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# **Saudi Arabia Enters the 21<sup>st</sup> Century: The Military and Internal Security Dimension**

## **III. Saudi Military Expenditures and Arms Transfers**

*Final Review*

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## **Introduction**

**This analysis is being circulated for comment as part of the CSIS “Saudi Arabia Enters the 21<sup>st</sup> Century Project.” It will be extensively revised before final publication.**

**Those interested in commenting, or in participating in the project, should contact Anthony H. Cordesman at the address shown on the cover sheet at [Acordesman@aol.com](mailto:Acordesman@aol.com).**

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# **The CSIS “Saudi Arabia Enters the 21<sup>st</sup> Century Project”**

The CSIS is undertaking a new project to examine the trends shaping the future of Saudi Arabia and its impact on the stability of the Gulf. This project is supported by the Smith Richardson Foundation and builds on the work done for the CSIS Strategic Energy Initiative, the CSIS Net Assessment of the Middle East, and the Gulf in Transition Project. It is being conducted in conjunction with a separate – but closely related – study called the Middle East Energy and Security Project.

The project is being conducted by Anthony H. Cordesman, the Arleigh A. Burke Chair in Strategy. It uses a net assessment approach that looks at all of the major factors affecting Saudi Arabia’s strategic, political, economic, and military position and future implications of current trends. It is examining the internal stability and security of Saudi Arabia, social and demographic trends, and the problem of Islamic extremism. It also examines the changes taking place in the Saudi economy and petroleum industries, the problems of Saudisation, changes in export and trade patterns, and Saudi Arabia’s new emphasis on foreign investment.

The assessment of Saudi Arabia’s strategic position includes a full-scale analysis of Saudi military forces, defense expenditures, arms imports, military modernization, readiness, and war fighting capability. It also, however, looks beyond the military dimension and a narrowly definition of political stability, and examine the implications of the shifts in the pattern of Gulf, changes in Saudi external relations such changes in Saudi policy towards Iran and Iraq. It examines the cooperation and tensions between Saudi Arabia and the other Southern Gulf states. It examines the implications of the conventional military build-up and creeping proliferation of weapons of mass destruction in the Gulf, the resulting changes in Saudi Arabia’s security position. It also examines the security and strategic implications of the steady expansion of Saudi Arabia’s oil, gas, and petrochemical exports.

This project is examining the succession in the Royal Family, the immediate political probabilities, and the generational changes that are occurring in the royal family and Saudi Arabia’s technocrats. At the same time, it examines the future political, economic, and social trends in Saudi Arabia, and possible strategic futures for Saudi Arabia through the year 2010.

This examination of the strategic future of Saudi Arabia includes Saudi Arabia’s possible evolution in the face of different internal and external factors -- including changes in foreign and trade policies towards Saudi Arabia by the West, Japan, and the Gulf states. Key issues affecting Saudi Arabia’s future, including its economic development, relations with other states in the region, energy production and policies, and security relations with other states will be examined as well.

A central focus of this project is to examine the implications of change within Saudi Arabia, their probable mid and long-term impacts, and the most likely changes in the nature or behavior of

Saudi Arabia's current ruling elite, and to project the possible implications for both Gulf stability and the US position in the Gulf.

Work on the project will focus on the steady development of working documents that will be revised steadily during the coming months on the basis on outside comment. As a result, all of the material provided in this section of the CSIS web page should be regarded as working material that will change according to the comments received from policymakers and outside experts. To comment, provide suggestions, or provide corrections, please contact Anthony H. Cordesman at the CSIS at the address shown on each report, or e-mail him at [Acordesman@aol.com](mailto:Acordesman@aol.com).

Related material can be found in the "Gulf and Transition" and " Middle East Energy and Security" sections of the CSIS Web Page at [CSIS.ORG](http://CSIS.ORG).

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### **III. Saudi Military Expenditures and Arms Transfers**

Saudi Arabia faces equally difficult challenges in determining and providing the proper levels of military spending in effectively managing its funds and in deciding upon the proper level of arms imports. Uncertain oil revenues and steadily expanding civil demands for entitlements, and civil investment, have greatly reduced the ease with which the Kingdom can sustain high levels of defense expenditures. At the same time, Saudi Arabia can still afford to spend far more on its military forces than the other Southern Gulf states, Iraq's military spending has been severely restricted by UN sanctions, and Iran's economic problems have sharply limited what it can spend on military forces.

#### **Saudi Military Expenditures**

Chart 3.1 provides a US government comparison of Saudi military expenditures with those of other Gulf states, in constant US dollars. One thing is very clear. Saudi Arabia has spent far more on military forces than any other Gulf state, and is the only major country to have sustained high levels of expenditure since the mid-1990s. A similar comparison of Saudi expenditures with those of its two main threats -- Iraq, and Iran -- is shown in Chart 3.2. A comparable IISS estimate of more recent expenditures by Gulf states, as measured in current US dollars, is shown in Chart 3.3.

The levels of spending in these charts often differs significantly according to source, but they all show that Saudi military spending dwarfs that of the other Gulf states, although the comparability of the data are somewhat more uncertain than the figures provided by the US government. Since the mid-1990s, Saudi Arabia has spent almost four times as much of military forces as Iran and nearly ten times more than Iraq. It has spent roughly eight times as much as any of its Southern Gulf allies. Iran does seem to have increased its military spending as a result of the boom in oil revenues in 2000, but it is far from clear that this is sustainable.

Chart 3.4 extends these comparisons by showing the burden military spending imposes as a percentage of GNP and of total central government expenditures (CGE). It also shows arms

imports as a percent of total imports. Saudi Arabia does not have the highest percentages in every category, and these figures are a “snapshot”—not an average over an extended period of time. Nevertheless, Saudi Arabia clearly has the highest overall military spending burden of any nation in the Middle East. While these estimates illustrate the extent to which Saudi Arabia has been able to buy its way out of its military problems in the past, they also show that Saudi military expenditures have placed a massive burden on the Saudi budget. Only the UAE compares with the Saudi level of effort and it has done so only in recent years.

### **Different Estimates of Saudi Military Expenditures and Their Burden on the Economy**

There are a number of different estimates of Saudi expenditures, and of the burden they impose on the Saudi economy, but they agree in terms of broad pattern. Chart 3.5 shows US State Department, US Department of Defense, and IISS estimates of total Saudi spending in constant and current US dollars. Even allowing for differences in constant and current dollars, there are very significant differences in the various estimates.

Chart 3.6 shows a Saudi estimate, along with the trends in the total Saudi national budget and the trends in the GDP. The massive military and civil costs of the Gulf War emerge quite clearly in both charts, and Chart 3.6 shows that Saudi figures indicate that defense and security expenditures remain a very high percentage of the total national budget and GNP.

The Department of Defense estimates show that Saudi spending peaked during the Gulf War, then dropped in the mid to late 1990s as Saudi Arabia came under increasing financial pressure because of comparatively low oil revenues and increase civil spending burdens caused by major population increases. The figure for 1995 seems too low in view of Saudi military efforts during that year but 1995 was a year of Saudi fiscal crisis. Nevertheless, Saudi spending did drop by 33% between 1990 and 2000. What is equally striking, however, is that other Department of Defense sources indicate that Saudi expenditures leaped back up in 2001 as a result of a sudden “boom” in oil expenditures.

Other reporting by the US State Department indicates that Saudi Arabia spent \$8.3 billion on defense during January 1 to December 31, 1999.<sup>1</sup> It notes, however, that the Saudi government does not have separate line items budgets for defense and national security. Because

they do not identify them separately, defense spending includes Ministry of Interior expenditures and is therefore somewhat misleading. According to this estimate, Saudi Arabia spent 13% of its GDP and 41.65% of its national budget on military forces during this period.<sup>2</sup>

The State Department estimates that 1999 defense spending was 12 percent lower than in 1998. Defense spending as a percentage of the budget increased, however, because the overall budget decrease (from \$52.3 billion in FY 1998 to \$44 billion in 1999) was greater than the decrease in the military budget. This trend reversed sharply in FY2000 because there was a significant recovery in oil prices, beginning in April 1999. This contributed significantly to a rise in Saudi government budgetary spending, and the nominal GDP, as well as a moderate decrease in the 1999 budget deficit. As yet, however, the US government has not provided unclassified estimates.<sup>3</sup>

In contrast, the IISS estimates that the Saudi military budget totaled \$18.4 billion in 1999 (69 billion riyals), \$18.7 billion (70 billion riyals) in 2000, and \$27.2 billion (102 billion riyals) in 2001. It estimates actual spending at \$21.8 billion in 1999 (81 billion riyals), and \$18.7 billion (70 billion riyals) in 2000. The IISS does not explain the sudden estimated leap in planned Saudi spending in 2001. Saudi military sources state that this rise did not occur, and feel the IISS is confusing expenditures on a major security force and sensor system on the Yemen border with added defense spending. However, some Department of Defense sources indicate that part of the rise in 2000 resulted from trying to compensate for underspending in previous years and part resulted from an unfortunate Saudi tendency to rush into spending increases the moment oil revenues rise, regardless of whether they are really needed or the money can be spent effectively. Several Saudi civil sources also indicate that this latter explanation is correct and that unplanned and highly wasteful procurement and support contracts were signed that had a major impact in increasing Saudi Arabia's budget deficit problems in ways Crown Prince Abdullah never approved.

### **Estimating the Burden of Saudi Military Spending**

It is hard to assess how Saudi military expenditures are spent in detail. The Saudi budget is vague at best in describing defense and security expenses and provides no detail of any kind. Furthermore it does not include all purchases of military equipment, construction, and services.

Saudi Arabia does not report all of the relevant costs in its budget documents -- particularly costs of defense relating to the purchase of foreign defense goods and services. Saudi Arabia has often increased its defense expenditures after the budget was issued without reporting them, and has never publicly reported the actual cash flow it has spent on arms imports or on the value of the oil it has sometimes used in complex barter deals.

As has been noted earlier, this lack of transparency in the Ministry of Defense and Aviation, National Guard, and other Saudi security-related budgets reflects serious problems in the management of Saudi defense resources. It makes it impossible for Saudis inside and outside military and security activities to provide intelligent criticism of the way the Kingdom spends its resources. Perhaps more important, it seems to disguise a critical lack of effective planning, programming, and budgeting in the Ministry of Defense and Aviation (MODA). If the MODA has anything approaching a five-year plan that keeps procurement, manpower, and operations and maintenance expenditure in the proper balance, it certainly is not clear from Saudi actions. This lack of transparency also seems to disguise serious problems in exerting the proper fiscal controls and reviewing, particularly in regard to arms orders and procurement spending.

Some additional data are available, however, on the burden that Saudi military expenditures place on the entire national budget and the economy and on Saudi arms imports. Chart 3.7 supplements that data provided in Chart 3.6 by providing an unclassified estimate by the US intelligence community of how Saudi military spending in constant dollars compares with the trends in the Saudi gross national product, central government spending, total exports, and arms imports. This chart shows that the trend patterns in US estimates do not differ radically from those of the Saudi government. It also shows that that the Saudi GNP plunged after the "oil crash" that occurred in 1986, but has since grown faster than total central government expenditures and much faster than military spending and arms purchases.<sup>4</sup> Chart 3.8 provides a somewhat similar estimate by the US Department of Defense. The basic trends are similar, although the differences between Charts 3.7 and 3.8 again illustrate how difficult it is to make precise estimates of the economics of Saudi defense.

## **Export, Economic, and Demographic Impacts**

Charts 3.9 to 3.12 show the impact of export, economic, and demographic problems in more detail. While the permutations shown may be of interest largely to economists and budget analysts, the net effect of these charts is to show that the demographic pressures on the Saudi economy, a lack of economic diversification, and major unpredictable swings in oil export revenues have increasingly limited Saudi ability to fund both “guns” and “butter.”

- Chart 3.9 analyzes the military spending burden as a percent of GNP and CGE. It shows military manning as a percent of 1,000s in the total population, and arms imports as a percent of total imports. As might be expected, spending as a percent of CGE shows the same upward “spike” as in Chart 3.6. At the same time, Chart 3.9 shows that the rise in oil prices and the volume of Saudi oil exports that occurred during the war help limit the increase in military spending as a percent of GNP.
- The percentages for military manpower per 1,000 in the population show an increase from a little over 5 men per 1,000 in the population before the Gulf War to around 9 per thousand in the late 1990s. On the one hand, the Saudi figures compare with well over 30 men per 1,000 in Israel and 20 in Iraq. On the other hand, Saudi military manpower per 1,000 has nearly doubled since the Iraqi invasion of Kuwait and the Saudi manpower percentages are almost exactly the same as Iran’s.
- Chart 3.10 provides additional insight into a critical period in Saudi military spending – the Gulf War – and shows that the popular perception that the cost of the war to Saudi Arabia was driven by massive arms imports is completely wrong. It was the cost of Saudi aid to the US and other Gulf War coalition members, the cost of building up Saudi forces, and aid to Kuwait that drove up costs. This pattern is also shown in Chart 3.6, but more of the expenditures are shown outside the national security sector because Saudi definitions differ from those used by the US.
- Finally, Chart 3.11 shows how the pressures Saudi Arabia faces in terms of guns and butter affected the trends in per capita income and spending. The burden of military spending in per capita terms has not increased since the mid-1980s. However, the era in which Saudi Arabia had a vast surplus of per capita income relative to per capita military spending ended with the “oil crash” in 1986. Since that time, military spending has taken up a significant share of total per capita income even though it is lower in real terms.

The message that emerges from these complex mix of trends is just how much Saudi Arabia now needs to reexamine the burden military spending now puts on its economy and society and find ways to reduce that spending if it can possibly do so. Saudi Arabia clearly needs to budget in ways that reflect the fact that its force structure is maturing, that the pressure on spending is for force quality and not increased force quantity, and that spending on modernization and “recapitalization” needs to be carefully balanced against manpower and sustainment. More than the “oil boom” is over; Saudi military development needs to shift from its “boom” days of expansion to a stable and affordable structure.

## **Finding the Proper Level of Expenditure**

The total cost of Saudi military efforts since the early 1970s has exceeded several hundred billion dollars, even if one excludes the cost of the Gulf War. The Kingdom spent from \$14 to \$24 billion a year on defense during the later 1970s and the 1980s, its full-time active military manpower increased from 79,000 to 126,500.<sup>5</sup> Much of this expenditure -- probably on the order of 60-65% -- was spent on infrastructure, foreign services and maintenance, and basic manpower training. Saudi Arabia had to create entire military cities, new ports, and major road networks. It had to create modern military bases in the middle of its deserts, and pay for far more extensive training than most of the military manpower in the Third World receives.

There were good reasons for many of these expenditures during the period Saudi Arabia had to create a modern military force. Saudi recruits, whether nomad or townie, had to be brought to the point where they could operate modern military equipment, and buy a pool of equipment and munitions large and modern enough to give Saudi Arabia the ability to deter Iran and Iraq. Since the mid-1980s, Saudi Arabia has been able to shift from creating basic military capabilities and infrastructure to a slower and less expensive build-up of combat capabilities. The cost of the Gulf War placed a massive new burden on the Kingdom, however, and such expenses had to take place at the cost of "butter," and helped lead to chronic Saudi budget deficits.<sup>6</sup>

As the previous charts have shown, it was the Gulf War that pushed Saudi military and security expenditures to the crisis level. Saudi security expenditures rose from 36% of the total national budget in 1988, and 39% in 1989, to nearly 60% in 1990. Although any such estimates are highly dependent on exactly what aspects of the cost of Saudi support to allied military forces during the Gulf War should be included, the percentage rose to around 70% in 1991-1992 -- including the cost of aid to allied governments during Desert Storm. It declined to around 30% after 1992, and has remained at the 30-40% level ever since. There is no question that Saudi military expenditures have continued to contribute to the Saudi deficit, to limit expenditure on civil development, and limit funds for social services throughout the 1990s and early 2000s.<sup>7</sup>

What is far less clear is why Saudi military expenditures have remained so high since the Gulf War, or why some sources report that they suddenly rose in 2001. The long pipeline of arms deliveries ordered in reaction to the war explains some of the high expenditures, early to mid-1990s, but they should have tapered off more rapidly after the mid-1990s than the data available

indicates. In fact, both the size of Saudi arms deliveries after 1995, and the ratio of deliveries to new agreements after 1995, is much higher than can easily be explained by the volume of actual arms deliveries or Saudi needs.

Similarly, military construction expenditures remain too high. The Kingdom completed most of its infrastructure and basic force development expenditures by the late 1980s. This should have led to sharper cuts in such expenditures during the period after the Gulf War, and this is particularly true given the systematic underfunding of manpower quality and sustainment from the mid-1990s onwards. Once again, the explanation seems to be poor planning, programming, and budgeting by the Ministry of Defense and Aviation.

Saudi military expenditures have also remained too high as a percent of GDP and as a percent of total government expenditures. The US State Department estimates indicate that Saudi Arabia spent about 20% of its GDP on defense during 1983-1986. They ranged from 16% to 23% of the GNP during the 1980s, peaked at 27-29% in 1990-1992, and have since dropped to around 14%. The percentage was only about 8.5% in 1996, however, if GDP is measured in purchasing power parity.<sup>8</sup> The Department of Defense has somewhat different estimates. They indicate that Saudi expenditures peaked at 26-28% in 1990-1992, dropped to 10.2% in 1995, rose to around 14% through 1996-1998, and were around 13% in 1999 and 2000.<sup>9</sup>

Saudi military expenditures averaged around 40% of all central government expenditures (CGE) before the Gulf War, and rose to a peak of 60-73% during the Gulf War. They then dropped back to around 35%-40%, but this was still an exceptionally high percentage for a Saudi government that must fund so large a mix of welfare, entitlement, and civil investment expenditures. At the same time, Saudi military expenditures per capita dropped at roughly the same rate as the Saudi per capita GNP. US officials estimate that Saudi expenditures accounted for approximately 35-40% of all Central Government Expenditures, and 12.9% of the GNP, in 2000.<sup>10</sup>

There is no way to establish a "golden rule" as to what share Saudi military and security expenditures should consume of the GNP or total budget. It is clear that the recent spending has placed an increasing strain on the Saudi budget and economy. At the same time, these percentages are not easy to cut. Saudi Arabia must spend about \$13 to \$15 billion a year, in 2002

dollars, if it is to maintain its present forces and rate of modernization. It should be noted that the military is making an effort to save some money by taking such steps as increasing its repair capabilities, which would reduce the number of spares normally required to be stockpiled while systems are enroute for overseas repair.<sup>11</sup>

Chart 3.1

Comparative Military Expenditures of the Gulf Powers - 1984-1999

(Constant \$US 1999 Millions)



Source: Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, 1995, ACDA/GPO, Washington, 1996 and US State Department, World Military Expenditures and Arms Transfers, 1999-2000, Bureau of Arms Control, Washington, 2001.

Chart 3.2

Comparative Military Expenditures of the High Expenditure Gulf Powers: 1983-1999  
(Constant \$US millions)



Source: Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, 1995, ACDA/GPO, Washington, 1996 and US State Department, World Military Expenditures and Arms Transfers, 1999-2000, Bureau of Arms Control, Washington, 2001.

Chart 3.3

Comparative Military Expenditures in the Gulf Region: 1995-2001

(Current \$US Millions)

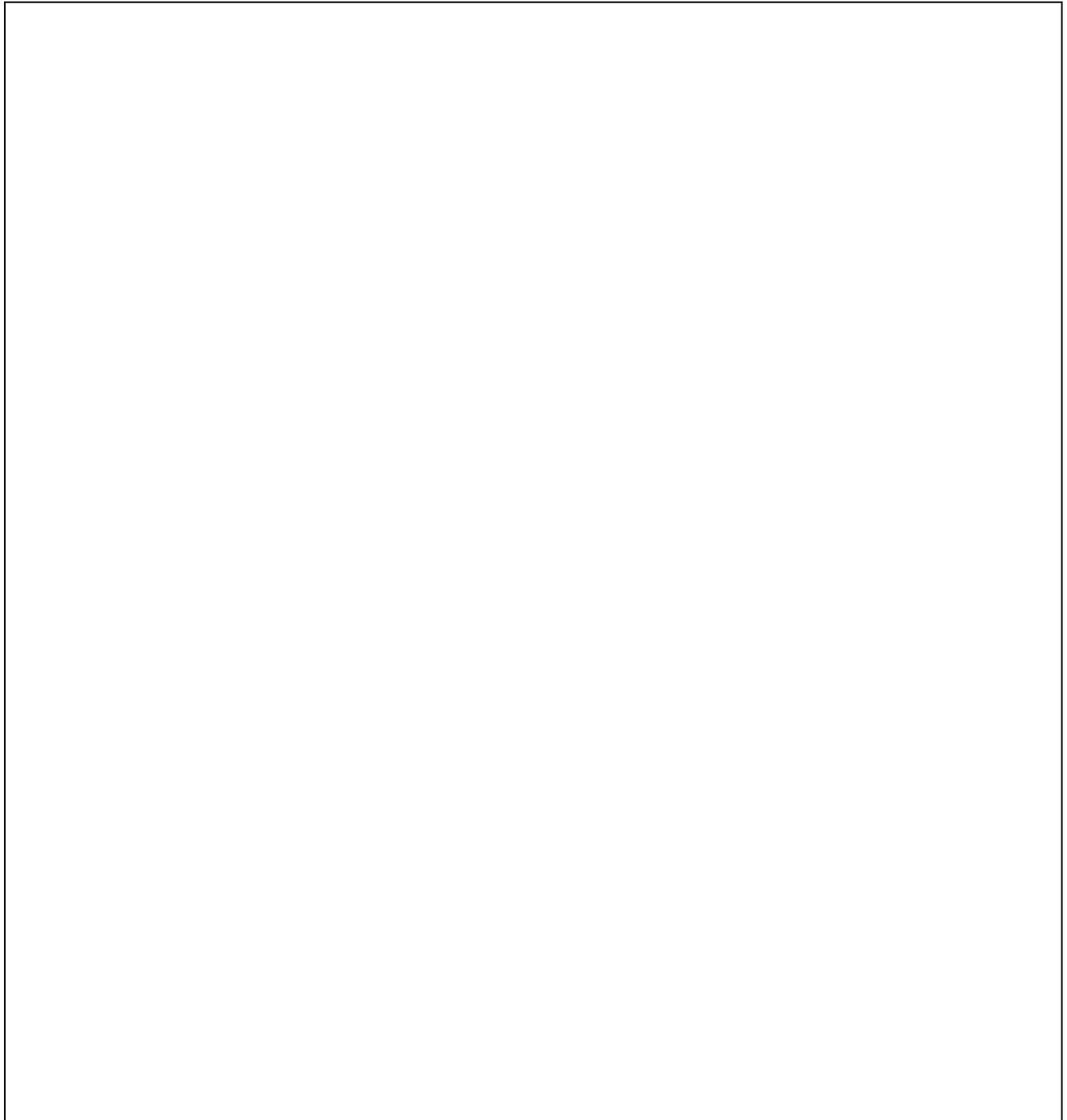


Source: Adapted by Anthony H. Cordesman from various editions of the IISS, Military Balance. The author has adjusted a number of figures and has provided trend estimates for the year 2000.

Chart 3.4

Military Expenditures and Arms Transfers as an Aspect of “Statism”

(Military spending as a percent of Central Government Expenditures (CGE) and Gross National Product (GNP), and Arms Imports as a Percent of Total Imports)

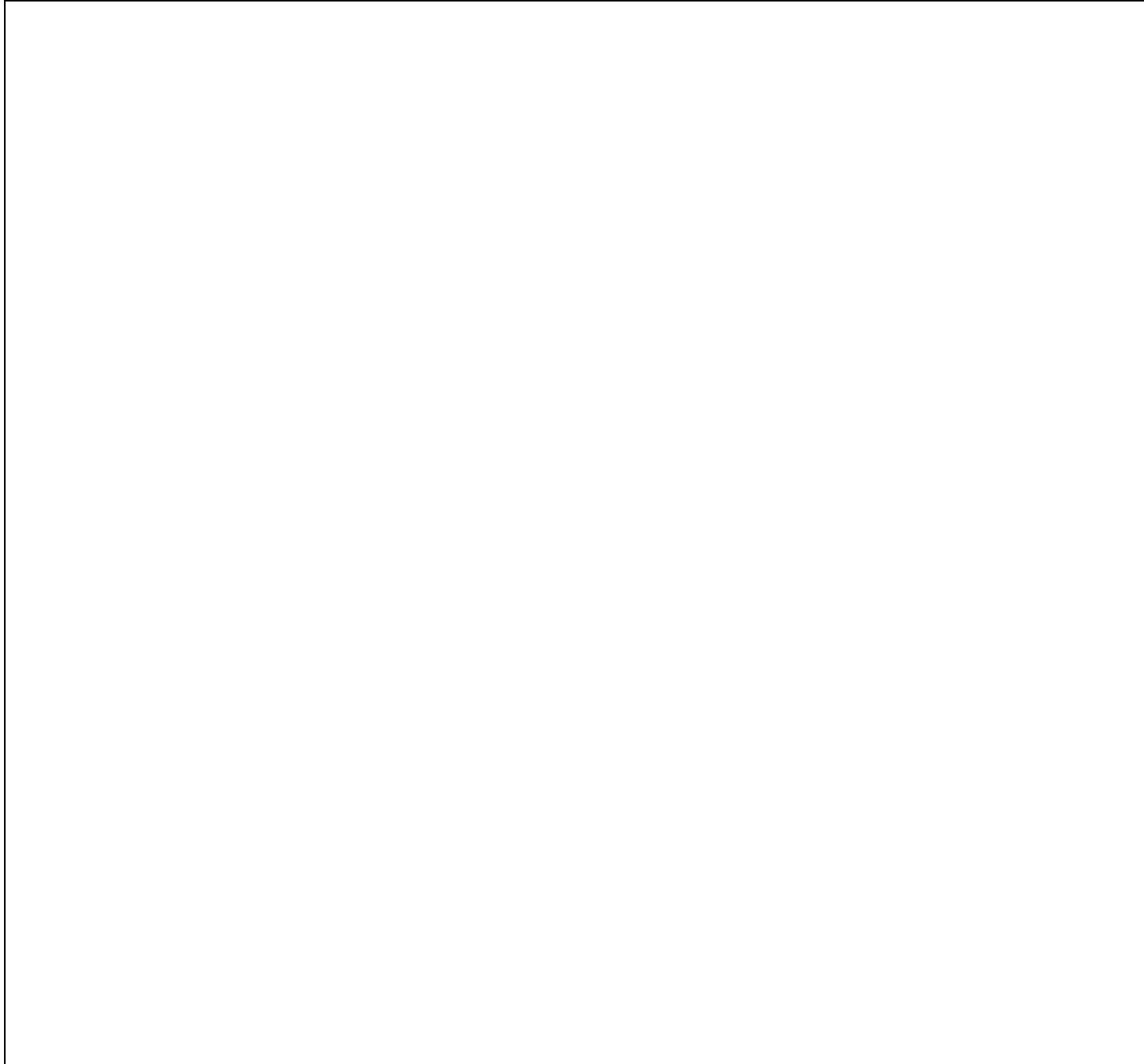


Source: Adapted by Anthony H. Cordesman from US State Department, World Military Expenditures and Arms Transfers, 1999-2000, Bureau of Arms Control, Washington, 2001.

Chart 3.5

Comparative Estimates of Saudi Military Spending: 1990-2000

(Current \$US Billions)



Source: Adapted by Anthony H. Cordesman from ACDA, US State Department, World Military Expenditures and Arms Transfers, 1999-2000, Bureau of Arms Control, Washington, Report on Allied Contributions to the Common Defense, March 2001, Report to the US Congress by the Secretary of Defense, p. E-5; and various editions of the IISS, Military Balance.

Chart 3.6

Saudi Estimates of Saudi National Security Spending: 1981-2000

(Current Millions of Saudi Riyals)



Source; Adapted by Anthony H. Cordesman from material provided by the Saudi Arabian Monetary Agency

Chart 3.7

Part One: State Department Estimate of Saudi Gross National Product, Central Government Expenditures, Military Expenditures, Total Exports, Total Imports and Arms Import Deliveries: 1984-1999

(Constant \$US 1999 millions)



Source: Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, 1995, ACDA/GPO, Washington, 1996 and various editions of US State Department, World Military Expenditures and Arms Transfers, Bureau of Arms Control, Washington.

Chart 3.8

Part Two: Department of Defense Estimate of Saudi Gross National Product, Central Government Expenditures, Military Expenditures, Total Exports, Total Imports and Arms Import Deliveries: 1990-2000

(Constant \$US 2000 Billions)

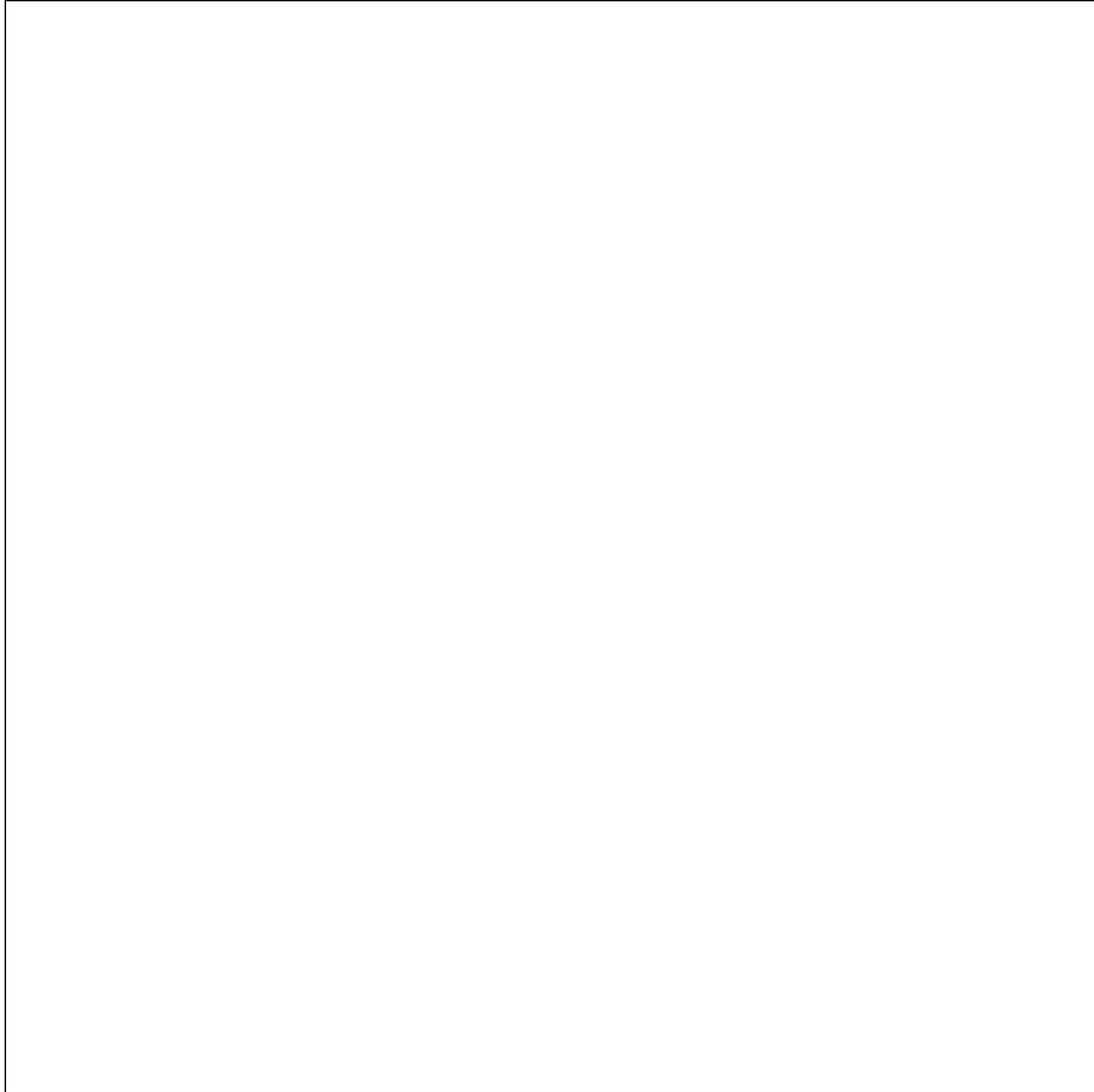


Source: Adapted by Anthony H. Cordesman from Report on Allied Contributions to the Common Defense, March 2001, Report to the US Congress by the Secretary of Defense, p. E-5.

Chart 3.9

Saudi Military Efforts as a Percent of GNP, Government Expenditures, and Imports and Military Personnel per 1,000 in Total Population: 1972-1999

(All percentages are measured in absolute manpower and constant 1999 US dollars)

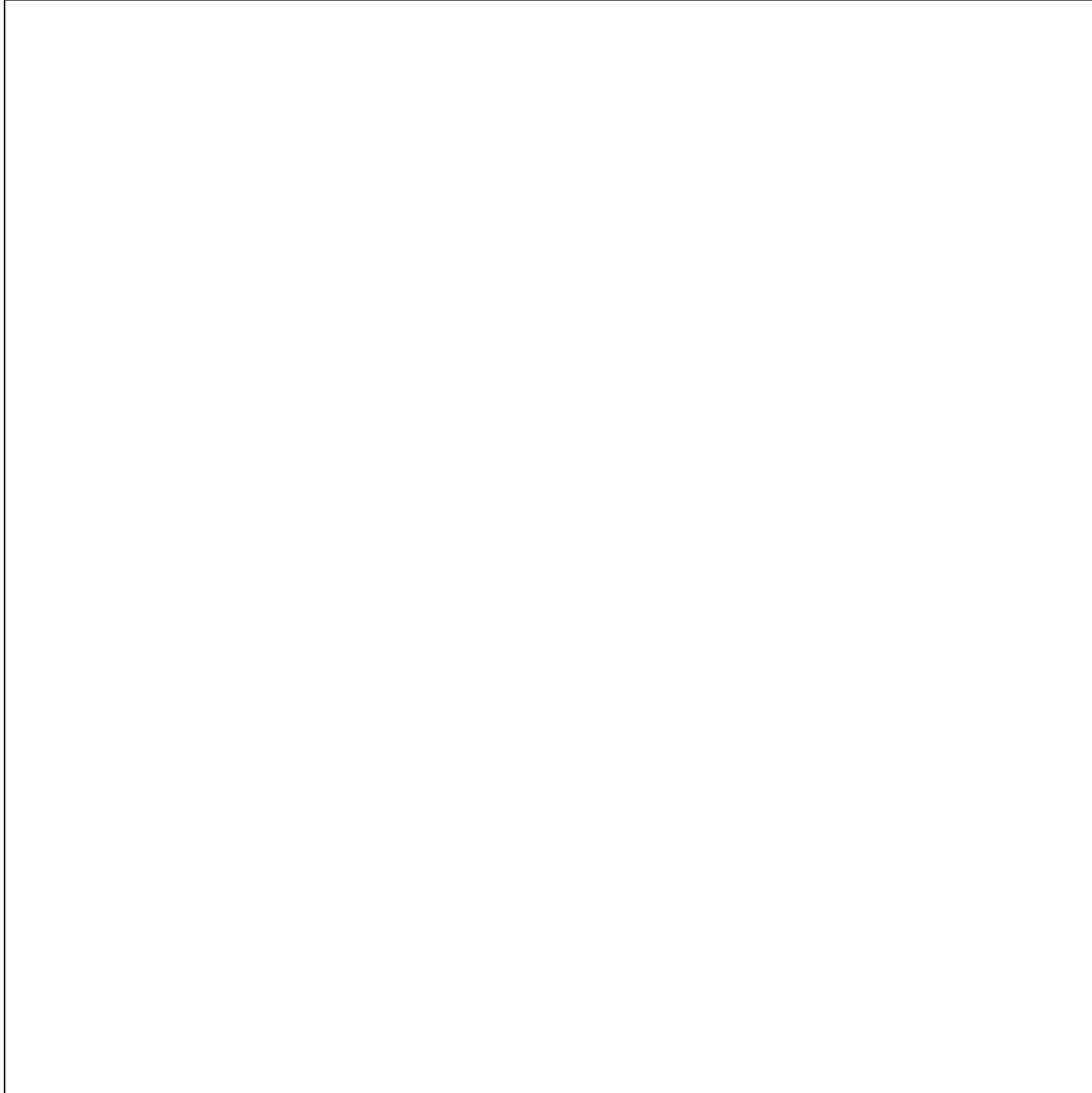


Source: Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, 1995, ACDA/GPO, Washington, 1996 and various editions of US State Department, World Military Expenditures and Arms Transfers, Bureau of Arms Control, Washington.

Chart 3.10

Shift in Saudi Military Expenditures and Arms Deliveries as a Percent of 1984 Total: 1984-1997

(Constant \$US 1997 millions)



Source: Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, 1995, ACDA/GPO, Washington, 1996 and US State Department, World Military Expenditures and Arms Transfers, 1998, Bureau of Arms Control, Washington, 1999.

Chart 3.11

Saudi GNP Per Capita Versus Military Expenditures Per Capita: 1983-1999

(Constant \$US 1999 millions)



Source: Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, 1995, ACDA/GPO, Washington, 1996 and various editions of US State Department, World Military Expenditures and Arms Transfers, Bureau of Arms Control, Washington.

## **Saudi Arms Imports**

Saudi Arabia has long been dependent on other nations for virtually all of its arms and military technology. Saudi Arabia is making slow progress in developing an indigenous arms industry. Saudi Arabia has made progress in the support, supply, and operations and maintenance areas. It can produce some small arms, automatic weapons, and munitions, but much of the Saudi portion of the work consists of assembling imported parts rather than real manufactures.

A number of other programs consist of efforts where a foreign arms supplier has agreed to set up defense-related industrial efforts in Saudi Arabia to “offset” Saudi spending on arms imports. Some of these “offset” efforts have been useful in reducing the need to import technology, services, and parts, but many others are more symbolic efforts to employ Saudis than substantive efforts to aid the Saudi military or industrial base. Some are little more than rackets that benefit Saudi princes and officers, and often the foreign contractors involved. It is scarcely surprising, therefore, that Saudi Arabia’s military build-up and modernization has led to massive expenditures on military imports.<sup>12</sup>

These spending patterns also help explain why Saudi Arabia has ranked as one of the world’s ten largest military importers in every year for the last two decades. It ranked first in both new arms agreements and in actual arms deliveries during 1989-1992, and 1993-1996, It ranked first in arms deliveries during 1996-1999, although it ranked third in terms of new orders – behind the UAE and India and only marginally above Egypt.<sup>13</sup>

### **The Volume of Saudi Arms Imports**

Until the late 1980s, the dollar value of Saudi military imports did not involve as high a proportion of expenditures on actual weapons as did the arms imports of most other countries. Much of the total cost of Saudi military imports included an exceptionally large percentage of construction services, service support costs, and goods other than weapons and munitions that were imported from other nations. These expenditures are classified as arms imports in the estimates made by the US government even when they do not include weapons.

Since the late 1980s, however, Saudi Arabia has spent roughly the same proportion of its military import dollars on arms as other Middle Eastern countries. It also seems to have spent on arms even if this meant inadequate spending on foreign contract services related to training and sustainment, with particularly severe results in underfunding air force readiness. As has been touched upon earlier, the figures on Saudi spending after the Gulf War also reflect more spending on arms than the Kingdom needed or could sustain.

It is not easy to make an accurate analysis of Saudi arms buys. Saudi Arabia does not provide statistics on its military imports, and most outside estimates are of limited analytic reliability. Two useful sources of unclassified intelligence estimates are, however, available from the US government: The Bureau of Arms Control in the US State Department (formerly the Arms Control and Disarmament Agency (ACDA), and the Congressional Research Service. These estimates are based on unclassified intelligence data that make a detailed effort to include all weapons and produce comparable estimates.

Those still present uncertainties, but they provide a much more reliable picture than academic and non-governmental organization (NGO) estimates of arms sales. They are certainly accurate in reflecting the steady increase in Saudi arms imports that has taken place in reaction to the massive build-up of Iraqi and Iranian forces, the threats and uncertainties posed by the Iran-Iraq War, the cost of fighting the Gulf War, and other current threats.<sup>14</sup>

### **Patterns in Saudi Arms Imports: 1973-1990**

Chart 3.12 shows the patterns in total arms deliveries to Saudi Arabia from 1973 to 1997. It is clear that the Kingdom embarked on a major military build-up following the October War in 1973, although it is important to note that this build-up was driven by the arms race in Iran, Iraq, and Yemen, and was made possible by the leap in their oil revenues that took place after early 1974. Saudi Arabia never took part in the Arab-Israeli arms race or attempted to create significant military forces on its Western border.

Chart 3.12 also shows a major further leap in Saudi arms imports after the fall of the Shah in 1979, and the start of the Iran-Iraq War in 1980, then created a very different threat from the north. The growing risk that Iran would defeat Iraq between 1984 and 1987 led to another massive surge in Saudi arms deliveries during 1987-1991, which was caused by orders placed

earlier in the Iran-Iraq War, but many of which were delivered after the war's end in 1988. A similar lag in deliveries explains another surge in arms deliveries in 1995-1997. Although the Gulf War with Iraq took place in 1990-1991, the surge in orders during and immediately after the war did not result in massive deliveries until the mid-1990s.

If one looks at total transfers to the developing world, Saudi Arabia was the largest "arms" importer during 1984-1987 (\$27.5 billion), during 1988-1991 (\$26.8 billion), during 1991-1994 (\$29.8 billion), and during 1995-1998 (\$67.8 billion).<sup>15</sup> It must again be stressed, however, that these figures for Saudi Arabia "arms imports" substantial amounts of services, and the value of actual weapons transfers was around half the total reported.

One other striking aspect of Chart 3.12 is the number of different countries that Saudi Arabia purchased from. There were good reasons to diversify the Kingdom's arms purchases. Saudi Arabia found it could not rely on the US because of US ties to Israel, and internal political pressure from Israel's supporters. It made sense for the Kingdom not to become too dependent on one supplier. Second, major arms purchases were a diplomatic tool in ensuring support from supplier nations. Finally, arms imports were a way of "recycling" oil export revenues and preserving market share.

At the same time, the Kingdom did failed to pay proper attention to interoperability and standardization. Like most Gulf countries, it often focused on buying the most effective or advanced system, and paid little attention to the practical problems of integrating weapons from different suppliers into overall force structures that minimized the problems in operating systems designed by different countries, the maintenance problems involved, and the difficulties in supplying and sustaining systems with different maintenance and ammunition needs in combat.

Aside from the National Guard, it paid too little attention to the training burden involved, problems in combined arms and joint operations, and difficulties in command and control. It also underestimated the inevitable rivalry between foreign military advisory teams and the natural competitive bias of foreign contract support teams towards favoring systems made by their companies or countries. Saudi Arabia also underestimated the tendency of supplier countries to focus on sales per se and ignore the Kingdom's strategic interests, even though most supplier countries were dependent on the security of Saudi oil exports.

### **The Impact of the Gulf War**

Chart 3.14 shows the patterns in Saudi arms orders and deliveries before and after the Gulf War. It also shows that Saudi Arabia's investment in arms imports peaked well before Iraq invaded Kuwait. In fact, if one looks further back into the 1980s, Saudi Arabia took delivery on \$48.1 billion worth of arms during 1983-1989, and purchased 14.1% of all Third World military import agreements during 1982-1989.<sup>16</sup>

The Gulf War did, however, lead Saudi Arabia to make major additional purchases of military imports. Chart 3.14 shows the size of Saudi Arabia's annual new orders and actual arms deliveries during 1990-1999, and traces the rise in deliveries from the orders placed during the Gulf War. At the same time, it reflects the decline in new orders after the early 1990s caused by the Kingdom's growing economic problems.

Saudi Arabia ordered \$18.6 billion worth of military imports in 1990, and took delivery on \$6.749 billion worth. Saudi Arabia cut its new orders to \$7.8 billion in 1991, but deliveries rose to \$7.1 billion as its backlog of increased orders began to raise deliveries. Both new orders and deliveries dropped to \$4.5 billion in 1992. Saudi military imports then began to rise again because of the perceived threat from Iran and Iraq. Saudi Arabia ordered \$9.6 billion worth of arms in 1993, and took delivery on \$6.4 billion. In 1994, it ordered \$9.5 billion worth of military imports and took delivery on \$5.2 billion.

The end result of these orders was a bill that strained Saudi Arabia's financial capabilities at a time its oil revenues were declining, and a massive "pipeline" of ongoing arms deliveries that Saudi Arabia could not effectively absorb. The Kingdom had problems with meeting its payment schedules for both US and British arms. Saudi Arabia had signed a multi-stage deal with Britain and France called Al-Yamamah that costs the Kingdom up to three billion dollars per year, but which was not integrated into its normal budget process. While the Kingdom could meet some of its obligation with oil, the deal still imposed a major financial burden. The US had to be paid in cash, which imposed even more of a burden. The program is a large financial burden, particularly in view of Saudi Arabia's structural budget deficits.

The Kingdom's problems in paying for its existing arms orders in 1994 led it to make much more modest new purchases after this time. The Kingdom ordered \$2.1 billion worth of

arms in 1995, and took delivery on \$2.1 billion. New orders totaled \$1.9 billion in 1996, and deliveries totaled \$6.3 billion. Saudi Arabia placed \$2.7 billion in new orders in 1997, and took \$11.0 billion worth of deliveries.

The “oil crash” in late 1997 then reinforced the need for Saudi Arabia to limit its new arms imports. As a result, it placed \$2.9 billion in new orders in 1998, and took \$8.7 billion worth of deliveries, and placed \$1.6 billion in new orders in 1999, and took \$6.9 billion worth of deliveries.<sup>17</sup> The scale of the decline in new Saudi arms import agreements is indicated by the fact that new orders during 1991-1994 were only about two-thirds of the total during 1987-1990. Saudi new orders for the four-year period from 1994-1997 were substantially less than half the new orders Saudi Arabia placed during the four-year period before the Gulf War, even measured in current dollars.<sup>18</sup>

The strains the Kingdom faced are illustrated by the fact that Saudi Arabia missed a major FMS payment to the US in March 1999. Although Pentagon officials insisted that Saudi Arabia had enough funds to cover its future bills as they became due, the Kingdom was slow in making its \$150 million monthly deposits as was stipulated in the earlier payment restructuring deal it had made in 1994. In May 1999, the U.S. government also had to devise new financing options to justify the renewal of the \$850 million Peace Sun F-15 support contract and the estimated \$300 million Peace Shield airspace command and control program after.<sup>19</sup>

These pressures led the Kingdom to make massive cuts in its new arms orders after 1995. Chart 1.17 shows just how sharp this decline in new orders was and that it continued despite a major rise in oil prices in the spring of 1999, and a massive increase in oil revenues in 2000. The Kingdom seems to have wisely concluded that this was a “bubble” that could not be counted on to sustain new arms orders. Chart 3.15 shows that Saudi arms imports became a steadily smaller share of its total export revenues and total imports, and declined sharply as a percent of total imports since their peak in the mid-1980s.

At the same time, Chart 3.13 shows that the cost of arms deliveries from past orders was still extraordinarily high even in 2000, and that cuts in new arms agreements have been very slow to cut the actual annual cost of arms imports. This history helps explain why many Saudis outside the Ministry of Defense and Aviation often have an exaggerated impression of the size of

the Kingdom's actual arms imports and the pace of new orders. They are not aware of the difference between new orders and deliveries and during the late 1990s, many Saudis confused deliveries with orders and felt that the Kingdom was making massive arms purchases at a time when its oil revenues and export earnings were limited.

In fact, many of Saudi Arabia's problems were self-inflicted wounds. The way the Kingdom managed new Saudi arms orders after 1995 was poorly managed, and reinforced several major problems in Saudi military sustainment and modernization.

- First, the Kingdom focused on major new arms purchases during the period immediately after the Gulf War, rather than sustainment and then did not shift its purchases to focus on sustainment when it had to make major cutbacks after the mid-1990s. As a result, Saudi Arabia was flooded with weapons but seriously underfunded in terms of the investment in maintenance and sustainment that was necessary to keep its existing weapons effective and properly absorb its new ones.
- Second, the flood of new deliveries during the 1990s added to the Kingdom's problems in effectively recapitalizing and maintaining its overall force posture. As a rough rule of thumb every major weapons system costs at least as much in terms of the arms imports needed to maintain and upgrade it during its life cycle as it does to buy, and often twice as much. The Kingdom now faces a major future cost problem in making and in keeping its new weapons effective that will add to the problem of sustaining its existing weapons. While no precise figures are available, some US advisors estimate that the Kingdom needed to restructure its arms import program to focus on sustainment half a decade ago, and needs to spend three to four times more on support equipment, training systems, etc. than it does today, even if this means major additional cuts in spending on new arms.
- Third, the Kingdom never really developed a clear strategy for both improving interoperability and setting affordable long-term force goals. It went from year to year, solving its payments problems as they occurred. It did not develop effective future year plans and the spending fixes it adopted for any one year tended to compound its overall problems in standardization and interoperability.

Chart 3.12

Trend in Arms Deliveries to Saudi Arabia:

(In \$US Current Millions)



Source: Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, various editions, and various editions of US State Department, World Military Expenditures and Arms Transfers, Bureau of Arms Control, Washington.

Chart 3.13

Saudi Arabian New Arms Agreements versus Arms Deliveries: 1990-1999

(\$US Current Millions)

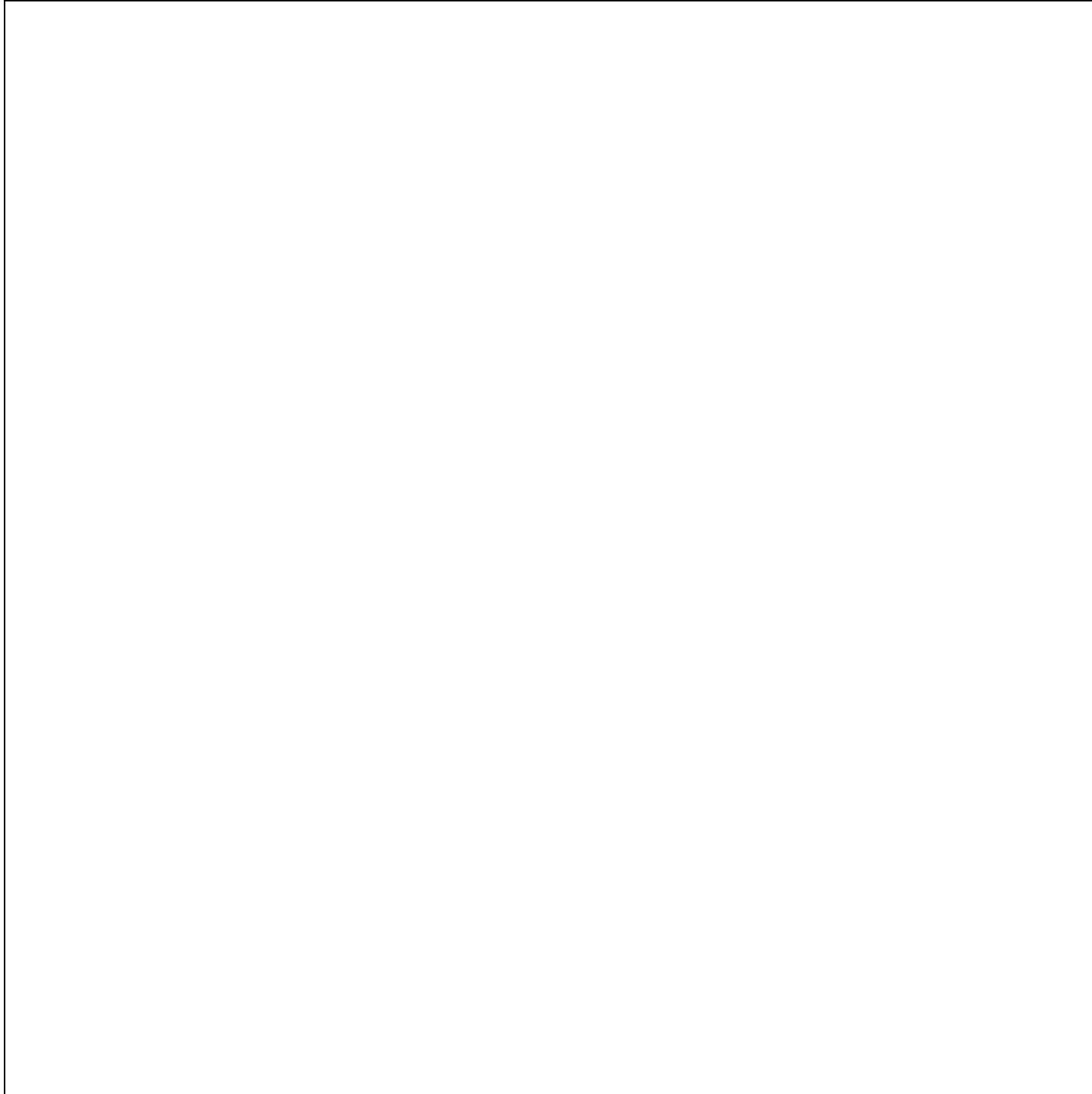


Source: Adapted by Anthony H. Cordesman from Richard F. Grimmett, Conventional Arms Transfers to the Developing Nations, Congressional Research Service, various editions.

Chart 3.14

Saudi Total Exports, Total Imports, and Arms Import Deliveries:

(Constant \$US millions)



Source: Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, 1995, ACDA/GPO, Washington, 1996 and various editions US State Department, World Military Expenditures and Arms Transfers, Bureau of Arms Control, Washington.

### **Comparisons of Saudi and Other Gulf Arms Buys**

Saudi Arabia's procurement difficulties should not be exaggerated. No country in the world has yet succeeded in creating a highly efficient system to manage military procurement and modernization. Success is also relative, and Saudi Arabia's problems with arms imports during the 1990s were minor in comparison to those of its three greatest potential threats: Iran, Iraq, and Yemen.

The overall patterns in Gulf arms imports are shown in Charts 3.14-3.18. Chart 3.14 compares Saudi total arms deliveries to the total deliveries of all of the other Gulf countries. It shows that Saudi arms imports came to dominate the total level of Gulf arms imports during years after the Iran-Iraq and Gulf Wars. If conventional arms imports alone were a measure of warfighting capability, it is clear that Saudi Arabia would be the superpower of the Gulf.

Chart 3.16 compares Saudi arms import deliveries to those of Iran, Iraq, and Yemen. It shows a virtual halt to Iraqi arms imports, and a massive decline in Iranian and Yemeni imports. The trend is even more striking in terms of new agreements. Saudi Arabia signed some \$21.8 billion worth of new arms agreements during 1992-1995, while Iran signed \$1.1 billion worth of new agreements, Iraq signed none, and Yemen signed \$300 million. Saudi Arabia signed some \$5.7 billion worth of new arms agreements during 1997-2000, while Iran signed \$1.3 billion, Iraq smuggled in less than \$50 million worth, and Yemen signed \$400 million worth.<sup>20</sup> Chart 3.16 does show, however, that Saudi arms imports make up a far higher percent of total imports than those of any other Gulf state.

Chart 3.15

Cumulative Saudi Arms Imports Relative to Those of the Other Gulf states - 1984-1997

(Value of Deliveries in Constant \$USMillions)

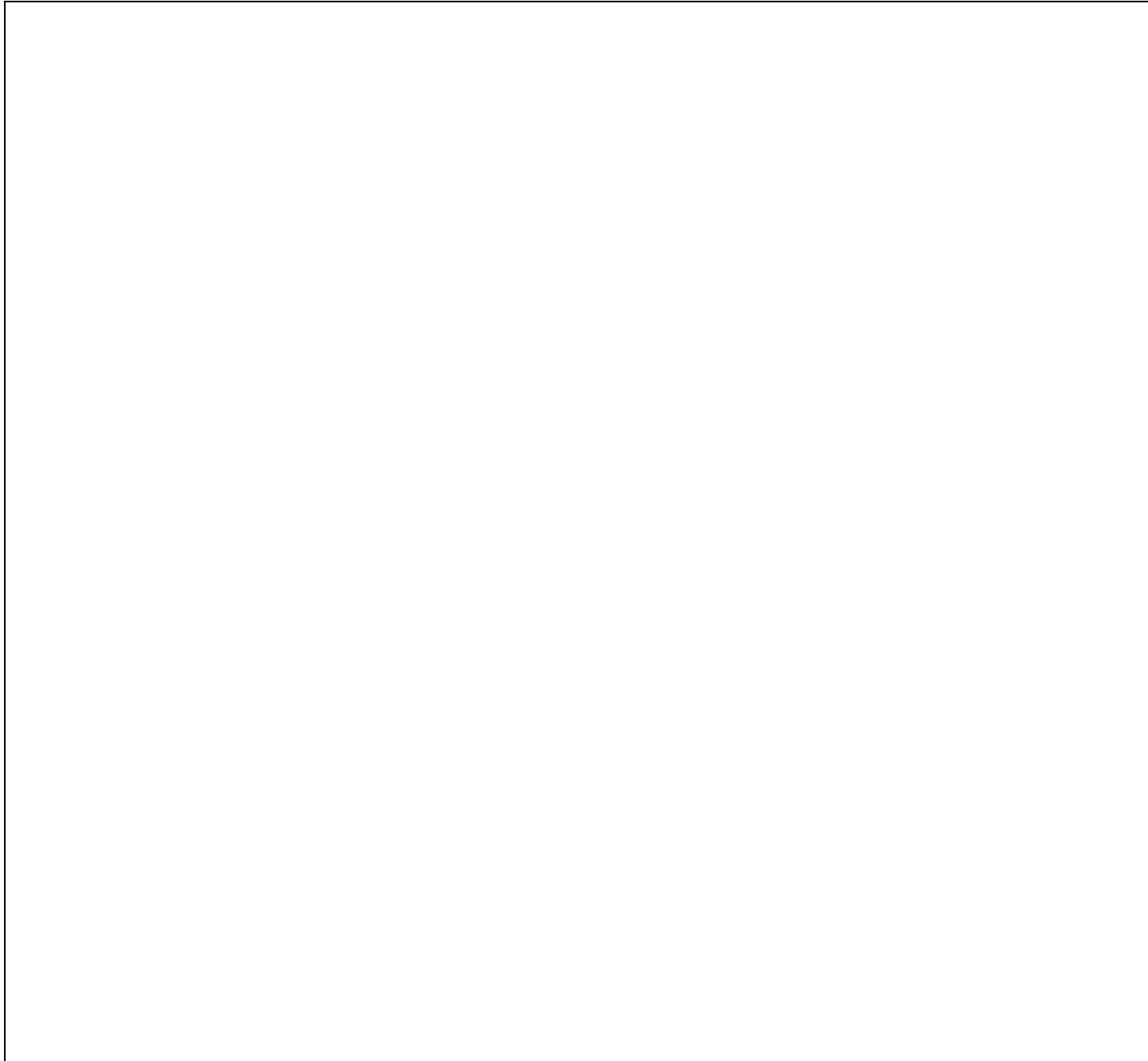


Source: Adapted by Anthony H. Cordesman from State Department, World Military Expenditures and Arms Transfers, GPO, Washington, various editions.

Chart 3.16

Saudi Arms Deliveries versus Deliveries to Iran and Iraq: 1986-1999

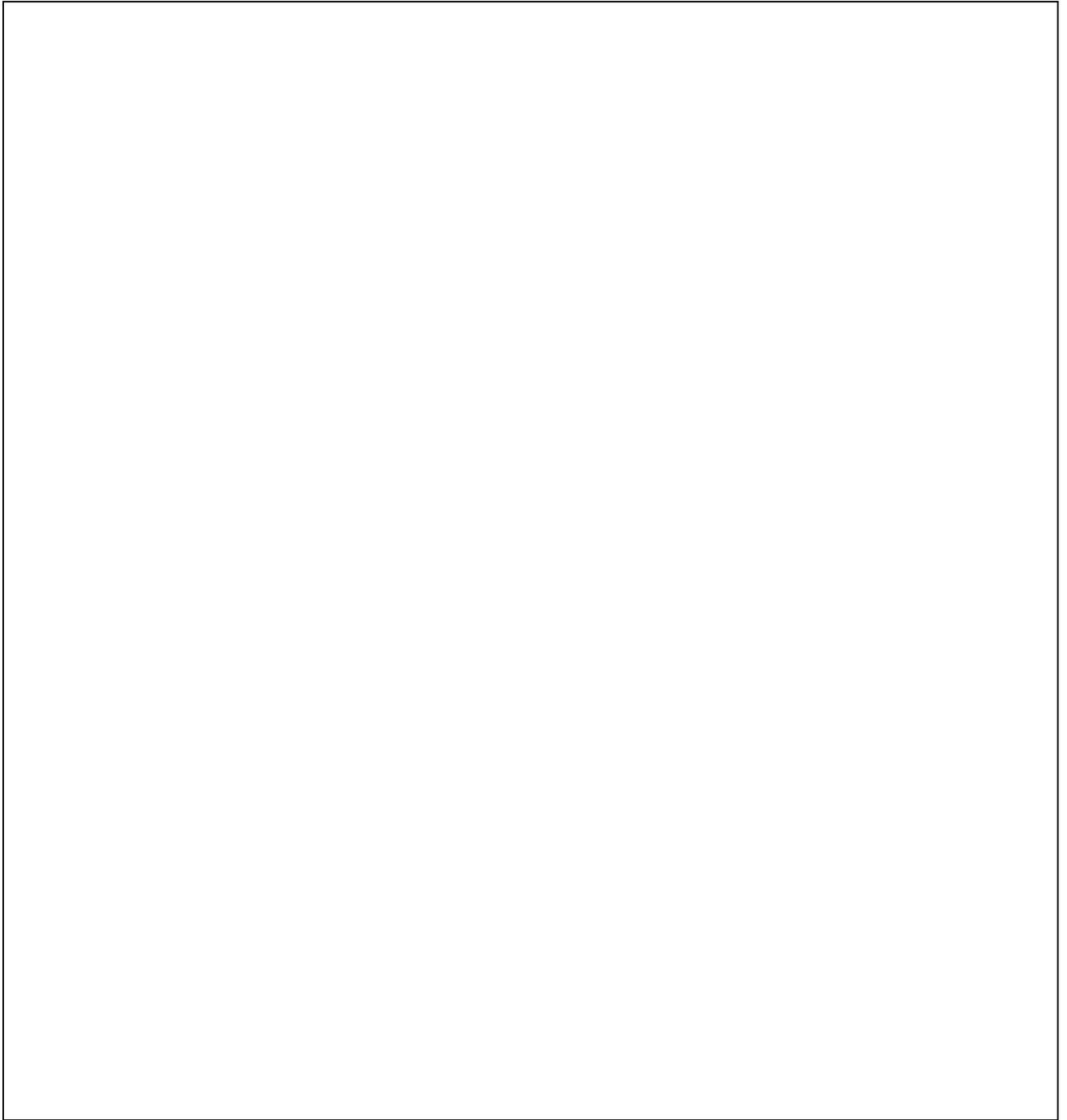
(\$US Constant Millions)



Source: Adapted by Anthony H. Cordesman from US Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers, GPO, Washington, various editions.

Chart 3.17

Arms Imports as a Percent of Total Imports in Middle Eastern Countries



Source: Adapted by Anthony H. Cordesman from US State Department, World Military Expenditures and Arms Transfers, 1999-2000, Bureau of Arms Control, Washington, 2001.

## Sources of Saudi Arms Imports

Chart 3.12 reveals that Saudi Arabia has depended on the West for virtually all of its military modernization. It is not surprising that its main suppliers are the US and Europe. Similarly, Saudi Arabia has developed close military relations with the US, while balancing its dependence on the US with major imports of arms from Britain and France. Britain has been a major supplier of aircraft while France has been a major supplier of ships and naval weapons.

Chart 3.18 shows deliveries by major supplier from 1973-1997. What is most striking about this chart is the variation in suppliers over time, which has created many of the interoperability and standardization problems discussed earlier. Part of these patterns were driven by the reluctance of the US Congress to sell the Kingdom arms at a time when Saudi Arabia was perceived to be a threat to Israel. This encouraged Saudi Arabia to turn to France as a major supplier to its Navy, and led the Saudi Air Force to make its massive Al Yamamah buy of Tornados and Hawks instead of the F-15. It is interesting to note that in terms of total sales in current dollars, Britain sold more arms to Saudi Arabia during 1973-1997 than did the United States.

- If one examines ACDA reporting for the period from 1979-1983, which covers the period from the fall of the Shah of Iran through the early years of the Iran-Iraq War, Saudi Arabia took delivery on \$12.125 billion worth of military imports. This included \$5.1 billion worth of military imports from the US, \$2.5 billion from France, \$1.9 billion from the UK, \$525 million from West Germany, \$200 million from Italy, and \$1.9 billion from other countries.<sup>21</sup>
- Saudi Arabia took delivery on \$19.530 billion worth of military imports during 1984-1988. This included \$5.8 billion worth of military imports from the US, \$7.5 billion from France, \$2.5 billion from the PRC, \$2.1 billion from the UK, \$30 million from Italy, and \$1.6 billion from other countries.<sup>22</sup>
- During the period from 1985-1989, which covers the period from the most intense fighting in the Iran-Iraq War through the cease-fire in 1988, Saudi Arabia imported \$23.04 billion worth of military goods, including \$5.0 billion from the US, \$7.0 billion from France, \$7.7 billion from the UK, \$2.5 billion from the PRC, \$40 million from West Germany, \$250 million from other European countries, \$140 million from other East Asian states, \$390 million from Latin America, and \$20 million from other countries in the world.<sup>23</sup>
- During 1992-1994, the period immediately after the Gulf War, Saudi Arabia imported \$20.465 billion worth of military goods, including \$8.6 billion from the US, \$525 million from France, \$9.4 billion from the UK, \$170 million from the PRC, \$30 million from Germany, \$670 million from other European countries, \$10 million from other East Asian states, \$70 million from Russia, and \$90 million from other countries in the world.<sup>24</sup> These totals are somewhat misleading, however, because they only reflect deliveries and were heavily influenced by past orders of British aircraft. Most new Saudi orders were placed with the US.

- During 1995-1997, Saudi Arabia imported \$31.32 billion worth of military goods, including \$13.7 billion from the US, \$2.3 billion from France, \$11.9 billion from the UK, \$1 billion from other NATO countries, \$2.2 billion from other Western countries, and \$190 million from other countries in the world.<sup>25</sup> These totals are again somewhat misleading, however, because they only reflect deliveries and were still heavily influenced by past orders of British aircraft. Once again, most new Saudi orders were placed with the US.

More recent reporting by Richard F. Grimmett, which is summarized in Charts 3.19 and 3.20, indicates that Saudi Arabia bought most of its arms from Europe during the four years before the Gulf War, and that its new agreements with the US during this period only amounted to about 31% of the total. This was partly the result of the political difficulties the US faced in selling to Saudi Arabia at a time when US supporters of Israel still opposed the sale of advanced weapons. This situation changed significantly after Iraq's invasion of Kuwait, however, and many supporters of Israel suddenly came to regard Saudi Arabia as more of any ally than a threat to Israel.

At the same time, both the US and Saudi Arabia had every conceivable incentive to cooperate in both building up Saudi forces and making them as interoperable with US forces as possible. Saudi Arabia placed major orders in the US, and Saudi orders from the US rose from \$14.3 billion during 1987-1990 to \$20.2 billion during 1991-1994, and reached 67% of total Saudi new agreements. New orders from Europe dropped from \$25.7 billion during 1987-1990, to only \$9.5 billion during 1991-1994 – 31% of the total.<sup>26</sup>

The sources of Saudi arms deliveries were different – reflecting the lag between orders and deliveries. Saudi Arabia received a total of \$38 billion in deliveries of military imports during 1995-1998. These deliveries were still dominated by Europe (\$21.6 billion versus \$16.4 billion from the US) because of the long lead times in the delivery of past orders. Saudi Arabia only ordered a total of \$7.9 billion worth of new arms during 1995-1998, however, and most of these new orders were placed in the US (\$5.1 billion versus \$2.5 billion from the US). If one compares the slightly different four-year period from 1996-1999, Saudi new orders from the US totaled \$5.5 billion while orders from Europe only totaled \$1.3 billion. In contrast, European deliveries totaled \$16.6 billion versus \$15.5 billion from the US. Saudi Arabia only received minor deliveries from other countries, and the only major weapons system they supported were the Chinese long-range missiles that Saudi Arabia had bought before the Gulf War.

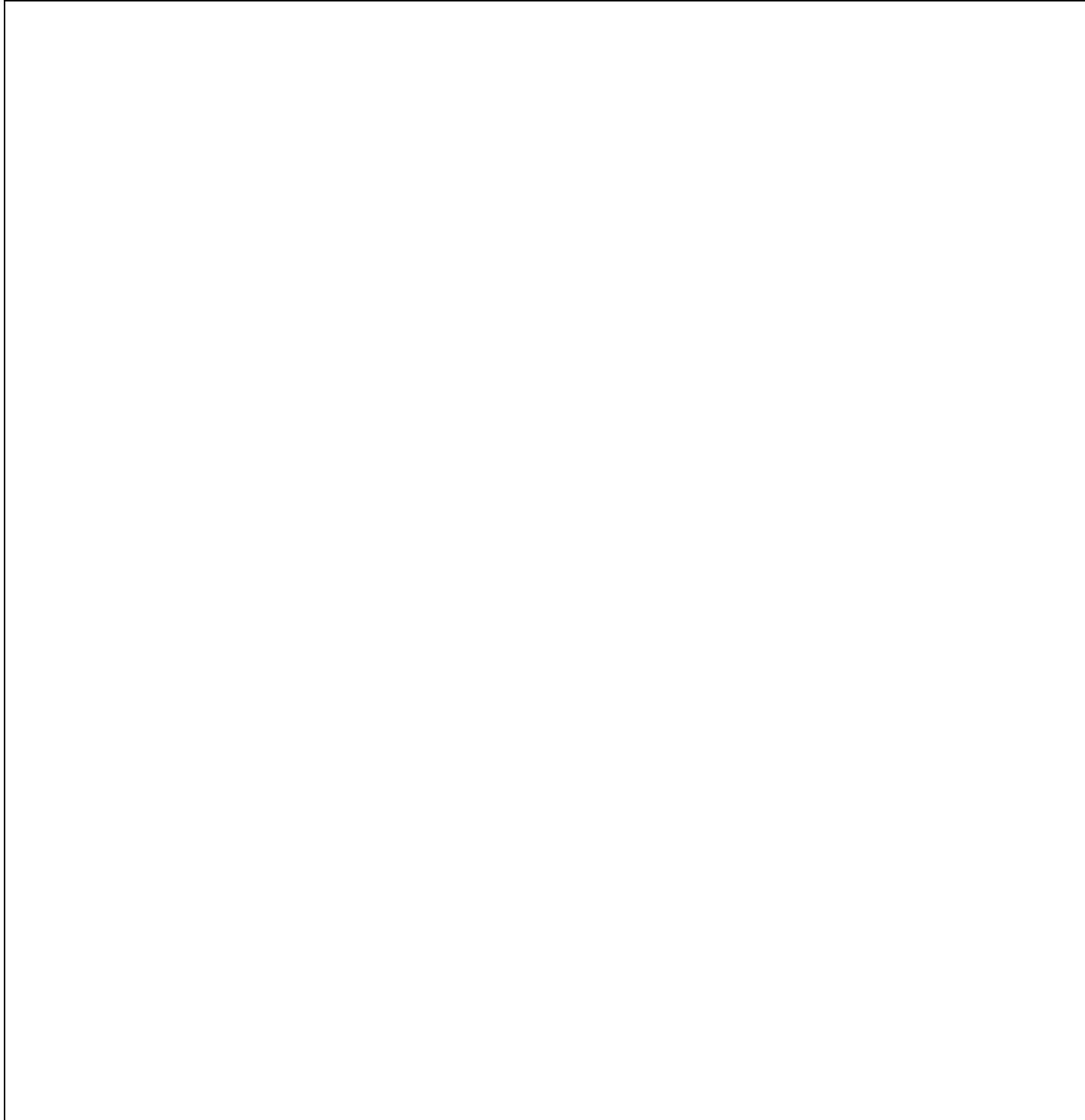
The patterns since Saudi Arabia's funding crunch in the mid-1990s have been different. Saudi Arabia signed only \$5.7 billion worth of new agreements during 1997-2000 versus \$18.8 billion worth during 1993-1996. It signed \$4.3 billion worth of agreements with the US during 1997-2000 versus \$11.8 billion during 1993-1996. New agreements with major European states totaled less than \$50 million during 1997-2000 versus \$6.5 billion during 1993-1996, while new orders from other European states rose from \$500 million to \$1.1 billion. There were no Saudi new arms agreements with Russian and China from 1993-200, and orders from all other states rose from less than \$50 million to \$300 million.

In sharp contrast, Saudi Arabia took delivery on \$34.0 billion worth of military goods during 1997-2000, including \$16.2 billion from the US; \$15.4 billion from France, Germany, Italy and the UK; \$2.4 billion from other Western countries; and less than \$50 million from all other countries in the world. These figures again reflect the acute imbalance in the funding of new Saudi orders relative to the extremely high cost of deliveries of past orders.<sup>27</sup>

Chart 3.18

Arms Deliveries to Saudi Arabia by Major Supplier: 1973-1997

(In \$US Current Millions)



Source: Adapted by Anthony H. Cordesman from ACDA, World Military Expenditures and Arms Transfers, various editions, and US State Department, World Military Expenditures and Arms Transfers, 1998, Bureau of Arms Control, Washington, various editions.

Chart 3.19

Total Saudi Arabian Arms Agreements and Deliveries Before and After the Gulf War: 1987-  
2000

(\$US Current Millions)



0 = less than \$50 million or nil, and all data rounded to the nearest \$100 million

Source: Richard F. Grimmett, Conventional Arms Transfers to the Developing Nations, Congressional Research Service, various editions.

Chart 3.20

Declining Orders, Rising Deliveries: Saudi Arabian New Arms Agreements and Deliveries by Major Supplier Before and After the Gulf War: 1987-2000

(\$US Current Millions)



0 = less than \$50 million or nil, and all data rounded to the nearest \$100 million.

Source: Richard F. Grimmett, Conventional Arms Transfers to the Developing Nations, Congressional Research Service, various editions.

## **The Changing Nature of Saudi Arms Imports**

There have been major qualitative changes in Saudi military imports since the mid-1980s, which have been further accelerated since the Gulf War. Until the mid-1980s, Saudi Arabia concentrated on building up its military infrastructure and basic military capabilities. While it is impossible to make precise estimates, weapons, munitions, and specialized military support equipment probably made up less than one-third of Saudi military imports during this period.

Since the mid-1980s, Saudi military imports have shifted to include a steadily increasing number of first line weapons systems. Furthermore, many military construction and support activities are now carried out by Saudi firms or the equivalent of joint ventures. As a result, more than 60% of Saudi military imports now include weapons, munitions, and specialized military support equipment.

Some of Saudi Arabia's recent major arms imports are summarized in Table 3.1. It is clear that Saudi military modernization remained broadly based through most of the 1990s. At the same time, it shows that the rate of new procurement and deliveries dropped sharply after the mid-1990s, and will create major modernization, standardization, and interoperability problems in each service.

There also are major uncertainties affecting Saudi Arabia's future modernization of its armored forces. While the Kingdom continues to discuss buying two types of advanced modern tanks, it cannot yet effectively operate its present mix of M-60s and M-1s, and its French-made AMX-30s are obsolete and many are in storage. It needs to rationalize its mix of other armored vehicles more than it needs new ones. As is the cases with its other regular services, it needs to emphasize training and sustainment purchases over new weapons. The army does, however, need more long-range, self-propelled artillery firepower and advanced anti-tank weapons of the kind that can best help Saudi ground forces defend against an attack by Iraq.

The past modernization of the Saudi air and air defense forces has been very ambitious, as well as the modernization of Saudi Arabia's land-based air defense forces. It has created what is still a relatively modern air force, and Saudi Arabia continues to buy new systems. For example, it has upgraded its five E-3A AWACS, and taken delivery on a total of 12 AB-412TP

search and rescue helicopters. At the same time, Saudi Arabia underfunded the support of its F-15 force to the point where its readiness is seriously undermined. It has had to ground its aging F-5s. As a result, it is considering selling them, and buying a much smaller number of F-15s to compensate for its losses in training.

Saudi Arabia's main requirement for its air defense forces is the need to fund theater ballistic missile defenses at some point in the 2000s. The Kingdom has obtained shared early warning systems with the US, but US and Saudi Patriots are the only system with anti-missile capabilities currently in Saudi Arabia and the Saudi Patriots are PAC-2 versions with only limited anti-missile capability. The anti-ballistic missile systems Saudi Arabia would need to deal with more advanced Iranian and Iraqi missiles are not yet available from the US and are not funded through its projections of its military expenditures.

Saudi Arabia plans only a limited naval modernization program once it takes delivery on the three French Lafayette-class frigates in 2001-2005 that it ordered during the 1990s. Some officers still want to buy submarines, although it is far from clear that the Navy can afford to buy and sustain them. Others would like to shift the Navy's modernization priorities to areas like mine warfare and to concentrate on filling in the gaps in US Navy mission capabilities in the Gulf. This is an important change. Past Saudi naval imports often reflected more interest in prestige and in the "glitter factor" of having the best-armed large ships than in Saudi Arabia's mission priorities or real-world military effectiveness.

These issues highlight the problems caused by the fact that Saudi modernization planning and spending lacks coherent central direction and tends to lurch from year-to-year—and from major deal to major deal—rather than be part of a coherent future year plan and program budget. Once again, the quality of programming, planning, and budgeting within the Ministry of Defense and Aviation (MODA) is poor. Force modernization tends to focus on major weapons buys without coherent plans to provide suitable support, training, and sustainment. While Saudi Arabia has long had reasonably well-drafted five year plans in its civil sector, the MODA is decades behind in practical planning skills, and it is uncertain that it has the practical authority to implement coherent plans even if they are drafted.

## **Corruption, Waste, and Accountability**

As has been mentioned earlier, the lack of transparency and accountability is another major problem in Saudi arms sales as is the tendency to create very large contract programs that become open-ended purchasing programs. At least some Saudi officials and officers feel that it is virtually impossible for anyone in the Saudi government, whether inside or outside the Ministry of Defense and Aviation to understand what is being bought in any detail, who is getting the money, and how the flow of Saudi payments is being accounted for. These problems are compounded by layering service and support contracts in purchasing contracts over procurement contracts, accounting for the cost-benefits of grossly over-ambitious offset contracts, and accounting for soft expenditures like transportation and overhead costs.

Outside critics have often exaggerated the level of waste and corruption in Saudi arms deals and military procurement. The following chapters show that the Kingdom has generally bought the right arms and got a highly effective mix of weapons for its money. As will be discussed later, the terms of US Foreign Military Sales (FMS) programs also places serious limits on the misuse of funds. In addition, European countries maintain audit programs that help to limit such problems.

The fact remains, however, that even relatively limited waste and corruption still involve major amounts of money – given the massive size of Saudi arms purchases. Furthermore, some very large Saudi arms deals like the Al-Yamamah program that started out as an integrated purchase of weapons and services from Britain were structured in ways which involved complex old deals and which led to charges about massive waste and corruption from the start. They have since been expanded to include buys from France and have layered new purchases on old in ways that have made accountability impossible. The original Al-Yamamah program was signed in the mid-1980s, and then expanded to levels costing over \$30-\$35 billion, with off-budget outlays of roughly \$3 billion a year, and additional accountability problems caused by including the barter of oil for weapons and complex offset arrangements. Further spending has taken place since 2000 in ways that have led to new charges of waste and corruption.

Saudi Arabia is scarcely unique in keeping almost all of the military, technical, and financial and management aspects of its arms deals secret. Virtually every country in the

developing world does so, and the details of procurement and service contracts of many Western states are almost impossible for outsiders to obtain. The fact is, however, that virtually every war fighting aspect of such contracts soon become public. There is no military or strategic reason for classifying the cost and structure of arms deals. In fact, there is even less reason to classify them than the total defense budget. The actual flow of arms and munitions is so public that attempts at secrecy are futile.

This strongly argues for several reforms in Saudi arms purchases and offset programs. First, for maximum transparency and public exposure of the financial details of contracts and purchase arrangements to encourage public review and trust. Second, for annual public reporting on contract performance and the individual performance of offset programs. Third, for the creation of a major new independent audit function within the Ministry of Defense and Aviation, with investigative accounting responsibility, to review such programs. Fourth, for the creation of a body similar to the US General Accounting Office under the Prime Minister to conduct such audits in the case of suspect or troubled programs. And finally, for the inclusion of detailed procurement data in the kind of public defense program and budget discussed earlier.

Table 3.1Key Saudi Equipment Developments - Part One

- During Gulf War bought 315 M-1A2s, 30 M-88A1 tank recovery vehicles, 175 M-998 utility trucks, 224 heavy tactical trucks, 29 heavy equipment transporters, 268 five ton trucks, spares and support equipment, logistics support, ammunition, facilities design and construction, training aids and devices, and US military training services.
- Discussed plans to buy 235-350 additional M-1A2s, Challenger 2s, or Le Clercs, but funding plan unclear.
- Bought 400 M-2A2s, 200 M-113 armored personnel carriers, 50 M-548 cargo carriers, 17 M-88A1 recovery vehicles, and 43 M-578 recovery vehicles.
- Talked about replacing 110 M-109A/A2s with M-109A6, VSEL AS90, and Giat GCT-1. Funding plan even more uncertain.
- Considered order for 9 Multiple Launch Rocket Systems (MLRS), including vehicle mounted rocket launchers, 2,880 tactical rockets, 50 practice rockets, 9 MV-755A2 command post carriers, training and training equipment, but canceled in 1993. Need to supplement present strength of four 180 mm SS-40s and 127 mm SS-30s.
- Army has 12 AH-64 Apache attack helicopters, 155 Hellfire missiles, 24 spare Hellfire launchers, six spare engines and associated equipment. Has discussed possible total of 48 AH-64s.
- Army aviation formed in 1986, and now has 12 S-70As, 22 UH-60s, 6 SA-356Ns, and 15 Bell \$06CSs - addition to AH-64s. Considering buy of 88 Westland WS-70 Black Hawks or similar lift helicopters.
- Building new a military city near Jizan, which is on Red Sea coast near border with Yemen. Some cost estimates range up to \$8 billion.
- Negotiated a deal with Spain for the purchase of 200 BMR-600 6x6 armored personnel carriers at a cost of up to \$440 million.
- Ordered 12 AS-532 A2 Cougar Mk II search and rescue helicopters from Eurocopter, all due to be delivered by the end of 2001 at a cost of \$589 million.
- Ordered 1,827 TOW-2A anti-tank guided weapons from the US in 2000.

Table 3.1Key Saudi Equipment Developments - Part Two

- Saudi National Guard (SANG) has bought 400 to 450 versions of the Piranha light armored vehicle.
- SANG bought 1,117 LAV-25s (light armored vehicles) from General Motors of Canada through the US Army Tank Automotive Command (TACOM) at cost of \$3.4 billion. Package included 116 TOW launchers with 2000 missiles, 27 M-198 155mm howitzers, support systems, training, and facilities.
- The SANG took delivery of the first of 73 120 mm armored mortar systems in 1998.
- SANG bought 130 Belgian LCTS Mark 8 90mm turret weapon systems, including day-night range sights, for integration into its LAVS.
- Refitting four F-2000 frigates with roughly 50 “item” changes, 40 minor. Are adding NBC protection and improving Otomat missile system to enhance search patterns and add re-attack capability. Not improving Crotale to use latest VT1 rounds, but improving Airsys Castor 2B X-band fire control radar to Castor 2C standard. Will complete during 1997-2001.
- Buying two new Lafayette-class F-3000 frigates as part of \$3.5 billion November 1994 agreement. To complete delivery by 2005.
- Ordered a third La Fayette class anti-aircraft frigate equipped with the new Aster 15 missile to complete delivery by 2005
- Four Sandown minelayers entering service, beginning in 1995.
- Considered buy of several AEGIS-class warships to give it advanced battle management, Harpoon anti-ship missiles, Tomahawk strike capability, ASW, anti-aircraft, and anti-ship missile defense capabilities. Too expensive.
- Refitting two logistic replenishment tankers.
- Considered buying coastal submarines.

Table 3.1Key Saudi Equipment Developments - Part Three

- Bought 24 F-15S aircraft designed for air combat, and 48 F-15S aircraft dual-capable in both the air defense and strike/attack missions: 24 spare engines, 48 targeting and navigation pods, 900 AGM-65D/G Maverick air-to-surface missiles, 600 CBU-87 bombs, 700 GBU-10/12 bombs, and special mission planning systems.
- Bought 1,500 upgraded AIM-9 air-to-air missiles for use on the F-15 Eagle at a cost of \$115 million.
- Considering upgrade of 1,500 AIM-9L to AIM-9M.
- Bought 20 more Hawk 65 jets and 20 more Swiss Pilatus PC-9 turboprop trainers for delivery during 1996-2000. Needs better trainers than either Hawk or Pilatus.
- Bought upgrade of 5 E-3A AWACS in 1997.
- Examining replacement for roughly 100 F-5s. Reports considered funding 12-24 F-15s in an initial buy, and 1 selling F-5s to help fund its new F-15s. Boeing offer included a major depot maintenance facility involving significant offsets, and hires of Saudis. The facility might improve Saudi capability to service its F-15s, and US F-15s, in combat.
- Upgraded nine F-5E reconnaissance fighters in 1997 with improved sensors, GPS, and inertial navigation systems.
- Longer term requirements for replacement for 60 F-15s in 2005-2010 timeframe. F-22, EF-2000, Rafael possible candidates.
- Examined plans to buy up to 70 C-130J-like transports during next decade, and up to 10 additional airborne tankers to supplement its 8 KC-130Hs.
- Order 44 Italian AB-412TP SAR helicopters in 1998. Order 475 US AMRAAM air-to-air missiles in 2000.
- Examined buying up to 21 Patriot batteries (2 training) with 1,055 missiles. Two units funded, and purchased the Patriot Range Support System (PRSS) in 1999.
- New Peace Shield system becoming fully operational, and installation was completed in November 1995. Has central C<sup>4</sup>I center, five regional centers, and 17 long-range radars.
- Upgrading 17 MIM-23B I-Hawk batteries.
- Considering upgrade of 170 Shahine mobile and static light SAMs. Possibly with Crotale NG.
- Examining replacement of French AMX-30 SA air defense guns.

## **Military Imports from the US**

As the previous discussion has shown, the US is hardly Saudi Arabia's only military supplier. Nevertheless, the US has been a key supplier, and the interoperability between Saudi and US forces will be of critical importance in any major future war. The US releases a substantial amount of data on these sales through the Defense Security Cooperation Agency. While these data are not directly comparable to the previous intelligence data on arms sales, they are available in considerably more detail, and provide considerable insight into both Saudi Arabia's military development and its military future.

Saudi Arabia has not received any US military assistance since oil prices rose following the embargo after the October War in 1973. Even before that time, it received only minor levels of aid. It received only \$1.8 million in excess article from the US Military Assistance program during the entire period from 1950-1989. Total grant assistance only equaled \$29.9 million over the same period, and Saudi Arabia only drew down on \$25.9 million of these funds. Saudi Arabia did receive larger assistance under the Foreign Military Financing program, but the funds now seem miniscule compared to Saudi arms buys since 1973. Total financing during 1950-1989 was \$254.2 million, with \$65 million in direct financing and \$189.9 million in guarantees. The Kingdom repaid all of this money. Saudi Arabia received only \$12.5 million in aid under the International Military Education and Training Program.<sup>28</sup>

Many of the patterns in US sales during the per-Gulf War period (1950-1989) were the result of the fact that Saudi Arabia had to build up modern forces from a very limited base. For example, Saudi Arabia signed some \$16.0 billion worth of foreign military construction agreements with the US during 1950-1989, and took delivery on \$15.1 billion worth of construction services. This was largely a product of the fact that Saudi Arabia lacked both a modern construction industry and experience with the design and construction of military facilities. As a result, it largely phased out US military construction by the early 1980s. During the period from 1989-1999, it signed only \$1.8 billion worth of new foreign military construction agreements with the US during 1950-1989, and took delivery on only \$1.5 billion worth of construction services.<sup>29</sup>

The patterns in US government-managed Foreign Military Sales (FMS), and US commercial arms sales have been different. The combination of the rise in oil revenues after 1973, the arms race in the Northern Gulf, the fall of the Shah in 1979, and the Iran-Iraq War of 1980-1988, led Saudi Arabia to buy \$30.98 billion worth of FMS during 1950-1989, and to take delivery on \$22.6 billion worth of these orders. A further \$1.5 billion worth of commercial arms sales were licensed to Saudi Arabia. To put these orders in perspective, they totaled roughly twice the value of US FMS sales to Israel during the same period.<sup>30</sup>

There were many problems in the course of US arms transfers to Saudi Arabia before the Gulf War that limited the value of these transfers. The US added significant surcharges and administrative fees that indicated the US was often more interested in military sales than military partnership. The US sometimes declined to sell key weapons to Saudi Arabia because the US Congress objected to the potential risk to Israel, or because the US proposed arms sales packages that met US needs without meeting Saudi needs. Examples of such problems include a covert US arrangement with Britain where the US pressured Saudi Arabia into buying British Lightning fighters and surface-to-air missiles so that Britain could afford to buy US F-4 fighters. Other problems included a refusal to sell more US tanks, which led Saudi Arabia to buy low-grade French AMX-30s; a naval advisory and sales effort that sold Saudi Arabia low-grade, used US Navy ships that the US failed to properly support; and a series of long, bitter debates over the sale of the E-3A AWACS and F-15S. At the same time, the Saudi purchases went on to play a vital role in helping to support the US in Desert Storm.

The close alliance between the US and Saudi Arabia during the Gulf War, and the fact that Saudi Arabia was clearly not a military threat to Israel, removed most of the problems the Saudis faced in obtaining the US arms exports the Kingdom wanted. The flow of FMS and commercial sales came to include some of the most advanced conventional arms in US inventory. During and after the Gulf War, Saudi Arabia placed very large arms orders. Saudi Arabia ordered \$38.2 billion worth of new FMS agreements during 1990-1999, and took delivery on \$29.9 billion. The Kingdom signed 1.2 times more new FMS agreements during the decade from 1990-1999 than it had in the previous three decades, and took delivery on 1.3 times more new FMS goods. Saudi Arabia also requested a little under \$400 million in additional commercial arms export licenses during 1990-1999. It ordered \$1.8 billion worth of new military

construction agreements, and took delivery on only \$1.5 billion in new military construction services.<sup>31</sup>

Overspending and periods of moderate oil revenues forced Saudi Arabia to reduce its new arms purchases in the mid-1990s, and the kingdom began to have new problems in obtaining the electronics and munitions it needed to stay interoperable with the US. In 1994, Saudi Arabia had to delay several major potential military import contracts -- including purchases of \$64 million worth of US multiple rocket launchers and a \$1 billion contract for 150 more M-1 tanks. Saudi Arabia had to reach an agreement with the US to restructure and defer some of its payments for past military imports, partly because of unexpectedly low oil revenues and partly because it faced unanticipated major payments to the US to cover the costs of deploying US forces during the Gulf War.<sup>32</sup> Saudi Arabia faced projected payments for US arms of about \$4.1 billion in 1994 and \$6 billion in 1995. This would have cost Saudi Arabia \$10.1 billion over a period of only two years.

These pressures led to negotiations where the US and Saudi Arabia agreed to restructure the Saudi military sales program on January 29, 1994. They did so in ways that avoided the cancellation of any weapons programs, but stretched some purchases out and reduced the monthly procurement rate of F-15 fighters from two to one. This cut Saudi Arabia's total arms purchases during 1994-1995 from \$10.1 to \$9.2 billion, and Saudi Arabia's payment for 1994 to \$3.35 billion. In April, Saudi Arabia also arranged to borrow \$1.85 billion of this total from three Saudi banks.<sup>33</sup> The Kingdom was forced to delay or defer a contract with Britain for the purchase of some aviation equipment and the construction of a new air base.<sup>34</sup>

Several senior US officers involved in the US military sales and advisory program in Saudi Arabia privately welcomed this cutback. They had growing concerns about Saudi Arabia's failure to provide the manpower, training, facilities, and sustainability to make proper use of all of its arms purchases, and were concerned that the US would get the blame for "pushing" arms on Saudi Arabia. They advocated capping the accumulated balance of US arms sales to Saudi Arabia at \$10 billion, and some pushed for levels as low as \$8 billion.

The practical problem was that US manufacturers continued to push sales; no other foreign supplier showed any interest in controlling the pace of sales, and key Saudis like Prince

Sultan kept pushing for more arms purchases and threatened to turn to other suppliers if the US did not sell. Furthermore, the Clinton White House showed a continued willingness to intervene on the side of higher sales when it came under political pressure from US manufacturers or the sale involved exports with desirable political visibility. Saudi Arabia faced similar pressures from European suppliers.

The total Saudi FMS debt dropped in FY1997, but Saudi Arabia still owed the US a great deal for a number of major cases. In mid-1996, it still owed \$6.5 billion out of a total of \$9.0 billion for the 72 F-15Ss, \$500 million out of \$3.1 billion for 315 M-1A2s, \$500 million out of \$1.5 billion for 400 M-2A2s, and \$2.2 billion out of \$4.0 billion for 20 Patriot batteries. Saudi Arabia had not succeeded in bringing its total debt down to \$10 billion in FY1988, and still owed the US over \$13 billion. This meant it owed the US \$3.5 billion during the course of calendar 1997, plus \$300-\$400 million more for maintenance and support on existing contracts.<sup>35</sup>

The “oil crash” that began in late 1997 -- which continued through the spring of 1999 -- forced Saudi Arabia to cut back even further on its arms purchases, and reduce its backlog of new orders. It also created new cash flow problems until Saudi oil revenues began to rise in the summer of 1999. In May 1999, the U.S. government had to devise financing options to justify the renewal of the \$850 million Peace Sun F-15 support contract and the estimated \$300 million Peace Shield airspace command and control program after Saudi Arabia missed a payment in March 1999. These two programs, which were due to expire at the end of May 1999, comprised only a fraction of the \$60 billion worth of FMS contracts signed between Saudi Arabia and the U.S. However, the suspension of these high-profile contracts could have damaged the relationship between the U.S. and its largest FMS customer, as well as jeopardize broader geopolitical and strategic cooperation between the two countries.<sup>36</sup>

The recent trends in Saudi orders of US military equipment are summarized in Table 3.2. This table shows a major rise in new FMS orders during the first half of the 1990s, followed by a decline after 1994 – reflecting the overall patterns in Saudi arms sales discussed earlier. Similarly, Table 3.2 shows a predictable rise in deliveries after 1994, stemming from the delay between orders and actual deliveries. The patterns in FMS construction largely reflect highly specialized construction of facilities associated with specific major arms purchases. Saudi Arabia had long been able to carry other construction activity on its own.

One interesting aspect of the data in Table 3.2 is the low level of Saudi direct commercial arms sales. The Kingdom initially sought to reduce its level of FMS purchases and to make commercial purchases. It soon became apparent, however, that the fees the US government charged for managing the FMS program were minor compared to the management and planning burden associated with Saudi direct purchases. Moreover, the FMS program was under tight US government control and limited corruption and commissions to a minimum.

Limiting corruption and commissions became a growing issue for the Saudi government during the 1990s, as it came under acute pressure from sellers that were not under direct government control and audits to make sales that often led to grossly excessive profit margins, kickbacks, and other problems. It should be noted in this regard that major European governments and military firms were the source of many of these problems, not the Saudi purchasers, and that virtually no such corruption occurred in the arms buys of the Saudi National Guard. Because of US law and controls, most of the abuses in FMS sales were limited to transport costs and some aspects of the offset programs the Kingdom demanded as part of its terms for making arms buys.<sup>37</sup>

Chart 3.21 shows the content and value of recent Saudi FMS arms purchases and deliveries from the US. Once again, the gap between purchases and deliveries is clear. At the same time, a detailed look at the data in Chart 3.21 – and discussions with US and Saudi military experts – reveal a number of other patterns:

- Saudi Arabia has eased the debt burden that presented major problems in the mid-1990s. It paid down its FMS debt burden from a peak of around \$24 billion to less than \$3 billion in early 2001. It reduced its annual FMS payments to around \$1.8 billion.<sup>38</sup>
- There is a steady growth in “services” to keep equipment maintained and combat capable. The same is true of maintenance, spare parts and modifications. Even so, there is broad agreement that Saudi Arabia has not ordered anything like the total pool of services, spare parts, and maintenance capabilities from the US it now needs. This has helped lead to critical readiness problems in some aspects of the Saudi military forces, especially the Air Force. Similar problems affect the equipment provided by other countries and are often worse.
- While training expenditures are significant, the level of program activity is far too low to ensure suitable training. The problems are compounded by Saudisation of a kind that has replaced skilled manpower with underskilled Saudi personnel, and by a decline in performance standards: “Saudis will not fail Saudis.”
- The modernization of land combat vehicles and tactical and support vehicles have been underfunded since a surge of purchases shortly after the Gulf War.

- Other support equipment has been a major part of Saudi purchases and deliveries, reflecting the increasing sophistication of the Saudi equipment pool and the rising investment necessary to keep it operating.
- Communications equipment and military electronics has been modernized, but not at the rates necessary to support advanced combined arms and maneuver warfare.
- The US does not provide major new naval systems, virtually all of which come from France.
- There have been virtually no new US aircraft orders, but deliveries of past orders have been a major part of all Saudi arms deliveries.

In summary, Saudi purchases from the US have provided Saudi Arabia with much of the advanced equipment it needs to deter and defend against Iran and Iraq. They have also ensured a higher degree of standardization and interoperability between Saudi and US forces and strengthened Saudi capability for coalition warfare and US contingency capabilities in the Gulf.

These advantages, however, are not a valid argument for further massive Saudi purchases from the US, or for issuing Saudi Arabia a “blank check” it can use to buy any US weapon or technology without careful review of their impact of the Saudi economy, the urgency of Saudi military needs, and the fact that priority should be given to balance war fighting capability. First, their effectiveness depends on a large continued US advisory presence over a period of at least a decade, and the facilities and exercises necessary to allow major US reinforcement and effective interoperability. Second, Saudi Arabia is now buying more arms than it can absorb, and has many other social and economic priorities. A stable Saudi Arabia is far more important than a well-armed Saudi Arabia. Saudi Arabia already has so many arms deliveries that it cannot absorb them properly, and it needs to emphasize training, conversion, and sustainability.

At the same time, the US has a long history of selling arms with surcharges or special fees that other countries do not pay. Until very recently, it has imposed similar extra charges for training the Saudi military in US, and made no effort to ease the cost of training as Saudi Arabia’s budget problems have increased. It has failed to work with Saudi Arabia to develop true interoperability; FMS managers have been based in the US at considerable cost to the kingdom who have been sales, and not partnership, oriented. There is a clear need for reform from the US as well as the Saudi side of arms sales.

Table 3.2

The Pace of US Arms Sales Before and After the Gulf War: Annual US Foreign Military Sales (FMS), Commercial Arms Export Agreements, Military Assistance Programs (MAP), and International Military Education and Training (IMET) Programs With Saudi Arabia: FY1985-1996

(Current millions)

	<u>86</u>	<u>87</u>	<u>88</u>	<u>89</u>	<u>90</u>	<u>91</u>	<u>92</u>	<u>93</u>	<u>94</u>	<u>95</u>	<u>96</u>	<u>97</u>	<u>98</u>	<u>99</u>
Foreign Military														
Financing Program														
Payment Waived	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DoD Direct	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DoD Guarantee	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FMS														
Agreements	682	6350	1,671	1,140	9,120	9,175	936	11,379	1,627	445	1,275	742	2,153	1,369
Commercial														
Sales	814	183	168	68	912	67	89	53	8	27	48	12	12	8
FMS Construction														
Agreements	6	-	19	-	563	394	4	632	6	6	14	-	187	20
FMS Deliveries	2,199	2,872	938	619	874	2,742	2,387	3,453	1,992	3,568	3,854	4,660	3,959	3,445
FMS Construction														
Deliveries	na	na	na	na	263	273	216	121	91	108	49	37	349	88
MAP Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MAP Deliveries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MAP Excess														
Defense														
Articles Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MAP Excess														
Defense														
Articles Deliveries-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IMET														
Program/Deliveries	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Adapted from data provided by the US Defense Security Assistance Agency (DSAA), "Foreign Military Sales, Foreign Military Construction Sales and Military Assistance Facts as of September 30, 1996", Department of Defense, Washington, 1997 and by the Defense Security Cooperation Agency on March 19, 2001.

Chart 3.21

Shaping the Mid to Late 1990s: US Arms Sales and Deliveries Transfers to Saudi Arabia by Category from US Fiscal Year 1996-2000

(\$US Current Millions)



Source: Adapted from data provided by the Defense Security Cooperation Agency on March 19, 2001

## **Creating a Balanced and Sustainable Flow of Arms**

Saudi Arabia can afford to continue to be a major arms importer, but it faces growing limits. The previous charts have shown that Saudi Arabia can afford to fund larger arms imports and modernization expenditures than any potential threat country. At the same time, they communicate another message: unless Saudi oil export revenues are extremely high, Saudi Arabia will not be able to afford to buy and support the kind of massive weapons purchases it made in the past.

Several senior Saudi officers, as well as long-experienced USCENTCOM and British experts, made it clear during interviews in 2000-2002 that they felt Saudi Arabia should carefully limit its future major arms buys and focus on financing the training, facilities, and sustainment capabilities it needs to make them effective. US officers used the slogan “train, maintain, and sustain.” At the same time, these same officers pointed out that much of Saudi Arabia’s equipment is now aging, and military technology continues to evolve. They noted that Saudi Arabia needs to - improve its interoperability with US power projection forces, and with the forces of its Gulf allies. They stressed that it needs to maintain qualitative superiority over the equipment in Iranian and Iraqi forces. It is clear from such interviews that limiting major new arms purchases in no way means no major new arms purchases.

The practical challenge Saudi Arabia faces is how to best restructure its arms purchases to create a balanced and sustainable flow of arms, services, and other equipment to both maintain balanced combat forces and support a reasonable degree of modernization. This should not be a problem at levels of annual arms imports well under \$3 billion a year *if* Saudi Arabia limits its force expansion and modernization to the levels it can actually man, maintain, and integrate into an effective joint warfare capability. The issue is whether Saudi Arabia can adapt its arms buys to emphasize force quality over force quantity, and mission-effectiveness over the “glitter factor” and prestige provided by buying the most advanced equipment available.

## **Commissions and Special Fees**

There is another reason for keeping arms imports as limited as the growth of potential threats and the technical need for modernization permits. The Saudi Ministry of Defense and Aviation (MODA), and its Western suppliers, need to be far more sensitive to the political image of arms imports inside Saudi Arabia. Many Saudis, including some by Saudi ex-ministers and junior members of the royal family, feel that Saudi Arabia's allies have often been pressured or forced it to buy arms that it does not need, and that such arms purchases involve massive favoritism and corruption. Many such charges are unfair. The Saudi National Guard has long had a reputation for managing its arms buys with a very high degree of integrity. The MODA has improved its accounting and fiscal controls.

Favoritism and corruption are hardly unique to Saudi arms purchases. For example, a detailed cross-cultural comparison of the integrity, fiscal management and level of corruption in Saudi and French military procurement might well favor Saudi Arabia. The US has had plenty of its own arms scandals over the years. Britain and France both benefited from the corruption in the Al Yamama deal. In addition, Saudis are correct in pointing out that there has often been Western political pressure on Saudi Arabia to buy equipment at the highest levels of Western governments. Moreover, commissions and special fees are scarcely unusual in the region and the developing world. Every Gulf state engages in such practices to some degree, including Iran and Iraq. Commissions and special fees are a normal practice in foreign arms sales to the rest of the Middle East, most of the developing world, and even some European countries.

Nevertheless, the larger the volume of sales, the larger the problem. In the case of Saudi Arabia, arms sales involve such massive sums that any problems risk tainting all Saudi military purchases with the image of corruption. It is hardly surprising, therefore, that extremist opposition groups -- and many moderate Saudis -- are finally convinced that Saudi arms purchases are often made as a result of commissions and bribes and charge that many of Saudi Arabia's arms buys are simply a waste of money, and claims that billions of dollars in "arms import" expenditures actually go directly to senior members of the Royal family.

Saudi Arabia's arms buys have generally bought high quality and combat-effective equipment, but politics, hidden commissions, special fees, inflated transport contracts, and profiteering through offset arrangements are a problem. Despite efforts to eliminate profiteering in arms sales, many European arms sales to Saudi Arabia involve at least some special payments, kickbacks, commissions and fees, or open bribes. In spite of US law, US companies and firms also find ways to make such payments -- sometimes by rigging the offset programs required as part of arms sales to favor firms or agents favored by given princes, or by allowing special transport and delivery contracts that go to firms run by members of the royal family. These commissions and fees are virtually the rule with European arms sales, and sales that are not controlled as part of the US Foreign Military Sales program.

These problems are compounded by a problem discussed earlier: the Saudi national budget—like that of most countries in the developing world—does not provide any detailed public information on Saudi military expenditures and arms purchases, and by agreements that trade oil for arms, or which are funded by state funds that are not integrated into the Saudi national budget. These “off-book” arms buys make orderly accounting extremely difficult, and lead to still further charges of corruption. Further, there is no doubt that many offset programs are overstaffed and too expensive, regardless of whether they are actually corrupt. In at least some cases, four Saudis or more are hired for every real job while foreigners do the actual work. While it must be stressed that some programs are real successful, other offset programs may seem impressive on paper, but are little more than a waste of state funds.

Saudi offset programs present an additional problem. Saudi arms purchase contracts require the seller to provide an offset equal to 35% of the technical value or cost of the hardware purchased. There have been some striking successes like AEC, but the practical problem is that there is no way to create effective offset programs or staff them with skilled Saudi labor at the required rate. Since the mid-1980s, US contractors alone have incurred offset obligations totaling over \$1.7 billion and only 16% have been realized. British contractors have only realized 8% of some \$2 billion in offsets, and French firms have only realized about 6% of \$700 million in sales.<sup>39</sup> Worse, some programs that have been created are dummy firms or “sweetheart” deals set up under retired officers, and/or the friends of princes and senior officers. Such programs only make an illusory contribution to the Saudi economy and/or Saudi defense. While offsets are

desirable in principle, over ambitious programs simply create the illusion of aiding economic development while encouraging corruption. The present Saudi offset program is little more than a hollow shell and needs massive restructuring. At a minimum, offset operatives should be treated as business ventures with full disclosure and annual reports, and clear standards for penalizing contractor non-performance and for immediately terminating non-productive programs.

Both Saudi Arabia and the West need to pay more careful attention to the political image of Saudi arms sales and imports. Today, they damage the credibility and integrity of the Saudi armed forces, the Saudi Royal Family, and Western governments and arms sellers. They create the image of massive waste of state funds at a time when Saudi Arabia can no longer afford such waste, and Saudi officers are all too aware of political arms buys that undercut Saudi efforts at interoperability and standardization. Transparency is important for political as well as management problems. There is an urgent need to improve Saudi military accounting and contracting procedures at a far more rapid rate than is currently the case, to ruthlessly prosecute Saudis and Westerners who engage in such practices, and to integrate every aspect of Saudi arms purchases fully so they are visible in the regular Saudi national budget and subject to normal Saudi audit procedures and fiscal controls.

## Endnotes

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<sup>1</sup> Exchange rate of 3.75 Saudi Riyal to \$1 USD.

<sup>2</sup> Department of State, Annual Report on Military Expenditures, 1999, Submitted to the Committee on Appropriations of the U.S. Senate and the Committee on Appropriations of the U.S. House of Representatives, July 27, 2000, in accordance with section 511(b) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1993.

<sup>3</sup> Department of State, Annual Report on Military Expenditures, 1999, Submitted to the Committee on Appropriations of the U.S. Senate and the Committee on Appropriations of the U.S. House of Representatives, July 27, 2000, in accordance with section 511(b) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1993.

<sup>4</sup> Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, Washington, GPO, Table I, various editions.

<sup>5</sup> IISS, Military Balance, 2001-2002.

<sup>6</sup> The FY1988 budget was planned to have a \$10 billion deficit, with \$8 billion in foreign borrowing. It involved the first foreign borrowing in 25 years and the first increase in taxes in eight years -- all on foreign businesses. The actual budget reached a \$15-17 billion deficit by the year's end, with some \$10 billion in financing. Economist, January 16, 1988, p. 59; Defense News, January 18, 1988, p. 4.

<sup>7</sup> Calculations made by the author using various tables provided by the Saudi Embassy in Washington in October, 1993, and April 1995.

<sup>8</sup> Based on various editions of the CIA World Factbook. Some of the differences between these estimates may, however, reflect differences in the CIA definition of GDP and military expenditures.

<sup>9</sup> Report on Allied Contributions to the Common Defense, March 2001, Report to the US Congress by the Secretary of Defense, p. E-6.

<sup>10</sup> Interview with official of the Office of the Secretary of Defense, February 2001.

<sup>11</sup> Defense News, November 20-26, 1995, p. 27.

<sup>12</sup> Richard F. Grimmitt, Conventional Arms Transfers to the Third World, 1985-1992, Washington, Congressional Research Service, CRS-93-656F, July 19, 1993, p. 59 and 69; Conventional Arms Transfers to the Third World, 1989-1996, Washington, Congressional Research Service, CRS-97-778F, August 13, 1997, p. 53 and 65; and Conventional Arms Transfers to the Third World, 1992-1996, Washington, Congressional Research Service, CRS-RL30640, August 18, 2000, pp. 47-49 and 58-60.

<sup>13</sup> Richard F. Grimmitt, Conventional Arms Transfers to the Third World, 1989-1996, Washington, Congressional Research Service, CRS-97-778F, August 13, 1997, p. 53 and 65-66.

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<sup>14</sup> Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1989, Washington, GPO, 1990, Table II; ACDA printout dated May 14, 1996, and Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1996, Washington, GPO, 1997, Table II, and US State Department, World Military Expenditures and Arms Transfers, 1998, Bureau of Arms Control, Washington, 1999.

<sup>15</sup> Based on data provided by Richard F. Grimmett.

<sup>16</sup> See "High Costs of the Persian Gulf War," Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1987, Washington, GPO, 1988, pp. 21-23; ACDA printout dated May 14, 1996; and Richard F. Grimmett, Trends in Conventional Arms Transfers to the Third World by Major Supplier, 1982-1989, Congressional Research Service, Library of Congress, Washington, 90-298F, June 19, 1990.

<sup>17</sup> Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1989, Washington, GPO, 1990, Table II; ACDA printout dated May 14, 1996, and Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1996, Washington, GPO, 1997, Table II, and US State Department, World Military Expenditures and Arms Transfers, 1998, Bureau of Arms Control, Washington, 1999.

<sup>18</sup> These data are all take from the 1988-1996 editions of Richard F. Grimmett, Conventional Arms Transfers to Developing Nations, Congressional Research Service.

<sup>19</sup> Defense Weekly, May 31, 1999, pgs.1, 20.

<sup>20</sup> Richard F. Grimmett, Trends in Conventional Arms Transfers to the Third World by Major Supplier, 1992-1999, Congressional Research Service, Library of Congress, Washington, RL-30640, August 18, 2000.

<sup>21</sup> Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1985, Washington, GPO, 1985, pp. 133-134; ACDA printout dated May 14, 1996.

<sup>22</sup> Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1989, Washington, GPO, 1990, pp. 117-118 ACDA printout dated May 14, 1996.

<sup>23</sup> ACDA changed its way of reporting arms sales by source in 1992. Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1990, Table III, Washington, GPO, 1992; ACDA printout dated May 14, 1996.

<sup>24</sup> ACDA changed its way of reporting arms sales by source in 1992. Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1990, Table III, Washington, GPO, 1992; Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1991-1992, Table III, Washington, GPO, 1994; and Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1993-1994, Table III, Washington, GPO, 1995; ACDA printout dated May 14, 1996.

<sup>25</sup> ACDA changed its way of reporting arms sales by source in 1992. Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1990, Table III, Washington, GPO, 1992; Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1991-1992, Table III, Washington, GPO, 1994; and Arms Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, 1993-1994, Table III, Washington, GPO, 1995; ACDA printout dated May 14, 1996.

<sup>26</sup> Richard F. Grimmett in Conventional Arms Transfers to Developing Nations, 1987-1994, Congressional Research Service 95-862F, August 4, 1994, pp. 56-57 and 68; Conventional Arms Transfers to the Third World, 1989-1996, Washington, Congressional Research Service, CRS-97-778F, August 13, 1997, p. 53 and 65; Conventional Arms Transfers to the Third World, 1989-1996, Washington, Congressional Research Service, CRS-RL-31083, August 16, 2001, p. 53 and 65.

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<sup>27</sup> Richard F. Grimmett in Conventional Arms Transfers to the Third World, 1993-2000, Washington, Congressional Research Service, CRS-RL31083, August 16, 2001, p. 47 and 58.

<sup>28</sup> These figures are based on data provided by the Defense Security Cooperation Agency as of March 19, 2001.

<sup>29</sup> These figures are based on data provided by the Defense Security Cooperation Agency as of March 19, 2001.

<sup>30</sup> These figures are based on data provided by the Defense Security Cooperation Agency as of March 19, 2001.

<sup>31</sup> These figures are based on data provided by the Defense Security Cooperation Agency as of March 19, 2001.

<sup>32</sup> New York Times, August 22, 1993.

<sup>33</sup> Richard F. Grimmett, "Saudi Arabia: Restructuring Arms Payments to the US," Washington, Congressional Research Service, 94-356F, April 25, 1994; New York Times, January 3, 1994, p. A-3, January 18, 1994, p. A-8; Department of Defense, "Saudi Stretch Out," February 1, 1994, Wall Street Journal, January 31, 1994, p. A2; Reuters, April 5, 1994; Defense News, January 10, 1994, p. 1, May 30, 1994, p. 1; Aviation Week, February 7, 1994, p. 22; Inside the Navy, January 3, 1994, p. 3; Christian Science Monitor, December 20, 1993, p. C-1.

<sup>34</sup> New York Times, August 22, 1993.

<sup>35</sup> Jane's Defense Weekly, July 10, 1996, p. 30, February 26, 1997, p. 32. Interviews at USCENTCOM.

<sup>36</sup> Defense Weekly, May 31, 1999, pgs.1, 20.

<sup>37</sup> US Defense Security Assistance Agency (DSAA), "Foreign Military Sales, Foreign Military Construction Sales and Military Assistance Facts as of September 30, 1994", Department of Defense, Washington, 1995.

<sup>38</sup> Interview with OSD official, February 2001.

<sup>39</sup> Defense News, March 17, 1997, pp. 1, 40.