President Trump's Trip to Saudi Arabia

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Saudi Arabia has long been one of America's closest and most problematic allies. It is a critical partner in dealing with Iran, with terrorists and violent extremist movements, and in securing the flow of oil and gas to the global economy. At the same time, Saudi Arabia is an Islamic state, a Kingdom, and a nation whose culture has many different values. As a result, every president since FDR has had to learn how to deal with a truly different ally that is also a vital strategic interest.

Dealing with Mixed Signals

President Trump will have some advantages in making his first visit. Saudi Arabia saw the Obama Administration as weak on security, and far too focused on differences over issues like human rights. Rightly or wrongly, Saudi Arabia was uncertain about President Obama's commitment to keeping a strong presence of U.S. forces in the Gulf, backing Saudi Arabia in its confrontation with Iran, and his willingness to act decisively in Syria. The Saudis were also uncertain about President Obama's support for the Saudi-UAE-led fight in Yemen and his ability to keep Iran in check in Iraq, Syria, and Lebanon. While the Saudis have many questions about the new president, they see him as more focused on security, more willing to act decisively, and more committed to keeping Iran in check.

At the same time, the new president has sent mixed signals to the Saudis. Secretary Tillerson, Secretary Mattis, and General McMaster are all figures the Saudis know and trust, but part of the White House team has talked about cutting back on U.S. national security efforts overseas; and "America First" does raise issues about U.S. commitments in the Middle East. President Trump has put a heavy emphasis on making U.S. allies bear more of the burden of their security partnerships with the United States and has criticized the Saudi level of effort.

Some figures around the president and in the National Security Council (NSC) are regarded as anti-Islamic rather than anti-terrorist, and the Saudis are still concerned over U.S. efforts that cut the flow of U.S. arms in reaction to the war in Yemen and to Congress's release of a previously classified portion of a staff report written in 2002 that led to new debates over the Saudi role in 9/11. While the Trump policies on visas and immigration did not target Saudis, many Saudis and other Arabs worry that they are broadly anti-Arab and anti-Islamic.

A lot will ride on how President Trump personally interacts with the senior members of the royal family and other Saudi leaders during his visit, how reassuring he is about U.S. commitments to the fight against terrorism outside the United States, and his willingness to deploy the forces necessary to keep Iran in check. Much depends on President Trump's willingness to treat the Saudis as real partners on security issues and to deal with critical problem countries like Syria, Iraq, and Yemen. Much will also depend on Saudi perceptions of the president's willingness to deal with Saudi Arabia as it is, rather than seeking to change it, and his personal attitudes towards Saudis and Islam.

The success of the visit will also, however, depend on Saudi willingness to respond to U.S. requests to keep modernizing and strengthening their forces, support an expanded Arab-Israeli peace process, limit their support to hardline Islamic religious movements, and work with the United States in other areas of regional security. The United States has its own list of questions and areas

where it wants reassurances, and Saudi Arabia has become far more important now that Egypt and Iraq must focus on internal and local security.

The Facts About Burden Sharing and Saudi Arabia's Need to Fund Reform

There are several areas that will need special attention and where it is not clear that the president has been properly briefed in the past. It is particularly important, however, that the president know the facts involved in assessing Saudi Arabia's burden sharing efforts, and its role in leading the military efforts of its fellow members of the Gulf Cooperation Council (GCC)—Bahrain, Kuwait, Oman, Qatar, and the UAE.

Like President Obama before him, President Trump has suggested that Saudi Arabia is not doing its share in regional defense. President Trump's comments about Saudi burden sharing may have been triggered by the fact that Saudi spending dropped from $80.1 billion in 2014 and $81.9 billion in 2015, to $56.9 billion in 2016. Hopefully his advisors will now make it clear that Saudi Arabia still assumes one of the highest national security burdens in the world.

The International Institute of Strategic Studies (IISS) estimates that Saudi Arabia spent $56.9 billion on security in 2016. This still made it the fourth largest spender in the world. This level of total spending was only $2 billion less than the total spent by Russia. It was far more than the UK ($52.5 billion), France ($47.2 billion), and Germany ($38 billion), and compared with only $19 billion for Israel—even including U.S. military aid. While Saudi Arabia cut its security spending from an unsustainable high of 12.7% of its GDP in 2015 to 8.9% in 2016, it still spent 8.9% of its GDP at a time when most NATO countries did not come close to a NATO goal that was only 2% of their economy and when the U.S. spent about 3.2% of its GDP. The Saudi 8.9% in 2016 was also was the fourth highest share of any nations total economy in the world.

It is also critical to note why Saudi Arabia made its spending cuts in 2016. Saudi Arabia made this level of effort in 2016 because it had experienced massive cuts in its petroleum export income because of the global crash in oil and gas prices that began in 2014. These cuts had a critical impact on the Saudi economy. If one looks at official U.S. figures, the CIA estimates that the Saudi petroleum sector accounted for roughly 87% of Saudi budget revenues, 42% of its GDP, and 90% of its export earnings.

The Energy Information Administration (EIA) of the U.S. Department of Energy estimates that Saudi petroleum export earnings dropped from $247 billion in 2014 to only $130 billion in 2015. This is a drop of 47% in a single year. The EIA's overall estimates of OPEC income indicate that Saudi Arabia had a further cut of roughly 16% in 2016, although the EIA does project that Saudi export income may rise back to a bit over its 2015 level in constant dollars in 2017.

The OPEC data on the value of exports use a different method of calculation, but illustrate the same general trends. The OPEC 2016 yearbook reports that Saudi petroleum exports were worth $337.5 billion in 2012, $321.9 billion in 2013, and then dropped to $284.4 billion in 2014 and $158.0 billion in 2015. The 2015 figure was only 46% of the 2012 figure.

This cut in petroleum income had a major impact on Saudi Arabia's limited oil wealth in terms of its practical ability to meet the needs of its people. The EIA estimates that Saudi per capita petroleum export income dropped from $7,925 in 2014 to $4,125 in 2015 and does not seem to have risen in 2016. As a result, the CIA estimates that Saudi Arabia incurred a budget deficit estimated at 13% of GDP in 2015 and faced a deficit of $87 billion in 2016.

Funding Reform and the Value of Saudi Stability

These budget pressures demonstrated the risks of Saudi over-dependence on petroleum exports, which led Saudi Arabia to announce one of the most ambitious economic reform and development plans in the world. This was done at a time when it was also under intense pressure to create more Saudi jobs and deal with the impact of massive population growth. Some estimates put the unemployment figures for Saudi young men at close to 25% and the CIA puts the figure at a minimum of 11%.

To put these Saudi population and economic pressures in perspective, Saudi Arabia only had 3.9 million people in 1950. It nearly doubled to 7.2 million in 1975, and rose to 21.3 million in 2000. It was 28.6 million in early 2017. The U.S. Census Bureau estimates the total will rise to 29.8 million in 2020, 33.8 million in 2030, 37.3 million in 2040, and 40.3 million in 2050. Some 27% of its current total are 14 years of age or younger and another 19% are 15 to 19 years of age. Saudi stability is critically dependent on its new 2030 plan for diversifying the economy, replacing foreign workers with Saudis, and improving Saudi incomes and living standards.

The president not only needs to understand that Saudi Arabia is doing more than its share by any reasonable metric, he needs to understand that success of its 2030 reform plan is critical to modernizing Saudi society and keeping the steady pace of Saudi modernization and reform. From a human rights perspective, this plan is critical to providing economic security. There is no way it can be funded and implemented, however, unless Saudi Arabia can give funding reform the proper priority, and Saudi stability is an absolutely critical aspect of regional security.

The Kingdom is often criticized, and scarcely without reason, for some of its ultraconservative religious practices and its support of neo-Salafi Islamic Madrassas and religious efforts overseas. At the same time, its critics need to be far more careful about the possible alternatives. An unstable Saudi Arabia that does not provide effective security and stability around Islam's holy places presents a truly major threat in terms of terrorism and to the peace and development of the entire MENA region and Islamic world. The pace of reform in the Kingdom may sometimes be grindingly slow, but it also sometimes moves surprisingly quickly. What is critical is that reform almost always moves at a pace that leaves Saudi Arabia relatively stable in spite of the fact that its rulers and educated elite are leading a far more conservative people.

The Value of the U.S. Strategic Partnership with Saudi Arabia

The president may also need a briefing on just how important Saudi stability and ability to maintain its security partnerships with the United States are to U.S. security. For all the recent debates over the Saudi role in 9/11, the State Department annual reports on terrorism have made it clear that Saudi Arabia has played a key role in the U.S. fight against terrorism ever since 2003. Saudi Arabia has taken the lead in challenging and containing Iran, and in pulling together the security efforts of the other Arab Southern Gulf states. It also has close ties to Jordan and Morocco, and has proposed an Arab plan for peace with Israel.

The Saudi role in Yemen will almost certainly be a subject for the president to discuss during his visit—the Saudi and UAE strategy has had limited success and produced significant civilian casualties. At the same time, the United States needs to be sensitive to the fact that a hostile Yemen poses a serious potential threat and Saudi forces underpin the Arab military forces that deter Iran and make Saudi Arabia a major potential ally in any conflict with Iran.

Saudi Arabia became a close military partner in the 1991 Gulf War, and the Kingdom has been a major buyer of U.S. arms in ways that have created highly interoperable forces that can work closely with the United States. To put these arms purchases in perspective, the Congressional Research Service (CRS) draws on official estimates in reporting that Saudi Arabia was the world's largest purchaser of arms from 2008-2011 with an agreements value of $52.5 billion, and again made the largest number of agreements in 2015, with a total value of $41 billion (in current dollars). A total of $44.9 billion worth of these agreements were with the United States in 2008-2011, and $17 billion in 2012-2015.

Saudi Arabia has kept these purchases up despite its reform plans and petroleum revenue crisis. The State Department reported on January 20, 2017 that Saudi Arabia was still the United States' largest Foreign Military Sales (FMS) customer, with nearly $100 billion in active FMS cases. The State Department also gave a number of examples. In November 2015, the United States approved a possible FMS case to Saudi Arabia for air-to-ground munitions and associated equipment, parts and logistical support for an estimated cost of $1.29 billion. In October 2015, the United States approved a possible FMS to Saudi Arabia for Multi-Mission Surface Combatant ships and associated equipment, parts and logistical support for an estimated cost of $11.25 billion.

As the State Department also notes, the United States finalized its largest international defense sale in history—worth approximately $29.4 billion—to Saudi Arabia. This sale included 84 advanced F-15SA fighter aircraft and updates to the Kingdom's existing 70 F-15S aircraft. Other large programs included 36 AH-64D Block III Apache helicopters, as well as ammunition for the Royal Saudi Land Forces; 24 AH-64D Block III Apache helicopters and 72 UH-60M Blackhawk helicopters for the Ministry of the National Guard; and numerous PATRIOT air defense systems and upgrades. Most recently, the U.S. government had made plans to sell Saudi Arabia 10 MH-60R multi-mission helicopters, 600 Patriot Advanced Capability-3 missiles, and more than $500 million in air-dropped munitions and ammunition.

The Need to Put Visits by Saudi Students, Businessmen, Scholars, and Officials Before Islamophobia

The president's briefings should address two other issues. The United States needs to be very careful about blocking and discouraging Saudi students and businesses from coming to the United States. These students and businessmen have long been a key factor that tie the United States and Saudi Arabia together despite their differences.

There recently have been some 60,000 Saudi students studying in the United States each year, and the Saudi Press agency has put the number as high as 125,000, including those on scholarship and others studying at their own expense. Visits by Saudi businessmen, scholars, and officials have helped build U.S. and Saudi ties. They also—particularly for Saudis that have studied in the United States—have been a key factor in shaping and sustaining Saudi progress towards reform.

Any entry policy that puts Islamophobia before allowing properly vetted entrance to the United States can only aid terrorism and extremism.

Continued U.S. Dependence on Saudi Help in Securing the Flow of Gulf Petroleum Exports

Finally, the president may need a briefing on the continued level of U.S. dependence on Saudi help in securing the stable flow of Gulf oil, gas, and product exports. There are many conflicting

estimates of the trends involved, but the most reliable seem to be those of the U.S. Energy Information Agency (EIA).

An October 2016 report by the EIA, entitled *How much petroleum does the United States import and export?* states that:

> In 2015, the United States imported approximately 9.4 million barrels per day (MMb/d) of petroleum from about 88 countries. *Petroleum* includes crude oil, natural gas plant liquids, liquefied refinery gases, refined petroleum products such as gasoline and diesel fuel, and biofuels including ethanol and biodiesel. About 78% of gross petroleum imports were crude oil. In 2015, the United States exported about 4.7 MMb/d of petroleum to 147 countries. Most of the exports were petroleum products. The resulting net imports (imports minus exports) of petroleum were about 4.7 MMb/d.

Experts disagree over the proper method of calculating import dependence, but there is no disagreement over the fact that direct energy imports have become a small fraction of total U.S. import dependence, and are probably less than 5% of all U.S. imports by any of the major methods used to calculate import dependence. EIA data show that U.S. petroleum imports dropped from a recent peak of 13.7 million barrels per day (MMBD) in 2006 to 10.1 MMBD in the first eight months of 2016. Net imports (imports minus exports), however, dropped from a peak of 12.5 MMBD in 2005 to a low of 5.1 MMBD in the first eight months of 2016.

The portion of U.S. petroleum imports coming from the Gulf peaked at 24.5% of all U.S. imports in 1990, but averaged closer to 20% during 1960-2013, and was still 16.0% of lower import levels in 2015. This decline, however, is not projected to continue.

There are no certainties regarding future trends, but the EIA's *Annual Energy Outlook* for 2016 projects that U.S. production will rise substantially for as far into the future as the EIA estimates. The EIA reference case calls for rises in oil production from 8.6 MMDB in 2016 to 12-18 MMBD in 2040—depending on price and advances in technology. This would keep direct net import dependence almost trivial compared to other trade issues. The EIA projects even more favorable trends data for natural gas. It projects rises in dry natural gas production from 27.2 trillion cubic feet (Tcf) in 2015 to 42.1 Tcf in 2040.

What is critical in terms of U.S. strategic dependence on the stable flow of Gulf oil, however, is that the volume and cost of direct imports to the U.S. is only one factor in measuring U.S. dependence on the stable flow of Gulf and other energy exports. Important as the direct level of U.S. dependence has been in the past, it is the level of indirect dependence—and growing U.S. dependence on the overall growth and stability of the global economy—that is now of far greater strategic and economic importance and that will remain so in the future.

Several key factors are involved.

> ***First, the United States will pay global prices in the event of any major interruption or shortfall in global supply of the kind that could result from any conflict in the Gulf.***

The United States is no more immune to the economic impact of a petroleum crisis than any other state, and U.S. consumers must pay the same world prices for petroleum as the states that race to find substitutes for Gulf exports. The net cost to the U.S. economy will be determined by international markets and total national demand, both for imports and domestic production. As past sudden rises in energy prices have shown, this can have a major impact on the U.S. economy. There is nothing theoretical about these risks. Past crises have had a major impact on world prices and the global economy over the last 40 years.

Second, Gulf exports are critical to the health and stability of the global economy of which the United States is a part.

Exports from the Gulf region are projected to remain a critical part of total global demand and to be the potential source of any sudden security crises that cause a major reduction in global export volume. The latest EIA report on *World Oil Transit Chokepoints* notes that,

> "In 2013, total world petroleum and other liquids production was about 90.1 million barrels per day (bbl/d). EIA estimates that about 63% of this amount (56.5 million bbl/d) traveled via seaborne trade. Oil tankers accounted for 30% of the world's shipping by dead weight tonnage…
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> The Strait of Hormuz is the world's most important oil chokepoint because of its daily oil flow of 17 million barrels per day in 2013. Flows through the Strait of Hormuz in 2013 were about 30% of all seaborne-traded oil…EIA estimates that more than 85% of the crude oil that moved through this chokepoint went to Asian markets, based on data from Lloyd's List Intelligence tanker tracking service…Japan, India, South Korea, and China are the largest destinations for oil moving through the Strait of Hormuz.
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> …Qatar exported about 3.7 trillion cubic feet (Tcf) per year of liquefied natural gas
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> (LNG) through the Strait of Hormuz in 2013, according to BP's Statistical Review of World Energy 2014. This volume accounts for more than 30% of global LNG trade.
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> … Most potential options to bypass Hormuz are currently not operational. Only Saudi Arabia and the United Arab Emirates(UAE) presently have pipelines able to ship crude oil outside of the Persian Gulf and have additional pipeline capacity to circumvent the Strait of Hormuz. At the end of 2013, the total available unused pipeline capacity from the two countries combined was approximately 4.3 million bbl/d

Key Asian importers are particularly sensitive to the secure flow of Gulf exports—both in terms of manufactured goods and export price. Almost all of the 15.2 million barrels a day of oil that flows through the Strait of Malacca to key Asian importers—and exporters to the United States—comes from the Gulf states.

There are no meaningful pipeline alternatives—even if one includes the pipelines that could become targets, or be affected by, a major war in the Gulf region. As EIA notes in separate 2015 reporting, the newest export pipeline, the Abu Dhabi Crude Oil Pipeline (ADCOP), began operation in June 2012, and runs 236 miles from Habshan to Fujairah. It gives the UAE a direct link to the Gulf of Oman and from there to global markets. It has a capacity of 1.5 million bbl/d—which will rise to 1.8 million bbl/d in the near future (96% of which go to Asia).

The pipeline provides the UAE with the ability to export a significant portion of its daily production without passing through the Strait of Hormuz, but only if an export facility that is well within range of Iranian air and seapower is not attacked, and it will only have a small net impact on the flow out of the Strait of Hormuz shown in 2013—when the pipeline was already partially operational.

Third, the United States is becoming steadily more dependent on the overall health of the global economy.

The CIA reports that the United States had $2.386 trillion in imports in 2014 and $2.273 trillion in imports in 2015. It had $151.0 trillion in imports in 2014 and $1,633 trillion in imports in 2015. To put these numbers in perspective, the United States had a $17.95 trillion GDP in 2015, and imports were equal to roughly 13% of the total.

The latest U.S. Census Bureau data show that six of the top 15 U.S. sources of imports are Asian states heavily dependent on Gulf petroleum exports: 20.5% of U.S. imports came from China,

6.0% from Japan, 3.4% from South Korea, 2.1% from India, 1.9% from Vietnam, and 1.7% from Taiwan.

This is a total of 35.6% of all U.S. imports. It is about 10 times the net U.S. dependence on energy imports in 2015, includes critical high technology merchandise imports, and is only a fraction of the percentage of all U.S. imports dependent on Gulf oil exports. Moreover, all of the major industrial states in the world except Russia are dependent on oil and gas imports to a significant degree and their economies would be just as affected by the resulting worldwide increase in a crisis-driven rise in oil and gas prices as the U.S.

> ***Fourth, the only alternatives to the United States in providing power projection forces and arms are Russia and eventually China.***

Britain and France still play an important military role in the Gulf, but their power projection capabilities have been steadily eroded as both nations have cut their defense spending far more quickly than the United States. If the United States does not maintain its strategic partnerships in the region, Britain and France not only cannot project enough forces to decisively deter and contain Iran, but they also would lack the critical enabling and reinforcing capabilities provided by the global pool of U.S. power projection forces and lack anything like the range of intelligence, reconnaissance, surveillance (IS&R) and targeting assets available to the United states.

It is unclear that a Russia that is critically dependent on its own petroleum exports would seek to replace the United States as a strategic partner to the Arab Gulf states. Russia might choose to play a spoiler role, play the Arab states off against Iran, or choose Iran—creating a whole new set of risks in the region. China may not yet be ready to try to assume the role, but the entire South China Sea crisis would pale to near insignificance if China became the de facto guarantor of Gulf stability.

Any serious U.S. forces cuts—or loss of Saudi Arabia as a strategic partner—would have other effects. The real-world nature of U.S. influence and power in the Pacific would be cut massively, China's leverage over other major Asian economies like Japan and South Korea would be sharply increased, and the potential rise in tension between China and India—and cut in India's relative position—would have a massive impact on the balance of power in South Asia and the Indian Ocean.

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