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# **The Prospects for Stability in Saudi Arabia in 2004**

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One must be careful about overreacting to current events in Saudi Arabia, both in terms of terrorism and economics. The Kingdom has both short and long term problems it must come to grips with. It must do more to fight terrorism, and it will not have another boom year like 2003, or experience any sustained reduction in its need for economic and social reforms. The regime, however, is scarcely at risk and short-term economic prospects remain good.

This has several major impacts for US and Western policy:

- Supporting evolutionary reform in Saudi Arabia is still an effective policy and one that offers a far better chance of stability in the Kingdom, the Gulf, and world energy exports.
- There is enough momentum behind Saudi reform so that the US can accomplish far more by encourage internal reform and reformers than by attempting to impose its own solutions.
- Saudi Arabia still has much to do in fighting terrorism – as does the US – but is making progress, and encouraging the Saudi process of reform again is the best approach to dealing with the need for added Saudi action.
- Saudi Arabia does face mid to long-term demographic, social, and economic pressures that make economic diversification and reform critical to its stability and its people. This not only requires active US and Western support of the Saudi reform process but major flows of foreign direct investment that can only come from the private sector. If Saudi Arabia does not get such encouragement and investment, the destabilization of Saudi Arabia will become a self-fulfilling prophecy.

## **Reducing the Threat of Terrorism**

In terms of terrorism, Saudi Arabia has steadily improved its efforts, and its cooperation with the US, since September 11, 2001. It has greatly accelerated its counterterrorism efforts and cooperation since it started to become a major target of terrorism in May 2003. This increase in Saudi activity is shown in the following chronology of events that took place during 2003:

- In February 2003, the Saudi Arabian Monetary Agency (SAMA) began to implement a major technical program to train judges and investigators on terror financing and money laundering. The program educates judges and investigators on legal matters including terror financing and money-laundering methods, international requirements for financial secrecy, and the methods followed by criminals to exchange information.
- On May 12, 2003, a series of tragic bombings took place in Riyadh. Saudi Arabia reacted with a series of new efforts to combat terrorism, and more than 200 suspects were arrested in connection with the Riyadh bombings between May and September 2003. Since September 11, Saudi Arabia has questioned thousands of suspects and arrested more than 600 individuals with suspected ties to terrorism.:
  - In May 2003, three clerics, Ali Fahd Al-Khudair, Ahmed Hamoud Mufreh Al-Khaledi and Nasir Ahmed Al-Fuhaid, were arrested after calling for support of the terrorists who carried out the Riyadh attacks. In November 2003, Ali Fahd Al-Khudair recanted his religious opinions on Saudi TV. Shortly after, a second cleric, Nasir Ahmed Al-Fuhaid, recanted and withdrew his religious opinions describing them as a “grave mistake”. On December 16, 2003, Ahmed Hamoud Mufreh Al-Khaledi became the third cleric to recant on national television.
  - Eleven suspects were taken into custody on May 27 and May 28 in the city of Madinah. Weapons, false identity cards and bomb-making materials were confiscated. In addition,

Saudi national Abdulmonim Ali Mahfouz Al-Ghamdi was arrested, following a car chase. Three non-Saudi women without identity cards, who were in the car he was driving, were detained.

- Yousif Salih Fahad Al-Ayeeri, a.k.a. Swift Sword, a major Al-Qaeda operational planner and fundraiser, was killed on May 31 while fleeing from a security patrol.
- Ali Abdulrahman Said Alfagsi Al-Ghamdi, a.k.a. Abu Bakr Al-Azdi, surrendered to Saudi authorities. Al-Ghamdi, considered one of the top Al-Qaeda operatives in Saudi Arabia, is suspected of being one of the masterminds of May 12 bombings in Riyadh.
- Turki Nasser Mishaal Aldandany, another top Al-Qaeda operative and mastermind of the May 12 bombings, was killed on July 3 along with three other suspects in a gun battle with security forces that had them surrounded.
- Saudi security forces raided a terrorist cell on June 14, in the Alattas building in the Khalidiya neighborhood of Makkah. Two Saudi police officers and five suspects were killed in a shootout. Twelve suspects were arrested, and a number of booby-trapped Qur'ans and 72 home-made bombs, in addition to weapons, ammunition, and masks were confiscated.
- In July 21, the Ministry of Interior announced that Saudi authorities had defused terrorist operations which were about to be carried out against vital installations and arrested 16 members of a number of terrorist cells after searching their hideouts in farms and houses in Riyadh Province, Qasim Province, 220 miles north of Riyadh, and the Eastern Province. In addition, underground storage facilities were found at these farms and homes containing bags, weighing over 20 tons, filled with chemicals used in the making of explosives.
- Three men were arrested on July 25, at a checkpoint in Makkah for possessing printed material that include a "religious edict" in support of terrorist acts against Western targets.
- On July 28, Saudi security forces killed six terrorist suspects and injured one in a gunfight at a farm in Qasim Province, 220 miles north of Riyadh. Two Saudi security officers were killed and eight suffered minor injuries. Four people who harbored the suspects were arrested. Nine security officers have been killed and 19 injured in counter-terrorism activities since May 12.
- In May 2003 SAMA issued instructions to all Saudi financial institutions to strictly implement 40 recommendations of the FATF regarding money laundering and the numerous recommendations regarding terror financing. Furthermore, SAMA issued instructions to all Saudi financial institutions prohibiting the transfer of any funds by charitable organizations outside the Kingdom. SAMA has also created a committee to carry out self-assessment for compliance with the FATF recommendations and these self-assessment questionnaires have been submitted. The FATF conducted a mutual evaluation on September 21 – 25, 2003.
- In May 2003, a Saudi-U.S. task force was organized from across law enforcement and intelligence agencies to work side by side to share "real time" intelligence and conduct joint operations in the fights against terrorism. Saudi authorities worked closely with U.S. and British law enforcement agents who came to the Kingdom to assist in the investigation. The U.S. Ambassador to Saudi Arabia, Robert Jordan, described the cooperation of Saudi investigators with the U.S. law enforcement representatives as "superb".

Saudi Arabia redeployed Special Forces to enhance security and counter-terrorism efforts.

- In May 2003, SAMA distributed entitled "Rules Governing Anti-Monetary Laundering and Combating Terrorist Financing" to all banks and financial institutions in Saudi Arabia requiring the full and immediate implementation of nine new polices and procedures. The new regulations include the following:

- All bank accounts of charitable or welfare societies must be consolidated into a single account for each such society. SAMA may give permission for a subsidiary account if necessary, but such an account can only be used to receive, not to withdraw or transfer, funds.
- Deposits in these accounts will be acceptable only after the depositor provides the bank with identification and all other required information for verification.
- No ATM or credit cards can be issued for these accounts. No checks and drafts are permitted from the charitable institution's account, and all checks and drafts are to be in favor of legitimate beneficiaries and for deposits in a bank account only.
- No charitable or welfare society can open or operate these bank accounts without first presenting a valid copy of the required license.
- No overseas fund transfers allowed from these bank accounts
- SAMA's approval is required to open a bank account.
- Only two individuals who are authorized by the Board of a charitable institution shall be allowed to operate the main account.

Another major institutional initiative is the creation of a specialized Financial Intelligence Unit (FIU) in the Security and Drug Control Department of the Ministry of Interior. This unit is specially tasked with handling money-laundering cases. A communication channel between the Ministry of Interior and SAMA on matters involving terrorist-financing activities had also been established.

- In August, 2003, the Council of Ministers approved new legislation, which puts in place harsh penalties for the crime of money laundering and terror financing. This legislation requires jail sentences of up to 15 years and fines up to \$1.8 million for offenders. The new law:
  - Bans financial transaction with unidentified parties,
  - Requires banks to maintain records of transactions for up to 10 years,
  - Establishes intelligence units to investigate suspicious transactions,
  - Sets up international cooperation on money-laundering issues with countries with formal agreements have been signed.
- In August 2003, Saudi Arabia and the United States established another joint task force aimed at combating the financing of terrorism. The task force, which was initiated by Crown Prince Abdullah, is further indication of the Kingdom's commitment to the war on terrorism and its close cooperation with the United States in eradicating terrorists and their supporters.
  - On September 23, 2003, security forces surrounded a group of suspected terrorists in an apartment in the city of Jizan. During a gun battle, one security officer was killed and four officers injured. Two suspects were arrested and one killed. The suspects were armed with machine guns and pistols and a large quantity of ammunition.
  - On October 5, 2003, security forces arrested three suspects during a raid in the desert to the east of Riyadh.
  - On October 8, 2003, security forces raided a farm in the northern Muleda area of Qasim Province and were able to arrest a suspect. Three other suspects fled the scene. Two security officers suffered injuries.
  - On October 20, 2003, security forces raided several terrorist cells in various parts of the country, including the city of Riyadh, the Al-Majma'a District in Riyadh Province, Makkah Province, the Jeddah District of Makkah Province, and Qasim Province.

Security forces confiscated items including C4 plastic explosives, home-made bombs, gas masks, and large quantities of assault rifles and ammunition.

- On November 3, 2003, Saudi police arrested six suspected Al-Qaeda militants after a shootout in the holy city of Makkah in Saudi Arabia. The raid on an apartment triggered a shootout that left two suspected terrorists dead, and one security officer wounded.
- On November 6, 2003, security forces investigating a suspected terrorist cell in the Al-Suwaidi district of the city of Riyadh came under fire from the suspects, who attempted to flee while attacking security forces with machine guns and bombs. In the exchange of fire, one terrorist was killed and eight of the security officers suffered minor injuries. On the same day, in the Al-Shara'ei district of the city of Makkah, two terrorist suspects, who were surrounded by security forces, used home-made bombs to blow themselves up. Their suicide followed a firefight during which they refused to surrender when requested by the security officers.
- On November 20, 2003, Abdullah bin Atiyyah bin Hudeid Al-Salami surrendered himself to security authorities. He was wanted for suspected terrorist activities.
- On November 25, 2003, a car bomb plot was foiled in Riyadh. The encounter with security forces led to the deaths of two wanted terrorist suspects: Abdulmohsin Abdulaziz Alshabanat, who was killed in the exchange of fire, and Mosaed Mohammad Dheedan Alsobaiee, who committed suicide by detonating the hand grenade he was carrying. The vehicle that was seized was loaded with explosives and camouflaged as a military vehicle.
- On November 26, 2003, a suspected terrorist was arrested. The suspect's hiding place was linked to the terrorist cell involved in the November 9 car bombing at the Al-Muhaya residential complex in Riyadh. Search of the hiding place revealed large quantities of arms and documents. Items discovered by security forces include one SAM-7 surface to air missile, five rocket-propelled grenade launchers, 384 kilogram of the powerful explosive RDX, 89 detonators, 20 hand grenades, eight AK-47 assault rifles, 41 AK-47 magazines, and 16,800 rounds of ammunition. Also recovered were four wireless communication devices, three computers, computer disks and CDs, and SR 94,395 in cash, as well as numerous identity cards and leaflets calling for the perpetration of acts of terror.
- On December 6, 2003, the Ministry of Interior published the names and photos of 26 suspects wanted by security forces in connection with the terrorist incidents that have taken place in the Kingdom in the past few months, urging them to surrender to the authorities. The Ministry called on all citizens and residents to report information they may have about any of the wanted suspects. Immediate financial rewards of up to \$1.9 million are being offered for information leading to the arrest of any wanted suspect, or any other terrorist elements and cells.
- On December 8, 2003, the Ministry of Interior announced that Ibrahim Mohammad Abdullah Alrayis, whose name was on the December 6 list, had been killed by security forces. The Ministry statement praised citizens' cooperation with the security forces, who are pursuing those wanted and those who are trying to undermine the country's security and safety.
- On December 30, 2003, Mansoor Mohammad Ahmad Faqeeh, whose name had been published in a December 6 list of 26 wanted terrorist suspects, surrendered himself to security authorities.
- By December 2003, Saudi security forces had conducted over 158 raids on various terrorist elements and groups.

- In December 2003, Saudi Arabia and the United States took steps to designate two organizations as financiers of terrorism under United Nations Security Council Resolution 1267 (1999). These organizations are the Bosnia-based Vazir and the Liechtenstein-based Hochburg AG. On January 22, 2004, in a joint press conference, U.S. Treasury Secretary Snow and Adel Al-Jubeir, Foreign Affairs Advisor to Crown Prince Abdullah, called upon the United Nations Sanctions Committee to designate four branch offices of the Al-Haramain Islamic Foundation as financial supporters of terrorism. This was the fourth joint action taken against terrorist financing by the United States Treasury Department and the Kingdom of Saudi Arabia.

It should be stressed that this chronology is drawn from Saudi government sources, although the broad factual nature of each event has been confirmed with US experts. It does put the best face on many measures and exaggerates the degree to which they have been implemented to some degree. The Saudi government has also understated the level of arms and explosives flowing into the country in many of its official statements, although Saudi officials are much more frank on a private level.

Reports of a security fence to block smuggling from Yemen and over large-scale security raids and crackdowns indicate the government is much more active than it wants to make public. It would also seem that the government has been able to roll up some of the best terrorist cadres and training facilities – although scarcely to eliminate the threat.

The Kingdom will take at least several years to come fully to grips with current terrorist threats. Its short-term successes have not removed cadres that are well equipped with arms and explosives, and past experience indicates that extremists and terrorists will soon change tactics, acquire better intelligence, and become far more sophisticated in concealing their existence and affiliations. Like the broader war on terrorism, Saudi Arabia faces at least a low-level threat that will be generational in character and which will probably exist in some form for the next decade.

Saudi Arabia can only move so quickly. It must maintain popular support, and many of the necessary social and educational reforms to address the problems that created these threats will take a half a decade to address. In the interim, there are bound to be more successful terrorist attacks. Almost inevitably, the Kingdom's pace of change – an emphasis on cooption versus direct action – will also prolong tensions with the US.

As yet, however, there seems to be little broad social support for violent extremism anywhere in the Kingdom. To the extent there are relevant public opinion surveys, they show that young Saudis are far more interested in education, jobs, and a career than any form of radicalism, and that the most polarizing political issue is the Arab-Israeli conflict and not religion.

The situation seems far closer to the early phases of the low-level AIG threat to Egypt than to the kind of threat that could overthrow the regime. It is a major warning that both better security methods and reforms are needed, but not that the regime is at risk or that investments in Saudi Arabia should be assigned a much higher level of risk.

There are, however, five key problems that the US and Kingdom need to face:

- Counterterrorism cooperation must steadily improve at every level. The Kingdom is not making enough internal or external progress so that the US should not maintain steady, quiet pressure on Saudi Arabia to make good on its promised reforms, fully implement the measures underway, and pay more attention to the need reshape its approach to Islamic causes outside Saudi Arabia in ways that support reform, moderation, and tolerance.
- The level of popular tension between the US and Saudi Arabia has reached the point where it actively encourages Saudi hostility to the US in ways that aid extremists and terrorists. This has been compounded by a failure to create immigration and visa procedures that combine protection against terrorists with rapid and effective procedures for encouraging legitimate cultural, business, medical and student entrants to the US. The US badly needs to reshape its focus on counterterrorism to strengthen the ties between the US and Saudi Arabia and Arab moderates throughout the world, and ensure that students continue to be educated in the US and that the US preserves its ties to the most progressive and moderate forces in countries like Saudi Arabia, and to ensure that legitimate medical cases are screened and expedited on a humanitarian basis.
- The Arab-Israeli conflict -- and Israeli-Palestinian War in particular -- have created serious tensions between the US and Saudi Arabia that are unlikely to be resolved for the next 5-10 years. Both Saudi Arabia and the US are going to have to live with this fact, and inevitably, most Saudis will see movements like Hamas and the Hezbollah more as "liberators" or "freedom fighters" than as terrorists. Whatever the US and Saudi governments say in public about this aspect of the war on terrorism, there will be inevitable limits to their cooperation. This will, inevitably, lead to Israeli and pro-Israel demands for Saudi action in dealing with such groups that Saudi Arabia will not comply with, triggering more political and media attacks on Saudi Arabia. Equal hostility will exist in Saudi Arabia over US ties to Israel. No amount of pressure can resolve this situation. Strong parallel efforts to revitalize the Arab-Israeli peace process can -- to some extent -- ameliorate it.
- The mid and long-term key to US efforts to help Saudi Arabia fight terrorism is not government-to-government cooperation, but rather cooperation between the Saudi and US private sectors. It is investment and trade that create jobs in Saudi Arabia and reduce the social and economic pressures that help encourage extremism and terrorism. Saudi Arabia needs to be more realistic about the ROI, risk premiums, contract structures, and security necessary to create suitable incentive for US and foreign investment at the level and speed required. The US, however, must do more to assist US industry and may have to provide some form of guarantees. A "business as usual" approach will not do enough business at the rate required.
- The fall of Saddam's regime, and the rise of active terrorism within Saudi Arabia, are both key factors that illustrate the need to recast Saudi security in the broadest sense. The IISS estimates that Saudi Arabia is still spending some \$18 to \$24 billion on defense. Declassified estimates of Saudi Arms buys indicate that the Kingdom bought \$6.6 billion worth of new arms from the US during 1995-1998 (\$4.9 billion from the US) and signed \$4.1 billion worth of new arms agreements during 1999-2002 (\$2.8 billion with the US). If these figures are even approximately accurate, they are far too high of spending. They indicate that Saudi security efforts cost so much that they are a serious threat to Saudi security. They also indicate that the US needs to actively help Saudi Arabia to refocus its security efforts on internal security -- with is generally an order of magnitude cheaper than a conventional military build-up -- and shift resources to economic growth and social programs.

## Oil and Oil Revenues

Fortunately, the Kingdom's short-term economic situation has done much since 1998 to encourage its internal stability and provide the basis for reform. This is reflected in both Saudi and US statistics. For example, the recent analyses of the US Energy Information Agency (EIA) show that shares of total oil export revenues have fluctuated sharply over the past three decades, but several trends are clearly apparent.<sup>1</sup>

- First, Saudi Arabia consistently has earned more oil export revenues than any other single member of OPEC, with the Saudi share ranging from below around 16% in 1971 to as high as 46% in 1981, and 33% in 2003.
- Second, Iran's revenue share fell after the 1978/79 Iranian Revolution (followed soon thereafter by the Iran-Iraq War for much of the 1980s), and has not recovered since. Today, Iran accounts for about 10% of total OPEC net oil export revenues, down from 17%-19% in the 1970s.
- Third, Iraq's oil export revenue share fluctuated sharply, from a high of around 14% in the late 1980s, to basically 0% for several years following its August 1990 invasion of Kuwait (and the subsequent U.N. oil embargo, which continues to this day). Iraqi oil export revenues increased after a late 1996 under the U.N. "oil-for-food" deal, which permitted Iraqi oil exports to buy food and medicine, for war reparations, and for other U.N.-authorized purposes. For 2003, Iraq's share of total OPEC oil revenues was about 4%, with the share expected to reach 7% in 2004 and 9% in 2005.

The EIA estimates that Saudi Arabia earned some \$55 billion from petroleum exports in 2002 – some 90-95% of all exports.<sup>2</sup> This was a good year by Saudi standards, but 2003 was far better. During the Iraq war starting in March 2003, Saudi Arabia benefited from higher world oil prices as well as from its ability to increase production and exports sharply and rapidly due to the country's large spare production capacity. As a result, Saudi Arabia was able to make up for lost production from Venezuela, Iraq, and Nigeria as well as to reap higher revenues. The end result is that Saudi Arabia earned some \$80.9 billion, its highest earnings in 20 years.

To put these earnings in perspective, Saudi Arabia earned roughly \$76 billion in constant 2000 dollars. This compares with only \$19.3 billion in 1972, before the beginning of the oil boom. Saudi oil exports reached an all time peak of \$223.2 billion in 1980, lows of \$36.3 billion in 1998 – a year of very low oil prices.

There is little prospect that Saudi Arabia can sustain its 2003 earnings, barring a major civil war or Iraq or crisis in another OPEC state. The EIA forecasts that total OPEC oil revenues will be \$219.2 billion in 2005, down 5% from 2004 levels. It bases this estimate 6% lower oil prices but slightly higher net oil exports.

During 2004, Saudi Arabia will probably cut back its production as the year progresses as a result of OPEC cuts and in order to help keep oil prices at desired levels. Even so, the EIA estimates that Saudi Arabia will still maintain the highest share of OPEC oil export revenues – although it will drop from 34% of the OPEC total in 2003 to 29% in 2005, as Iraq's share grows from 4% to 10%.<sup>3</sup> This will produce a decline in estimated Saudi oil earnings to \$69.9 billion in 2004 and \$63.8 billion in 2005. The EIA estimates that Saudi oil export revenues will decline by 14% during 2004, to \$70 billion, compared to the \$81

billion earned in 2003. These earnings are still far higher than in 2002, however, and far higher than earnings in a bad year like 1998.

### **The Saudi Economy in 2003 and 2004**

The best forecasting of the Saudi economy in recent years has come from Brad Bourland of the Samba Financial Group. His forecast for 2004 in no way indicates that Saudi Arabia can afford to slack off on economic reform, but it also indicates that forecast oil revenues will create an economic climate favorable enough to have a stabilizing effect.

He makes the following key points in the Samba forecast for 2004, and each of these points describes a situation that reflects both a level of earnings that has aided Saudi stability and which is likely to continue to do so in the near term:<sup>4</sup>

- With the exception of the depreciation of the dollar, the other major trends have been strongly positive for the Saudi economy, reflected in the numbers for 2003 economic performance: Real GDP growth of 6.4 percent, a government budget surplus of SR45 billion (\$12 billion), oil revenues up \$20 billion over 2002, a current account surplus of SR102 billion (\$27 billion), central bank foreign assets up by \$14.9 billion to total \$56.7 billion, inflation of 0.5 percent, and a rise in the stock market of 76 percent..
- ...These strong conditions appear likely to continue into 2004. The key difference will be a likely overall decline in average oil production for Saudi Arabia, but the production cuts have successfully aimed to keep prices firm, so Saudi Arabia will still enjoy a year of strong oil revenues in 2004. Our initial forecasts for 2004 are for a small decline in GDP growth, due entirely to oil production declines not fully offset by higher government and private sector growth, 1.5 percent inflation, average oil prices for the year of \$25 (average price for Saudi oil), a government budget roughly in balance, and a current account surplus of SR 28 billion (\$7.5 billion).
- ...Overall, Saudi Arabia's trade picture remains healthy. In 2003, we estimate that merchandise exports were about three times the value of imports. We calculate that total exports for 2003 were about \$95 billion, of which \$85 billion was oil exports, while total merchandise imports were \$31 billion. When the import and export of services and transfers, such as worker remittances, are included to calculate the "current account," then Saudi Arabia ends 2003 with a current account surplus of \$27 billion, the fifth year in a row of surplus and its largest surplus since 1981.
- ... Generally when strong growth in Saudi Arabia is a result of oil sector performance, then the growth is not associated with strong job creation. The capital-intensive oil sector represents a third of the economy but only employs 1.5 percent of the labor force, so sharp moves up or down in oil sector performance have little impact on overall job growth and employment in the Kingdom, except indirectly to the extent that the higher revenues spur higher growth in government or the non-oil private sector.
- ...Private sector growth is where the new job creation is occurring. Our view is that the average 4 percent growth of the private sector in the past few years remains below the rate needed to create adequate new jobs for Saudis. Our estimate is that about 150,000 Saudi males are entering the labor force per year, and unemployment currently stands at about 13 percent for Saudi males. There is interesting new data published this year, however, that suggests the pace of private sector job creation is picking up and approaching levels needed to stabilize the unemployment rate.

...Newly published data from GOSI provides us with the number of on-the-job Saudis making the pension contribution, and shows that it has increased by an average of 141,000 Saudis per year for the five years 1997-2001, compared with average growth of 34,000 per

year for the period 1992-1996 (See chart.). Based on this data, private sector job creation may be stronger than we previously thought.

- We expected 2003 to be a year of exceptional fiscal performance. Still the size of the 2003 budget surplus, at SR45 billion (\$12 billion) was almost double our forecast of SR23 billion (\$6.1 billion). The government used its unanticipated revenues to increase spending over the budget, grow foreign assets, and reduce debt. In 2003, spending was 19.6 percent over the budget. In 2002, the government spent 11.4 percent over the budget and in 2001 the overspending totaled 18.6 percent. Overspending the budget by 10 percent or more is the historical pattern, with higher overspending in years of high oil revenues. In 2003, revenues exceeded the budget by 73.5 percent. In 2003 through November, the central bank had increased its foreign assets by \$17.5 billion to \$59.3 billion, according to the latest central bank data. Foreign assets now stand at their highest level since 1997, providing an important and substantial cushion to protect the currency's peg to the US dollar.
- Our estimate is that debt declined by some SR20 billion (\$5.3 billion) to stand at about SR630 billion (\$168 billion) at year-end 2003. The SR15 billion (\$4 billion) netted by the government for the privatization of Saudi Telecommunications Company in early 2003 was earmarked for debt reduction. At the current level, government debt would now stand at 80 percent of 2003 GDP of SR792 billion (\$211.2 billion), down from 94 percent of 2002 GDP and a high of 119 percent of 1999 GDP. Our view is that a prudent goal would be debt at or below 50 percent of GDP.
- The combination of a large surplus, some debt reduction, and the build-up of foreign assets represented the best year of fiscal performance for the Kingdom in the past 20 years. The foreign asset position of the government is strong, and debt, which has stabilized over the past several years, is now declining in both absolute terms and as a percent of GDP.
- Conditions are right for continued strong fiscal performance in 2004. The 2004 budget calls for spending of SR230 billion (\$61.3 billion) and revenues of SR200 billion (\$53.3 billion), for a deficit of SR30 billion (\$8 billion). Overall, this represents a 10 percent spending increase over the 2003 budget, a larger increase than we have seen in recent years. We thus characterize this budget as mildly stimulative. However, the government can no longer be the engine of growth and job creation in Saudi Arabia, and there would have to be over 8 percent overspending of the budget to match the actual spending levels of 2003.
- Our forecast for overall fiscal performance for 2004 is for actual spending of SR255 billion, revenues of SR253 billion, for a small SR2 billion deficit. Spending increases in the 2004 budget come in the categories of Human Resource Development (education), up 28.4 percent from 2003 budgeted levels, and in Social Development (which includes health care, social welfare and labor affairs), up 45 percent from the 2003 budget. In education, three new universities are being opened in the Kingdom and receive their first budget allocations, and technical education and vocational training receives an 87 percent increase in its budget. While these categories of spending have risen in past years, they generally have not grown to this extent, reflecting the focus now being placed on improving education and workplace skills development.
- Typically, non-oil revenues provide about SR40 billion, or 20 percent of budgetary revenues from sources such as investment income, taxes, customs duties, and fees. The amount and sources of non-oil revenues have not changed significantly in many years nor do they appear likely to change in the 2004 budget. Investment income will likely rise in 2004 as the foreign asset portfolio of the central bank has grown. No significant new taxes are likely to have an impact on the 2004 budget, although there is some discussion of an eventual value added tax (VAT). No privatization is on the horizon in 2004 of the magnitude of the sale of STC in 2003. The government may sell down its ownership of a major bank as it lists on the stock market in 2004. Even with revenues from this sale, the government is likely to achieve only modest debt relief in 2004 from privatization proceeds.

- ... the Saudi stock market enjoyed a strong gain. For the year, the Tadawul All Share Index (TASI) was up 76.2 percent to 4,437.58, an all-time high. But unlike most other markets, this exceptional performance marks the fifth consecutive year of a bull market. The market rose 43 percent in 1999, 11.3 percent in 2000, 7.6 percent in 2001 and 3.6 percent in 2002. Aided by the listing of STC early in the year, the Saudi market, already the largest in the Middle East, doubled its market capitalization during the year to end the year at SR585.4 billion (\$156.1 billion). The market is up 214 percent since 1 January 1999, providing an average price appreciation of 25.5 percent per year for the past five years. In addition, the companies listed in the Saudi market pay substantial dividends, averaging for the overall market more than 3 percent per year. Earnings of the major companies, STC, the petrochemical giant SABIC, and the banks have generally kept pace with the price run-up, so the overall price to earnings ratio of the market, excluding the Saudi Electric Company, is 18, compared with 16 at year-end 2002. All the major sectors of the market showed strong gains this year...
- During 2003, the US dollar depreciated in value against the Euro by 17.9 percent, and this has become an issue widely discussed locally...How much did this depreciation cost Saudi Arabia in 2003 in additional costs for imports? Again assuming roughly the same volume of imports from the same countries in 2003 as in 2002, we calculated that the total additional cost to the Kingdom, based solely on the riyal's depreciation against the nine major non-dollar currencies was SR10.49 billion (\$2.8 billion). In other words, the SR102.7 billion in imports from these countries in 2002 would have cost SR113.2 billion in 2003. Some 77 percent of the total added cost comes from Euro, British Pound and Japanese Yen denominated imports. The depreciation of the riyal against these currencies accounts for SR8.04 billion (\$2.14 billion) of the total SR10.49 billion (\$2.8 billion) additional cost.
- At the same time that the dollar was depreciating, raising Saudi Arabia's import prices, the Kingdom was enjoying higher volumes of oil exports at higher prices as well. Oil prices rose by 14 percent in 2003. According to our calculations, the Kingdom earned approximately \$20 billion more from oil exports in 2003 than in 2002, so its additional import costs due to the dollar devaluation were more than completely offset by much higher oil revenues. Producing oil at roughly 8.7 million b/d, the Kingdom needed less than \$1 per barrel in higher oil prices to offset the \$2.8 billion in additional costs for its imports. Each additional \$1 per barrel in oil prices, sustained for a year, brings the Kingdom an additional \$2.9 billion in oil revenues.
- The depreciation of the dollar has prompted much local media discussion of converting the oil market trade to Euros or moving the Kingdom away from pegging its currency to the dollar. We think both of these moves are extremely unlikely, and we would point out the still extensive dollar-based trade with the Kingdom. While 2002 imports from the Euro area of SR25.4 billion exceeded imports from the US of SR19.7 billion, total imports in 2002 from the US and from countries whose currencies are pegged to the dollar (the GCC and China) totaled SR39.6 billion, or one third of total imports. While it may seem lucrative to be Euro-based during a period of strong Euros, Saudi Arabia has gone through other periods of dollar declines, such as in the mid-1980s, and dollar appreciation, such as the mid-1990s, and was prudent to maintain a steady currency policy throughout the period.
- Overall, Saudi Arabia's trade picture remains healthy. In 2003, we estimate that merchandise exports were about three times the value of imports. We calculate that total exports for 2003 were about \$95 billion, of which \$85 billion was oil exports, while total merchandise imports were \$31 billion. When the import and export of services and transfers, such as worker remittances, are included to calculate the "current account," then Saudi Arabia ends 2003 with a current account surplus of \$27 billion, the fifth year in a row of surplus and its largest surplus since 1981.

Another way of looking at these trends in terms of political stability is the trend in GDP per capita. This dropped to \$6,660 in current dollars in 1994 – following the strains of massive expenditures on the Gulf War and relatively low oil revenues. Per capita income

was \$7,502 in 1998, in a year of exceptionally low oil revenues. It then rose to \$8,000-\$9,000 during 1999-2002. It was around \$9,275 in 2003, and SAMBA projects a figure of \$8,824 in 2004.

These figures are a long way from the peak oil boom pre capita figures that reached levels of over \$30,000 in 1980, and they are far below the World Bank's high income level of \$26,510. At the same time, they are partly the reflection of a nation whose population is so young that nearly 40% is too young to work, and they are far from the kind of figure that creates broad economic hardship. The World Bank reports that Saudi Arabia's GNP per capita was \$8,460 in 2001 (the latest year it reports upon) and ranked Saudi Arabia as 57<sup>th</sup> in the world in terms of real per capita income. Saudi earnings were far above the "middle income" level of nations in the Middle East – which was \$2,220.<sup>5</sup>

As the details of Bourland's analysis show, the high oil price-driven performance of the Saudi economy in recent years is no promise for the future, and offers little hope of long-term internal stability. It does, however, buy time and the near and mid-term economic pressures on Saudi Arabia are far more limited than in virtually all of the other countries in the Middle East.

### **The Issue of Political, Economic, and Social Reform**

The fact that Saudi Arabia has time is particularly important because it is in the process of significant political, economic, and social reforms. These reforms are still moving much too slowly – a grim reality that affects every country in the Arab world. At the same time, Saudi performance during 2003 is striking in that reform continued in spite of a massive increase in oil export revenues.

During the year, Saudi Arabia sustained a process of reform that had begun to sharply accelerate shortly after Crown Prince Abdullah became the de facto leader of the government. It also took the following additional measures during the course of the year:

- In September 2001, Saudi Arabia passed the Law of Procedure Before Shari'ah Courts to regulate the rights of defendants and legal procedures. In addition to granting defendants the right to legal representation, the law also outlines the processes by which pleas, evidence and experts are accepted by the court.
- In January 2002, the Code of Law Practice went into effect in Saudi Arabia. The law outlines the specific requirements necessary to become an attorney, including education, registration and admission to the courts as well as licensing. The law also defines the duties and rights of lawyers, including the right of attorney-client privilege.
- In May 2002, the Criminal Procedure Law, a 225-article bill, was passed to regulate the rights of defendants and suspects before the courts and police. The law protects a defendant's rights with regard to interrogation, investigation, and incarceration and also by granting the defendant access to the Bureau of Investigation and Prosecution. Members of the Bureau of Investigation and Prosecution are to ensure, through visits, that the rights of the defendants and persons in custody are being protected. The law also outlines a series of regulations that justice and law enforcement authorities must follow during all stages of the judicial process, from arrest and interrogation, to trial and the execution of verdicts, ensuring that the judicial process remains fair and balanced.
- In late 2002 the US and Saudi Arabia held bilateral discussions to advance the accession process, and. The content of bilateral agreements remains confidential until agreements are

concluded with all major trade partners. A bilateral agreement with the US is still not concluded, but the pace of talks has accelerated.

- On January 1, 2003, a Customs Union was established by the Gulf Cooperation Council (GCC) to standardize customs duties in the six member countries. In accordance with the Customs Union, the Government of Saudi Arabia approved the reduction to 5 percent of customs for goods formerly charged between 7 and 12 percent. In addition, the GCC agreed to the principle of a single port of entry. Most related laws and regulations will be standardized by the end of 2005.
- On February 24, 2003, the Saudi Journalists Association was officially established to protect the rights of journalists in the Kingdom and coordinate relations between journalists and the media establishment. The Association will have an elected chairman, deputy chairman and secretary-general. On July 17, 2001, the Kingdom had endorsed a 30-article law to restructure the press industry and allow journalists to establish a trade association.
- In May 2003, Foreign Minister Prince Saud Al-Faisal announced King Fahd's approval for the establishment of an independent human rights organization in Saudi Arabia.
- On May 19, 2003, King Fahd pledged to increase resources for education and training to improve the overall educational system in the country. Recent initiatives include:
  - Textbooks and curricula are being updated and modernized. Two pilot programs, one in Riyadh and one in Jeddah, have been established to experiment with new teaching methods.
  - Saudi Arabia is open to foreign investment for private higher education.
  - English language classes will be introduced in the Sixth Grade for the 2004-2005 academic year in order to improve English teaching at intermediate and secondary schools.
- On June 9, 2003, the Council of Ministers endorsed the Copyright Law, a 28-article document that meets the requirements of the World Trade Organization's Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), placing Saudi Arabia closer to entry in the WTO. The law protects intellectual property including print publications, lectures, audio recordings, visual displays, as well as computer programs and works of art. The law establishes a range of fines and actions that can be effected for copyright violations. Saudi Arabia has also joined the Universal Copyright Convention and the Berne Convention for the Protection of Literary and Artistic Works to further protect intellectual property and encourage continued development and innovative thinking.
- On June 16, 2003, the Council of Ministers passed the Saudi Arabian Capital Markets Law aimed at advancing development of the securities (stocks and bonds) markets in the Kingdom. The law will take full effect in 2004 with the appointment of the board of the new Capital Markets Authority, which will regulate the securities markets and grant licenses to new, non-bank financial institutions in the securities business, such as financial advisors, asset managers, investment banks, and brokers. A general expectation is that the new law will lead to growth in the number of IPOs in the stock market, eventual development of a corporate bond market, and entry into the marketplace of many new financial firms separate from the existing domestic banks.. The law will stimulate and strengthen the Saudi economy and increase the participation of Saudi citizens in the capital markets. The law will:
  - Establish the Saudi Arabian Securities and Exchange Commission (SASEC) to protect investor interests, ensure fair business, promote and develop the capital market, license brokers and offer securities to the public.
  - Establish the Saudi Arabian Stock Exchange (SASE), which will incorporate the national securities depository center.
  - In July, 2003 the Council of Ministers approved a new law to regulate the insurance sector in the Kingdom. The law opens the sector to foreign investors and creates a legal framework for

the many local and foreign insurance companies currently operating in the Kingdom. The law is also important to further Saudi accession to the WTO.

- In July, 2003 the Kingdom signed a gas exploration deal with a consortium including Shell (40 percent), Total (30 percent) and Aramco (30 percent), marking the first entry of foreign companies into gas exploration and production in the Kingdom. At the same time, the much larger "Gas Initiative," which included three core ventures and had been under negotiation since 1998, ended without deals being struck. The Kingdom also opened bidding by foreign firms for gas exploration elsewhere in the Kingdom, and results of that process will be announced in early 2004.
- On July 31, 2003, Saudi Arabia and the United States signed an agreement to strengthen commercial and investment relations. As a result, the U.S.-Saudi Council for Trade and Investment was established to meet at least once a year to enable representatives of both countries to review the signing of additional agreements on trade, protection of intellectual property rights, investment, vocational training and environmental issues. With almost 300 joint ventures, American companies are the largest group of foreign investors in the Kingdom.
- On August 3, 2003, Crown Prince Abdullah announced the establishment of the King Abdulaziz Center for National Dialogue to promote the public exchange of ideas as an essential part of life in Saudi Arabia.
- On August 31, 2003, Saudi Arabia and the European Union signed a bilateral agreement guaranteeing free access to goods and services. In the accession process, the Kingdom is negotiating bilateral agreements with current WTO members while adopting the organization's various trade rules. Saudi Arabia has already signed 14 bilateral trade agreements with other members of the WTO, including Japan, Canada, Brazil,
- In the fall of 2003, the Minister of Education announced that student councils will be set up in public schools to begin educating young Saudis about civic responsibilities and participatory governance. In Saudi Arabia today, there are eight public universities, more than 100 colleges and more than 26,000 schools. Some five million students are enrolled in the education system, which boasts a student to teacher ratio of 12.5 to 1 - one of the lowest in the world. Of the 5.2 million students enrolled in Saudi schools, half are female, and of the 200,000 students at Saudi universities and colleges, women comprise more than half of the student body. Currently, the government allocates about 25 percent of the annual state budget to education,
  - In October 2003, Dr. Maha Abdullah Orkubi was appointed Dean of the Jeddah branch of the Arab Open University (AOU). This was the first time a Saudi woman has been appointed to such a senior academic position.
- In October 2003, the Kingdom held a human rights conference entitled 'Human Rights in Peace and War'. The conference concluded with the issuance of the 'Riyadh Declaration' which states that respect for human life and dignity is the foundation of human rights; that a human being deserves respect, regardless of race, color or sex; that violation of human rights is a crime deserving severe punishment; that to hold a human being in custody without legal basis is forbidden by Islamic laws; that disregard for privacy and property rights is a violation of human rights; and that tolerance of faith is required by Islam, which also prohibits coercing people to follow a certain religion.
- On October 13, 2003, Saudi Arabia approved groundbreaking plans to streamline local and municipal governments by introducing elections for half of the members of each municipal council to ensure that citizens have a strong voice in local affairs. A one-year period has been given to the authorities responsible for managing and finalizing the election procedures. The proposed elections mark an important step in the Kingdom's ongoing reform agenda and follows King Fahd's address to the Consultative Council on May 17 where he said: "I would like to confirm that we will continue on the path of political and economic reform. We will work to

- improve our system of government and the performance of the public sector and broaden popular participation in the political process.”
- On November 29, 2003 King Fahd approved changes that will enhance the legislative role of the government’s 120-member Consultative Council. This represents a process of reform that began in 1992, when King Fahd introduced three major political developments to modernize the government within the framework of the Kingdom’s traditions:
    - The formation of the Consultative Council (Majlis Al-Shura) – The Consultative Council was later expanded to 120 members who serve four-year terms.
    - The establishment of Consultative Councils in each of the 13 provinces of Saudi Arabia - The Consultative Councils are composed of leading citizens who help provide input and review management of the provinces by their respective local governments.
    - The introduction of the Basic Law of Governance – The Basic Law is similar to a constitution.

The amendments to Articles 17 and 23 of the Consultative Council System grant the Council the power to propose new bills or amendments to regulations in force and debate such proposals without prior approval from the King.

- During 2003, two thousand imams who had been violating prohibitions against the preaching of intolerance were disciplined or removed from their positions, and more than 1,500 have been referred to educational programs. The Ministry of Islamic Affairs has begun a three-year program to educate imams and monitor mosques and religious education to purge extremism and intolerance.
- On December 31, 2003, The King Abdulaziz Center for National Dialogue concluded its Second National Forum for Intellectual Dialogue, entitled ‘Extremism and Moderation: A Comprehensive Approach.’

There are far too many cases where reform is still more surface reform than substantive change, and where Saudi Arabia has made a gesture or a beginning that it has yet to demonstrate that it will fully implement. In the past, Saudi Arabia has issued a whole series of five year plans that have called for reforms in critical areas like “Saudization,” only to fail to implement them at anything like the rate required. Its measures to encourage both the repatriation of Saudi private capital and large scale foreign direct investment have not yet removed many practical barriers that slow the pace of economic liberalization far below the rate that its desirable.

Much more needs to be done to address problems in the education of young Saudis, both in terms of tolerance and in moving decisively away from the emphasis on rote learning that its one of the greatest single self-inflicted wounds of the Arab world, and one that now makes the idea of a knowledge-based economy little more than a hollow dream. The Kingdom has done nothing to address population growth and its demographic problems, and it is unclear that anything else it does can be adequate until it does. It also is just beginning to confront the fact that young Saudi woman now are significantly better and more practically educated than young Saudi men, and represent a half of the labor force that must become at least as productive as men.

The very real progress that Saudi Arabia has made in improving the rule of law and expanding the size and powers of the Majlis is important in a nation with no political parties, but the Kingdom has not yet provided the degree of transparency in its budgets,

and Majlis control over the budget process, that is critical to developing a truly effective popular consensus for reform and to laying the ground work for the creation of political parties and an elected Majlis. Human rights reforms are just beginning, and the press needs to have substantially more freedom.

At the same time, Saudi Arabia is a nation whose more progressive rulers, technocrats, educators, businessmen, and clergy must deal with an extremely conservative population and cannot move quickly, or on Western terms, without creating new problems for internal stability. King Fahd's six-point reform program already challenges Saudi conservatives, and Crown Prince Abdullah's continuing support for the actual implementation of reform has clearly moved more quickly than many conservatives desire. The Kingdom can and should move faster, but it must maintain a difficult balance between the demands of its reformers and its conservatives, the US and the West must recognize that it is the conservatives and not the reformers that almost certainly have the largest share of public opinion.

### **Looking at the Mid and Long-Term Worst Cases**

If Saudi Arabia sustains the present momentum behind reform, it may well be able to achieve mid and long-term stability. There are, however, several "worst cases" and problems that must be considered in such a judgment as it applies to Saudi stability in the mid and long-term:

- The pace of reform must be sustained, and should be accelerated. Saudi Arabia has no slack for a ruler who neglects or slows reform, or a pause in political, social, and economic change – any more than it can afford to slow its improvements in counter terrorism.
- As Crown Prince Abdullah has publicly recognized, Saudi Arabia already has its own poor, slums, and underclass, and many of its schools and public facilities do not meet the needs of its growing poor. Oil wealth no longer provides the money for broad subsidies and the Kingdom's infrastructure and services need to be put on a basis which funds services for its growing poor while charging full market value for those Saudis that can afford it. The Kingdom must pay growing attention to income distribution and must convert its budget from a patriarchal approach to the entire population to providing welfare for those who are legitimately in need.
- At the same time, reform must phase out patriarchal subsidies, which are not only unaffordable, but discourage a work ethic and Saudi employment. Taxation, market value for utilities and services, and a concentration of entitlements for those in true need must replace the patriarchal system over time.
- Saudi Arabia must redefine the role of its royal family as elections and the expanded role of the Majlis change its political structure. In the process, it must find ways to limit grants and subsidies, ensure that corruption does not take place, and provide the kind of transparency on royal family expenditures that will build public confidence and trust.
- Saudi Arabia must develop ways of repatriating Saudi private capital and getting foreign direct investment that do in fact rapidly expand and diversify its private sector.
- It needs US and Western encouragement for its reforms that focus on practical schedules of action and which reinforce internal Saudi efforts; not efforts to dictate or impose Western approaches.

- Saudi Arabia must transfer part of the funds now used for the military to civil programs, and concentrate more on internal security than foreign threats.
- It is more important for Saudi Arabia to invest in economic diversification and the growth of the private sector than to insist on total state control of the upstream sector.
- Saudi Arabia must prepare for the return of unforeseen and uncontrollable cycles in oil revenues and “bad years.” It cannot afford to plan for continued high oil revenues.
- Saudi Arabia must convincingly demonstrate that it is properly managing its oil fields and reservoirs and can, in fact, make and sustain major increases in its oil production capacity and oil exports. The charges now being made that Saudi fields would soon be in decline must be convincingly refuted, and enough technical detail and evidence must be provided regarding oil field development to reassure investors about the Kingdom’s future.
- Saudi Arabia will face a major mid and long-term challenge if Iraq does rapidly come on line with production capacities of 6 to 9 to 12 MMBD at any point before 2020. This could be compounded by any broader production capacity race in OPEC, and by Iranian efforts to make major production increases. If rises in Gulf production combine with high levels of Russian production, rises in Caspian and other production outside the MENA area, Saudi Arabia cannot count on dominating the market share of oil export revenues to the extent it does today, and this could produce a crisis in financing the state and per capita income.
- Educational reform must do more than change the curriculum. No reform that does not eliminate dependence on rote learning can be effective.
- Saudi Arabia must find ways to give its Shi’ites full equality in de facto terms in regard to civil rights, opportunity, and legal procedures, and reduce social tensions between Shi’ite and Sunni.
- No amount of educational reform can substitute for job creation and job pull. One great danger in Arab thinking about economic reform is that better education creates jobs. It does not. It may raise the value of jobs, but only economic growth and particularly private sector growth outside the petroleum sector creates jobs.
- As King Fahd’s six-point reform program recognizes, Saudi Arabia must find its own answer to using women as productively as it does men.
- Saudi Arabia must honestly examine its own demographic crisis and begin to deal with it.

None of these potential “worst cases” and problems is a “show stopper” in political terms or a reason why the US private sector should not invest in Saudi Arabia. No nation has a secure future, and Saudi Arabia still has ample opportunity to deal with its problems. In fact, its challenges are significantly lower than those of most other oil exporting nations in terms of mid and long-term risk management.

No country can afford to prepare for every risk, anymore than it can eliminate risk. There is, however, one set of mid to long-term problems that Saudi Arabia must address – difficult as it is for Saudis to do so at the political and cultural level. The following three charts provide the latest UN estimate of Saudi population growth. This estimate is conservative because it assumes a sharply decline in the Saudi fertility and birth rates based on experience in societies where far more women work and where social custom puts far less emphasis on large extended families. Nevertheless, the data in these tables sounds a warning that every Saudi should heed.<sup>6</sup>

They show a massive population growth that is still gathering momentum and which will continue to accelerate through at least 2010. The growth in the age group from 15 to 19 years of age during 1990 through 2030 is a red flag to every Saudi that a massive social and economic crisis will occur unless reform is sustained, and serious efforts are made to reduce the rate of population growth. This age group grew by 35% during 1990-2000 (1.5 million to 2.1 million), and will grow by 84% during 2000-2030 (2.1 million to 3.8 million).

As both King Fahd and Crown Prince Abdullah seem to have recognized, the importance of integrating women into a fully productive role in the Saudi economy will ultimately be as important as finding employment for young men. Its importance is indicated both by a current fertility rate of 4.53% and the projected decline to 2.28% in 2020. If this decline does not take place because women have no other role, Saudi population problems will go from the extreme difficult to impossible problem level. Moreover, women in the working age population already total over 4.6 million. They will nearly double to 11.7 million by 2030. No Saudi economy can hope to be diversified and globally competitive that does not give Saudi women a role whose productivity is equivalent to that of men.

At the same time, demographics reinforce the need to convert from a patriarchal nation budget that subsidizes everyone to a welfare budget that aids those truly in need. These same charts show there has already been a growth in the post-labor force population of over 65 years of age from 374,000 in 1990 to in 561,000 in 2000. This population is projected to grow nearly five times to 2.6 million in 2030. This is an incredible increase in dependency on pensions and invested capital and social services.

### Total Population Growth in Saudi Arabia: 1950-2050

	1950	1960	1970	1980	1990	2000	2010	2020	2030	2040	2050
<b>Total Population</b>	<b>3,201</b>	<b>4,075</b>	<b>5,745</b>	<b>9,604</b>	<b>16,554</b>	<b>22,147</b>	<b>29,176</b>	<b>36,253</b>	<b>43,193</b>	<b>49,555</b>	<b>54,738</b>
<b>Percent change</b>	100%	127%	179%	300%	517%	100%	132%	164%	195%	224%	247%
<b>Under 20 Population</b>											
<b>00 to 04</b>	551	724	1053	1819	2825	3292	3802	3912	4040	3983	3763
<b>05 to 09</b>	428	564	832	1348	2257	2891	3660	3844	3966	4030	3865
<b>10 to 14</b>	366	476	671	1090	1914	2601	3256	3771	3884	4014	3958
<b>15 to 19</b>	317	406	572	909	1527	2062	2828	3598	3785	3907	3973
<b>Totals</b>	<b>1,662</b>	<b>2,170</b>	<b>3,128</b>	<b>5,166</b>	<b>8,523</b>	<b>10,846</b>	<b>13,546</b>	<b>15,126</b>	<b>15,675</b>	<b>15,934</b>	<b>15,559</b>
<b>Percent change</b>	100%	131%	188%	311%	513%	100%	125%	139%	145%	147%	143%
<b>Working Age Population</b>											
<b>20 to 24</b>	272	346	493	872	1511	1949	2640	3297	3812	3928	4058
<b>25 to 29</b>	232	295	421	818	1555	1959	2393	3160	3931	4119	4243
<b>30 to 34</b>	198	251	354	652	1439	1949	2312	3004	3662	4178	4295
<b>35 to 39</b>	172	212	297	503	1160	1578	2032	2469	3236	4005	4195
<b>40 to 44</b>	151	180	248	398	772	1162	1802	2168	2860	3516	4032
<b>45 to 49</b>	131	154	203	320	471	838	1383	1837	2275	3037	3802
<b>50 to 54</b>	112	132	170	253	318	528	975	1605	1973	2657	3307
<b>55 to 59</b>	92	110	137	204	235	425	701	1227	1673	2105	2851
<b>60 to 64</b>	73	88	112	151	196	352	472	890	1486	1847	2505
<b>Total</b>	<b>1,432</b>	<b>1,769</b>	<b>2,435</b>	<b>4,170</b>	<b>7,657</b>	<b>10,740</b>	<b>14,710</b>	<b>19,657</b>	<b>24,908</b>	<b>29,393</b>	<b>33,288</b>
<b>Percent change</b>	100%	123%	170%	291%	535%	100%	137%	183%	232%	274%	310%
<b>Aging Population</b>											
<b>65+</b>	<b>107</b>	<b>136</b>	<b>182</b>	<b>268</b>	<b>374</b>	<b>561</b>	<b>920</b>	<b>1471</b>	<b>2609</b>	<b>4227</b>	<b>5892</b>
<b>Percent change</b>	100%	128%	170%	251%	350%	100%	164%	262%	465%	753%	1050%
<b>15 to 30</b>	<b>821</b>	<b>1,046</b>	<b>1,486</b>	<b>2,599</b>	<b>4,593</b>	<b>5,970</b>	<b>7,861</b>	<b>10,055</b>	<b>11,528</b>	<b>11,954</b>	<b>12,274</b>
<b>Percent change</b>	100%	127%	181%	316%	559%	100%	132%	168%	193%	200%	206%
<b>% of Total</b>	26%	26%	26%	27%	28%	27%	27%	28%	27%	24%	22%
<b>Total Fertility</b>											
<b>Median Age</b>	7.18	7.26	7.30	7.20	5.76	4.53	3.43	2.70	2.28	2.02	
	19.0	18.4	17.8	18.0	19.2	20.6	22.0	24.6	27.7	31.0	34.1

### Saudi Population Growth in Men: 1950-2050

	1950	1960	1970	1980	1990	2000	2010	2020	2030	2040	2050
<b>Total Population</b>	<b>1,625</b>	<b>2,065</b>	<b>2,955</b>	<b>5,188</b>	<b>9,219</b>	<b>11,965</b>	<b>15,533</b>	<b>19,097</b>	<b>22,557</b>	<b>25,667</b>	<b>28,142</b>
<b>Percent change</b>	100%	127%	182%	319%	567%	100%	130%	160%	189%	215%	235%
<b>Under 20 Population</b>											
<b>00 to 04</b>	280	368	535	911	1443	1684	1944	2003	2070	2040	1927
<b>05 to 09</b>	217	286	423	685	1151	1479	1872	1967	2031	2064	1979
<b>10 to 14</b>	187	242	343	557	958	1330	1666	1928	1988	2056	2027
<b>15 to 19</b>	162	207	297	477	784	1046	1440	1833	1930	1995	2029
<b>Totals</b>	<b>845</b>	<b>1,103</b>	<b>1,598</b>	<b>2,630</b>	<b>4,336</b>	<b>5,540</b>	<b>6,922</b>	<b>7,731</b>	<b>8,020</b>	<b>8,155</b>	<b>7,962</b>
<b>Percent change</b>	100%	130%	189%	311%	513%	100%	125%	140%	145%	147%	144%
<b>Working Age Population</b>											
<b>20 to 24</b>	139	176	261	521	833	1013	1369	1705	1968	2030	2099
<b>25 to 29</b>	118	150	223	516	941	1148	1286	1680	2074	2172	2238
<b>30 to 34</b>	101	128	187	393	938	1155	1243	1601	1938	2201	2264
<b>35 to 39</b>	88	108	156	289	764	899	1170	1310	1705	2098	2196
<b>40 to 44</b>	77	92	129	222	495	696	1056	1148	1505	1842	2104
<b>45 to 49</b>	67	78	105	174	299	506	779	1050	1193	1585	1975
<b>50 to 54</b>	56	66	87	135	196	301	571	925	1020	1372	1704
<b>55 to 59</b>	46	55	68	105	134	227	406	669	933	1075	1457
<b>60 to 64</b>	36	43	55	76	103	190	257	506	837	933	1269
<b>Total</b>	<b>728</b>	<b>897</b>	<b>1,271</b>	<b>2,431</b>	<b>4,703</b>	<b>6,134</b>	<b>8,138</b>	<b>10,593</b>	<b>13,175</b>	<b>15,309</b>	<b>17,305</b>
<b>Percent change</b>	100%	123%	175%	334%	646%	100%	133%	173%	215%	250%	282%
<b>Aging Population</b>											
<b>65+</b>	<b>51</b>	<b>65</b>	<b>86</b>	<b>127</b>	<b>179</b>	<b>291</b>	<b>474</b>	<b>773</b>	<b>1363</b>	<b>2203</b>	<b>2876</b>
<b>Percent change</b>	100%	127%	168%	248%	351%	100%	163%	266%	468%	757%	988%
<b>15 to 30</b>	<b>419</b>	<b>533</b>	<b>782</b>	<b>1,514</b>	<b>2,558</b>	<b>3,207</b>	<b>4,095</b>	<b>5,219</b>	<b>5,973</b>	<b>6,197</b>	<b>6,365</b>
<b>Percent change</b>	100%	127%	186%	361%	610%	100%	128%	163%	186%	193%	198%
<b>% of Total</b>	26%	26%	26%	29%	28%	27%	26%	27%	26%	24%	23%
<b>Total Fertility</b>	7.18	7.26	7.30	7.20	5.76	4.53	3.43	2.70	2.28	2.02	
<b>Median Age</b>	19.0	18.4	17.8	18.0	19.2	20.6	22.0	24.6	27.7	31.0	34.1

### Saudi Population Growth in Women: 1950-2050

	1950	1960	1970	1980	1990	2000	2010	2020	2030	2040	2050
<b>Total Population</b>	1577	2010	2790	4416	7335	10182	13643	17156	20635	23887	26595
<b>Percent change</b>	100%	127%	177%	280%	465%	100%	134%	168%	203%	235%	261%
<b>Under 20 Population</b>											
<b>00 to 04</b>	271	357	518	907	1382	1608	1858	1909	1970	1943	1836
<b>05 to 09</b>	210	278	409	663	1106	1412	1788	1877	1934	1966	1886
<b>10 to 14</b>	180	234	329	534	955	1271	1591	1843	1896	1957	1931
<b>15 to 19</b>	155	199	274	432	743	1016	1388	1765	1855	1912	1944
<b>Totals</b>	<b>817</b>	<b>1,067</b>	<b>1,530</b>	<b>2,536</b>	<b>4,187</b>	<b>5,307</b>	<b>6,625</b>	<b>7,395</b>	<b>7,655</b>	<b>7,779</b>	<b>7,597</b>
<b>Percent change</b>	100%	131%	187%	311%	513%	100%	125%	139%	144%	147%	143%
<b>Working Age Population</b>											
<b>20 to 24</b>	133	169	232	351	677	936	1271	1591	1844	1898	1960
<b>25 to 29</b>	113	144	198	302	614	811	1107	1480	1857	1947	2005
<b>30 to 34</b>	97	123	167	259	501	794	1069	1404	1724	1977	2031
<b>35 to 39</b>	84	104	141	213	396	679	862	1159	1531	1907	1999
<b>40 to 44</b>	74	89	119	176	276	466	746	1021	1355	1675	1928
<b>45 to 49</b>	64	76	99	146	172	332	603	787	1082	1453	1828
<b>50 to 54</b>	55	66	83	118	122	227	405	680	953	1284	1602
<b>55 to 59</b>	47	56	68	99	101	199	294	558	739	1030	1394
<b>60 to 64</b>	37	45	57	75	93	162	214	384	649	914	1236
<b>Total</b>	<b>704</b>	<b>871</b>	<b>1,164</b>	<b>1,739</b>	<b>2,954</b>	<b>4,605</b>	<b>6,572</b>	<b>9,064</b>	<b>11,734</b>	<b>14,085</b>	<b>15,983</b>
<b>Percent change</b>	100%	124%	165%	247%	419%	100%	143%	197%	255%	306%	347%
<b>Aging Population</b>											
<b>65+</b>	<b>56</b>	<b>72</b>	<b>96</b>	<b>141</b>	<b>195</b>	<b>270</b>	<b>446</b>	<b>698</b>	<b>1247</b>	<b>2023</b>	<b>3016</b>
<b>Percent change</b>	100%	128%	172%	254%	350%	100%	165%	258%	462%	749%	1117%
<b>15 to 30</b>	<b>402</b>	<b>513</b>	<b>705</b>	<b>1,085</b>	<b>2,035</b>	<b>2,763</b>	<b>3,766</b>	<b>4,836</b>	<b>5,555</b>	<b>5,757</b>	<b>5,909</b>
<b>Percent change</b>	100%	128%	175%	270%	506%	100%	136%	175%	201%	208%	214%
<b>% of Total</b>	25%	26%	25%	25%	28%	27%	28%	28%	27%	24%	22%
<b>Total Fertility</b>											
	7.18	7.26	7.30	7.20	5.76	4.53	3.43	2.70	2.28	2.02	
<b>Median Age</b>											
	19.0	18.4	17.8	18.0	19.2	20.6	22.0	24.6	27.7	31.0	34.1

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<sup>1</sup> <http://www.eia.doe.gov/emeu/cabs/opecrev.html>.

<sup>2</sup> <http://www.eia.doe.gov/emeu/cabs/saudi.html>.

<sup>3</sup> <http://www.eia.doe.gov/emeu/cabs/opecrev.html> .

<sup>4</sup> The Saudi Economy: A Look ahead to 2004,

<http://www.samba.com.sa/investment/economywatch/index.html>.

<sup>5</sup> World Bank, World Development Indicators, 2003, table 1.1, World Bank, Washington, 2003.

<sup>6</sup> The attached demographic data were developed by Craig Romm of the CSIS from a data base provided by the United Nations.