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Saudi National Security and the Saudi-US Strategic Partnership:

Part One: The Civil & Economic Aspects of Security

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Saudi Economics and National Security

Economics and the Global Economic Crisis

Saudi Economic Policy

- **Countercyclical and Shaped by SAMA;**
- **Avoid budget deficit strains;**
- **Emphasize free market, and diversification;**
- **Except for petroleum resources;**
- **Give priority to internal stability, and particularly to employment, education, and social services;**
- **Seek to spread national investment and employment through tools like economic "cities."**
- **Fully fund counterterrorism.**
- **Fund strong defense.**
- **Improve controls on possible financing of terrorism.**
- **Tightly control foreign labor**

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Saudi Economic Risks

- **Impact of Global Financial Crisis;**
- **Future oil/hydrocarbon prices and revenues;**
- **Cost/uncertainties in expanding and sustaining hydrocarbon production.**
- **Inflation: Officially over 8%, Now double digit;**
- **Food prices and supply;**
- **Poor income distribution, comparatively low per capita income**
- **Peg to dollar: *revenue impacts, inflation, food costs, etc*..**
- **Need for Saudization; diversification, job creation: Unemployment at least 12%, 25% for 20-29 age group. Underemployment much higher.**
- **Capital cost imposed by expanding population, past underinvestment, demographics, and job creation.**

Trend in Saudi Economy & Budget: 2010

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QuickTime™ and a
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Scale of Current
government projects

QuickTime™ and a
decompressor
are needed to see this picture.

Source: NBK

Saudi Moves Towards Recovery: 2010

•Saudi Arabia posted its first budget deficit in 2009 in eight years as government revenues fell by over 54% to SAR505bn.

•Despite increased spending, the actual deficit of SAR45bn fell short of the budgeted SAR65bn, thanks to a rebound in crude oil prices. The average YTD OPEC basket oil price was significantly higher than the USD44 assumed in the 2009 budget.

•Driven by higher government spending, the Kingdom's economy expanded by a real 0.15% in 2009. In the face of a sharp oil sector contraction due to restricted quotas and lower prices, growth was largely driven by the non-oil sector which
•expanded by 3.0%.

•The government sector with 4.0% growth was a particularly important source of resilience while the private sector expanded by 2.5%.

• For 2010, the government projects revenues of SAR470bn, 14.6% higher than the SAR410bn budgeted in 2009. Spending is set to expand by 13.7% to SAR540bn from SAR475bn. The deficit is set to broadly match this year's figure at SAR70bn, or $18.7 billion) as the Arab world's largest economy focuses on development and job creation.

•The oil price remains the key risk for the Saudi economic outlook in 2010. OPEC now expects a 0.8% increase in total crude oil consumption to 84.93 mb/d in 2010.

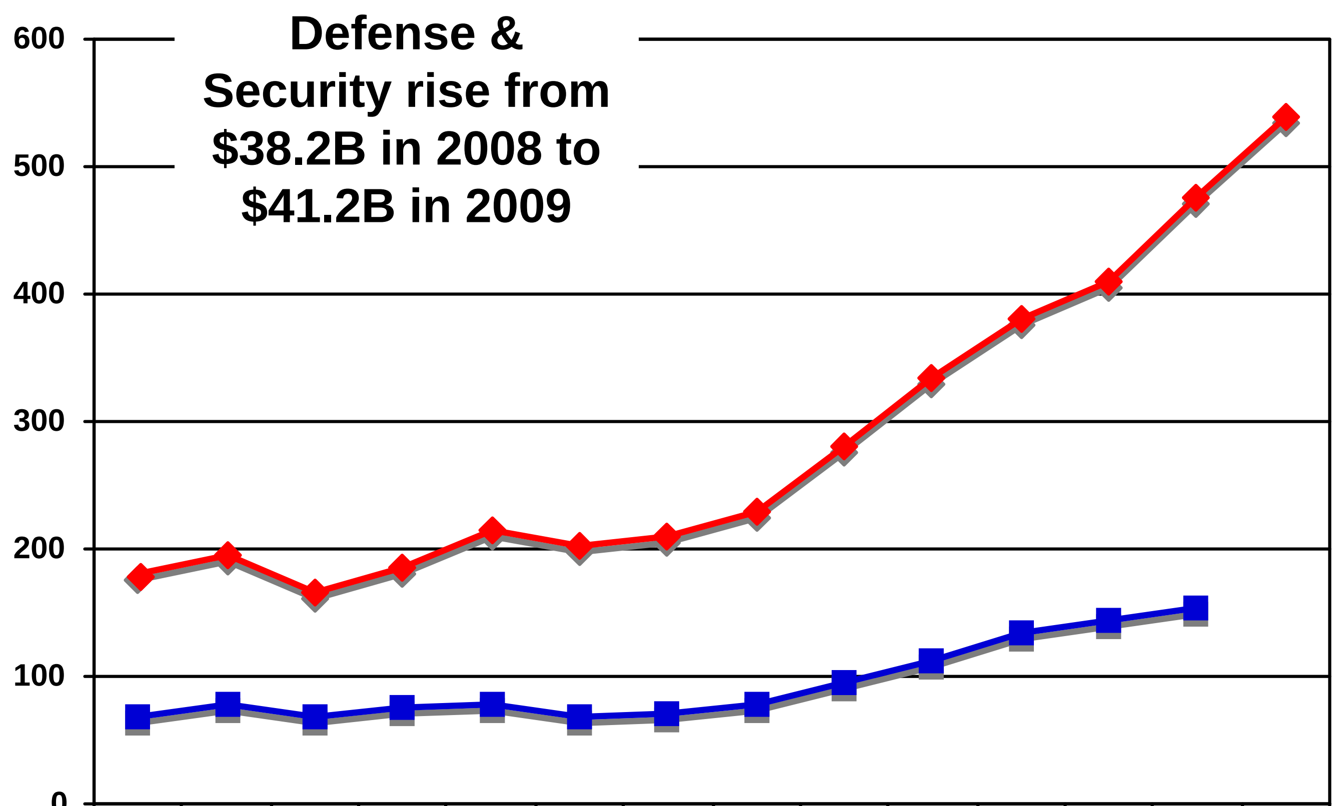
Saudi Arabia macroeconomic indicators

	2005	2006	2007	2008	2009*	2010e
Real GDP Growth (%)	6.1	3.2	3.4	4.5	0.1	3.8
Hydrocarbon	7.8	-0.8	0.5	5.0	-5.9	4.3
Non-hydrocarbon	5.2	5.1	4.7	4.3	3.0	3.6
Inflation (%)	0.7	2.4	4.0	9.9	4.4	5.0
Current account balance (% of GDP)	29.3	27.8	24.9	29.2	5.5	0.7
Fiscal balance (% of GDP)	18	21.2	12.4	34.1	-3.3	5.5

Source: NCB Capital, SAMA, Saudi Ministry of Finance, SAMBA

Saudi Budget Projections: National Security vs. Total

(In Billions of Current Riyals)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Budget	181	196	165	185	215	202	209	230	280	335	380	410	475	540
Defense & Security	68	78	69	75	79	68	70	78	95	111	133	143	154	

Source: SAMA, 2008

Demographics and Income

Economics and Demographics

- **Generation of demographic pressure on the labor force enters critical period: 30-40% at 14 years or younger.**
- **Too little competitiveness, too much dependence on foreign labor. Chronic "un" and "under" employment.**
- **Unpredictable scale of global economic crisis pressure: All of North Africa, Levant, Iran and Iraq, and:**
    - **Bahrain, Oman, parts of UAE, Saudi Arabia (?)**
    - **End to bubble economics in the Gulf**
    - **Pressure from Yemen and the Horn**
- **Educational issues; work ethic, job pull: "Lost generation?" "Alienation" and extremism?**
- **Income distribution and equity.**

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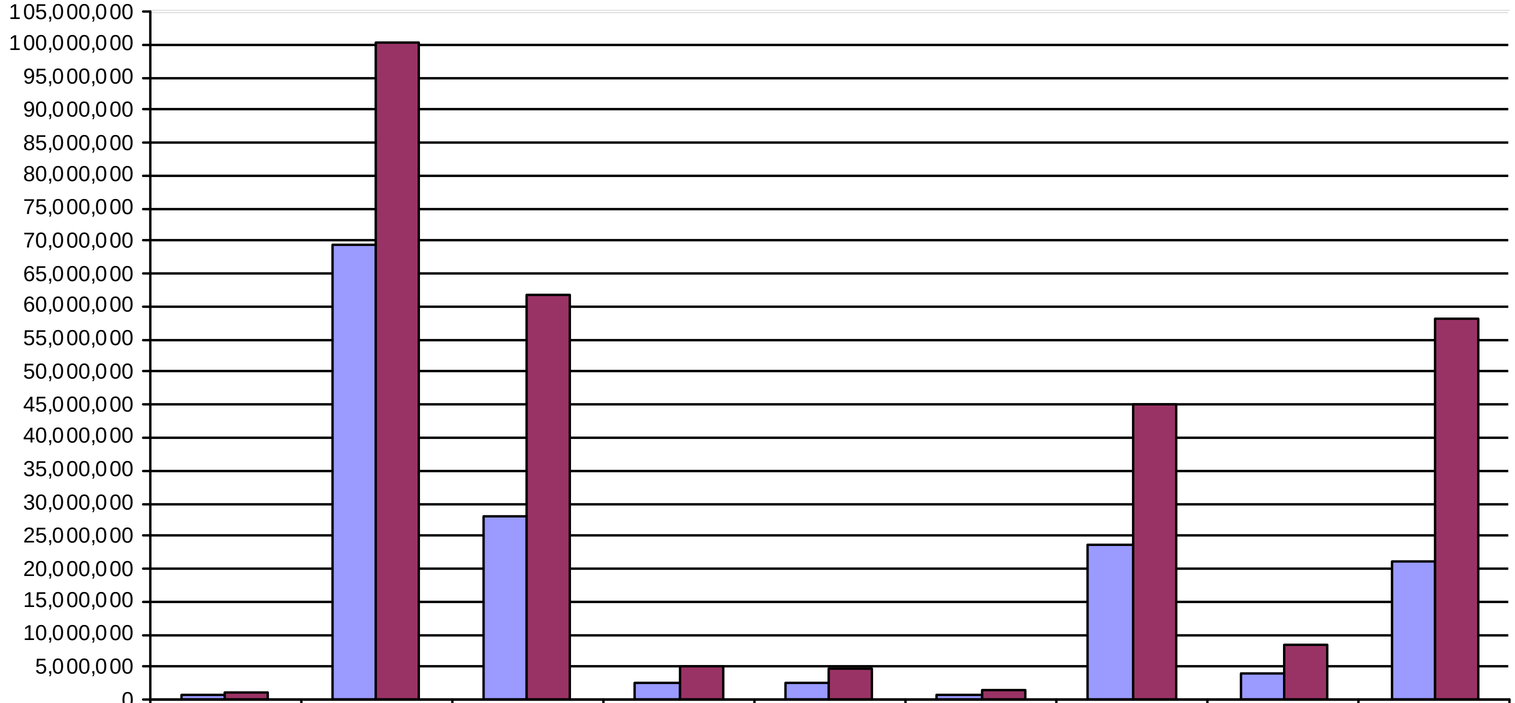
Total Population of Gulf States: 2005 vs 2050

(UN Data)



	Bahrain	Iran	Iraq	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates	Yemen
Population 2005	724,788	69,420,607	27,995,984	2,700,000	2,507,042	796,186	23,612,360	4,104,291	21,095,679
Estimaded Population 2050	1,173,037	100,173,596	61,941,632	5,240,174	4,638,971	1,333,342	45,030,295	8,520,789	58,008,932

Note: Estimates for 2030 and 2050 are based on median variant projections

Source: Adapted by Anthony H. Cordesman from the United Nations Population Division's annual estimates and projections

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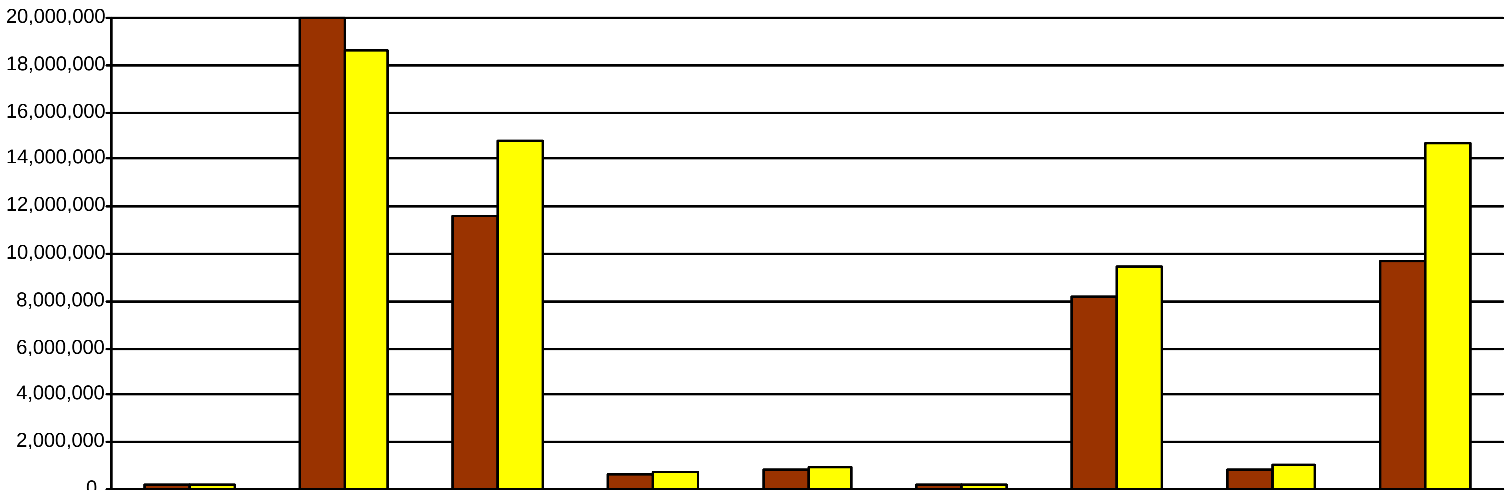
Population of Gulf States Ages 0-14 Years: 2005 vs 2050

(UN Data)



	Bahrain	Iran	Iraq	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates	Yemen
2005 0-14 Years	190,282	19,961,111	11,606,097	641,476	847,128	173,122	8,153,785	814,637	9,678,072
2030 0-14 years	184,402	18,611,541	14,809,245	784,342	967,926	205,625	9,415,064	1,074,180	14,691,100

Note: Estimates for 2030 and 2050 are based on median variant projections

Source: Adapted by Anthony H. Cordesman from the United Nations Population DivisionÕs annual estimates and projections

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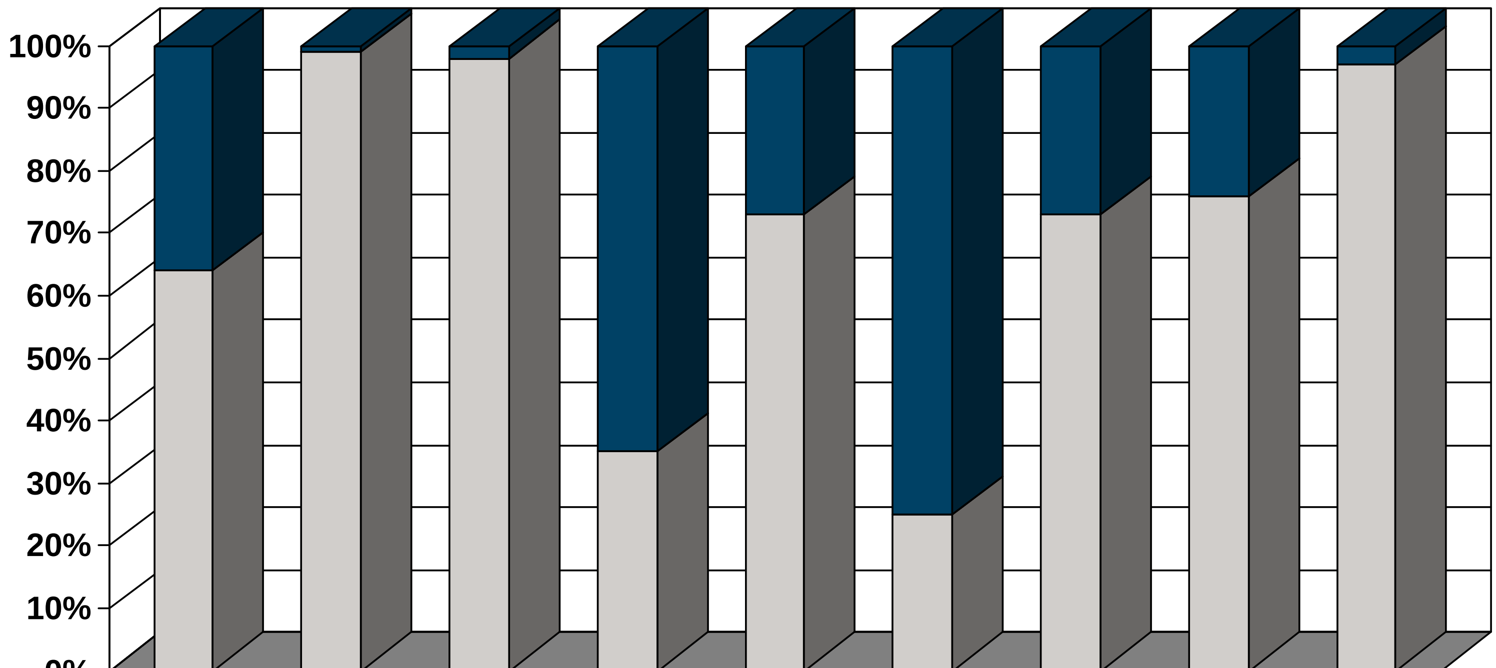
Native vs. Foreign Population of Gulf States: 2010
(Percent)



	Bahrain	Iran	Iraq	Kuwait	Oman	Qatar	Saudi Arabia	UAE	Yemen
Expatriate	36	1	2	65	27	75	27	24	3
Native	64	99	98	35	73	25	73	76	97

Ethnic and Sectarian Divisions in Gulf States

•**Bahrain:** 64% Native Arab (majority Shi'a); 36% Expatriate, of which 13% Asian, 10% other Arab, 8% Iranian, 1% European. Muslim (Shia and Sunni) 81.2%, Christian 9%, other 9.8% (2001 census)

•**Iran:** 51% Persian, 24% Azeri, 8% Gilaki/Mazandarani, 7% Kurd, 3% Arab, 2% Lur,
•2% Balouch, 2% Turcoman. Muslim 98% (Shia 89%, Sunni 9%), other (includes Zoroastrian, Jewish, Christian, and Baha'i) 2%

•**Iraq:** 75-80% Arab (55% Shi'a, 45% Sunni), 20-25% Kurd, 5% Turcoman, Assyrian, Chaldean or Other. Muslim 97% (Shia 60%-65%, Sunni 32%-37%), Christian or other 3%.

•**Kuwait:** 35% Native; 65% Expatriate, of which 35% other Arab, 9% South Asia, 4% Iranian, 17% Other

•**Oman:** 73% Native 27% Expatriate (Arab, Baluchi, South Asian (Indian, Pakistani, Sri Lankan, Bangladeshi), African; Ibadhi Muslim 75%, other (includes Sunni Muslim, Shia Muslim, Hindu) 25%

•**Qatar:** 25% Native Arab; 75% Expatriate (of which, 18% Indian, 18% Pakistani, 10% Iranian, 14% other). Muslim 77.5%, Christian 8.5%, other 14%.

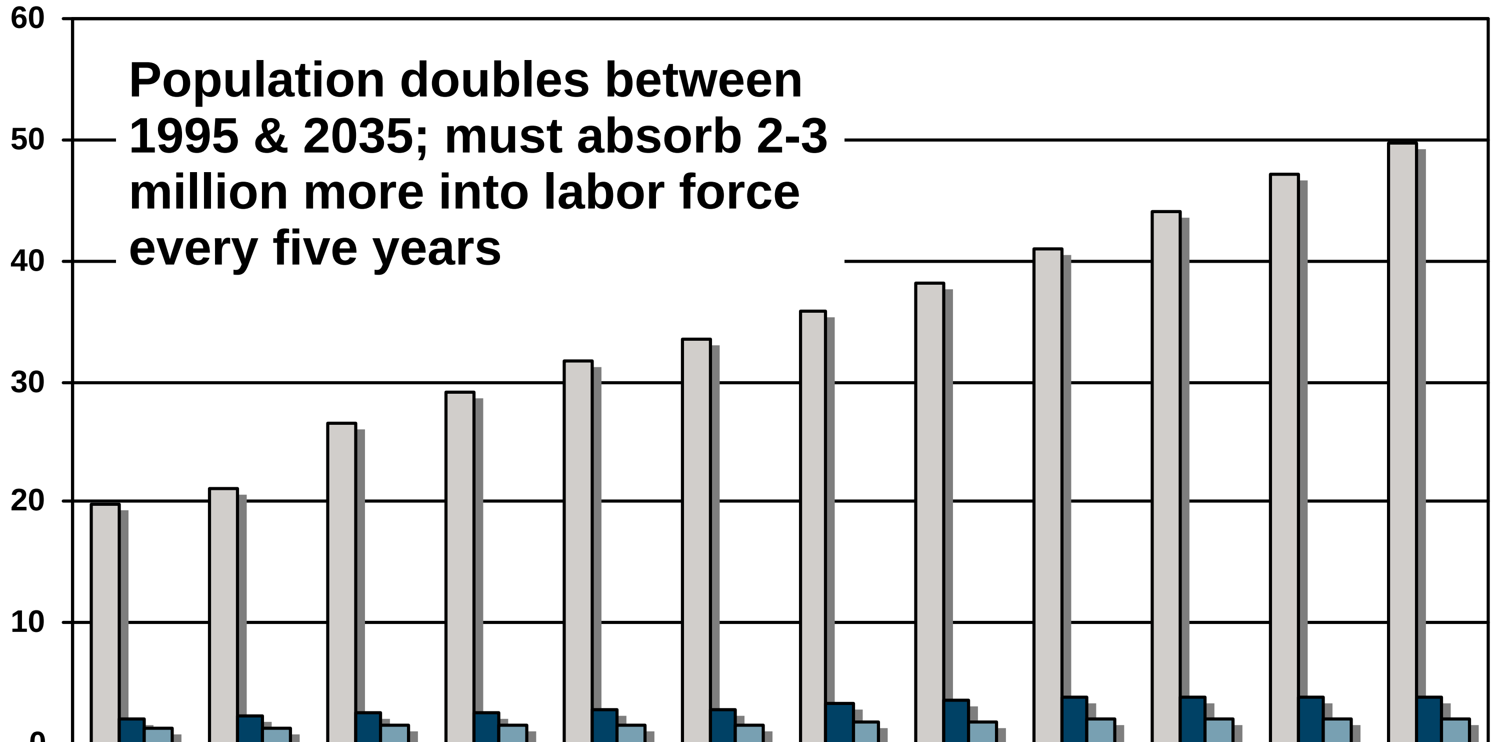
•**Saudi Arabia:** 73% Native Arab (of which 10% Bedouin, 6% Native Shi'a); 27% Expatriate, of which 20% Asian, 6% 0ther Arab, 1% African & less than 1% European. Muslim: "100%"

•**UAE:** 20-24% Native; 76-80% Expatriate (of which 30% Indian, 20% Pakistani, 12% other Arab, 10% Other Asian, 2% UK, 1% Other European. Muslim 96% (Shia 16%), other (includes Christian, Hindu) 4%

•**Yemen:** Predominantly native Arab; but also Afro-Arab, South Asians, Europeans. Muslim including Shaf'i (Sunni) and Zaydi (Shia), small numbers of Jewish, Christian, and Hindu

Adapted by author from IISS, *Military Balance* and CIA *World Factbook*

Saudi Population Pressure: 1995-2050



	1995	2000	2005	2010	2015	2020	2025	2030	2035	2040	2045	2050
Total	19.9	21.1	26.4	29.2	31.6	33.6	35.7	38.2	40.9	44	47	49.8
Age 20-24	2	2.2	2.6	2.7	2.8	2.9	3.3	3.6	3.8	3.8	3.8	3.9
Male 20-24	1.2	1.3	1.5	1.5	1.5	1.5	1.7	1.9	2	2	2	2

Source: US Census Bureau, IDB data base, The 4th Saudi Census began this year, but results are not yet available. Saudi data do not provide similar projections, but some Saudi data indicate the population of the Eastern Province rose from 762,000 in 1974 to 2,575 million in 1992, 3.36 million in 2004, and 3.54 million in 2007. Some experts feel Saudi Arabia exaggerated its data in the past to disguise its lack of population relative to nations like Iran. Others feel Saudi sampling has been relatively accurate, at least since the 3rd census.

Saudi "Youth Bulge"

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decompressor
are needed to see this picture.

- **29, 207,000 total population**
- **Population growth rate = 1.8 % annually, down from 3.5% in 1995**
- **824,000 births in 2010.**
- **50% of population is 19 years of age of younger.**

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Shi'ite Demographics (Dated)

TOTAL POPULATION : 23,118,994 (Native Saudi : 16,854,157, Foreign : 6,264,837)

EASTERN PROVINCE : Total Population : 3,360,157
Native Sunni : 1,541,379
Native Shi'a : 914,765
Foreign : 944,013
The two main regions in the Eastern Province where there are the largest concentrations of native Twelvers Shi'as are the governorship of Qatif and Al Hassa.

- In Qatif, with a population of 474,573 in 2005, there is an estimated 87% Shi'a majority. There is a small community of mainly foreign workers that make up 59,808 of the registered inhabitants of the governorship. The Qatif governorship includes all the overwhelming Shi'a major urban cities such as Qatif city, Saihat, Safwa, Awamiyah and Tarut.
- In Hasa, with a population of 908,366 in 2005, there is an estimated 40% to 45% Shi'a minority. The capital and the largest city by far of the governorship is Hufuf with a population of over 302,841 in 2005. It is a predominantly Sunni city. There is also a small community of foreign workers.
- In the urban triangle of Dammam (the capital of the Eastern Province), Al Khobar and Dhahran, there is also a small Shi'a community that is estimated to have grown to just over 100,000 in 2005 between the three cities.

NAJRAN PROVINCE : Total Population : 419,457

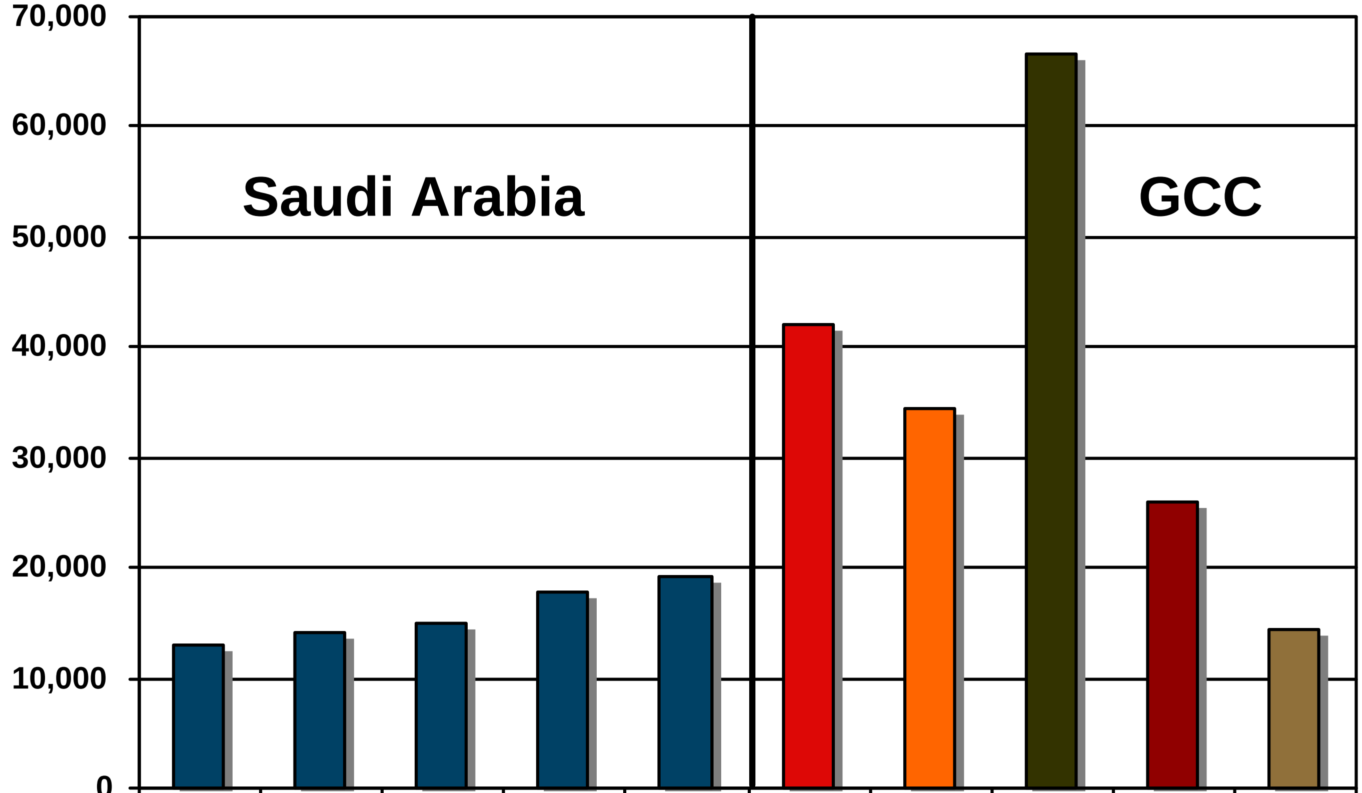
Native Sunni : 124,457
Native Ismaeli : 224,776
Foreign : 70,224
In Southern Province of Najran, with a population of 419,457 inhabitants in 2005, there is an estimated 55% Ismaeli majority. Although a small community with a distinct history revolving around a tribe (Bani Yam), the Ismaelis form a clear majority in Najran.

MADINAH PROVINCE : Total Population : 1,512,076
Native Sunni : 1,207,690 (Minimum Estimate)
Native Shi'a : 80,000 (Average Estimate)
Foreign : 224,386
In the Province of Madinah, with a population of 1,512,076 inhabitants in 2006, there is an estimated 90% Sunni majority. There is a sizeable community of foreign workers that make up 224,386 of the registered inhabitants of the Province. There is a small native Shi'a Twelvers Community in Madinah city that numbers between 50,000 to 75,000. There is also a village outside Madinah city that is populated by a 5,000 to 7,500 native Shi'a twelvers community.

TOTAL SHI'ITE POPULATION :
1) Eastern Province = 914,765
2) Najran Province = 224,776
3) Madinah Province = 80,000 (Average Estimate)
4) Other = 100,000 (Average for small displaced Shi'a communities around Kingdom)
TOTAL 1,319,541 (represent 8% of the native Saudi population base, and 6% of the total population base in the Kingdom for the year 2005-2006.

Source: Nawaf Obaid

The GCC Per Capita Income Challenge: 2008 (Pre-Financial Crisis)



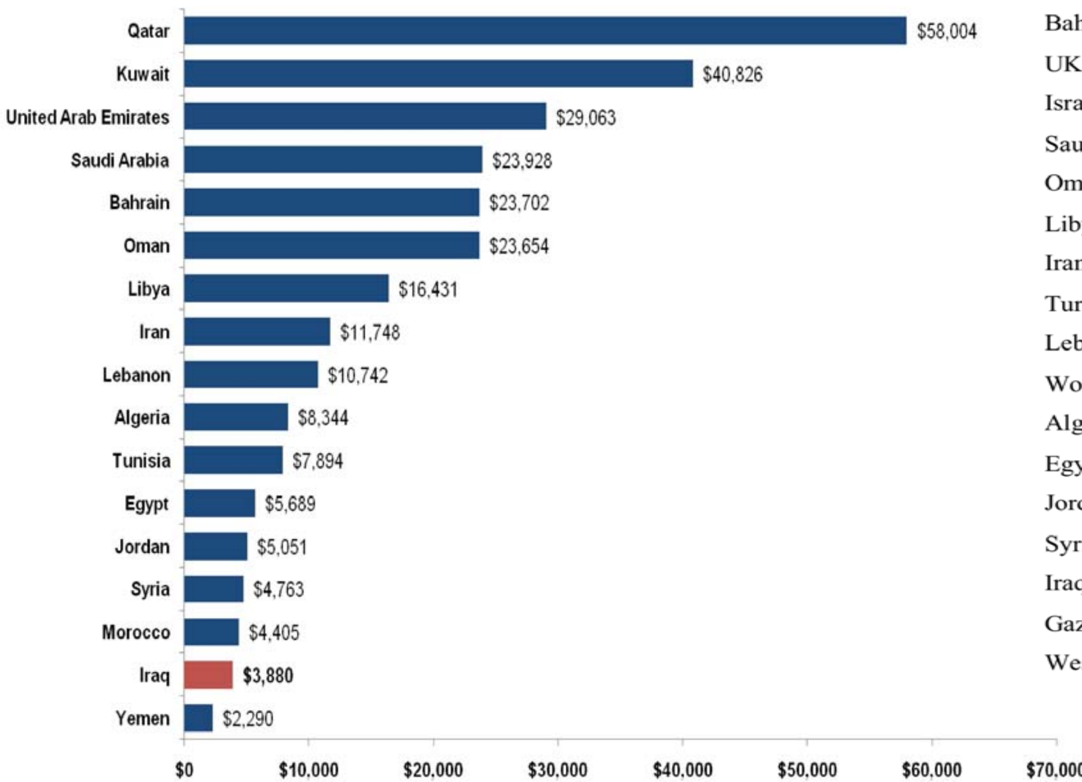
	2005	2006	2007	2008	2009F	UAE 2007	Kuwait 2007	Qatar 2007	Bahrain 2007	Oman 2007
Per Captia Income ($US)	13,000	14,200	14,900	17,900	19,300	42,000	34,500	66,500	26,000	14,500

Source: SAMBA, June 2008

Key Disparities in the GCC States

Increase in oil wealth is matched by major growth in non-oil sector, but major problems remain:

- **Income distribution**
- **Differences in per capita income**
- **Dependence on foreign labor**



Country	Global Ranking
Qatar	3
Kuwait	6
United States	10
UAE	21
Bahrain	28
UK	32
Israel	49
Saudi Arabia	59
Oman	60
Libya	79
Iran	87
Turkey	92
Lebanon	98
World	101
Algeria	126
Egypt	135
Jordan	139
Syria	142
Iraq	161
Gaza Strip	165
West Bank	167

Source: CIA World Factbook, March 2010.

Economics and Energy Exports

Basic Economic Realities Do Not Change. *But Oil Revenues Do* - I

- GDP in PPP was $581.3 billion in 2009. Was $584.8 in 2008 and $560.2 in 2007.
- Oil-based economy with strong government controls over major economic activities.
- Possesses more than 20% of the world's proven petroleum reserves, ranks as the largest exporter of petroleum, and plays a leading role in OPEC.
- Petroleum sector accounts for roughly 80% of budget revenues, 45% of GDP, and 90% of export earnings
- High to moderate oil prices boosted growth, government revenues, and Saudi ownership of foreign assets in 2004-2008, while enabling Riyadh to pay down domestic debt in spite of economic crisis.
- Organization of the Petroleum Exporting Countries (OPEC) earned $573 billion in net oil export revenues in 2009, a significant decrease from previous peaks. Saudi Arabia earned the largest share of these earnings, $154 billion – but earned 194 billion in 2007.
    - But, per capita oil income was $5,366 versus $25,206 for Qatar, $17.078 for Kuwait, $10,857 for UAE.
    - Iraq was only $1,297; Iran $820.

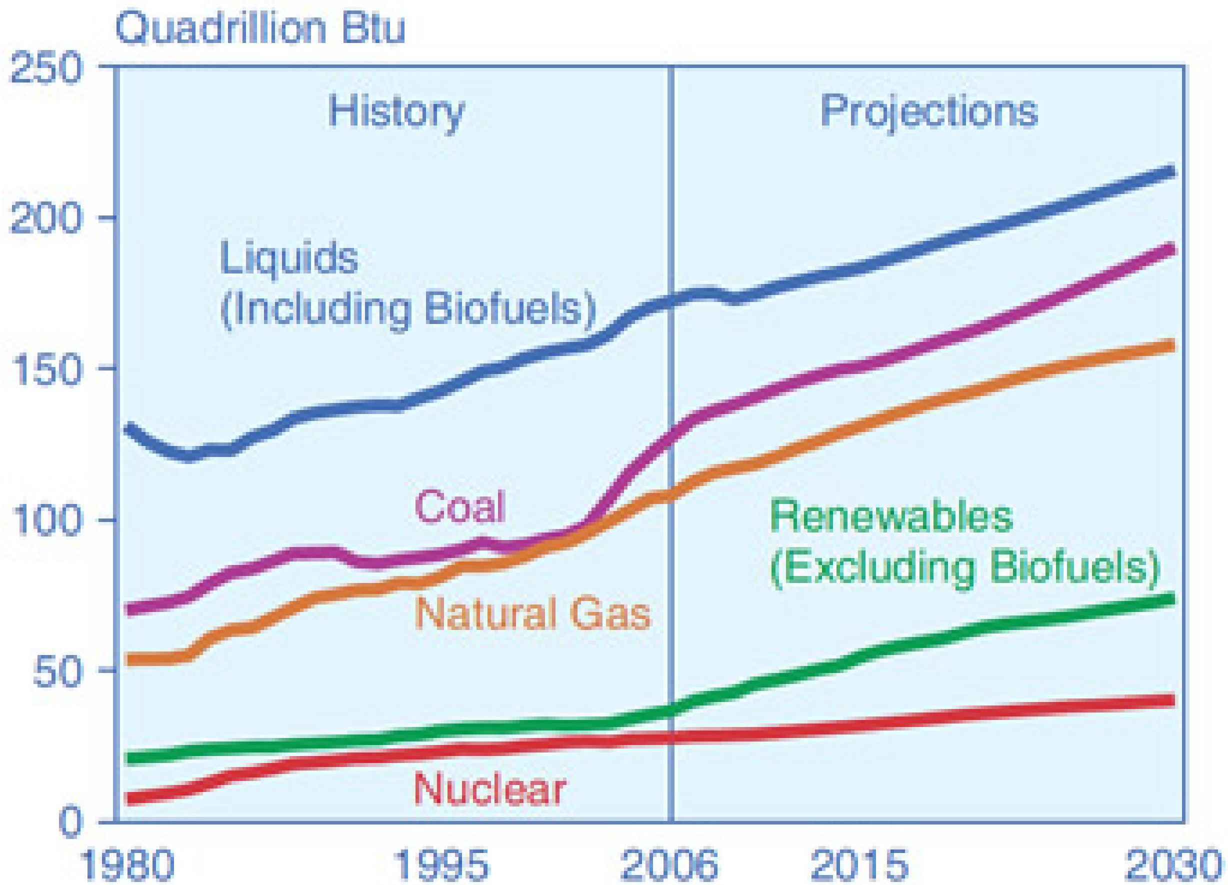
Source: CIA, World Factbook, 2010

Basic Economic Realities Do Not Change. *But Oil Revenues Do* - II

- **28.7 million people; some 5.6 million foreign.**
- **Roughly 6.9 million workers: about 80% foreign.**
- **Ppp per capita income was $20,300 in 2009. Roughly same as 2007 ands 2008.**
- **Encouraging private sector growth - especially in power generation, telecommunications, natural gas exploration, and petrochemicals - to lessen the kingdom's dependence on oil exports and to increase employment opportunities for the swelling Saudi population,**
- **Some 38% of are youths under 15 years old; mean age is only 22.**
- **Unemployment is high (11.6-25%), and the large youth population generally lacks the education and technical skills the private sector needs. Riyadh has substantially boosted spending on job training and education, infrastructure development, and government salaries.**
- **Government is establishing six "economic cities" in different regions of the country to promote development and diversification. Spends 6.8% of GDP on education – 28th in world.**

Source: CIA, World Factbook, 2010

EIA:World Energy Use: 1980-2030



Sources: **History:** Energy Information Administration (EIA), *International Energy Annual 2006* (June-December 2008), web site www.eia.doe.gov/iea. **Projections:** EIA, World Energy Projections Plus (2009).

Source: EIA-IEO 2009

Trends in Gulf Oil Revenues: 1975-2011

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Source: Adapted from Energy Information Agency (EIA), Department of Energy, *OPEC Revenues Fact Sheet*, March 2010,

Trends in Per Capita Gulf Oil Revenues: 1975-2011

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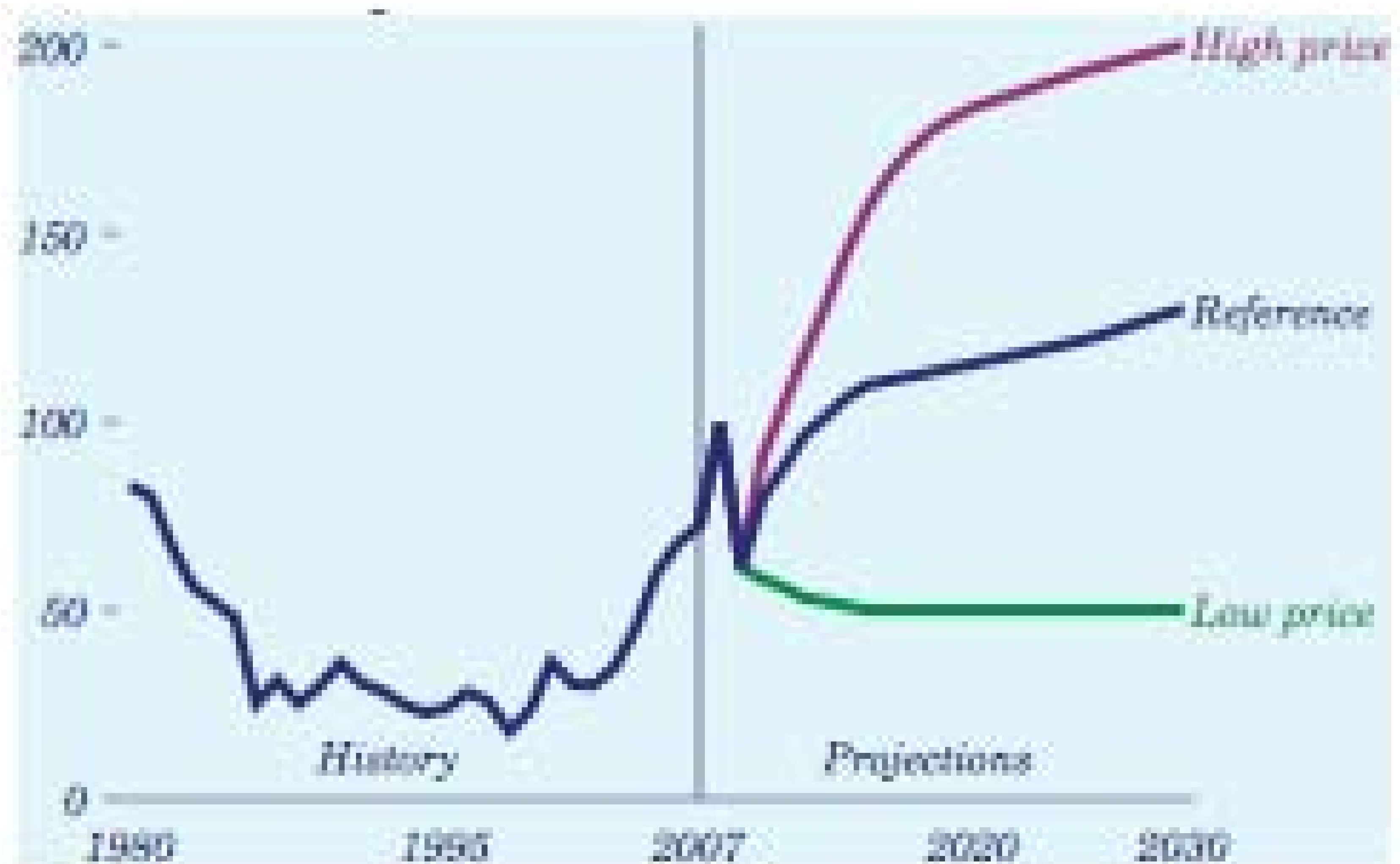
Source: Adapted from Energy Information Agency (EIA), Department of Energy, *OPEC Revenues Fact Sheet*, March 2010,

EIA Estimates of Future World Oil Prices



Source: EIA-IEO 2009

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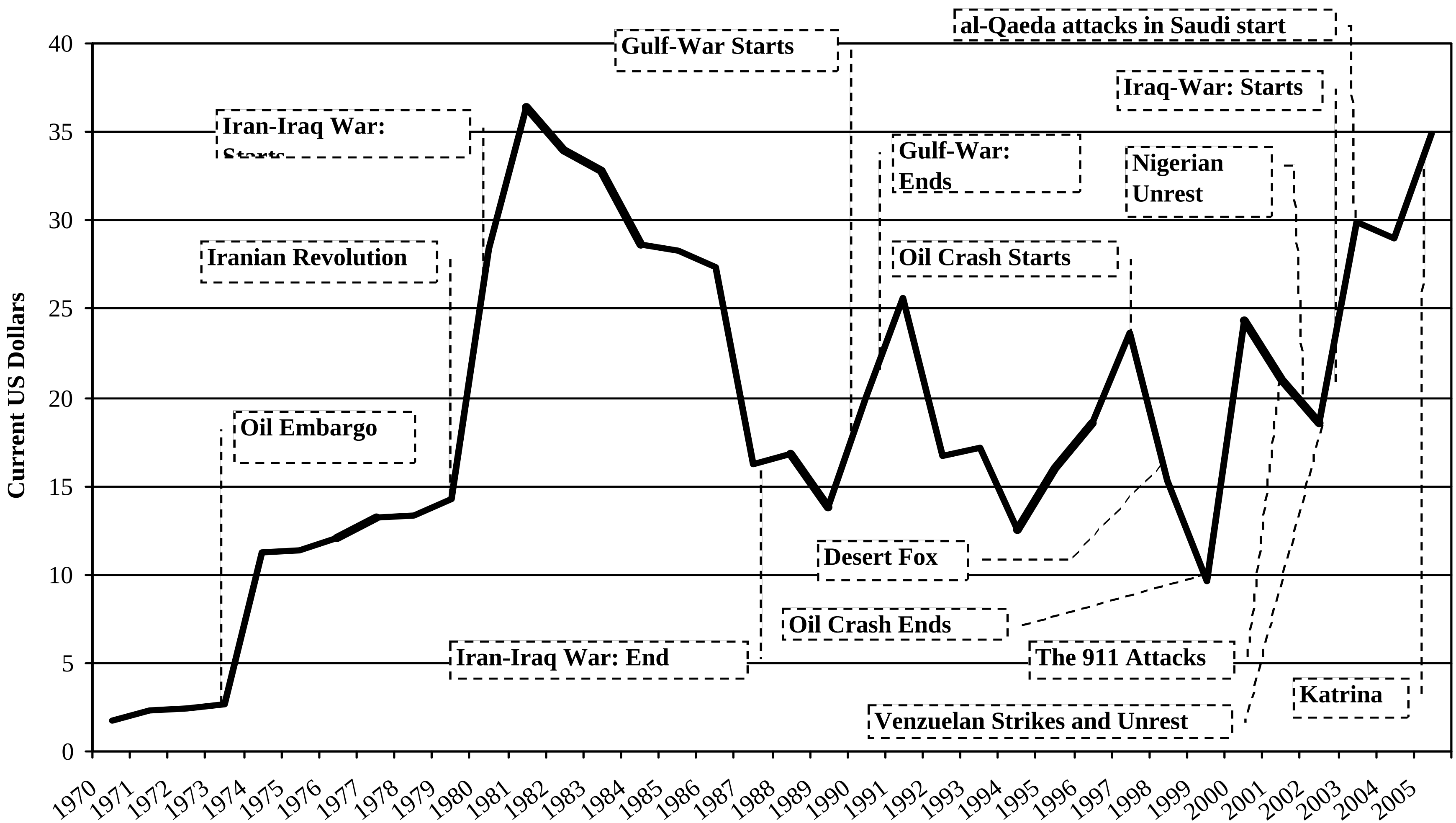
History of Oil Shocks: Pre-$100 Oil

Overtimes: more incidents, more frequent volatility, higher risk of asymmetric attacks, and more geopolitical uncertainties.

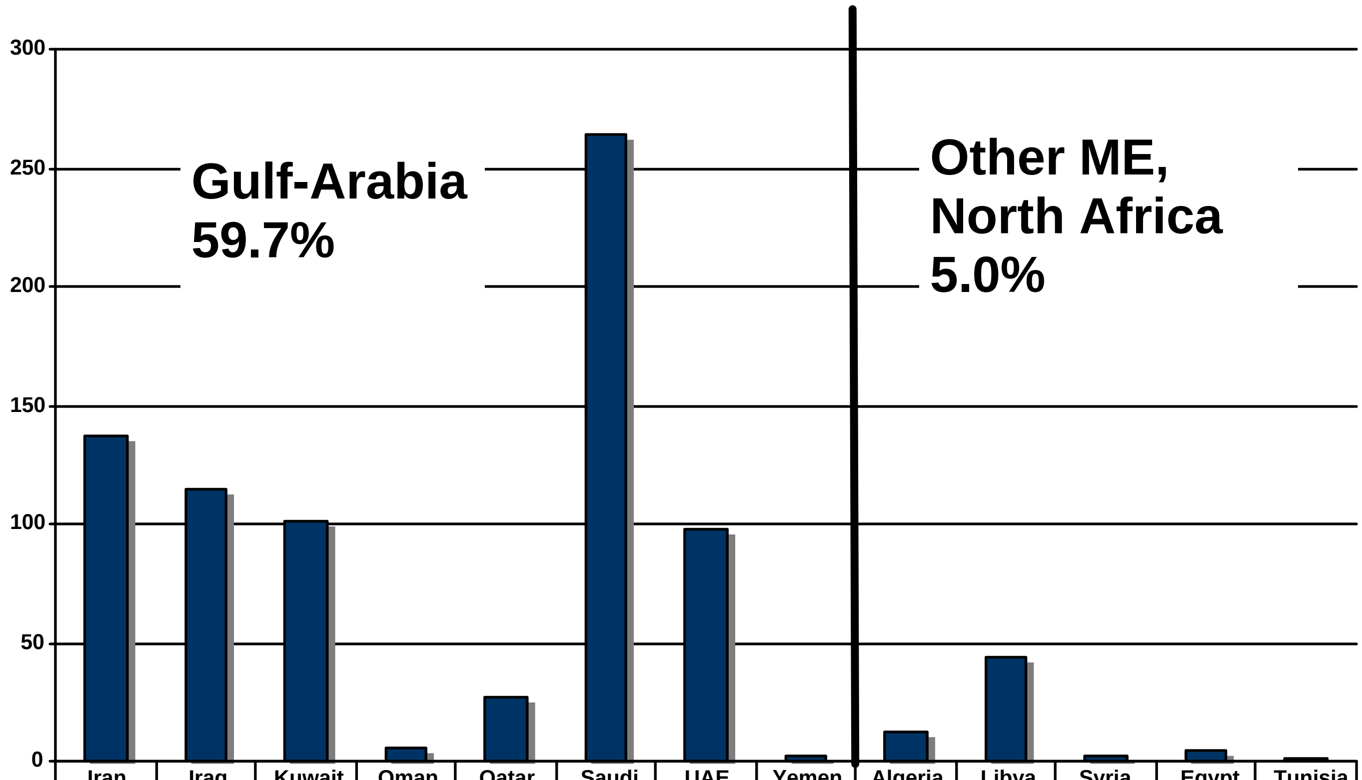


Source: EIA, "Crude Prices by Selected Type 1970-2005," http://www.eia.doe.gov/emeu/aer/txt/ptb1107.html.
Note: These prices are averages of several types: Saudi Light, Iranian Light, Libyan Es Sider, Nigerian Bonny Light, Indonesian Minas, Venezuelan Tia Juana light Mexico Maya, and UK Brent blend

None

BP Projection of Proven Oil Reserves By Gulf and MENA Country:

In Billions of Barrels Per Day



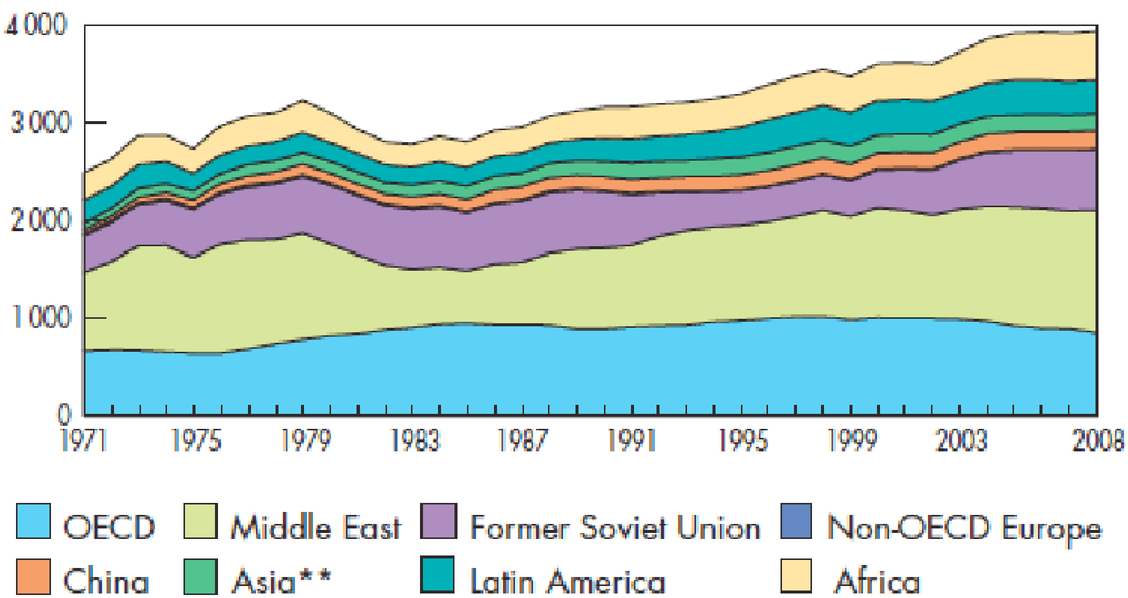
	Iran	Iraq	Kuwait	Oman	Qatar	Saudi	UAE	Yemen	Algeria	Libya	Syria	Egypt	Tunisia
% of World	* 10.9%	* 9.1%	* 8.1%	* 0.4%	* 2.2%	* 21.0%	* 7.8%	* 0.2%	* 1.0%	* 3.5%	* 0.2%	* 0.3%	-
End 2008	137.6	115	101.5	5.6	27.3	264.1	97.8	2.7	12.2	43.7	2.5	4.3	0.6

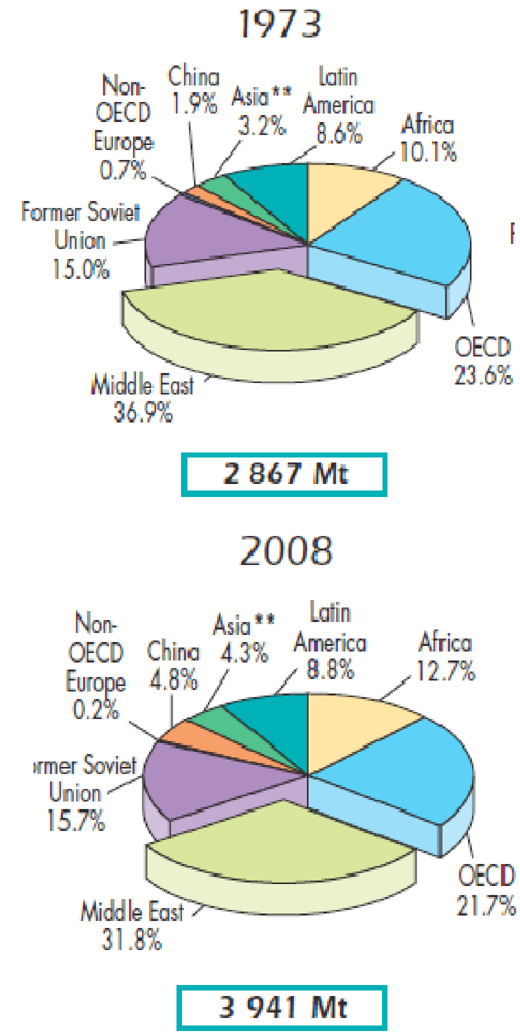
Notes: Proved reserves of oil – Generally taken to be those quantities that geological and engineering information indicates with reasonable certainty can be recovered in the future from known reservoirs under existing economic and operating conditions. Reserves-to-production (R/P) ratio – If the reserves remaining at the end of any year are divided by the production in that year, the result is the length of time that those remaining reserves would last if production were to continue at that rate. Source of data – The estimates in this table have been compiled using a combination of primary official sources, third-party data from the OPEC Secretariat, *World Oil, Oil & Gas Journal* and an independent estimate of Russian reserves based on information in the public domain. **Canadian proved reserves include an official estimate of 22.0 billion barrels for oil sands 'under active development'**. Reserves include gas condensate and natural gas liquids (NGLs) as well as crude oil. Annual changes and shares of total are calculated using thousand million barrels figures.

Source: Adapted from BP, *Statistical Review of World Energy, 2009*, p. 6

Middle East East Remains Critical Oil Producer After 35 Years of Effort to Find Alternatives

Evolution from 1971 to 2008 of crude oil* production by region (Mt)





Source: Adapted from IEA, World Energy Statistics, 2009

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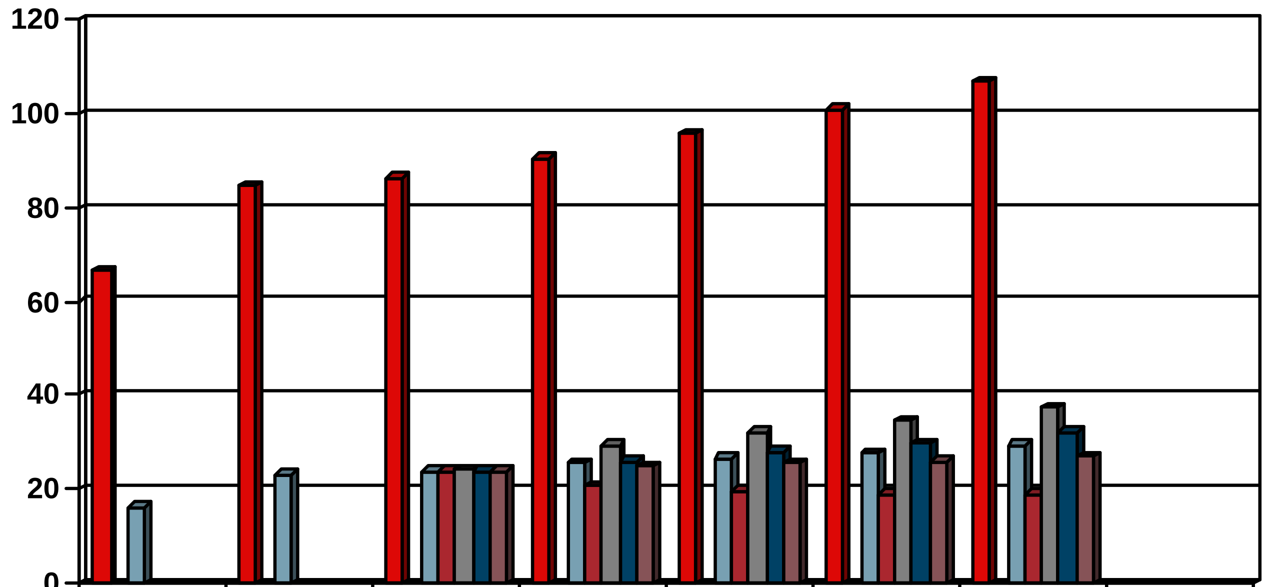
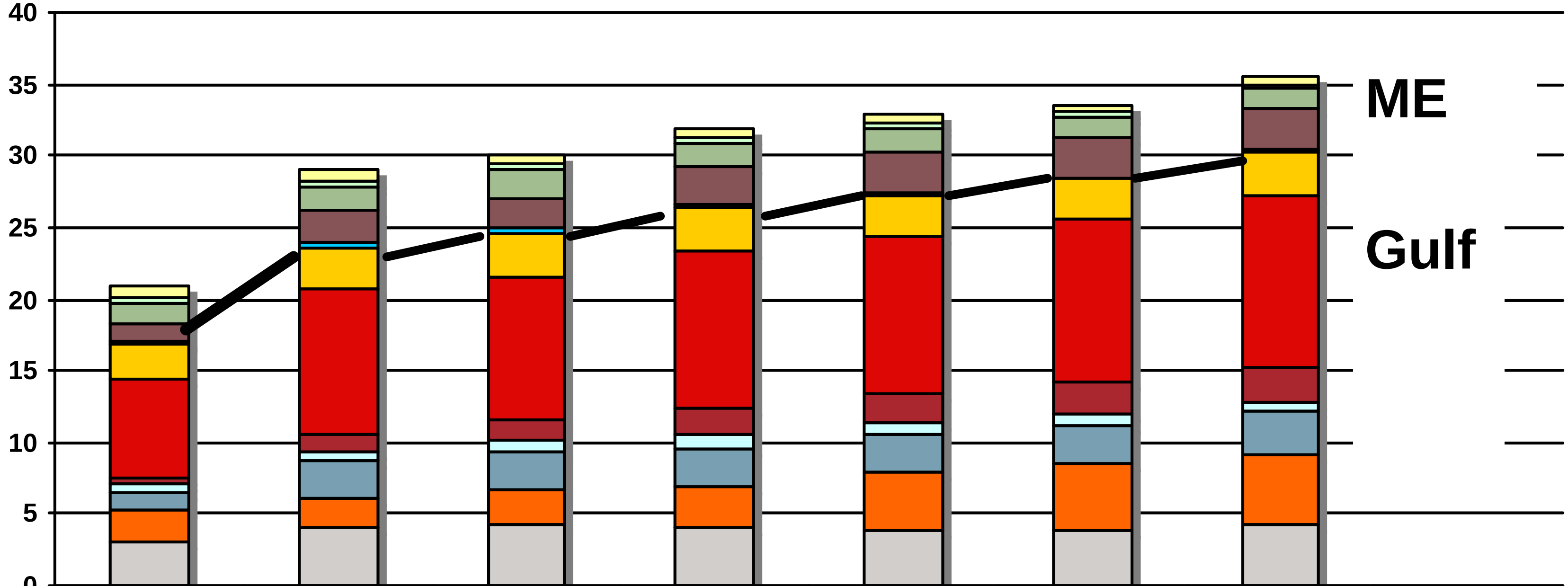
EIA Projections of Gulf OPEC Oil Production 1990-2030: In Millions of Barrels Per Day



	1990	2007	2010	2015	2020	2025	2030	% Change 06-30
World-Reference	66.5	84.8	86.3	90.6	95.9	101.1	106.9	*1.0
Gulf OPEC								
---Reference	16.1	23.1	23.8	25.4	26.7	27.8	29.5	* 0.9
---High Oil Price			23.8	20.8	19.6	19	19.1	* -0.9
---Low Oiil Price			24.1	29.3	32.2	34.8	37.6	* 2.0
---High Econ Growth			23.9	26	28.1	29.7	32.3	* 1.3
---Low Econ Growth			23.8	24.8	25.5	25.9	26.9	* 0.5

Source: Adapted from EIA, *World Energy Outlook*, 2009, pp. 225, 229, 233, 241

EIA Projections of Gulf/ME Oil Production By Country 1990-2030: In Millions of Barrels Per Day



	1990	2007	2010	2015	2020	2025	2030	% Change 06-30
Egypt	0.9	0.7	0.5	0.6	0.6	0.6	0.6	* -0.2
Syria	0.4	0.4	0.5	0.4	0.4	0.3	0.3	* -1.5
Libya	1.4	1.8	1.9	1.7	1.5	1.5	1.5	* 0.1
Algeria	1.3	2.2	2.2	2.7	2.8	2.8	2.8	* 3.9
Yemen	0.2	0.3	0.3	0.2	0.2	,2	0.2	* -3.7
UAE	2.3	2.9	3	3	2.9	2.9	2.9	* 0.3
Saudi	7	10.2	10	10.9	11	11.3	12	* 3.3
Qatar	0.4	1.1	1.4	1.9	2.1	2.3	2.5	* 0.5
Oman	0.7	0.7	0.8	0.9	0.7	0.7	0.7	* -0.2
Kuwait	1.2	2.6	2.7	2.7	2.6	2.7	2.9	* -0.1
Iraq	2.1	2.1	2.5	2.9	4.2	4.6	5	* 0.5
Iran	3.1	4	4.2	4	3.8	3.9	4.2	* -0.1

Source: Adapted from EIA, *World Energy Outlook*, 2009, p. 225

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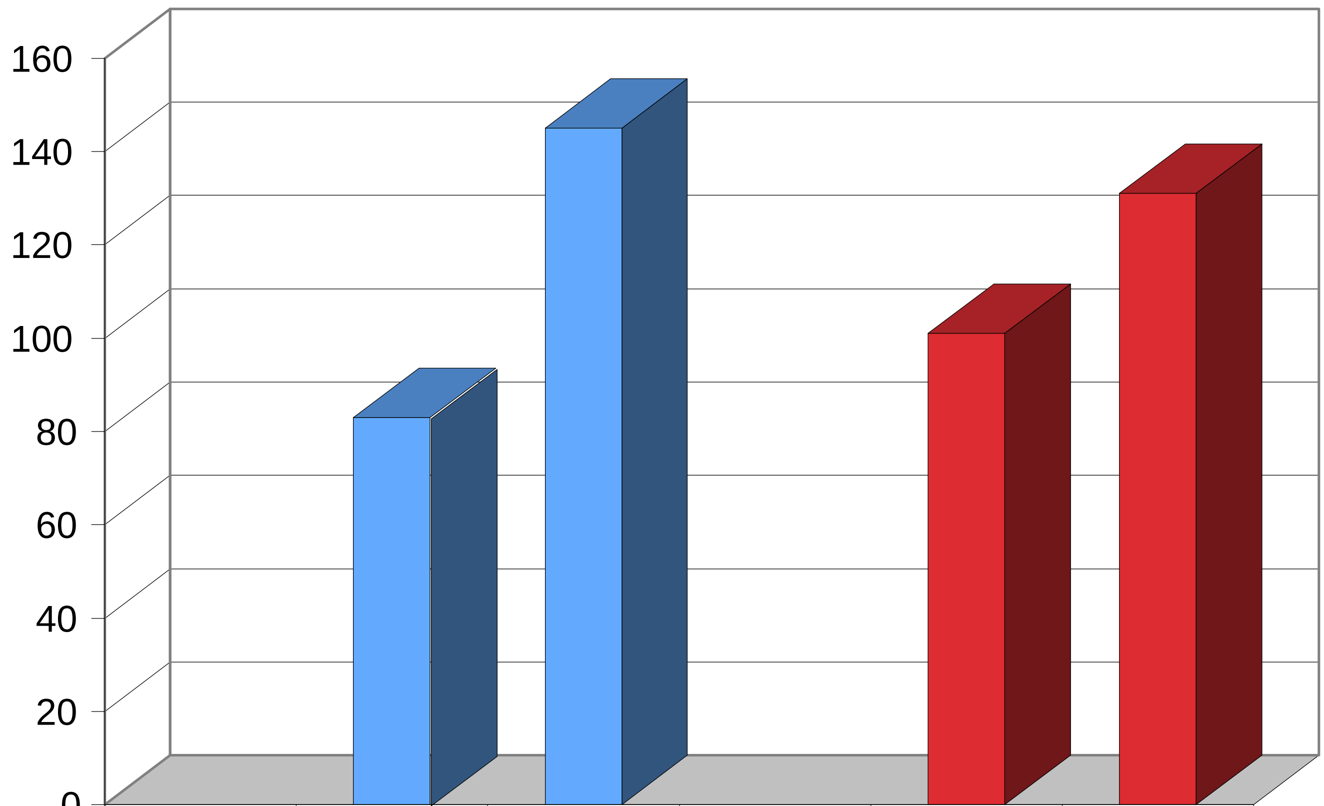
Growth of China and US Energy Demand

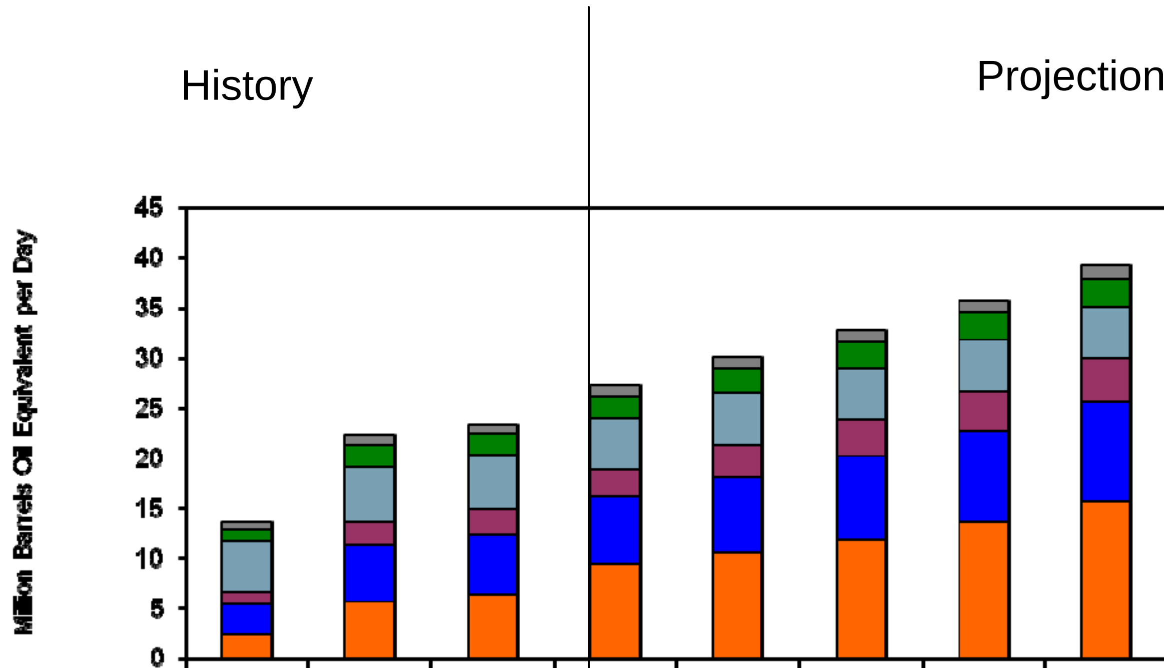
Consumption of Energy in Quadrillion BTUs: 2004 vs. 2030



	.	China 2004	China 2030	.	US 2004	US 2030
					101	131
Quad BTU		83	145			

Adapted from DOE/EIA, IEO 2009, Table A1 Reference Case In Quadrillions of Btus.

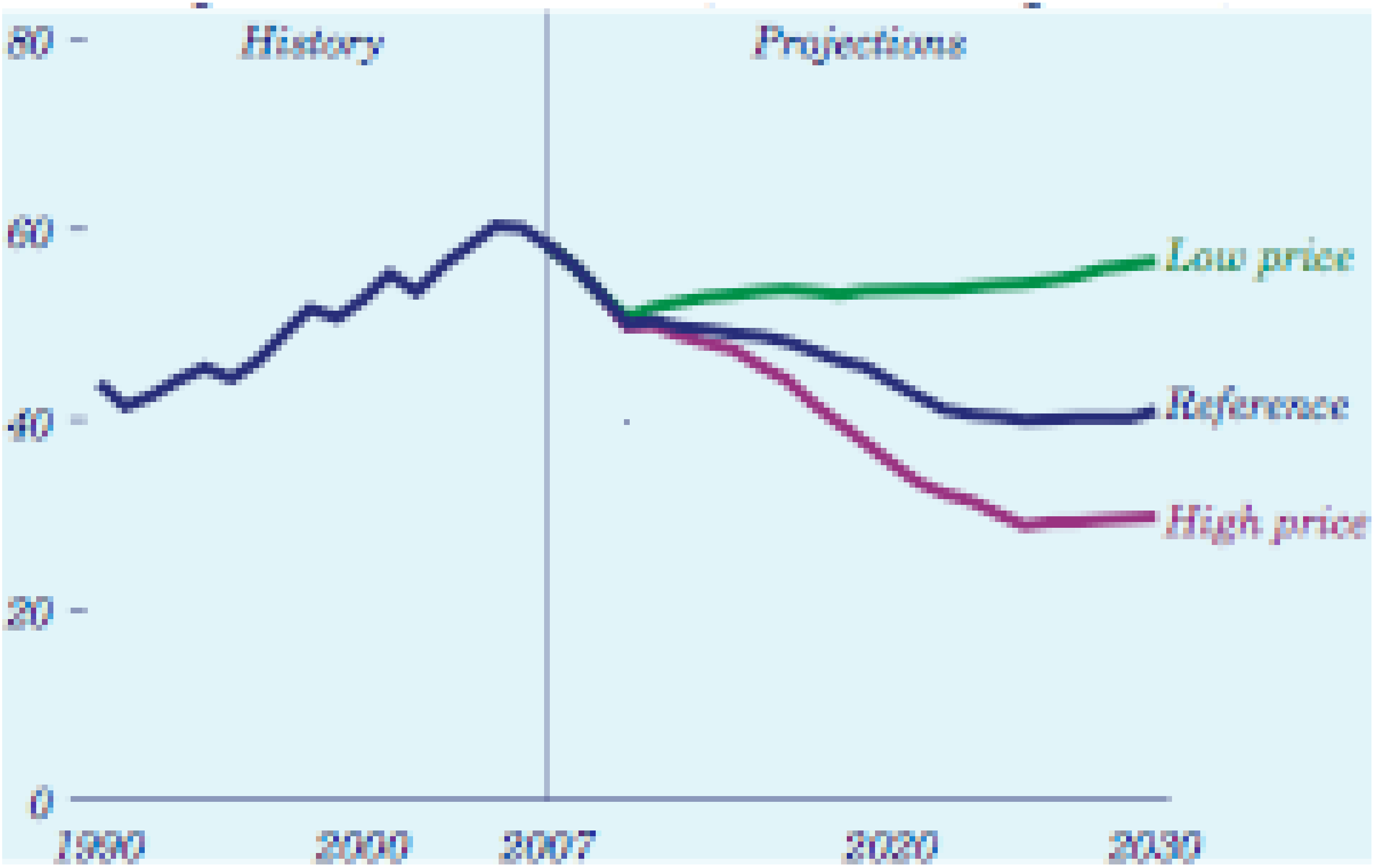
Impact of Rising Asian Liquids Consumption in the EIA Reference Case, 1990-2030



	1990	2003	2004	2010	2015	2020	2025	2030
Aus/NZ	0.8	1	1	1.1	1.1	1.2	1.2	1.3
South Korea	1	2.2	2.1	2.2	2.5	2.6	2.7	2.8
Japan	5.2	5.5	5.4	5.2	5.2	5.2	5.2	5.2
India	1.2	2.3	2.5	2.7	3.2	3.6	4	4.4
Other	3.1	5.7	6	6.7	7.6	8.3	9	9.8
China	2.3	5.6	6.4	9.4	10.5	11.9	13.6	15.7
Total Asia	0	0	0	0	0	0	0	0
World	0	0	0	0	0	0	0	0
% Total	0	0	0	0	0	0	0	0

Source: EIA, IEO2009, Appendix A, p. 88

Net Import Share of U.S. Liquid Fuels Consumption, 1990-2030 (2009 Estimate) in Percent



DOE-IEA, Annual Energy Outlook 2009, p. 82

Economics and Demographics

- **Generation of demographic pressure on the labor force enters critical period: 30-40% at 14 years or younger.**
- **Too little competitiveness, too much dependence on foreign labor. Chronic "un" and "under" employment.**
- **Unpredictable scale of global economic crisis pressure: All of North Africa, Levant, Iran and Iraq, and:**
    - **Bahrain, Oman, parts of UAE, Saudi Arabia (?)**
    - **End to bubble economics in the Gulf**
    - **Pressure from Yemen and the Horn**
- **Educational issues; work ethic, job pull: "Lost generation?" "Alienation" and extremism?**
- **Income distribution and equity.**