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Report Part Title: SAUDI ARABIA

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VIII. SAUDI ARABIA

Saudi Arabia does not meet Western criteria for democratization or the adoption of human rights ideals. It is a conservative country that controls the speech of influential Sunni clerics to a greater extent than any other Muslim-majority state does over its own clerics. However, Saudi Arabia has transitioned from one of the poorest countries in the world to one of the richest, mostly due to investments made possible by its significant oil wealth. These investments have focused on education, job creation, housing, medical services, and infrastructure. It has also benefited from having a royal family, technocrats, and business elites that have advocated and implemented modernization reforms, though it still faces serious internal pressures for change.

The death of King Abdullah on January 25, 2015 has led to major changes in the Saudi government that are still unfolding at a time when Saudi Arabia is fighting a war in Yemen, faces challenges from terrorism and native Shite unrest, and is dealing with the threats posed by Iran as well as ISIS and the civil wars and instability in Iraq and Syria. The Kingdom also faces major economic challenges because of the massive cut in world petroleum prices and resulting cuts its export revenues.

As is discussed shortly, the new king, Salman bin Abdulaziz Al Saud, the new Crown Prince Mohammed bin Nayef, and the king's son and chief agent Prince Mohammad bin Salman, have made radical changes in virtually every aspect of the Saud government that are still be implemented and whose lasting success cannot yet be assessed. So far, however, the Saudi government has remained stable and effective, and the shift from rule by the sons of the modern Kingdom's founder to the next generation has occurred o without any major crisis in the royal family or the Kingdom's leadership.

Saudi Arabia's key civil statistics are:

Population

Population: 2,788,534

Religions/Sects: Muslim (85%-90% Sunni; 10%-15% Shia), Christian, Jewish, Hindu, Buddhist and Sikh.

Ethnic Groups: 90% Arab; 10% Afro-Asian.

Median age: 26.8 years.

Percent Age Zero to 24: 46.18%

Governance:

The World Bank **governance index** for 2014 rates Saudi Arabia as being in the 3rd percentile for accountability, 35th percentile for political stability and violence, 62nd percentile for effectiveness of governance, 53rd percentile for regulatory quality, 65th percentile for quality of rule of law, and 60th percentile for control of corruption.²⁴⁵

Transparency International ranked Saudi Arabia as 48/168 in the world in terms of overall corruption.²⁴⁶

Economics

GDP in \$US Billions: \$753.831 (World Bank, 2014)

GDP Per Capita in \$US: \$24,406 (World Bank, 2014)

GDP Per Capita (World Ranking): 21 (CIA World Factbook, 2015)

Poverty Level (Percent): NA

World Bank Ease of Doing Business Rating: The World Bank ranked Saudi Arabia 82nd in the world in **ease of doing business** in 2015. It has ranks 130 in ease of starting a business, 17 in dealing with construction permits, 24 in getting electricity, 31 in registering property, 79 in getting credit, 99 in

protecting investors, 3 in paying taxes, 150 in trade across borders, 86 in enforcing contracts, and 189 in resolving insolvency.²⁴⁷

Saudi Arabia's Risk Status

Figure VIII.1 shows a summary risk assessment of Saudi Arabia using the SIRA (Strategic and International Risk Assessment) model developed by Dr. Abdullah Toukan.²⁴⁸ It should be noted that this assessment does not reflect the full impact of the current “crash” in petroleum prices or address security issues. It does, however, indicate that Saudi Arabia is in the low to moderate risk category in civil terms.

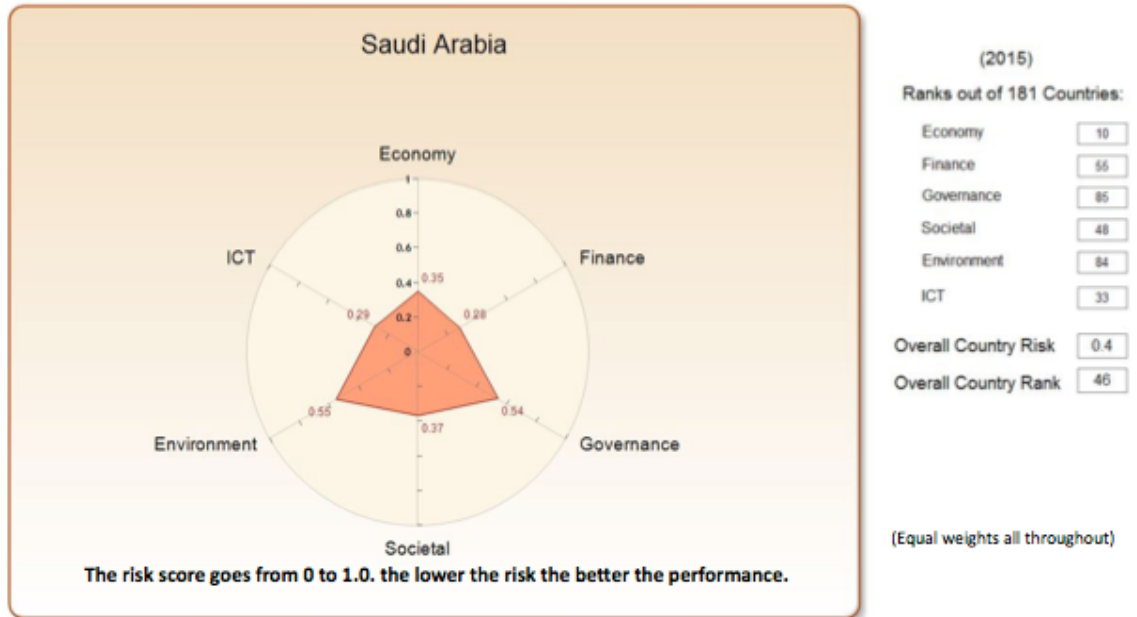
This does, however, assume that Saudi Arabia can adapt to the “oil crash” and 40-60% lower petroleum export revenues it may experience over at least the next few years. Like several of its neighbors, Saudi Arabia is taking aggressive steps to reduce both its costs of government and dependence on oil, but the success of such steps is uncertain and raises its level of civil risk to at least “moderate.”

Saudi Arabia also faces the serious security risks described in earlier chapters and in the later chapter on Yemen. Key elements of risk come from the Saudi role as the de facto leader of the GCC and Gulf states in deterring and defending against Iran, the threat posed by terrorism and extremism from non-state actors like ISIS and AQAP, the threat posed by the war in Yemen, and the limited threat posed by tensions between its Sunni majority and its Shi'ites. These risks are offset by its alliance with the United States, strong military and internal security forces, and the fact that Iran is unlikely to deliberately bring any challenge to the point of a major conflict.

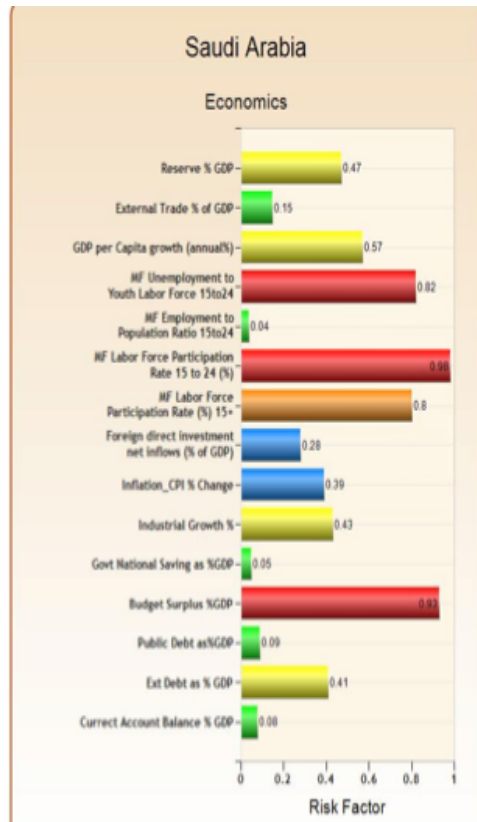
Much depends on just how bitter the tensions between Saudi Arabia and Iran become, how its efforts at economic reform proceed, and its view of how much trust it can put in its strategic partnership with the United States—an issue that has become much more serious since two U.S. Presidential candidates cast all such partnerships into question in the 2016 campaign. While Americans often focus on a possible future Saudi succession crisis, Saudis have real reason to be concerned about the U.S. succession crisis of 2016.

It is also dangerous to underestimate just how seriously Saudis—and many other Arab Sunnis—take the threat from Iran. Many such concerns are exaggerated, and conspiracy theories that the United States will turn to Iran at the expense of its Arab allies have no basis in fact. Iran's role in Lebanon, Syria, and Iraq is, however, perceived as a critical threat—as its role—real and imagined in Bahrain, Kuwait, Saudi Arabia, and Yemen. The attitudes of some Saudis towards Iranians has sometimes taken on an almost racist character in the last two years, lined both to its Shi'ite practices and “Persian” ethnicity. The Saudi leadership is far more pragmatic, but it is dangerous to underestimate the growing tensions and hostility on the part of both Saudi Arabia and Iran.

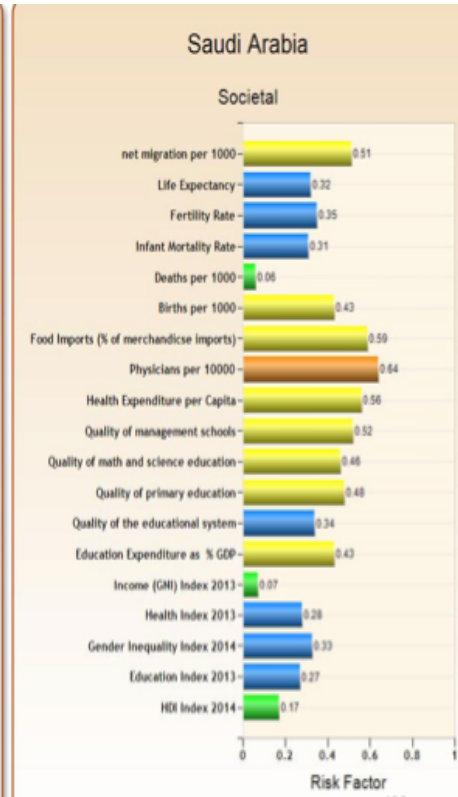
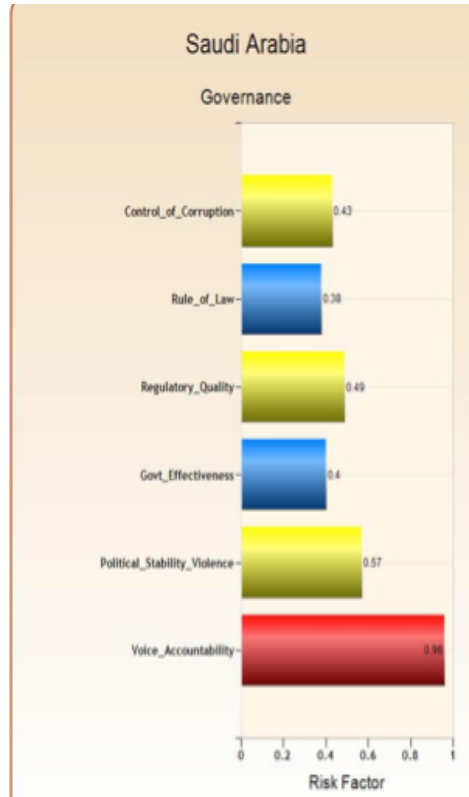
Figure VIII.1: Saudi Arabia: Summary Risk Assessment



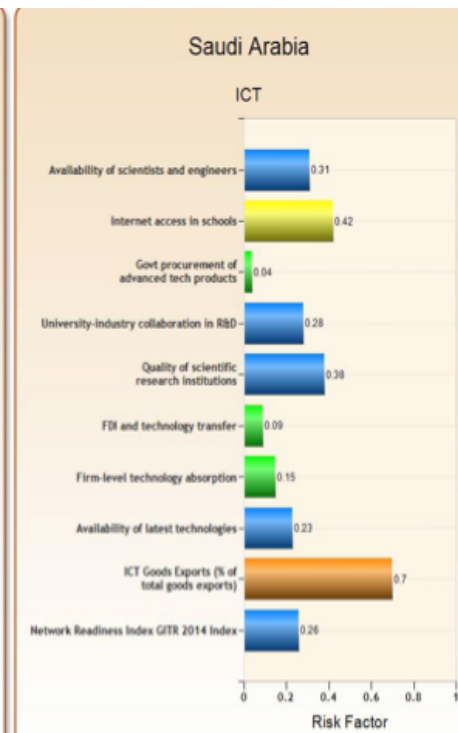
Risk Color Legend



Risk Color Legend



Risk Color Legend



Source: Dr. Abdullah Toukan, *Stability in the MENA Region: Beyond ISIS and War, Volume Two: Country-by-Country Trends*, http://csis-prod.s3.amazonaws.com/s3fs-public/160419_MENA_Stability_I_Regional_0.pdf

Saudi Demographics

Saudi Arabia has experienced massive population growth over the decades since 1950. It had some 27,752,316 people in July 2015, and was more than seven times larger than in 1950.²⁴⁹ As a result, Saudi Arabia has one of the largest “youth bulges” in the Gulf. It also, however, has become steadily more dependent on foreign labor, and its economic “diversification” has really been centered around the growth of service industries dependent on its oil revenues, and petroleum related down-stream industries that it does not count as part of its petroleum sector.

The Saudi Vision 2030 initiative—which is described shortly—seeks to change this, but faces major challenges. The Saudi population growth rate has slowed to what the CIA estimates is 1.46%, but still continues to climb and past growth has left a critical legacy. Population data are uncertain, but a UN estimate made in 2015 indicates that more than 30% of the population—almost all adults—consists of foreign workers.²⁵⁰

At the same time, the CIA estimates that 27% (male 3,850,992/female 3,661,194) of what is almost all a native part of the population is 14 years of age or younger, and another 19% (male 2,839,161/female 2,463,216) is 15-24 years of age. The median age is only 26 years and the youth dependency rate is 42%.²⁵¹

The CIA estimates that direct unemployment was nearly 30% in 2015, heavily concentrate among Saudi youth, with men at over 21% and women at over 55%.²⁵²

As the Vision 2030 initiative indicates, these figures sharply understate the problem. Large numbers of Saudis in government do not have a productive function, and the same is true of Saudis in service jobs. Disguised unemployment is a serious problem, and native education, the creation of job skills and future employment must adapt to the fact that Saudi Arabia is now hyperurbanized, with more than 85% urbanization in 2016.

A long series of previous five-year plans have fallen far short of their goals in increasing Saudi employment and reducing foreign labor. Saudi Arabia’s religious and social structure limits the role and productivity of what has become a large body of well-educated females, and many young men seek government employment because of its perceived status and value in arranging marriages.

The following key trends affect Saudi demographics and have major consequences for its political system and economy:

- Saudi Arabia’s population is growing rapidly. The US Census Bureau estimates that it was 7.18 times larger in 2015 than in 1950. It had a population of 3.9 million in 1950, 10.0 million in 1980, 21.3 million in 2000, and 27.8 million in 2015. It estimates that it will have a population of 31.8 million in 2025 and 40.3 million in 2050.²⁵³
- As of 2015, Saudi Arabia was 83.1% urbanized with a 2.1% rate of continued urbanization.²⁵⁴ The median age is 26, and 46.2% of its population is 24 years old or younger.²⁵⁵
- Saudi Arabia ranks 48th out of 168 on the 2015 Transparency International Corruptions Perception Index.²⁵⁶
- Saudi Arabia ranks 82nd out of 189 on the World Bank’s *Ease of Doing Business* ranking.²⁵⁷ It has major problems with starting a business, trading across borders, and resolving insolvency. However, Saudi Arabia ranks 3rd in the world in tax payment.²⁵⁸
- Saudi Arabia ranks 39th on the UN Human Development Index.²⁵⁹ Almost 95% of the population

is literate.²⁶⁰

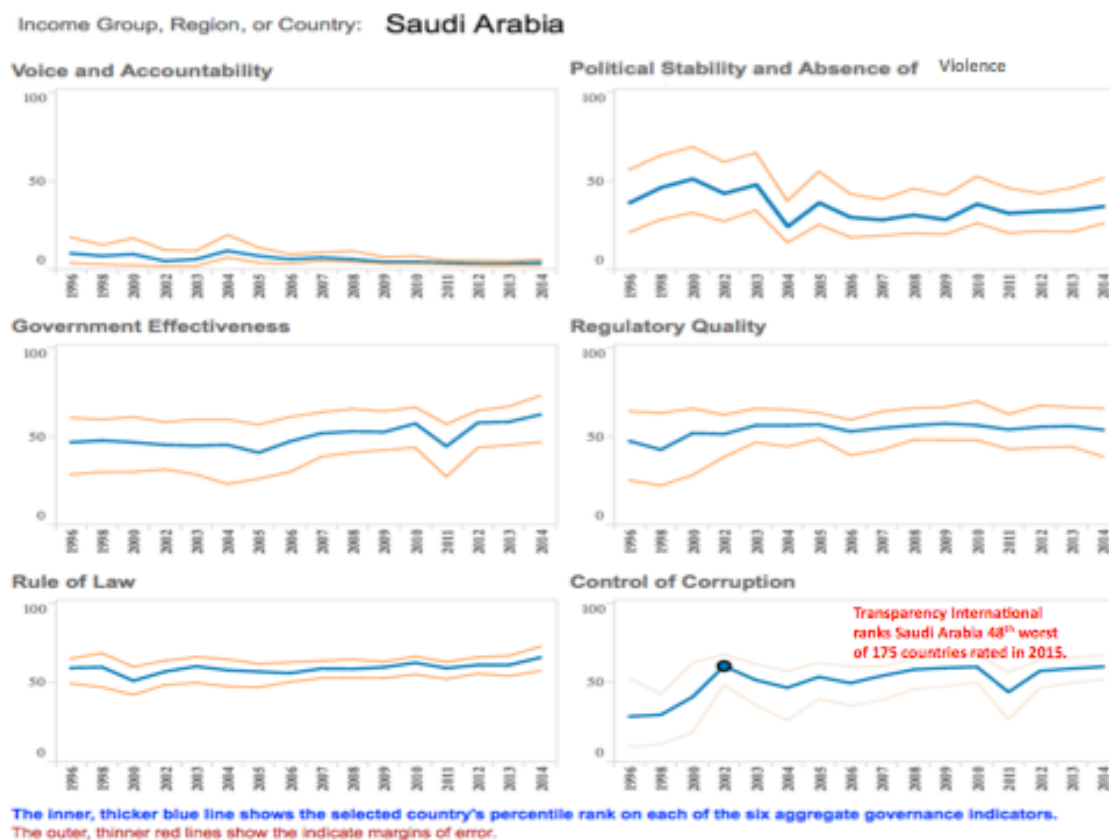
- The CIA estimated Saudi Arabia's per capita income to be \$54,600 in 2015, ranking 21st in the world.²⁶¹

Saudi Politics, Modernization, and Stability

Saudi Arabia's strategic importance has led to decades of concern about its political stability, the unity of the royal family, the succession, and possible sources of internal division and unrest. So far such concerns and fears have been consistently exaggerated, and the Saudi Royal family has been able to quickly adapt to new Kings, the government has been effective, met popular needs, and carried out reforms at the pace its population needs.

The World Bank estimates that Saudi Arabia has mixed standards of governance that reveal security problems and a lack of transparency but do continue to improve over time. These trends are shown in **Figure VIII.2**.

Figure VIII.2: World Bank Estimate of Trends in Saudi Governance



Source: World Bank, World Wide Governance Indicators, United Arab Emirates: <http://info.worldbank.org/governance/wgi/index.aspx#reports>.

The CIA provided the following summary of Saudi Arabia's politics, modernization, and stability in April 2016:²⁶²

Saudi Arabia is the birthplace of Islam and home to Islam's two holiest shrines in Mecca and Medina. The king's official title is the Custodian of the Two Holy Mosques. The modern Saudi state was founded in 1932 by Abd al-Aziz bin Abd al-Rahman Al Saud (Ibn Saud) after a 30-year campaign to unify most of the Arabian Peninsula. One of his male descendants rules the country today, as required by the country's 1992 Basic Law. King Salman bin Abd al-Aziz ascended to the throne in 2015 and placed the first next-generation prince, Muhammad bin Nayif bin Abd al-Aziz, in the line of succession as Crown Prince.

Following Iraq's invasion of Kuwait in 1990, Saudi Arabia accepted the Kuwaiti royal family and 400,000 refugees while allowing Western and Arab troops to deploy on its soil for the liberation of Kuwait the following year. The continuing presence of foreign troops on Saudi soil after the liberation of Kuwait became a source of tension between the royal family and the public until all operational US troops left the country in 2003. Major terrorist attacks in May and November 2003 spurred a strong on-going campaign against domestic terrorism and extremism.

From 2005 to 2015, King Abdallah incrementally modernized the Kingdom. Driven by personal ideology and political pragmatism, he introduced a series of social and economic initiatives, including expanding employment and social opportunities for women, attracting foreign investment, increasing the role of the private sector in the economy, and discouraging businesses from hiring foreign workers. Saudi Arabia saw protests during the Arab Spring among Shias in the Eastern Province, who protested primarily against the detention of political prisoners, endemic discrimination, and Bahraini and Saudi Government actions in Bahrain. Riyadh took a cautious but firm approach by arresting some protesters but releasing most of them quickly, and by using its state-sponsored clerics to counter political and Islamist activism. In addition, protests were met by a strong police presence, with some arrests, but not the level of bloodshed seen in protests elsewhere in the region.

The government held its first-ever elections in 2005 and 2011, when Saudis went to the polls to elect municipal councilors. In December 2015, women were allowed to vote and stand as candidates for the first time in municipal council elections, with 21 women winning seats. King Salman bin Abd al-Aziz Al Saud ascended to the throne in 2015 and placed the first next-generation prince, Muhammad bin Nayif bin Abd al-Aziz Al Saud, in the line of succession as Crown Prince. He designated his son, Muhammad bin Salman bin Abd al-Aziz Al Saud, as the Deputy Crown Prince.

In March 2015, Saudi Arabia led a coalition of 10 countries in a military campaign to restore the government of Yemen, which had been ousted by Houthi forces allied with former president Ali Abdullah al-Salih. The war in Yemen has led to civilian casualties and shortages of basic supplies, which has drawn considerable international criticism. In December 2015, Deputy Crown Prince Muhammad bin Salman announced Saudi Arabia would lead a 34-nation Islamic Coalition to fight terrorism. In January 2016, Saudi Arabia executed 47 people on charges of terrorism, including Shia cleric Nimr al-Nimr. Iranian protesters overran Saudi diplomatic facilities in Iran to protest al-Nimr's execution and the Saudi government responded by cutting off diplomatic ties with Iran.

The Impact of Low Oil Prices on the Saudi Economy

As has been noted throughout this analysis, cuts in oil export revenues affect every oil exporting state in the Gulf and the world. As has been touched upon earlier, the price of oil declined sharply in 2014, and to levels that were as much as 70 percent lower than its value in June 2014, when the price was \$115.²⁶³ As of late April 2016, the price of a barrel of Brent crude was hovering in the low \$40 range.²⁶⁴

The importance of these shifts can be measured in many different ways. For example, oil rents accounted for 38.7% of Saudi Arabia's GDP in 2014,²⁶⁵ but the petroleum sector alone made up 92.5% of the government's revenue.²⁶⁶ Saudi Arabia is second only to the United States in petroleum production, producing approximately 11.6 million barrels per day in 2014.²⁶⁷ As of August 2014, the Saudi Arabian Monetary Agency's (SAMA) net

foreign assets totaled a record high \$737 billion; by November 2015, this valued had shrunk by more than \$100 billion to \$628 billion, as the government began to draw down its assets in order to handle the budget deficit caused by the drop in the price of oil.²⁶⁸

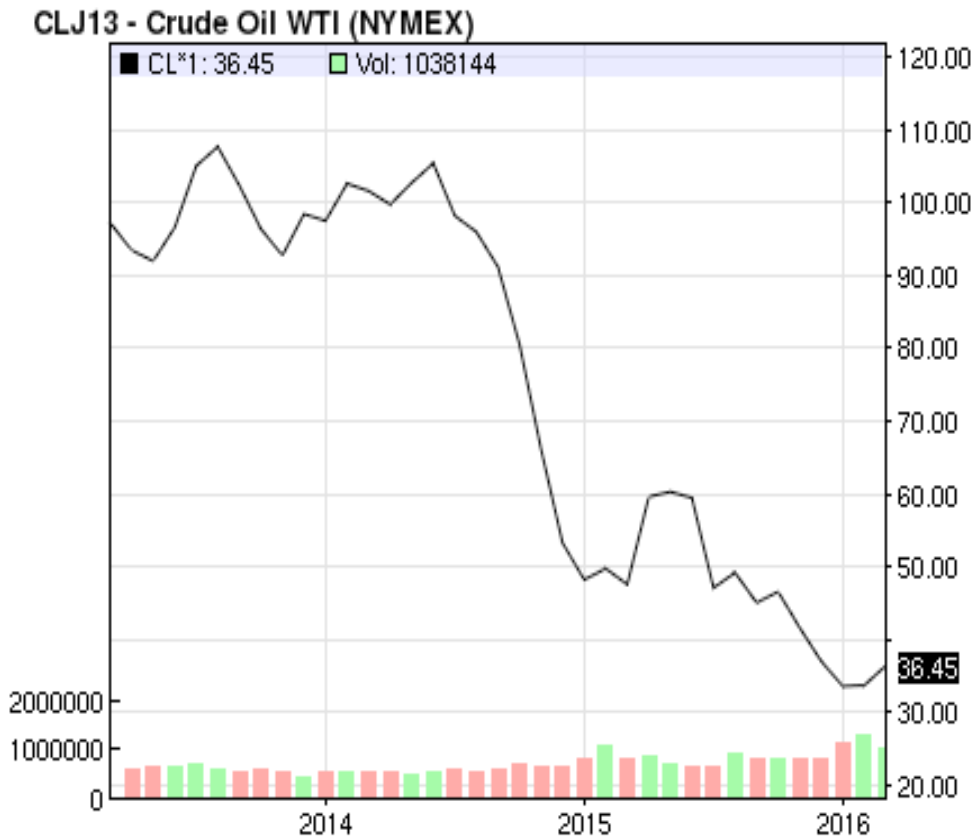
As for the figures involved, estimates of Saudi petroleum export income differ. According to EIA and CIA data, Saudi Arabia earned some \$278 billion in petroleum export revenues in 2013, and \$246 billion in 2014. This now seems like to drop to levels well under \$140 billion in 2016 and possibly in 2017 and beyond. Similarly, per capita petroleum export earnings were \$9,053 in 2013 and \$7,900 in 2014, and may well drop to less than \$4,500 in 2016-2017.²⁶⁹

This drop will have a critical impact on an economy that had a \$1.7 trillion GDP in 2015, but much of which was both directly and *indirectly* dependent on petroleum income. Moreover, the past several years have led to deliberate low prices on the domestic use of petroleum, water, electricity and other services and a lack of taxation. This has resulted in massive waste of such services, unnecessary domestic use of petroleum, and a lack of other sources of revenue—driven in part by a rapid population growth in Saudi Arabia.

World oil prices are inherently unpredictable, but today's low prices have led to a serious oil glut, and are often projected to remain low over the next few years. As a result, Saudi Arabia and other oil producing countries are flooding the market with crude because the marginal cost of production continues to be lower than the market price, and the increased production and sales are helping to mitigate the blow of decreased revenue.

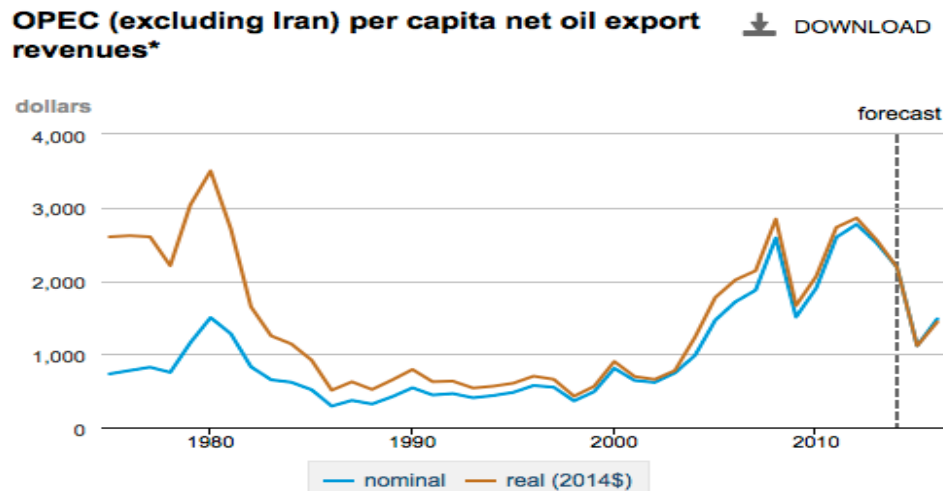
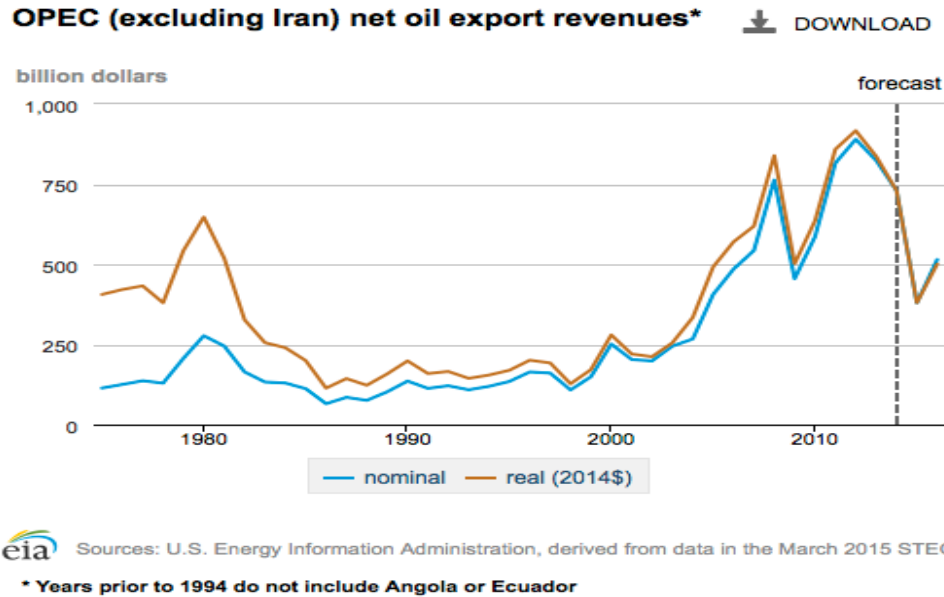
Figure VIII.3 shows how the petroleum “bubble” began to collapse in 2014, as well as the drop in the price of crude oil through March 2016. **Figure VIII.4** shows the drop in OPEC's net oil export revenues and per-capita net oil export revenues.

Figure VIII.3: The Petroleum “Bubble:” 2014 – March 2016



Source: NASDAQ, <http://www.nasdaq.com/markets/crude-oil.aspx?timeframe=7y>

Figure VIII.4: OPEC Net Oil Export Revenue Crash: Early EIA Estimate



Source: EIA, OPEC (excluding Iran) net oil export revenues, <https://www.eia.gov/beta/international/regions-topics.cfm?RegionTopicID=OPEC>, March 31, 2015; Oil and Gas Journal, <http://www.ogj.com/articles/2015/04/eia-opecc-s-net-oil-export-revenues-declined-11-in-2014.html>

Saudi Arabia's economy has already been hit hard by the drop in its oil export revenues. As is the case with other exporters, analysts have predicated wildly different estimates of the resulting risks. The World Bank report on the Saudi economy for Spring 2016 takes a position that seems more balanced than most, and stated that,²⁷⁰

The economy grew at a modest pace in 2014-15, with real GDP growth at 3.6 % in 2014 and an estimated 3.5 % in 2015. Oil production increased from an average of 9.7 million bpd in

2014 to 10.1 million bpd in 2015. Increased oil output along with an expansionary fiscal stance helped support economic growth. Average inflation stood at 2.2 % in 2015.

The fiscal deficit widened substantially in 2015, with moderate tightening in 2016. Expenditure cuts were limited to a modest 2.5 % in 2015 while the revenues dropped by 38 %. The fiscal deficit had a large increase to 18.9 % in 2015. The deficit was financed largely by SAMA's large stock of foreign assets (estimated to exceed \$600 billion by the end of 2015). The 2016 budget reflects a moderate tightening. Domestic oil prices were raised by 50 %, and natural gas and water prices are planned to be increased as well. In addition, budgetary allocations for education, health, and municipality services have faced significant cuts in an attempt to consolidate the deteriorating fiscal balances. Some revenue measures were recently introduced, including a 2.5 % tax on undeveloped land and \$23 airport fee for international visitors. Other measures, including a 5 % Value Added Tax (VAT) and additional taxes on tobacco and soft drinks, have been announced awaiting implementation.

The current account balance deteriorated with low oil prices, as hydrocarbons account for 89 % of exports. The current account balance moved from a surplus of 10 % of GDP in 2014 to a deficit of 5.2 % of GDP in 2016.

On the monetary policy front, a passive stance continues. With a peg to the US dollar, SAMA followed the US Federal Reserve and increased its lending rates by 25 basis points in December 2015 amidst a slowing economy. Notwithstanding its benefits of providing stability and predictability, the peg has led to significant real appreciation of the riyal against currencies of the KSA's major trading partners since the global financial crisis. From 2008 to 2016, the Real Effective Exchange Rate of the riyal, defined in broad terms, has appreciated by more than 35 %. Going forward, further interest hikes by the FED are likely to magnify this effect by further appreciating the US dollar, and thus, the Saudi riyal.

The structural reform agenda is gaining momentum. The authorities have recently announced the launch of the National Transformation Plan, which aims to introduce structural measures like improvements in public sector efficiency, privatization, further subsidy reforms and revenue diversification initiatives.

Tradeoffs between growth-enhancing public spending and fiscal sustainability will prevail in the short-term. With the introduction of moderate fiscal austerity measures, the economy is projected to grow at a slower rate of 2.2 % in real terms in 2016. However, with \$37 average oil price in 2016 (the latest World Bank projections), current fiscal measures are insufficient to have a large impact on the fiscal deficit, which is projected at 16.3 % of GDP. Efforts to raise non-oil revenues will remain modest and expenditure cuts will occur gradually, focusing primarily on the capital budget. Imports will fall following cuts in public capital expenditures, and although exports will also fall, the fall in imports is projected to be greater in magnitude. Thus, the current account balance is expected to improve but remain in deficit at 2.8 % of GDP in 2016.

The CIA described the Saudi economic situation in April 2016 as follows:²⁷¹

Saudi Arabia has an oil-based economy with strong government controls over major economic activities. It possesses about 16% of the world's proven petroleum reserves, ranks as the largest exporter of petroleum, and plays a leading role in OPEC. The petroleum sector accounts for roughly 87% of budget revenues, 42% of GDP, and 90% of export earnings.

Saudi Arabia is encouraging the growth of the private sector in order to diversify its economy and to employ more Saudi nationals. Over 6 million foreign workers play an important role in the Saudi economy, particularly in the oil and service sectors; at the same time, however, Riyadh is struggling to reduce unemployment among its own nationals. Saudi officials are particularly focused on employing its large youth population, which generally lacks the education and technical skills the private sector needs.

In 2015 the Kingdom incurred a budget deficit estimated at 13% of GDP, and it faces a deficit of \$87 billion in 2016, which will be financed by bond sales and drawing down reserves. Although the Kingdom can finance high deficits for several years by drawing down its considerable foreign assets or by borrowing, it has announced plans to cut capital spending in 2016. Some of these plans to cut deficits include introducing a value-added tax and reducing subsidies on electricity, water and petroleum products. In January of 2016, Crown Prince Muhammad bin Salman announced that Saudi Arabia intends to list shares of its state-owned petroleum company, ARAMCO - another move to increase revenue and outside investment. The government has also looked at privatization and diversification of the economy more closely in the wake of a diminished oil market.

Historically, Saudi Arabia has focused diversification efforts on power generation, telecommunications, natural gas exploration, and petrochemical sectors. More recently, the government has approached investors about expanding the role of the private sector in the healthcare, education and tourism industries. While Saudi Arabia has emphasized their goals of diversification for some time, current low oil prices may force the government to make more drastic changes ahead of their long-run timeline.

Saudis inside and outside government clearly recognize these risks. An analysis by Jadwa Investment, a leading and highly respected Saudi financial firm, summarized them as follows, and provides the supporting estimates shown in **Figure VIII.5**. Its February 2016 analysis of the Saudi 2016 budget noted that,²⁷²

The government has reaffirmed its commitment to support the economy by budgeting for a SR326 billion deficit in nominal terms, based on revenues of SR514 billion and expenditures of SR840 billion. The deficit will continue to be financed using a combination of Saudi Arabian Monetary Agency's (SAMA) huge stock of net foreign assets, and domestic debt. SAMA net foreign assets totaled \$628 billion at the end of November, while public debt rose from a long-term low of SR44.3 billion in 2014 to reach SR142 billion in 2015, yet still low relative to GDP at 5.8 percent.

Despite the global environment of lower oil prices, the Kingdom has maintained a high level of spending in the 2016 fiscal budget. Education and healthcare remain the focus of government spending, accounting for 35 percent of total spending. Whilst spending on military and security services constitutes the largest single share at 25 percent. A new allocation accounting for 22 percent has been introduced to support the budget and help address shortages in revenue. We estimate that budgeted investment spending has been reduced to SR204 billion in 2016, with spending on key social infrastructure projects maintained. This points to a gradual consolidation in the fiscal stance but also shows the government's sustained commitment on maintaining a high level of spending on human capital and social infrastructure.

The budgetary performance in 2015 came close to our forecasts with a deficit of SR367 billion, or 15 percent of GDP (Jadwa Investment forecast: SR403 billion, 16.4 percent of GDP). Despite the deficit being the largest on record, reduced spending has meant a much smaller than anticipated deficit. This is the second consecutive fiscal deficit, and was mainly due to both a steep fall in revenues and a rise in one off expenditures associated with the royal succession. Total revenue fell by 41.5 percent compared to the previous year, reaching its lowest level since 2009 at SR608 billion. We estimate oil revenue to have fallen by 51 percent despite record production (10.2 mbpd year-to -November). Fiscal expenditure was reduced for the first time since 2002 to reach SR975 billion, SR136 billion lower than 2014.

Jadwa's assessment of the problems that help shape the Saudi Vision 2030 reform plan discussed in the following section reported that,²⁷³

The Kingdom's recent economic history has witnessed sudden shifts in its business cycles (Figure 2) which has correlated to government expenditure, traditionally an important stimulator of growth in the non -oil economy, but sensitive to movements in oil prices. The Kingdom witnessed slower economic growth during several episodes of oil price declines (1980s and late 1990s). This led to

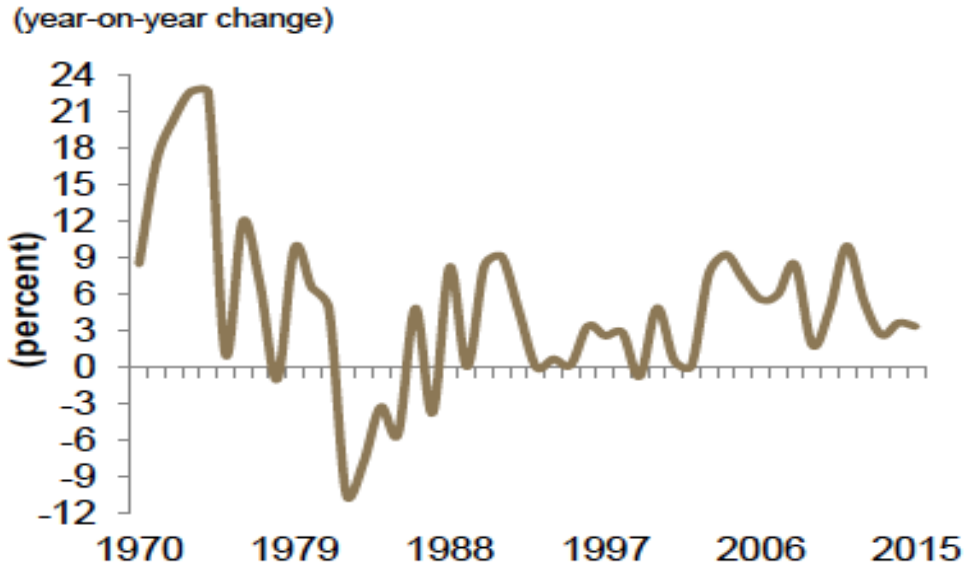
some rapid reductions in government spending and a subsequent slowdown in growth. While today's episode of oil price decline is similar to previous ones, the Kingdom does enjoy an exception in the form of substantial fiscal buffers. However, as the extraordinary expansionary cycle over the last ten years has taken place, and the economy is now amongst the largest in the world, it remains reliant on government spending and subsidies. Between 2005 and 2015, current expenditure - the rigid part of government spending increased significantly from SR284 billion to SR673 billion. But spending is still mainly financed by oil revenues. Over the past five years, 87 percent of the annual share of government revenues has come from oil.

As the economy expanded, so did energy consumption, which meant that the government lost out on an increasing portion of oil revenues, since domestic energy was sold at very low levels. Following the January 2016 energy price increases, authorities have highlighted that the domestic energy price programs already in place have mainly benefitted high-income groups, rather than those in low and mid-level income groups. This is because higher income groups generally have larger energy consumption patterns, and use the most of the electricity generation and fuel consumption...

Figure VIII.5 – Part One: Impact of the Cut in Petroleum Revenues on Saudi Economy

Saudi Dependence on Petroleum Export Revenues in 2015: The petroleum sector accounted for roughly 80% of budget revenues, 45% of GDP, and 90% of export earnings. *

Real GDP Growth



Fiscal Balance if No Action is Taken

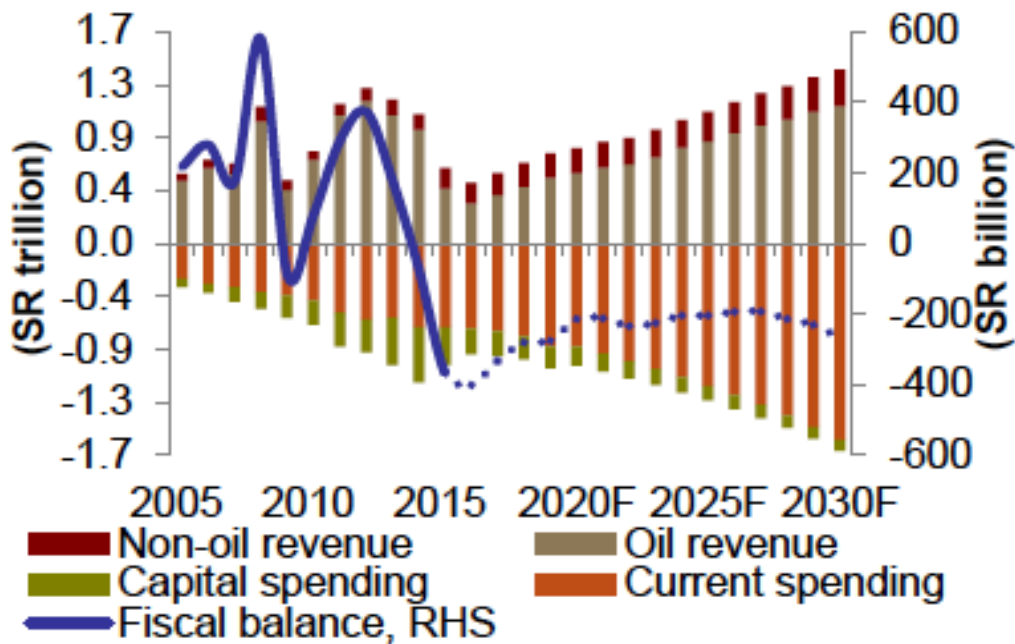
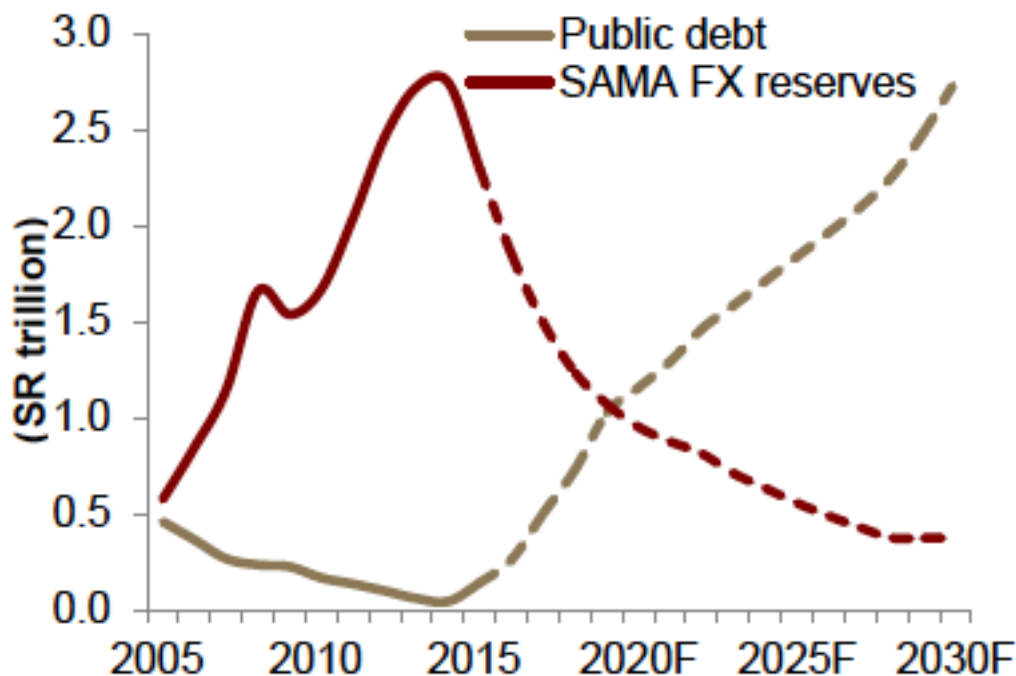


Figure VIII.5 – Part Two: Impact of the Cut in Petroleum Revenues on Saudi Economy

Fiscal Buffers if No Action is Taken



* Source is Forbes, “How much of Saudi Arabia’s economy is based on oil?,” https://www.google.com/search?q=site:www.forbes.com+places+Saudi+arabia&gws_rd=ssl, accessed June 5, 2016.

Source for other data is Jadwa Investment, *Saudi Vision 2030*, May 2016, <http://www.jadwa.com/en/download/saudi-vision-2030/gdp-report-16-6-2-1-3-3-2-1-1>.

Saudi Arabia’s Response and Vision 2030

A meeting of 18 oil-producing countries (including OPEC and non-OPEC producers) was held in Doha on April 17, 2016 to negotiate a deal that would freeze oil output and raise the price of crude oil. However, this meeting ended in failure because Saudi Arabia insisted that all OPEC members participate in the deal, and Iran refused. Iran, an OPEC member, is attempting to regain its market-share in oil exports following the JCPOA, which lifted sanctions on the country.²⁷⁴ Sustained levels of oil-production will maintain the current low price of crude.

In order to reduce the Saudi Arabia’s oil dependency, the government has announced that it plans to create a sovereign wealth fund that could become the largest in the world, with assets totaling more than \$2 trillion.²⁷⁵ The fund’s assets would come in part from selling shares of Saudi Aramco, the kingdom’s state oil company, and transferring the company to a government fund. Saudi Aramco is the largest oil-producing company in the world, accounting for about 10 percent of global production. Saudi Arabia plans to sell less than 5 percent of Saudi Aramco shares.²⁷⁶

On April 26, 2016, Deputy Crown Prince Mohammed bin Salman, the man in charge of the Saudi economic modernization effort, announced the approval of Saudi Arabia's development plan, "Vision 2030."²⁷⁷

Saudi Arabia issued the broad outline of a plan for Vision 2030 that was divided into three parts: 1) a vibrant society, 2) a thriving economy, and 3) an ambitious nation. It includes goals such as offering 'green cards' to Muslim/Arab foreign workers, increased female participation in the workforce, additional funding for the tourism manufacturing, and renewable energy industries, and investment in Saudi Arabia's domestic arms industry.²⁷⁸ The state's goal is to purchase 50 percent of its military hardware from domestic industries,²⁷⁹ an ambitious goal given that Saudi Arabia is the largest weapons importing country in the world according to IHS, spending approximately \$9.8 billion on arms imports in 2015.²⁸⁰

Vision 2030's set a goal of ending the kingdom's dependence on oil revenue, which Deputy Crown Prince Salman believes can be accomplished by 2020.²⁸¹ The plan confirmed the Saudi intent to sell shares of Aramco, a company that the government claimed would be valued around \$2.5 trillion, making the sale of less than 5 percent of its sales the largest IPO in history. Such an IPO could, however, force Aramco to publish data quarterly; the company has received criticism in the past for its lack of transparency.

Many of the details of Vision 2030 have not been made public, but Jadwa provides the following summary of its features and estimate of its impacts show in **Figure V.6** and **Figure V.7**

Many aspects of Saudi Arabia's Vision 2030 are optimistic, and both ask the Saudi population to make substantial sacrifices in terms of taxes and prices and call for a major shift in the character of Saudi labor, and in its work ethic and productivity. The announcement of Vision 2030 also does not explicitly take into account Saudi Arabia's major security costs that the IISS and SIPRI estimate consumed 13% of the Saudi GDP in 2015. Due to the comprehensive nature of the plan and the specificity of its objectives, achieving all of its goals in the allotted timeframe seems unrealistic. Even before the drop in oil prices, funding investments in sweeping societal, economic, and political reforms would have been a difficult task. Implementation of the reform programs and Saudi Arabia's ability to generate government revenue will be the critical factors that contribute to the success or failure of Vision 2030.

Any major plan for reform, however, must set demanding goals if it is to accomplish major reform at the fastest practical pace. Everything will depend on the quality of the plan's actual implementation, and the realism with which it is actually put into practice. But, the fact that the plan is too ambitious may prove to be a strength rather than a weakness. Similar to King Abdullah's earlier reform plan following the political upheavals the region began to experience in 2011, Vision 2030 represents one of the only serious efforts to carry out necessary change in the region. Put bluntly from a risk assessment viewpoint, ambitious leadership is far better than none, and a much better policy than narrow reliance on state control and internal security measures.

Figure VIII.6: Saudi Vision 2030 Plan**Goals of the 2030 Plan**

Theme	Goals	Today	2030
A Thriving Economy	Private sector contribution (% of GDP)	40.0	65.0
	Logistics Performance Index (Rank)	49	25
	Non-oil exports (% of non-oil GDP)	16.0	50.0
	Public Investment Fund assets (SR billion)	600	7,000
	Global Competitiveness Index (Rank)	25	10
	Annual FDI inflows (% of GDP)	3.8	5.7
	Domestic output of the oil & gas sector (% of total)	40.0	75.0
	The Kingdom's GDP size (Rank)	19th	Top 15
	Saudi unemployment rate (% of Saudi labor force)	11.6	7.0
	Female labor force participation rate (% of working age females)	22.0	30.0
A Vibrant Society	SME output (% of total GDP)	20.0	35.0
	Number of globally recognized Saudi cities	0	3
	Social Capital Index (Rank)	26	10
	Average life expectancy (Years)	74	80
	Doubling the number of Saudi heritage sites registered with UNESCO	-	-
	Household spending on culture & entertainment (% of total)	2.9	6.0
An Ambitious Nation	Individuals exercising at least once a week (% of total)	13.0	40.0
	Number of Umrah visitors per year (Million pilgrims)	8	30
	Household savings (% of household income)	6.0	10.0
	Non-profit output (% of total GDP)	<1.0	5.0
	Number of volunteers per year	11,000	1 million
	Non-oil government revenues (SR billion)	163	1,000
	Government Effectiveness Index (Rank)	80	20
	E-Government Survey Index (Rank)	36	Top 5

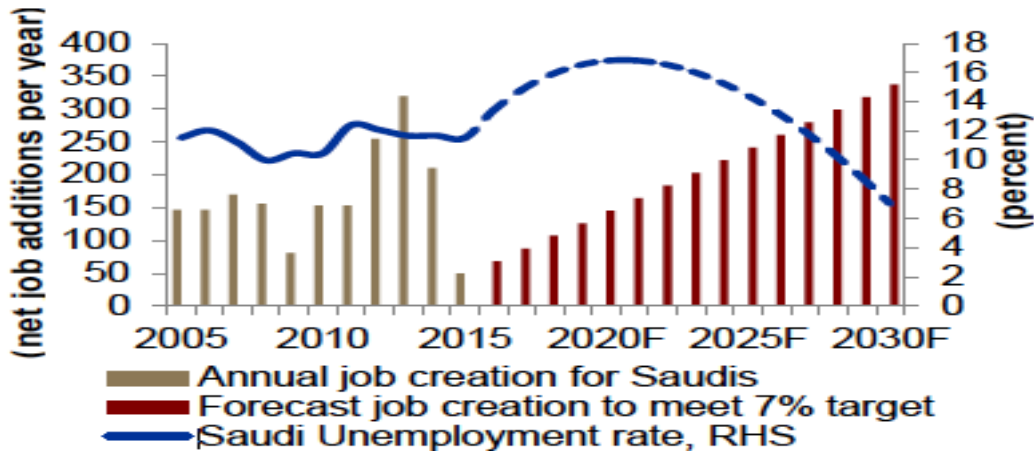
Commitments of Saudi Vision 2030

	Goals		
A Thriving Economy	Open for business	A developed digital infrastructure A flourishing retail sector A restructured King Abdullah Financial District	
	Investing in the long-term	A renewable energy market A mining sector with full potential Localized defense industries	
	Rewarding opportunities	A bigger role for SMEs An education that contributes to economic growth	
	Leveraging its unique position	Building a unique regional logistical hub Integrating regionally and internationally Supporting our national companies	
	A Vibrant Society	With strong foundations	Corporatization: efficient and high quality healthcare
		With fulfilling lives	"Irtiqaa": A more prominent role for families in the education of children "Daem": meaningful entertainment for citizens
With strong roots		The largest islamic museum The honor to serve Umrah visitors in the best way possible	
An Ambitious Nation	Effectively governed	"Qawaem": Increasing spending efficiency Effective E-government Shared services to government agencies King Salman program for human capital development	
	Responsibly enabled	A more impactful non-profit sector	

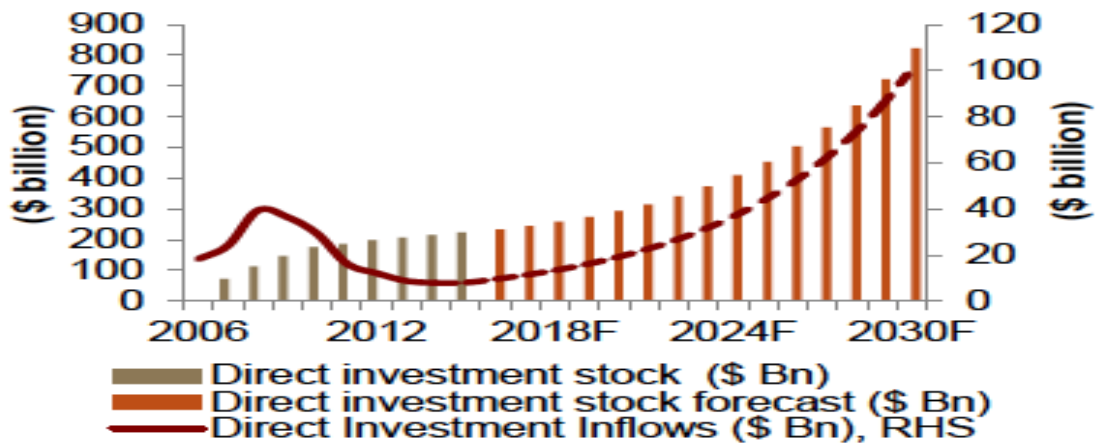
Source for other data is Jadwa Investment, *Saudi Vision 2030*, May 2016, <http://www.jadwa.com/en/download/saudi-vision-2030/gdp-report-16-6-2-1-3-3-2-1-1>.

Figure VIII.7: Desired Impacts of Saudi Vision 2030 Plan

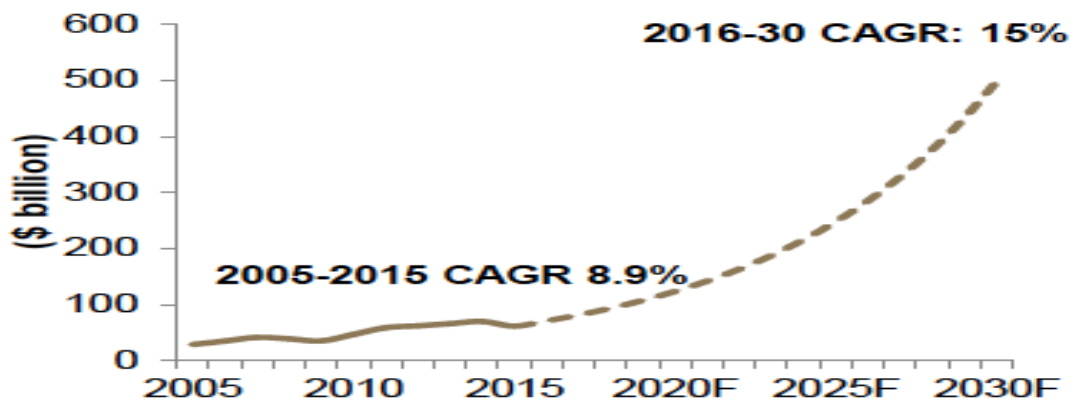
Targeted Saudi Unemployment Rate



FDI Stocks and Flows



Non-Oil Exports of Goods and Services



Source for other data is Jadwa Investment, *Saudi Vision 2030*, May 2016, <http://www.jadwa.com/en/download/saudi-vision-2030/gdp-report-16-6-2-1-3-3-2-1-1>.

Saudi Arabia, Terrorism, and AQAP

Security will probably be a greater source of risk than economics or domestic reform, although all present serious challenges and interact with one another. Saudi Arabia's security challenges include terrorism and extremism, regional conflicts and political upheavals, Saudi Arabia's role in the War in Yemen and the civil war in Syria, and the broad range of threats posed by Iran.

Terrorism and extremism have been a serious challenge, largely because of Osama Bin Laden, Al Qaeda and the recent rise of ISIS. Saudi Arabia officially adopts a puritanical version of Sunni Islam, but it has never supported violent extremism against other Muslims or non-Muslims. It forced Osama Bin Laden to leave the kingdom in the early 1990s, when he became a major voice of extremism, and has actively fought Al Qaeda and terrorism since Al Qaeda launched a series of attacks on Saudi targets in 2003.

Nevertheless, Al Qaeda remains a serious threat and has both a covert presence in Saudi Arabia and substantial strength in Yemen. Al Qaeda in the Arabian Peninsula (AQAP) was formed in 2009 when the Al Qaeda movements in Saudi Arabia and Yemen merged after the Saudi branch was crippled by Saudi counterterrorism operations, and was forced to locate its headquarters in Yemen. AQAP is only one of the Sunni Islamist extremist groups operating in Yemen, but it has been the key source of terrorist attacks in both Saudi Arabia and Yemen.

Al Qaeda affiliates in Yemen were responsible for the attack on the USS Cole in October 2000; murders of U.S., foreign, and Saudi citizens in Saudi Arabia; a shooting attack on a U.S. military recruiting office in Little Rock on June 1, 2009; the so-called "underwear" bombing attempt on Northwest Airlines Flight 253 on December 25, 2009; and an attempt to place bombs on cargo planes flying to the United States in October 2010. AQAP has made serious attempts to attack targets in the United States, and played a key role in the attack on the U.S. consulate in Jeddah in Saudi Arabia in December 2004.²⁸² Both U.S. and Yemeni official sources consistently reported that it continued to plan attacks on Yemeni and foreign targets, and made plans for attacks on U.S. and other embassies in Yemen as well as ports and other targets from August 2013 onwards.²⁸³

The political tensions and uprisings that forced Yemeni President Ali Abdullah Saleh to resign on February 27, 2012—after serving at the leader of the YAR from 1978 to 1990 and of a united Yemen from 1990 to 2012—have given AQAP the opportunity to exploit both the regional and tribal differences in the country, as well as the more conservative Sunni factions.

The civil war in Yemen that began with a border war in 2009 and escalated to a full-scale conflict in 2014-2015, has been fought largely between Houthi Shiites and supporters of former President Saleh, and the new Government of Yemen and a Saudi/UAE-led coalition. However, AQAP has worked with Yemeni Salafist extremists to seize control of territory in Yemen and exploit Yemen's internal tensions and civil conflicts. It has attacked targets in Yemen, but has also trained outside supporters of Al Qaeda including British volunteers, and members of Al Shabaab, an Al Qaeda affiliate in Somalia.

Descriptions of AQAP vary sharply from source to source, and it continues to evolve. Two official U.S. estimates provide the following descriptions:

A now dated U.S. National Counterterrorism Center (NCTC) described AQAP as follows in its Counterterrorism Calendar for 2013:²⁸⁴

Al-Qa'ida in the Arabian Peninsula (AQAP) is a Sunni extremist group based in Yemen that has orchestrated numerous high-profile terrorist attacks. One of the most notable of these operations occurred when AQAP dispatched Nigerian-born Umar Farouk Abdulmutallab, who attempted to detonate an explosive device aboard a Northwest Airlines flight on 25 December 2009—the first attack inside the United States by an al-Qa'ida affiliate since 11 September 2001. That was followed by an attempted attack in which explosive-laden packages were sent to the United States on 27 October 2010. The year 2010 also saw the launch of *Inspire* magazine, an AQAP-branded, English-language publication that first appeared in July, followed by the establishment of AQAP's Arabic-language al-Madad News Agency in 2011. Dual US-Yemeni citizen Anwar al-Aulaqi, who had a worldwide following as a radical ideologue and propagandist, was the most prominent member of AQAP; he was killed in an explosion in September 2011.

In August 2013, the US State Department temporarily closed several embassies in response to a threat associated with AQAP. Since then, AQAP has conducted a number of high-profile attacks inside Yemen targeting the Yemeni Government, including a complex, multistage attack in December 2013 against Yemen's Ministry of Defense that killed at least 52 people, and in February 2014 the group freed over two dozen prisoners after attacking Sanaa's central prison. Shortly thereafter the group released a video entitled "Drops of Rain," which depicted a large gathering of AQAP members operating openly while their leader threatened the United States. In May 2014, the US Embassy in Sanaa closed for a month due to a heightened threat from the group.

AQAP's predecessor, al-Qa'ida in Yemen (AQY), came into existence after the escape of 23 al-Qa'ida members from prison in Sanaa, in February 2006. Several escapees helped reestablish the group and later identified fellow escapee al-Wahishi as the group's new amir.

AQY in early 2008 dramatically increased its operational tempo, carrying out small-arms attacks on foreign tourists and a series of mortar attacks against the US and Italian Embassies in Sanaa, the presidential compound, and Yemeni military complexes. In September 2008 the group attacked the US Embassy in Sanaa using two vehicle bombs that detonated outside the compound, killing 19 people.

AQAP emerged in January 2009 following an announcement that Yemeni and Saudi terrorists were unifying under a common banner. The leadership of this new organization was composed of the group's amir, Nasir al-Wahishi; now-deceased deputy amir Sa'id al-Shahri; and military commander Qasim al-Rimi, all veteran extremist leaders. The group has targeted local, US, and Western interests in the Arabian Peninsula, but is now pursuing a global strategy. AQAP elements withdrew from their southern Yemen strongholds in June 2012, when Yemeni military forces under new President Abdu Rabbo Mansour Hadi—with the support of local tribesmen—regained control of cities in Abyan and Shabwah that had served as AQAP strongholds since 2011.

A U.S. State Department report on terrorism, issued in June 2016—and based on data some three years more recent—described AQAP as follows:²⁸⁵

aka al-Qa'ida in the South Arabian Peninsula; al-Qa'ida in Yemen; al-Qa'ida of Jihad Organization in the Arabian Peninsula; al-Qa'ida Organization in the Arabian Peninsula; Tanzim Qa'idat al-Jihad fi Jazirat al-Arab; AQAP; AQY; Ansar al-Shari'a

Description: Al-Qa'ida in the Arabian Peninsula (AQAP) was designated as a Foreign Terrorist Organization on January 19, 2010. In January 2009, the now-deceased leader of al-Qa'ida in Yemen (AQY), Nasir al-Wahishi, publicly announced that Yemeni and Saudi al-Qa'ida (AQ) operatives were working together under the banner of AQAP. The announcement signaled the rebirth of an AQ franchise that previously carried out attacks in Saudi Arabia. AQAP's self-stated goals: to establish a caliphate and Sharia law in the Arabian Peninsula and the wider Middle East.

Activities: AQAP has claimed responsibility for numerous terrorist acts against both internal and foreign targets since its inception in January 2009, including: a March 2009 suicide bombing against South Korean tourists in Yemen, the August 2009 attempt to assassinate Saudi Prince Muhammad bin Nayif, and the December 25, 2009 attempted attack on Northwest Airlines Flight 253 from Amsterdam to Detroit, Michigan. In October 2010, AQAP claimed responsibility for a foiled plot to send explosive-laden packages to the United States via cargo planes. The parcels were intercepted in the UK and in the United Arab Emirates.

AQAP, operating under the alias Ansar al-Shari'a (AAS), carried out a May 2012 suicide bombing in Sana'a that killed 96 people. Also in May 2012, press reported that AQAP allegedly planned to detonate a bomb aboard a U.S.-bound airliner using an IED. Although there was no imminent threat to U.S. jetliners, the device, acquired from another government, was similar to devices AQAP had used in previous attempted terrorist attacks.

In September 2014, AQAP launched a rocket attack against Yemeni security forces around the perimeter of the U.S. Embassy in Sana'a. The attack did not cause any casualties, but was followed two months later by an IED attack at the northern gate of the embassy that injured multiple embassy security guards. Also in November 2014, AQAP attempted to detonate explosives targeting the U.S. and British Ambassadors to Yemen. In December, AQAP claimed responsibility for an attack against the Iranian ambassador's residence in Sana'a that killed one guard and two pedestrians.

In January 2015, brothers Cherif and Said Kouachi carried out an attack in Paris, France, against the satirical newspaper *Charlie Hebdo* that left 12 people dead. One of the brothers, who had traveled to Yemen in 2011 and met with now-deceased Anwar al-Aulaqi, claimed the attack on behalf of AQAP. AQAP later formally claimed responsibility.

Also in 2015, AQAP took advantage of Yemen's deteriorating political and economic environment after the Yemeni government was overthrown by Houthi rebels in January. The United States and several other countries closed their embassies in February amid the violence. In April, AQAP stormed the city of Al Mukalla, seizing control of government buildings, releasing terrorists from prison, and stealing millions from the central bank. AQAP has since consolidated its control over Al Mukalla and has expanded its reach through large portions of Yemen's south.

... In Yemen, al-Qa'ida in the Arabian Peninsula (AQAP) and ISIL's Yemen branch capitalized on the ongoing conflict between the Government of Yemen, supported by the Saudi-led coalition, and the Houthi-led opposition to gain deeper inroads across much of the country. AQAP expanded its safe haven by seizing several towns, including the port city of Mukalla, which has given it access to increased financial resources. Despite losing a number of senior leaders during 2015, the group was able to increase its recruiting and expand its safe haven in Yemen. ISIL's affiliate conducted hundreds of attacks during the year, primarily against Houthi forces and Zaydi Shia mosques, in a bid to stoke sectarian tensions similar to ISIL's tactics in Iraq and Syria. Although the Yemeni government has reestablished a presence in Aden, a large security vacuum persisted that both ISIL and AQAP have taken advantage of to strengthen their footholds and forces inside the country...

Strength: AQAP is estimated to have up to four thousand members.

Location/Area of Operation: Yemen

Funding and External Aid: AQAP's funding has historically come from theft, robberies, and kidnap for ransom operations; and donations from like-minded supporters. Since seizing Al Mukallah, it has had access to additional sources of revenue, including the millions it stole from the central bank.

Opinions differ over the extent to which AQAP is tied to the leadership of Al Qaeda "central" in Pakistan. The U.S. government referred to conversations between Ayman al-Zawahiri, the leader of Al Qaeda "Central", and Nasir al-Wuhayshi, the leader of AQAP

in Yemen, as a key reason for shutting embassies in the Gulf because of an imminent threat in early August 2013.²⁸⁶

It did not, however, cite the overall mix of sources it had on such a threat or attempt to describe the degree to which Al Qaeda “central” could actually direct AQAP actions. Some experts feel Zawahiri can exercise considerable influence or control. Other experts note that relatively few Al Qaeda plots have originated in Al Qaeda “central” since 2010, and feel that AQAP is a largely independent “franchise” with a relatively loose hierarchy, ties to other groups in Yemen, and control over the planning of its own operations.

These debates over AQAP’s ties to Al Qaeda “central” do not, however, affect the fact it remains a serious factor in Yemeni politics, or that AQAP can infiltrate enough activists into Saudi Arabia to present continuing challenges to Saudi security forces. AQAP was able to seize parts of Yemen’s southern province of Abyan for some 10 months before Yemeni forces could limit its operations, and then was able to join with tribal factions in areas like the Hadramaut and reportedly organized an attempt to seize its capital of Mukalla and one of Yemen’s major ports. This latter threat has been serious enough to lead to a significant shift in the pattern of U.S. UCAV strikes in Yemen and also implies that AQAP has significantly increased their ability to infiltrate across the Saudi border near the Hadramaut.²⁸⁷

In the last decade, Al-Qaeda has successfully taken advantage of popular discontent in many parts of the country—especially the south, which has been neglected by the ruling elites in Sana’a—to increase support for its cause and help recruit more members to the group. One of the ways AQAP does this is by providing communities with social services, such as teachers and water. Another group that has begun to successfully provide basic needs to the populations of the areas it controls is Jabhat Al Nusra in Syria.²⁸⁸ AQAP has also used the Internet effectively to further garner support by targeting the disenfranchised and those with popular feelings of anger and humiliation. AQAP combines this with their extremist religious views and messages that blame the United States.²⁸⁹

There has also been a growing interaction between AQAP in Yemen and the flow of outside volunteers into Yemen, for both AQAP operations in the area and training for operations in other areas like Somalia, Iraq, and Syria. AQAP still has a focus on Yemen and Saudi Arabia, but it remains a terrorist threat to the U.S. and other Western states, and is expanding its ties and role in dealing with other Al Qaeda affiliates, and violent Sunni Islamist extremists.

The full-scale Yemeni civil war that began in 2015 has presented Saudi Arabia with both the risk that a pro-Iranian government might acquire lasting power on its Southern border and at the Bab el Mandeb which controls the flow of maritime traffic through the Red Sea, and the risk that AQAP will exploit it to steadily increases its influence and control over some part of Yemeni territory.

The collapse of the Yemeni government and subsequent Saudi-led bombing campaign in Yemen has created an environment that AQAP is exploiting. In the resulting power vacuum, the United States withdrew Special Operations Forces operating in country.²⁹⁰ Without counterterrorism forces to check AQAP, the group has carved out an area of control in the south. AQAP has grown more powerful within Yemen since the start of the

civil war. More recent AQAP developments are discussed in the last section about the Yemeni Civil War, located in section X of this report.

Saudi Problems with its Shi'ite Population

Saudi Arabia also faces a challenge from the fact it has a significant Shi'ite minority that presents a source of serious sectarian tension in a conservative Sunni country. The CIA estimated that its population was 27.8 million in July 2015. The Agency noted that, "most forms of public religious expression inconsistent with the government-sanctioned interpretation of Sunni Islam are restricted despite having a large expatriate community of various faiths (more than 30% of the population). Non-Muslims are not allowed to have Saudi citizenship and non-Muslim places of worship are not permitted."²⁹¹ The IISS estimates that its ethnic distribution was Ethnic groups: Nationals 73% of which Bedouin up to 10%, Shi'a 6%; Expatriates 27% of which Asians 20%, Arabs 6%, Africans 1%, and Europeans <1%.²⁹²

Analysts differ sharply over the size of Saudi Arabia's native Shi'ite minority, the level of actual Shi'ite opposition to the Saudi government, the extent to which Shi'ite face discrimination, and the risks these tensions posed to Saudi stability. The CIA estimates that Saudi Arabia's religious breakout is Muslim (official; citizens are 85-90% Sunni and 10-15% Shia), and 10-15 other (including Eastern Orthodox, Protestant, Roman Catholic, Jewish, Hindu, Buddhist, and Sikh) but also says the estimate dates back to 2012.²⁹³

At present, Saudi security in Shite areas in the Eastern province and southeastern Saudi Arabia seems more than adequate to deal with the level of Shi'ite opposition. Control, however, is not a source of lasting stability.

The latest U.S. State Department report on religious freedom provides similar numbers describes the situation as follows:²⁹⁴

The U.S. government estimates the total population is 27.3 million (July 2014 estimate). Approximately 85 to 90 percent of citizens are Sunni Muslims who predominantly adhere to the Hanbali School of Islamic jurisprudence. Shia constitute 10 to 15 percent of the citizen population. Approximately 80 percent of Shia in the country are "Twelvers" (followers of Muhammad ibn Hasan al-Mahdi, whom they recognize as the Twelfth Imam) and are primarily located in the Eastern Province. Nakhawala, or "Medina Shia," are also Twelvers and reside in small numbers in the western Hejaz region. Estimates place their numbers at approximately 1,000. Twelver Shia adhere to the Jafari school of jurisprudence. Most of the remaining Shia population are Sulaimaniya Ismailis, also known as "Sevens" (those who branched off from the Twelvers to follow Isma'il ibn Jafar as the Seventh Imam). Sevens number approximately 700,000 and reside primarily in Najran Province, where they represent the majority of the province's inhabitants. Pockets of Zaydis, another offshoot of Shia Islam, number approximately 20,000 and exist primarily in the provinces of Jizan and Najran along the border with Yemen.

UN data indicate foreigners constitute more than 30 percent of the total population. Similarly, foreign embassies indicate the foreign population in the country, including many undocumented migrants, may exceed 10 million. According to the Pew Research Center, this population includes approximately 1.2 million Christians (including Eastern Orthodox, Protestants, and Roman Catholics); 310,000 Hindus; 180,000 religiously unaffiliated (including atheists, agnostics, and people who did not identify with any particular religion); 90,000 Buddhists; 70,000 followers of folk religions; and 70,000 followers of other religions.

...U.S. embassy and consulate officials promoted respect for religious freedom and raised concerns regarding reported violations of religious freedom with government officials, while also

inquiring about the legal status of those detained. Since 2004, Saudi Arabia has been a Country of Particular Concern (CPC) under the International Religious Freedom Act for having engaged in or tolerated particularly severe violations of religious freedom. In connection with the Secretary of State's redesignation of Saudi Arabia as a CPC in August, the Secretary issued a waiver of sanctions "to further the purposes of the act."

... The government continued to exclude Shia perspectives from the extensive government-owned religious media and broadcast programming. Shia bookstores reportedly could not be licensed. In addition, terms like "rejectionists" that Shia considered insulting were commonly found in public discourse.

... The government took actions to counter violence against Shia perpetuated by Sunni violent extremists. After an Ashura attack on November 4, outside of a *housseiniya* (a congregation hall for Shia commemorative ceremonies) in al-Dalwa, the Ministry of Islamic Affairs (MOIA) sent out an immediate notice to clerics across the country instructing them to speak out against the attack, stop inciting people against Shia, and call for national unity. Reports indicate that most clerics complied with the instruction to stop inciting hatred of Shia, and many Sunni and Shia clerics explicitly condemned the attack and called for national unity. Government authorities arrested 77 people suspected of involvement in planning, financing, and carrying out the attack. The minister of interior visited Shia victims in the hospital.

On November 5, the minister of culture and information ordered the closure of the office of the Al Wesal television channel in Riyadh and banned its broadcasts in the country, noting the government would not tolerate any news organization which attempted to foment sectarian tension or "target the homeland's national unity, security and stability." The religiously-oriented channel often criticized Shia as "rejectionists," a pejorative label which dates back to the seventh century schism between Sunni and Shia Islam. At year's end, however, Al Wesal was still operating.

Anti-Shia rhetoric in Sunni mosques in the Eastern Province continued during the year, according to local reports. The government called at least one imam in for questioning after he had made anti-Shia remarks, according to Shia sources. Although less pervasive than previous years, there were reports from local groups that Sunni clerics, who received government stipends, used anti-Semitic, anti-Christian, and anti-Shia language in their sermons. Embassy and consulate officials reported that some preachers occasionally ended Friday sermons with a prayer for the well-being of Muslims and the humiliation of polytheism and polytheists.

The United States Country Report on Human Rights for 2015 notes that,²⁹⁵

The law requires a government permit for an organized public assembly of any type. The government categorically forbids participation in political protests or unauthorized public assemblies, and security forces reportedly arrested demonstrators and detained them for brief periods. Security forces, nonetheless, allowed a small number of unauthorized demonstrations throughout the country, despite a 2011 Ministry of Interior statement that demonstrations were banned and that it would take "all necessary measures" against those seeking to "disrupt order." The Council of Senior Religious Scholars reinforced the ministry's position, stating "demonstrations are prohibited in this country" and explaining that "the correct way in sharia of realizing common interests is by advising."

Most protests during the year occurred in the Eastern Province, in particular in the city of Qatif, although the size and number of protests decreased significantly since 2013. Activists reported security forces used intimidation to discourage persons from joining demonstrations as a general practice. There were also reports of security forces firing bullets in the air to disperse crowds. YouTube videos showing antigovernment slogans on walls portrayed residents, largely Shia, protesting alleged systematic discrimination and neglect in government investment in physical and social infrastructure, including education, healthcare, and public facilities.

... No laws prevent males from minority groups from participating in political life on the same basis as other male citizens. Societal discrimination marginalized the Shia population. Tribal factors and longstanding traditions continued to dictate many individual appointments to positions.

Unofficially, government authorities will not appoint a Bedouin tribesman to a high-ranking cabinet-level position, and Bedouins can only reach the rank of major general in the armed forces. All cabinet members who were tribal were members of urbanized “Hamael” tribes rather than Bedouin tribes. While the religious affiliation of Consultative Council members was not known publicly, the council included an estimated seven or eight Shia members. In contrast to previous years, the cabinet contained one religious minority member. In June 2014 the king appointed Mohammad bin Faisal Abu Saq, a Shia, as minister of state and member of the cabinet for consultative council affairs. Multiple municipal councils in the Eastern Province, where most Shia were concentrated, had large proportions of Shia as members to reflect the local population, including a majority in Qatif and 50 percent in al-Hasa. Eastern Province Shia judges dealing with intra-Shia personal status and family laws operated specialized courts.

There are some indications that the new Saudi government will reach out to Saudi Shi’ites, as well as crackdown on the more active dissidents. From a risk analysis viewpoint, however, the key issue is that there are few indications that Saudi Shi’ite present more than a marginal threat, or that Iran has created effective cadres of support.

Saudi Counterterrorism and Cooperation with the U.S. and Other GCC States

Saudi Arabia plays a key role in the Gulf Cooperation Council, and has close security ties to the United States, Britain, and France, and is closely allied with the UAE which has become not only the second largest military power, but one of the most effective. It was the key Arab state supporting the liberation of Kuwait in 1990-1991, and a primary partner to the United States in leading the Coalition forces in 1991.

Saudi Arabia and the United States share many strategic interests in dealing with terrorism, the civil conflicts in the region, and the range of threats posed by Iran. U.S. and Saudi cooperation in counterterrorism has been critical in limiting Al Qaida and ISIS, and in providing security and deterrence in dealing with Iran.²⁹⁶

- The U.S. is strategically dependent on Gulf petroleum exports, especially those of Saudi Arabia. In 2015, 11 percent of U.S. petroleum imports came directly from Saudi Arabia, while 40.4 percent of total U.S. imports come from countries that are critically dependent on the stable flow of petroleum exports from Saudi Arabia and the Gulf in general.²⁹⁷
- Saudi Arabia is the top importer of U.S. arms exports in the world. Its armed forces are largely shaped on the basis of support and advice from the U.S. However, delivery of American arms purchased by Saudi Arabia lags behind payment. Saudi Arabia received arms deliveries of \$5.3 billion out of \$10.9 billion in 2007-2010, and \$9.0 billion out of \$16 billion in 2011-2014.²⁹⁸
- The Saudi military conducts regular joint exercises with the U.S.. Their air force has flown sorties as part of the U.S.-led anti-ISIS air campaign, and it receives significant support from the U.S. with its intervention in Yemen. As a part of the GCC, Saudi Arabia is working with other Gulf States to establish an effective missile defense system.
- Saudi Arabia is a key U.S. ally in the containment of Iranian influence in the Middle East. They have played a role in preventing a regional nuclear arms race, avoiding Iranian acquisition of nuclear weapons, countering the Iranian build-up of conventional missile forces and asymmetric capabilities (i.e. smart mines, anti-ship missiles, patrol boats, submarines, etc.), and impeding Iranian influence with/arming of non-state actors and proxy forces in countries around the Middle East.
- The U.S. and Saudi Arabia both seek to defeat violent Islamic extremism, end regional conflicts, stabilize regimes throughout the MENA region, and end the Israel-Palestinian conflict.

The U.S. State Department Country Report on Terrorism covering 2014 described the Saudi role in counterterrorism and its partnership with the U.S. as follows:²⁹⁹

Overview: For the first time in several years, al-Qa'ida in the Arabian Peninsula (AQAP), based in Yemen, was able to conduct a successful attack on Saudi soil with a July raid on the Wudayah Border Crossing and Ministry of the Interior (MOI) General Investigation Directorate (Mabahith) office in Sharurah (near the Saudi-Yemeni border), which resulted in the death of four Saudi security officers. AQAP continued efforts to inspire sympathizers to support, finance, or engage in conflicts outside of Saudi Arabia and encouraged individual acts of terrorism within the Kingdom.

In addition to facing the enduring threat from AQAP, Saudi counterterrorism efforts were increasingly focused on the threat posed by the Islamic State in Iraq and the Levant (ISIL), as well as Saudi citizens returning from fighting in Syria. The Saudi government continued domestic and bilateral efforts to build, augment, and refine its capacity to counter terrorism and extremist ideologies in the Kingdom while increasing participation in international counterterrorism conferences and engagements. Saudi Arabia continued to maintain a robust counterterrorism relationship with the United States and supported enhanced bilateral cooperation to ensure the safety of both U.S. and Saudi citizens within Saudi territories and abroad. Saudi Arabia stood as a member of the Global Coalition to Counter ISIL, taking military action in support of coalition efforts.

The Saudi government took a zero-tolerance stance on ISIL by condemning the organization's activities and participating in Global Coalition military action to counter the group in Syria and Iraq. Its external action against ISIL was complemented by an aggressive campaign by both official clerics and Saudi King Abdullah to discredit the group and condemn their activities as acts of terrorism. The Kingdom of Saudi Arabia welcomed UN Security Council Resolutions 2170 and 2178, expanding existing counterterrorism programs and rhetoric to address the phenomenon of foreign terrorist fighters, and leveraged terrorist finance provisions of its Law for Crimes of Terrorism and Terrorist-Financing (CT Law) to combat funding of violent extremist groups in Iraq and Syria.

2014 Terrorist Incidents: Several attacks on both Saudi nationals and Westerners occurred, despite Saudi efforts to detect and disrupt terrorist activity.

- On July 4, the most organized of the incidents, carried out by AQAP, targeted a Saudi border checkpoint in Sharurah near the Yemeni border, which resulted in the death of four Saudi security officers and five AQAP assailants.
- On October 14, there were two shooting events involving Western targets, including one targeting two American contractors working in Saudi Arabia who were shot at a gas station in Riyadh by a dual Saudi/U.S. national. There were indications that extremist propaganda influenced the attacker, a former employee of the victim's organization.
- On November 3, a group of gunmen killed five Saudi nationals and wounded nine others in the town of al-Dalwah in Saudi Arabia's Eastern Province. The Saudi government has alleged that the gunmen had ties to ISIL.
- On November 22, a Danish national survived being shot three times by three assailants who were arrested by Saudi authorities on December 11. Initial Saudi investigations determined that the three Saudi attackers had unspecified links to ISIL.

In all cases, the Saudi government worked closely with the United States to clarify the circumstances regarding these attacks and responded quickly to ensure proper security measures were in place to better secure U.S. installations and interests.

Legislation, Law Enforcement, and Border Security: In February, Saudi Arabia's robust legal counterterrorism apparatus was bolstered by the introduction of a new counterterrorism law containing 41 articles that further refined existing counterterrorism laws. Human rights activists have criticized the counterterrorism law, claiming that an overly-broad definition of terrorism

greatly inhibits freedom of expression and association. Saudi Arabia has a specialized criminal court for handling counterterrorism cases; it was also used in 2014 to try human rights defenders.

Throughout 2014, Saudi Arabia continued its efforts to disrupt terrorist activities in the Kingdom by tracking, arresting, and prosecuting terrorist suspects. The Saudi General Investigations Directorate, also known as the Mabahith, is responsible for conducting counterterrorism investigations in the Kingdom and, upon its discretion, will cooperate with other elements of the Saudi government to further investigations into specific cases. Once the investigation is complete, the case is transferred to the Special Investigations and Public Prosecutions Office in the Saudi Ministry of Justice for the duration of the trial. The Saudi government continued its programs to improve physical border security through the employment of biometric systems, aerial reconnaissance, thermal imaging, and remote unattended sensors along the border region, especially considering the deteriorating security situation with neighbors Yemen and Iraq. Saudi Arabia's MOI hosted the 17th Annual International Conference and Exhibition for Industrial Security, Fire, and Occupational Safety and Health in Riyadh in early November, which focused on strengthening industrial security practices and coordination between the government and private sectors to protect key infrastructure from terrorist attacks.

Neighborhood police units engaged and worked directly with community members in Saudi Arabia, encouraging citizens to provide tips and information about suspected terrorist activity. The government offered rewards for information on terrorists, and Saudi security services made several announcements throughout the year pertaining to the arrest of AQAP militants and supporters, as well as the successful disruption of a more than 70-member ISIL cell active in Saudi Arabia.

Saudi Arabia continued to cooperate with the United States to prevent acts of terrorism both through engagement in bilateral programs and through information exchange agreements with the United States. Despite the absence of a bilateral mutual legal assistance treaty, Post's Legal Attaché office brokered and enhanced direct engagement between Department of Justice Office of International Affairs and MOI's Department of Legal Affairs and International Cooperation. This year witnessed the first case in which Saudi Arabia produced certified bank records in response to a mutual legal assistance request.

Countering the Financing of Terrorism: Saudi Arabia is a member of the Middle East and North Africa Financial Action Task Force, a Financial Action Task Force (FATF)-style regional body, and its financial intelligence unit is a member of the Egmont Group of Financial Intelligence Units. The Saudi government affirmed its commitment to combating terrorist fundraising and sought to further establish itself as a regional leader in disrupting terrorist finance efforts in the Kingdom. It continued to provide specialized training programs for bankers, prosecutors, judges, customs officers, and other officials from government departments and agencies as part of its efforts to maintain financial programs designed to combat terror financing. The Saudi Arabian Monetary Agency (SAMA) has standing requirements to all Saudi financial institutions to implement all the FATF Recommendations regarding money laundering and terrorist finance. The February 2014 counterterrorism law further outlined the Saudi government's ability to combat terrorist financing. Despite these efforts, however, foreign charities with suspected links to terrorist groups continued to leverage social media to solicit funds from Saudi donors, a trend the Saudi government worked to combat. In 2014, the FATF decided to enable a small expansion of membership, and the Kingdom was selected as a candidate for potential membership. For further information on money laundering and financial crimes, see the *2014 International Narcotics Control Strategy Report (INCSR), Volume 2, Money Laundering and Financial Crimes*: <http://www.state.gov/j/inl/rls/nrcrpt/index.htm>.

Regional and International Cooperation: Saudi Arabia cooperated regionally and internationally on counterterrorism issues, including by participating in the Global Counterterrorism Forum. Saudi Arabia has been a member of the Global Initiative to Combat Nuclear Terrorism and the Proliferation Security Initiative since 2008; Saudi Arabia is also a member of the Gulf Cooperation Council (GCC), which itself is a member of the FATF. Saudi officials issued statements encouraging enhanced cooperation among GCC and Arab League states

on counterterrorism issues, and the Saudi government hosted international counterterrorism conferences on subjects including countering violent extremist ideology and combating terrorist financing. In April 2014, the Saudi government participated in the U.S.-GCC Strategic Cooperation Forum Task Force on Counterterrorism and Border Security.

Countering Radicalization to Violence and Violent Extremism: As part of its strategy to counter violent extremism, the Saudi government focused on increasing public awareness campaigns and conducting outreach, counter-radicalization, and rehabilitation programs. Some of these efforts involved seminars that refuted radical Islamic interpretation and ideology. Public awareness campaigns aimed at reinforcing the values of the Islamic faith and educating Saudi citizens about the dangers of extremism and terrorism. Methods used included advertisements and programs on television, in schools and mosques, and at sporting events. The Saudi government expanded these programs to address the rising threat to youth from recruitment efforts from groups like ISIL and to dissuade its citizens from engaging as foreign fighters in Syria.

The Ministry of Interior continued to operate its flagship de-radicalization program (the Sakina Campaign for Dialogue), as well as its extensive prison rehabilitation program to reduce recidivism among former inmates. The Saudi government also continued its ongoing program to modernize the educational curriculum, including textbooks used in religious training criticized for intolerance of other religious traditions. The Ministry of Islamic Affairs continued to re-educate imams, prohibiting them from incitement of violence, and continued to monitor mosques and religious education.

The State Department report covering 2015 did focus on operations and reflected progress in areas like controlling financing. However, the report noted continued problems in several areas and the lack of progress in educational reform to remove extremist elements in textbooks and teaching,³⁰⁰

Overview: During 2015, the Saudi Arabian government continued to build and augment its capacity to counter terrorism and violent extremist ideologies. In addition to confronting the threat from al-Qa'ida in the Arabian Peninsula (AQAP), the Saudis faced lethal attacks from the Islamic State of Iraq and the Levant (ISIL), and maintained a high-tempo of counterterrorism operations. Both AQAP and ISIL continued to encourage individual acts of terrorism within the Kingdom. The spate of ISIL attacks against Shia mosques, Saudi security forces, and Western targets in Saudi Arabia and other Gulf Cooperation Council (GCC) states in 2015 underscored the threat posed to Saudi Arabia and the region by ISIL, and encouraged Saudi Arabia to work more closely with both Western and GCC partners to counter the ISIL threat.

Saudi Arabia continued to maintain a vigorous counterterrorism relationship with the United States, supported enhanced bilateral cooperation to ensure the safety of both U.S. and Saudi citizens within Saudi territories and abroad, and was an active participant in the Global Coalition to Counter ISIL. On December 14, the Saudi Arabian government announced a 34-state Islamic Counterterrorism Coalition to be headquartered in Riyadh that will focus on countering violent extremism and coordinating military efforts against all terrorist threats – including ISIL – in Muslim countries. Furthermore, the Saudi government remained attuned to the continuing threat from AQAP.

The Saudi government took a zero-tolerance stance on ISIL, condemning its activities and participating in coalition military action to defeat the group in Syria and Iraq. Its external military action against ISIL in Syria as a part of the U.S.-led coalition was complemented by an aggressive campaign by both official clerics and King Salman to discredit the group and condemn its activities as acts of terrorism. Saudi Arabia implemented UN Security Council Resolutions (UNSCRs) 2178 and 2199, and the UN 1267/1989/2253 ISIL (Da'esh) and al-Qa'ida sanctions regime; expanded existing counterterrorism programs and rhetoric to address the phenomenon of foreign terrorist fighters; and leveraged terrorism finance provisions of its Law for Crimes of Terrorism and Terrorist Financing (CT Law) to counter the funding of violent extremist groups in Iraq and Syria.

2015 Terrorist Incidents: A number of attacks on both Saudi and Western targets occurred despite Saudi efforts to detect and disrupt terrorist activity. ISIL posed a persistent challenge to Saudi security services, claiming responsibility for or inspiring the most egregious incidents in the Kingdom during 2015. On January 30, an individual, possibly inspired by ISIL, attacked two U.S. defense contractors in Saudi Arabia's Eastern Province, killing one. Since May, ISIL conducted two suicide attacks against Shia mosques in the Eastern Province, a suicide attack on Saudi security personnel in a mosque in Abha, and a suicide attack against a Shia mosque in Najran. In mid-October, a gunman affiliated with ISIL killed five Shia worshippers at a prayer hall. In addition to targeting Westerners and Saudi Shia, terrorist groups have plotted and conducted successful attacks against Saudi security forces by focusing attacks on border outposts, police stations, and military facilities. In September, two Saudi youth coerced their cousin, a cadet in the Special Security Forces (SSF) Academy, to travel to the desert and recorded a video of his execution in an attempt to gain membership in ISIL. Additionally, in fall 2015, Saudi security forces in Riyadh discovered and interdicted an IED cell and arms cache, resulting in a brief gunfight with the would-be attackers. In all cases, the Saudi government worked closely with U.S. counterparts to clarify the circumstances regarding these attacks and responded quickly to ensure proper security measures were in place to better secure U.S. installations and interests.

Legislation, Law Enforcement, and Border Security: Saudi Arabia enacted a new counterterrorism law containing 41 articles in 2014 that strengthened its existing counterterrorism provisions. In 2015, Saudi Arabia continued to disrupt terrorist activities in the Kingdom by tracking, arresting, and prosecuting terrorist suspects.

The Saudi Ministry of Interior (MOI) General Investigations Directorate, also known as the Mabahith, is responsible for conducting counterterrorism investigations in the Kingdom and, upon its discretion, will cooperate with other elements of the Saudi government to further investigations into specific cases. Once the investigation is complete, the case is transferred to the Special Investigations and Public Prosecutions Office for the duration of the trial. The Saudi government continued its programs to improve physical border security through the employment of biometric systems, aerial reconnaissance, thermal imaging, and remote unattended sensors along its borders. Throughout 2015, Saudi Arabia faced a deteriorating security situation with its neighbors, Iraq and Yemen.

Neighborhood police units engaged and worked directly with community members in Saudi Arabia, encouraging citizens to provide tips and information about suspected terrorist activity. The government offered rewards for information on terrorists, and Saudi security services made several announcements throughout the year pertaining to the arrest of large numbers of ISIL and AQAP terrorists and supporters.

Countering the Financing of Terrorism: Saudi Arabia is a member of the Middle East and North Africa Financial Action Task Force, a Financial Action Task Force (FATF)-style regional body. Its financial intelligence unit (FIU), the Saudi Arabia FIU (SAFIU), is a member of the Egmont Group. The Saudi government affirmed its commitment to combatting terrorism financing in the Kingdom and sought to further establish itself as a leader in disrupting terrorism finance within the Gulf region. The MOI continued to provide specialized training programs for financial institutions, prosecutors, judges, customs and border officials, and other sectors of the government as part of its effort to enhance programs designed to counter terrorism financing. The Saudi Arabian Monetary Agency has standing requirements for all financial institutions within the Kingdom's jurisdiction to implement all of the recent anti-money laundering and combatting the financing of terrorism recommendations issued by the FATF. Saudi Arabia earned observer status in the FATF in June 2015 and is in a process toward full membership in the organization.

For the first time, Saudi Arabia produced certified bank records in response to a mutual legal assistance request, based on reciprocity and increased cooperation on identification of foreign terrorist fighters traveling to Syria and Iraq.

Saudi Arabia, along with Italy and the United States, co-lead the Counter-ISIL Finance Group, which coordinates the Counter-ISIL Coalition's efforts to disrupt and dismantle ISIL's financial infrastructure. In 2015, Saudi Arabia increased its public designations of individuals and entities

for violating the Kingdom's laws criminalizing terrorism financing and support. In April, Saudi Arabia and the United States took joint action to designate al-Furqan Foundation Welfare Trust, the successor entity to the Afghan Support Committee and Revival of Islamic Heritage Society branches in Pakistan and Afghanistan. In May and November, Saudi Arabia leveraged counterterrorism financing authorities to sanction 14 individuals and two entities for acting on behalf of or providing financial support to Hizballah.

Despite serious and effective efforts to counter the funding of terrorism originating within the Kingdom, some individuals and entities in Saudi Arabia continued to serve as sources of financial support for Sunni-based extremist groups, particularly regional al-Qa'ida affiliates such as the Nusrah Front. While the Kingdom has tightened banking and charity regulations, and stiffened penalties for financing terrorism, funds are allegedly collected in secret and illicitly transferred out of the country in cash, often via pilgrims performing Hajj and Umrah. In recent years the government has responded, and in 2015 it increased policing to counter this smuggling. Recent regional turmoil and a sophisticated use of social media have facilitated charities outside of Saudi Arabia with ties to violent extremists to solicit donations from Saudi donors.

For additional information on money laundering and financial crimes, see *the 2016 International Narcotics Control Strategy Report (INSCR), Volume II, Money Laundering and Financial Crimes*: <http://www.state.gov/j/inl/rls/nrcrpt/index.htm>.

Countering Violent Extremism: As part of the Kingdom's strategy to counter violent extremism, the government focused on increasing public awareness campaigns and conducting outreach, counter-radicalization, and rehabilitation programs. Some of these efforts involved seminars that refuted violent Islamist extremist interpretation and ideology. Public awareness campaigns were aimed at reinforcing the values of the state's Wahhabi interpretation of the Islamic faith and educating Saudi citizens about the dangers of violent extremism. Methods used included advertisements and programs on television, in schools and mosques, and at sporting events. The Saudi government expanded these programs to address the rising threat to youth from recruitment efforts from groups like ISIL and to dissuade its citizens from engaging as foreign terrorist fighters in Syria and Iraq.

The MOI continued to operate its de-radicalization program (the Sakina Campaign for Dialogue), as well as its extensive rehabilitation program at the Mohammed bin Naif Counseling and Care Center.

The Department of State has long engaged the Saudi government about its educational system. During 2015, the Saudi government continued its ongoing program to modernize the educational curriculum, including textbooks, although this has not been completely implemented and some textbooks containing derogatory and intolerant references to Shia and non-Muslims remained in circulation.

The Ministry of Islamic Affairs continued to train and regulate imams, prohibiting them from incitement of violence, and continued to monitor mosques and religious education. Some privately-funded satellite television stations in the Kingdom continued to espouse sectarian hatred and intolerance.

International and Regional Cooperation: Saudi Arabia cooperated regionally and internationally on counterterrorism issues, including through its participation in the Global Counterterrorism Forum (GCTF). Saudi Arabia is also a member of the GCC. Saudi officials issued statements encouraging enhanced cooperation among GCC and Arab League states on counterterrorism issues, and the government hosted international counterterrorism conferences on subjects including, but not limited to, countering violent extremist ideology and countering terrorism financing.

Throughout the year, Saudi security professionals participated in joint programs around the world, including in Europe and the United States. The Saudi government participated in a U.S.-GCC Camp David summit, where it reaffirmed its commitment to countering terrorism. In addition to Saudi Arabia's bilateral cooperation with the United States, Saudi officials also worked with other international counterparts to conduct counterterrorism operations and exchange information. The

growing threat from ISIL to both Saudi Arabia and other GCC member states encouraged greater dialogue about information sharing, coordination of counterterrorism efforts, and the importance of strategic cooperation against terrorist groups seeking influence in the region. In August, the Saudi government hosted the U.S.-GCC Counterterrorism and Border Security Working Group. Following deadly mosque attacks in Saudi Arabia and Kuwait, the Saudis committed to greater collaboration with GCC neighbors in an effort to better counter the shared regional terrorist threat.

On December 14, Deputy Crown Prince and Minister of Defense Prince Mohammed bin Salman announced the formation of a 34-nation Islamic military coalition to fight terrorism and counter violent extremism. The joint statement from coalition members referred to the UN and Organization of the Islamic Conference charter to justify the coalition's formation. The coalition will be led by Saudi Arabia and headquartered in Riyadh. The coalition members' roles and responsibilities were not announced in 2015.

The Saudi view of its contributions to the fight against terrorism was laid out in some detail in a Royal Embassy of Saudi Arabia's Fact Sheet on *Countering Terrorism and Terror Financing* that was issued in April 2016.³⁰¹ It summarizes many of the key elements of a book length whitepaper Saudi Arabia circulated in June 2016 called *The Kingdom of Saudi Arabia and Counterterrorism*, and provides substantial additional detail on Saudi efforts.³⁰²

This fact sheet does, however, ignore one key aspect of Saudi activity. Saudi Arabia sees Iran's efforts to use irregular warfare, gain influence in Syria and Iraq, and to gain influence over Shi'ites in the Arab Gulf states as using or linked to terrorism, and treats Iran as being as much of a terrorist threat as movements like ISIS and AQAP.

Combating Terrorism: The late King Abdullah bin Abdulaziz called for the establishment of an international center to combat terrorism more than 10 years ago out of his firm belief that terrorism can be most effectively fought when nations work closely together in all areas, including the sharing of information.

In 2005, Saudi Arabia hosted the historic Counter-Terrorism International Conference in Riyadh where more than 55 countries participated and during which the proposal for the establishment of the United Nations Counter-Terrorism Centre (UNCCT) was unanimously adopted. In 2008, King Abdullah pledged \$10 million to the United Nations to establish the Centre and, in 2011, Saudi Arabia signed an agreement with the U.N. to launch the UNCCT. In 2014, King Abdullah provided the Centre with a donation of \$100 million to enhance its capabilities and effectiveness in helping countries combat terrorism.

In 2014, a royal decree on counterterrorism was issued. The decree reinforced that acts of terrorism, including membership in terrorist organizations, and participation in hostilities outside Saudi Arabia, will not be tolerated.

In late 2015, Saudi Arabia announced the formation of a multi-state Islamic military coalition to combat terrorism, with a joint operations center based in Riyadh.

Saudi Arabia continues to undertake effective initiatives in support of countries combating terrorism around the world. Examples include:

Yemen – Saudi Arabia is the largest donor of aid to Yemen. In 2015, Saudi Arabia responded to an appeal for assistance from Yemeni President Hadi by forming an international coalition and launching military operations in support of the people of Yemen and the legitimate government of Yemen.

Syria – Saudi Arabia is among the coalition nations of Operation Inherent Resolve conducting airstrikes against Daesh (ISIL) in Syria.

Iraq – Saudi Arabia has contributed \$500 million to the Iraqi people, regardless of religion or ethnicity, in order to help the Iraqi people overcome the hardships they have endured and to help thwart the spread of extremism.

Saudi Arabia has also provided financial support to other countries, including Egypt, Jordan, Pakistan, Afghanistan and Mauritania to help enhance counter-terrorism capabilities.

Combating Terror Financing: Terror networks thrive on illicit funding, often hiding behind charitable organizations. To combat this threat, Saudi Arabia has put in place one of the world's strictest financial control systems to prevent funds going to support terrorism.

Saudi Arabia, the United States and Italy are co-chairs of the Counter ISIL Finance Group (CIFG). The CIFG was established in 2015 with the aim of enhancing the sharing of information and developing coordinated countermeasures to disrupt ISIL's financing.

All Saudi financial institutions have implemented the 40 recommendations of the Financial Action Task Force (FATF) of the G-8 regarding money laundering and the eight recommendations regarding terror financing.

Saudi charities are prohibited from transferring money abroad. The collection of cash contributions in mosques and public places is prohibited.

The Saudi Arabian Monetary Agency (SAMA) offers programs and has implemented a technical program to train judges and investigators on legal matters involving terrorism financing and money laundering methods, international requirements for financial secrecy, and methods exercised by criminals to exchange information.

Saudi Arabia works closely with the United States, Britain, France, Italy, Canada, Australia and other allies to combat terror financing on a global scale.

Overcoming Extremism: As home of the Two Holy Mosques of Islam, Saudi Arabia will not tolerate extremists who have misused religion to advance perverted agendas. Saudi officials and religious scholars have publicly and unequivocally condemned terrorist acts, and have aggressively sought to discredit deviant terrorist ideologies.

Saudi Arabia has launched a nationwide effort through the Kingdom's Ministry of Islamic Affairs to ensure mosques have not been used as sources of extremism. The Senior Council of Ulema (religious scholars) has issued a fatwa (religious edict) prohibiting terrorism and declaring any support for terrorism is a violation of Islamic law.

To combat the spread and appeal of extremist ideologies among the population, Saudi Arabia initiated a Counter-Radicalization Program. This effort educates at-risk groups about the dangers of violent extremism and provides positive, alternative outlets.

In 2011, The King Abdullah bin Abdulaziz International Centre for Interreligious and Intercultural Dialogue (KAICIID) was founded in Vienna to promote mutual understanding among followers of different religions and cultures around the world.

From the perspective of the United States, Saudi Arabia is, and will continue to be, a critical partner in the fight against extremism and in its efforts to bring stability to the MENA region. In March 2016, the U.S. State Department described U.S. security cooperation with Saudi Arabia as follows:³⁰³

Saudi Arabia plays a crucial role in maintaining security in the Middle East, due to its economic, political, and cultural importance and its strategic location. Given the complex and dynamic security challenges facing the region, including countering violent extremism from the Islamic State of Iraq and the Levant as well as other extremist groups, the United States will continue to work with Saudi Arabia to support counterterrorism efforts and a shared interest in regional stability. In addition, building on the May 14, 2015 Camp David Summit, we are working with the Gulf Cooperation Council to increase cooperation on maritime security, military preparedness, arms transfers, cybersecurity, and counterterrorism. Toward that end, the United States will

continue to collaborate with Saudi Arabia to improve training for special operations and counterterrorism forces, integrate air and missile defense systems, strengthen cyber defenses, and bolster maritime security.

Through foreign military sales, the United States has supported three key security assistance organizations in the Kingdom. The U.S. Military Training Mission provides training and advisory services and administers the U.S. military cooperation program with the Saudi Ministry of Defense. The Office of the Program Management-Saudi Arabian National Guard assists in the modernization of the Ministry of the National Guard. The Office of Program Management-Ministry of Interior supports critical infrastructure protection and public security. Since the 1950s, the U.S. Army Corps of Engineers has also played a vital role in military and civilian construction in Saudi Arabia.

Saudi Arabia is the United States' largest FMS customer, with nearly \$100 billion in active FMS cases. In November 2015, the United States approved a possible FMS case to Saudi Arabia for air-to-ground munitions and associated equipment, parts and logistical support for an estimated cost of \$1.29 billion. In October 2015, the United States approved a possible FMS to Saudi Arabia for Multi-Mission Surface Combatant ships and associated equipment, parts and logistical support for an estimated cost of \$11.25 billion. In December 2011, the United States finalized our largest international defense sale in history — worth approximately \$29.4 billion — to Saudi Arabia. This sale included 84 advanced F-15SA fighter aircraft and updates to the Kingdom's existing 70 F-15S aircraft. Other large programs include 36 AH-64D Block III Apache helicopters, as well as ammunition for the Royal Saudi Land Forces; 24 AH-64D Block III Apache helicopters and 72 UH-60M Blackhawk helicopters for the Ministry of the National Guard; and numerous PATRIOT air defense systems and upgrades. These sales promote our commitment to stability in the region and to Saudi Arabia's defense development.

Most recently, the U.S. Government has made plans to sell Saudi Arabia 10 MH-60R multi-mission helicopters, 600 Patriot Advanced Capability-3 missiles, and more than \$500 million in air-dropped munitions and ammunition.

As a result of U.S. security assistance, the Kingdom has foiled numerous terrorist attempts against Saudi and foreign targets, and contributed to coalition operations against ISIL in Syria. The United States remains committed to providing the Saudi armed forces with the equipment, training, and follow-on support necessary to protect Saudi Arabia, and the region, from the destabilizing effects of terrorism and other threats.

Despite these shared interests and commonalities, Saudi Arabia and the U.S. do view important aspects of regional security in the Middle East from different perspectives:³⁰⁴

- The U.S. sees ISIS as the primary terrorist threat for itself and for Europe, whereas Saudi Arabia views its primary terrorist threat as AQAP. Compared to AQAP, the Saudi view is that ISIS is a lesser threat.
- Saudi Arabia sees the Assad regime and Hezbollah as major threats to the Arab Sunni world with close ties to Iran. They see the U.S. as indecisive and ineffective in their efforts to check the Assad regime by supporting rebel opposition groups, as well as in countering the Russian intervention on behalf of Assad. The kingdom also views Hezbollah as a key power in Lebanon, Syria, and Iraq, and as a real threat in Bahrain; in their opinion, this is largely due to Iranian support.
- From the Saudi perspective, the war in Yemen effectively began in 2009 and could result in placing an Iranian-supported, Houthi-Saleh, Shi'ite government into power on the border of Saudi Arabia. They also believe that the war has impeded the U.S.-Saudi cooperation to defeat AQAP in Yemen, whom they see as having significantly expanded their influence and control of territory in Yemen. For these reasons, the Yemeni Civil War is of critical strategic importance to Saudi Arabia, whereas it is less important to the U.S.
- In Iraq, Saudi Arabia sees a heavily divided country under Shi'ite/Kurdish control, effectively removing it as a military counterbalance to Iran. The Saudis blame the U.S. invasion of Iraq in 2003 for its current situation. They are unhappy with the expansion of Kurdish control, as they

believe that this territory is rightfully Arab.

- Saudi Arabia is concerned by their perception that many Americans believe that the Saudi government supports terrorism and shares responsibility for 9/11. Efforts to make the Saudi government legally liable for 9/11 are damaging to U.S.-Saudi cooperation efforts. The situation is further complicated by the fact that some senior Saudis did support extremist charities and causes.
- Saudi Arabia feels that it does not receive enough credit from the U.S. for its contributions to security efforts in the MENA region. The Saudi military budget is the third largest in the world. They spent \$81.9 billion on defense in 2015, amounting to 12.9% of its GDP.³⁰⁵ Especially given the serious drop in oil revenues, Saudi Arabia believes that maintaining this level of military expenditure amounts to a high level of contribution to security efforts.

The future of U.S.-Saudi cooperation does face some uncertainties. Not because of the normal friction between very different allies, because Saudi Arabia is seeking some alternative ally, or because of conspiracy fantasies like the U.S. turning to Iran. President Obama's visit to Saudi Arabia on April 21, 2016 served to signal continued cooperation with the kingdom.

However, President Obama is on the last leg of his presidency and lacks the support of Republican-controlled Congress. The current U.S. presidential election has caused concern in Saudi Arabia, as several candidates have failed to express clear foreign policy positions, and the presumptive Democratic nominee is a woman.

Saudi Military Forces

Saudi Arabia is the major Arab Gulf military power in the Gulf. It has by far the largest and most modern forces of any Arab Gulf state, and is the key regional power in containing and deterring Iran, and is steadily modernizing and improving its military forces.

Previous chapters have described the massive scale of Saudi arms imports and military spending, and these efforts present another massive economic challenge at a time when Saudi petroleum exports have lost 40-60% of their value. The IISS *Military Balance* for 2016 estimates that Saudi Arabia spent \$81.9 billion on defense in 2015, or 12.9 percent of a GDP of \$632 billion. This is one of the highest burdens on a national economy in the world, and the total spending is estimated to be higher than that of Russia.³⁰⁶

The IISS estimates that Saudi forces in 2016 included:³⁰⁷

Military and Paramilitary Manpower

- 227,000 active military manpower (Army 75,000 Navy 13,500 Air, 20,000 Air Defense, 16,000 Strategic Missile Forces, 2,500 National Guard 100,000) Paramilitary 24,500

Army and Other Land Combat Forces

- 4 armored, 5 mechanized, and, 1 airborne brigade, and a Royal Guard regiment in Army, % infantry and 2-3 Special brigades in National Guard
- 730 M-1A1/A2, AMX-30 and M-60 main battle tanks,
- 1,074 other armored fighting vehicles in army, 861 in National Guard
- 1,573 armored personnel carriers in army, 808 in National Guard
- 224 self-propelled artillery weapons in Army, 132 in National Guard
- 118 towed artillery weapons in Army; 108 in National Guard

- 60 multiple rocket launchers,
- 35 AH-64D/E attack helicopters.
- 94+ MRH and transport helicopters

Air Force and Air Defense Forces

- 323 combat capable aircraft, including 81 modern F-15/CD, 70 F-15S, 69 Tornado IDS, 53 Typhoon, 12 Tornado GR1, 2 Beech 350ER, 3 RE-3 ELINT, 5 E-3A, 2 Saab 2000 Erieye
- 236 medium to heavy surface-to-air missiles: 128 MIM-23B I-HAWK; 108 MIM-140D/F *Patriot* PAC-2 GEM/PAC-3236: 128 MIM-23B I-HAWK; 108 MIM-140D/F.
- 40 Crotale; 400 M1097 Avenger; 73 Shahine; 68, *Crotale/Shahine* shorter-range air defenses.

Strategic Conventionally Armed Missiles:

- IRBM 10+ DF-3 (CSS-2) (service status unclear)
- MRBM Some DF-21 (CSS-5 – variant unclear) (reported)

Naval and Marine Forces

- 3 Missile destroyers
- 4 Missile frigates
- 4 Missile Corvettes.
- 9 Missile patrol boats
- 4 Mine warfare ships
- 56 other patrol boats
- 8 Landing craft
- 34 MRH and 12 Super Puma with Exocet

It is not clear how these forces will develop in the future. Saudi Arabia has made massive investments in recent years that may well be unsustainable given the cuts in its oil revenues, and it faces new and costly challenges like missile defense and modernizing its navy, but its tensions with Iran have grown far sharper since 2014, and Saudi Arabia increasingly questions U.S. resolve in dealing with Iran and how long the U.S. will maintain its presence in the region.

Saudi Arabia has already created an Arab coalition to fight in Yemen, and takes the lead there in partnership with the UAE. It continues to try to strengthen the Gulf Cooperation Council and create more integrated and interoperable forces, but recognizes the limits imposed by differences with Oman and Qatar and by a divided Kuwait. Saudi Arabia announced a far broader Arab counterterrorism coalition in late 2015 that was, in part, directed against Iran—but had no illusions about its limits. Political symbolism matters—particularly in terms of containment and deterrence. Effective force dominates if arms races and tension become actual combat.

In practice, Saudi Arabia seems likely to continue its military build up through at least 2017, even at the cost of straining its economy. Much will then depend on the outcome of the U.S. election, how Saudi Arabia views its strategic partnership with the United States in the face of shifts in U.S. politics, and whether any easing takes place in its tensions with Iran.