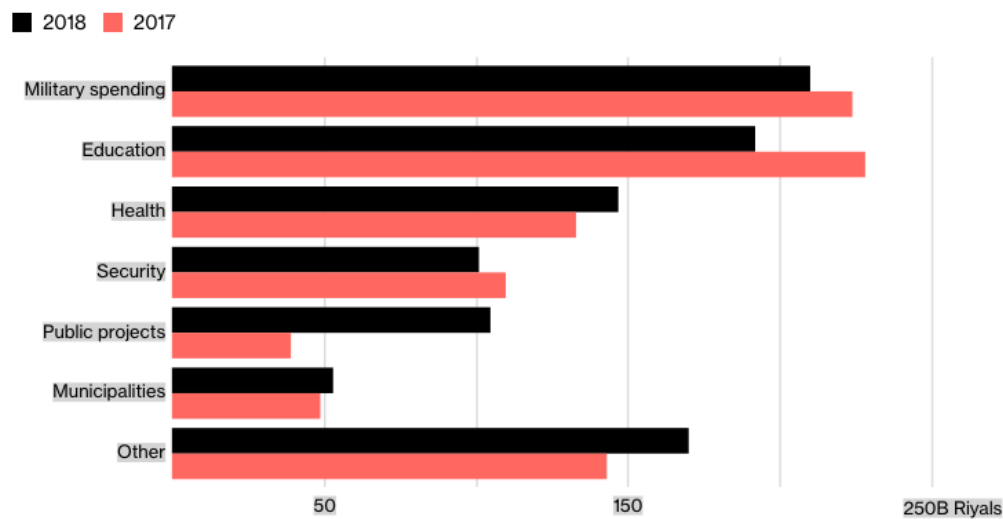
Figure One provides a graphic estimate of the total allocation of the Saudi budget by Vivian Nereim, and the Ministry of Finance Budget State for 2018 is shown below. Total military and security spending seems to total around 290 billion Saudi riyals (\$77.3 billion US).

This means that total military and security spending will consume a critical part of both the budget and the economy at a time when MBS is seeking to fund a massive 2030 economic reform program. King Salman's budget statement called for the highest level of government spending in Saudi history—978 billion riyals, more than a fifth of it for the defense sector alone. Saudi officials also later made it clear that the Kingdom planned to spend a total of 1.1 trillion riyals, including 83 billion riyals from the Public Investment Fund and 50 billion riyals from national development funds.

This data highlights the critical problem in every aspect of Saudi budget, economic planning, and the 2030 reform plan. No country can effectively manage its resources that does not openly analyze the combined cost of its civil and security structure, the burden they impose on its revenues, how well they meet all national civil and security needs, and the quality of the trade-offs a country is making between these competing needs.

The failure to analyze the combined cost of civil and military spending in all of the publically released data on Saudi budgets and past five years plans has been a major factor in allowing military and security spending to rise to unacceptable levels. The failure to include the security in any of the publically released data on the 2030 reform plan, and other major Saudi reform efforts, means that they have been fundamentally incompetent and dishonest.

No one needs to give away key secrets to provide such analysis and transparency. It is not some whim of advocates of democracy and human rights, or advocates of some given school of governance. Tying all of the elements of government spending, resources, activity, and effectiveness together is an essential part of both security and every other aspect of governance, regardless of the political system involved. This can only be done through relative openness and with at least enough basic data to allow voices outside the top leadership—both within the government and outside it—to play a constructive role.

Figure One: Allocation of the Saudi 2017 and 2018 Budgets

Source: Saudi Ministry of Finance

Source: Vivian Nereim, "Defense Is Top Item in Saudi Budget as Yemen Fighting Rages On," Bloomberg, December 20, 2017, 8:19 AM EST, <http://www.wowdx.net/iozczo/amp/news/articles/2017-12-20/defense-is-top-item-in-saudi-budget-as-yemen-fighting-rages-on>; <https://www.mof.gov.sa/en/Pages/default.aspx>; <https://www.mof.gov.sa/en/budget/Pages/Statement.aspx>;

The Added Burden of Arms Sales

Saudi Arabia's defense and security spending problems are compounded by the sheer size of its arms imports. There is no way to be certain of the exact numbers involved, or how much of such spending is fully reported in Saudi and other Gulf Arab defense budget reporting. Reports that Saudi Arabia signed \$99 billion worth of new agreements with the U.S. in 2017 are little more than speculative nonsense and empty political spin.

Work by Catherine Theohary of the Congressional Research Service does, however, provide estimates based on official U.S. government sources. These estimates also indicate that Saudi Arabia took delivery on \$13.0 billion worth of new arms orders during 2008-2011 (\$5.8 billion from the U.S.) and \$17.7 billion worth of new arms during 2012-2015 (\$10.5 billion from the U.S.).

These DSAA estimates indicate that Saudi Arabia placed \$52.5 billion in new arms agreements during 2008-2011 (\$44.9 billion from the U.S.) and \$41.0 billion in new arms agreements during 2012-2015 (\$17 billion from the U.S.)

The U.S. Defense Security Assistance Agency (DSAA) provides a public record of both actual U.S. arms sales to Saudi Arabia, and Saudi arms sales requests. It shows that the Saudi Ministry of Defense signed \$76.4 billion worth of arms sales agreements with U.S. between FY1950 and FY2008, and \$63.5 billion worth between FY2009 and FY 2016. The Saudi Ministry of the Interior began to make major arms purchases for counterterrorism and internal security purposes in

FY2009, and signed another \$262.4 million worth of arms agreements between FY2009 and FY2016.

In terms of actual deliveries of arms, the DSAA reports that the Saudi Ministry of Defense took delivery on \$65.2 billion worth of arms from the U.S. between FY1950 and FY2008, and \$17.3 billion worth between FY2009 and FY 2016. The Saudi Ministry of the Interior began to take significant deliveries of arms for counterterrorism and internal security purposes in FY2010, and took a total of \$93 million worth of deliveries between FY2009 and FY2016.

If one totals up the individual new arms sales requests the DSAA reported to Congress between the beginning of 2017 and January 2018, they total \$17.7 billion—dominated by a request for missile defenses and by much smaller requests from training and support services. These are significant purchases but do not approach \$99 billion by any strength of the imagination.

It is also worth pointing out that one of the silliest and least convincing aspects of the Saudi 2030 plan is that it calls from Saudi Arabia to develop its own defense industrial base. As far too many offset problems have already demonstrated, this becomes a massive waste the moment it involves really advanced weaponry.

There is virtually no way to waste money more effectively than trying to create an effective technology base or fund a weapons assembly effort in an area of industry and technology which is so demanding, offers so few real-world benefits in job creation, and where there often is so little ability to use the technology needed for specific weapons for other purposes—particularly civil ones. Such an effort would involve other problems—the domestic needs for such weapons is limited and Saudi Arabia would likely be unable to compete in selling these weapons on the international market.

Saudi Modernization, Force Levels and Value as a Strategic Partner

It is important to note that Saudi Arabia has had some notable successes in creating its military forces, and is a key strategic partner in spite of its mistakes and over spending. Saudi Arabia's military and security forces proved to be effective in air combat during the "tanker war" with Iran in 1987 and 1988, in fighting Iraqi air and land forces in 1990-1991, and in checking AQAP after 2003.

Saudi Arabia has built up successful air and air defense forces, effective counterterrorism forces, and key elements of effective ground and naval forces. It has also acquired a major inventory of systems that are interoperable with U.S., UAE, and other allied forces and that are highly effective. These include:

- 370 M1A2/A2S Abrams and 390M60A3 Patton main battle tanks
- 1,190 M113A1/A2/A3 armor personnel carriers
- 380 AMX-10P and 385 M2A2 Bradley infantry fighting vehicles
- 861 LAV-25 infantry fighting vehicles
- 224: 60 AU-F-1; 110 M109A1B/A2; 54 PLZ-45 self-propelled artillery weapons
- 60 ASTROS II Mk3 multiple rocket launchers
- A large inventory of modern anti-tank guided weapons and light guided air defense weapons
- 11 AH-64D and 36 AH-64E Apache attack helicopters, and a large inventory of troop and utility

helicopters.

- 81 F-15C/D, 90 F-15S, 81 Tornado, and 71 Typhoon fighters
- 5 E-3A AWACS and other IS&R aircraft.
- 128 Patriot and 128 IHawk surface-to-air missile launchers.
- A mix of modern French missile frigates and destroyers, and missile patrol boats.
- 3 Modern British Sandown minesweepers.

Saudi force developments and military expenditures have had real benefits, enabling Saudi Arabia to become more effective strategic partner in dealing with terrorism and containing Iran. Moreover, many of the arms purchases it has actually made do improve Saudi security and act as a deterrent to Iran—an effort reinforced by the Saudi partnership with the U.S. forces in the Gulf and the UAE.

Saudi Arabia also has very real future needs: the purchase of theater ballistic missile to help limit Iran's growing conventional missile threat, and a long overdue modernization of its fleets in the Gulf and Red Sea. There is a good case for moderate arms imports, and continuing modernization of the areas where Saudi Arabia already has a strong base: its air force, land forces, and counter terrorism forces.

Cutting Back to Reasonable Levels

The challenge Saudi Arabia must now meet is to find ways to shape both its security and civil programs and budgets to meet its highest priority needs in affordable ways. There is no clear way to estimate just how much Saudi Arabia will need to cut back on military and security spending to support civil reform and development. Saudi Arabia has not yet translated its 2030 plan and goals into real budget and spending estimates, and the public cost estimate of its security spending are too unreliable to use as a basis for planning.

In broad terms, however, the Kingdom should seek to cut its security spending to somewhere around 6 percent of its GDP—a high figure by international standards, but one it can probably afford. This requires a real-world approach to balancing total Saudi expenditures to match its revenues and achieve suitable growth. This in turn, requires an integrated approach to shaping and funding the civil and security sides of government. It requires planning, programming, and budgeting that are based on what can be accomplished over time.

It also requires a new approach to Saudi governance. For far too long, Saudi Arabia has issued five years plans it does not really implement and set over-ambitious goals for security and development that it cannot really implement or afford. A real-world approach to balancing civil and security spending—and set practical goals and objectives—must be based on efforts that are practical and objective, and that seek to integrate the Kingdom's civil and military goals in ways that transparent enough to have proper review.

Such efforts cannot be based on best-case assumptions and data. They cannot be successful without outside challenge and review, be managed without effective controls and measures of effectiveness, and deal with the Kingdom's internal politics corruption, and nepotism and cronyism without transparency.

Bringing Saudi security expenditures and programs into balance with its needs for civil development and reform will take time and should be carefully phased over a period of years.

Saudi Arabia's outside security threats are far too urgent to suddenly focus on the civil dimension, and effective security efforts cannot be managed by crippling Saudi military spending and arms imports.

Focusing on Seven Key Security Objectives

Saudi Arabia must deal with seven critical external security objectives in the process if it is to bring security costs down to the proper levels:

- *Find affordable ways to deter and contain Iran*, both in a narrow military sense and in terms of its regional impact of influence.
- *Find affordable way to end its war in Yemen*— choosing containment over victory if necessary.
- *Find a workable compromise with Qatar, do what it can to revise the Gulf Cooperation Council* and give it the meaningful level of integration and interoperability it has lacked since its founding. This means building on its de facto present military alliance with the UAE, improving relations with Oman, pushing for reform in Bahrain, and integrating key aspects of air, missile, and maritime defense with Kuwait and other Gulf states.
- *Giving Iraq strong incentives to join other Arab states in creating a Gulf security structure* and to limit Iranian influence—rather than standing largely aside and assuming that Iran has already won.
- *Making Jordan a full security partner; doing what it can to support the Lebanese central government and armed forces to counterbalance the Hezbollah, and isolate the Assad regime in Syria.*
- *Focus on providing the resources for three critical weaknesses in its current security forces*: theater missile defense, naval and air forces better designed to check Iran's asymmetric threat, and border defenses and security barriers to guard its border with Yemen.
- *Creating a de facto joint force planning, exercise, and contingency capability with the United States* as its primary external security guarantor to develop a common mix of security forces that are both fully interoperable and affordable, that contain Iran and can counter the extremist threat, and provide for the option of extended deterrence in the JCPOA nuclear agreement with Iran should fail.

There is no royal road to achieving any of these objectives. These objectives require major changes over a period of years to bring Saudi spending down to the proper levels, as well as leadership at the highest levels of government and the royal family who recognize this need. It also means that key strategic partners like the U.S. must act in ways that recognize that Saudi overspending on security threatens Saudi domestic stability. Both Saudi Arabia leaders and those of its partners need to realize that Saudi civil stability and development is the core priority, not building up Saudi military forces or using Saudi Arabia as a cash cow for arms buys, fund aid, or meeting other security objectives.

Improving Saudi Security and Civil Planning and Management

There is no way to make detailed suggestions as to how Saudi security forces and military efforts need to be restructured, or how quickly the Kingdom needs to reduce its security spending to fund its civil reforms without full access to Saudi defense budgets and plans, and a matching realistic projection of the cost of future Saudi civil budgets and the 2030 plan.

Saudi Arabia has created several new institutions to try to improve its fight against extremism/terrorism, and its level of defense and security planning since King Salman came to power—evidently under Mohammed bin Salman's direction. These efforts, however, are staffed with people who must invent their approach as they go along. Institutions have been created with demanding objectives, and large staffs and facilities, but limited practical experience and plans.

At present, the Saudi defense budget has no meaningful transparency, the Saudi 2030 plan is still largely a matter of half-defined good intentions, and the Saudi government has not made any publicly known effort at integrated planning. Far too many aspects of its security and civil plans seem to be largely a mix of disconnected secrets and well-meaning fantasies.

There are, however, a number of areas that Saudi Arabia clearly needs to address in order to bring its security and civil spending into balance with its resources and needs for development:

In the case of Saudi internal defense and overall budget and reform planning, Saudi Arabia must prioritize specific needs:

- *Direct top level staffs and leadership to produce integrated planning, programming, and budget for security and defense:* Creating rolling (annually updated) annual budget and five-year plan that ties together all spending on defense and security in ways which tie budget and costs to major mission. Effective economic planning in a case like the 2030 Reform Plan must take account of security spending, total revenues, and the overall impact of government spending.
- *Initiate Security planning that integrates all aspects of military and other security activity, and planning, programming, and budgeting.* The equivalent of a fully functional National Security Council backed by a planning, programming, and budgeting staff.
- *Full transparency of Saudi security budget as part of overall national budget.* Displaying a full break of the security budget for public comment and review as part of the Saudi national budget. Making such plans and spending subject to public debate and review, and showing the trade-offs between civil and security spending in the national budget.
- *An annual national security white paper.* Transparency—and outside review and criticism—is a critical step in ensuring effective security planning, management, and cost control. Saudi Arabia needs to develop an annually revised security five-year plan explaining proposed spending, force levels, arms buys, personnel plans, and readiness plans for both military and security forces by service and major mission. Efforts to improve management, limit corruption, improve efficiency, and reduce costs need to be part of this plan and subject to review.
- *Integrate or reshape its Army and National Guard, and other Paramilitary Forces:* Maintaining separate land forces, and a range of competing elements of paramilitary forces is far too expensive at a time when tribal and regional differences, and/or the risk of a military coup, no longer dominate the Kingdom's security risks. Creating an afford mix of land forces is a key priority, and one that needs to be coupled to the fact that Saudi ground forces have to be able to operate outside the Kingdom in aiding Kuwait and Bahrain and dealing with threats from Yemen – rather than be tied to defensive action in military cities,
- *Creating a joint planning, programming, and budgeting exercise with the U.S., United Kingdom, and France as well as the UAE and those other Arab states it can develop suitable security relations with.* Interoperability, integrations, standardization of key aspect of procurement, and common facilities should be developed to achieve economies of scale, reduce costs, and improve effectiveness. The present country-by-country approach is both wasteful and sharply reduces overall effectiveness.
- *Create a strong independent Inspector General, audit, systems analysis, and test and evaluation capability.* Ruthlessly and publicly address corruption and waste, ineffectiveness, and improve contracting and fiscal controls.
- *Focus on slowly phased force improvement programs that concentrate on improved effectiveness over time.* Stop buying “glitter factor” weapons and technology when the added performance and cost is not needed. End politically inspired major arms buys. Create demanding contracts and enforce them.
- *Do not waste money on expense and pointless offset and defense industry projects.* The 2030 plan's call for a large defense industrial base exemplifies the risks in setting wasteful and impractical goals for military spending. There are many forms of support, maintenance, and modernization that are cost-effective to fund, as well as limited military production effort in low to medium technology areas that meet broad demands. High technology projects, however, are wasteful specialized program that tie the Kingdom to a given system

and manufacturer, raise costs because of the Kingdom's lack of suitable technical resources and personnel, and a lack of economies of scale. Such activities do not create any lasting improvement in terms of jobs and a technology base, and offset programs far too easily become a source of corruption, waste, and profit to the foreign manufacturer involved.

- *Developing and issuing plans for modernization in key mission areas.* These include integrated theater missile and air defense; naval modernization for both the Gulf and Red Sea fleets; joint warfare capabilities and C⁴I/BM/IS&R, and long-range conventional strike deterrent forces.

These are all areas where Saudi Arabia must find its own solutions—many of which have obvious implications for other Arab states, and incentivize the creation of more Arab alliances. They also, however, are areas where the United States, United Kingdom, France, and other strategic partners and sources of arms imports need to recognize Saudi Arabia's real-world security needs.

The political upheavals in the region since 2011 should make it clear that Saudi ability to meet the needs of its own population are its most critical single security priority, and any examination of the Saudi economy and budget should make it clear that Saudi Arabia should not be pressured to spend too much or import arms at the expense of civil progress. The goal should be to create an effective overall mix of security forces that all the partners involved can afford.

The U.S. and other outside states should also never forget that the stable flow of Saudi and total Gulf oil, gas, and product exports out of the Strait of Hormuz, Red Sea, Gulf coast, and by pipeline totals the equivalent of well over 20 million barrels of oil per day, and accounts for well over 30 percent of all seaborne-traded crude oil and other liquids. This flow is absolutely critical to Asia's ability to export and to the health of the entire global economy. It can only be assured through the internal stability and development of Saudi Arabia.