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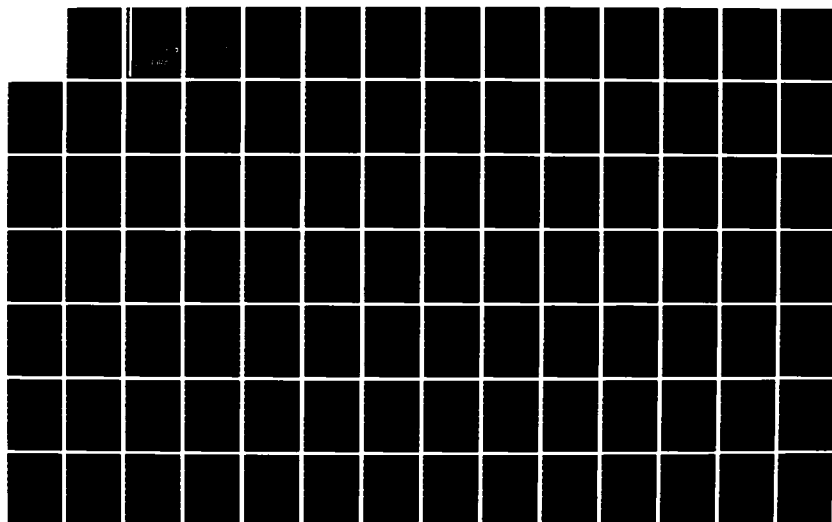
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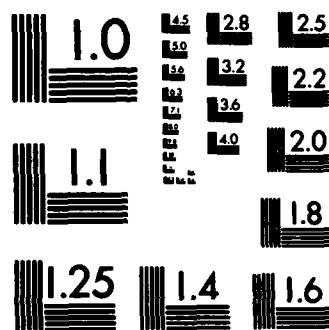
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ASSESSING SAUDI ARABIA
A REVIEW OF LEADING
AMERICAN AND EUROPEAN ANALYSTS
(1982-1995)

by

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OPERATIONAL RESEARCH AND ANALYSIS ESTABLISHMENT
DEPARTMENT OF NATIONAL DEFENCE

OTTAWA, CANADA

83 09 14 093

MARCH 1983

DEPARTMENT OF NATIONAL DEFENCE

CANADA

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OTTAWA, CANADA

MARCH 1983

ABSTRACT

↙ This report attempts to assess the present and future condition of Saudi Arabia in terms of changes in elite groups in Saudi politics. The report suggests that the capacity of the regime to react and persist in the face of change may be limited. These problems may be reduced through dependence on an external "guarantor" - the U.S.; but the report indicates that this approach is in itself fraught with a different set of complexities which may prove to be excessively challenging for the regime. ↘

RESUME

L'auteur essaie dans le présent rapport d'évaluer la situation actuelle et future en Arabie saoudite en ce qui a trait aux changements affectant les groupes dominants au sein de la vie politique saoudienne. Le rapport laisse entendre que le régime actuel peut n'avoir, face aux changements éventuels, qu'une capacité restreinte de prendre les mesures qui s'imposent et de garder le pouvoir. Ces problèmes peuvent être réduits grâce à une certaine dépendance envers un "garant" étranger - en l'occurrence les Etats-Unis. Le rapport indique cependant que cette approche contient en elle-même un nouvel ensemble de problèmes complexes qui peuvent adresser d'importants défis au régime.

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INTRODUCTION

The future of the Kingdom remains crucial to any assessment of (a) international oil and (b) the Middle East. Despite this, and the evident need to think carefully of the prospects, there is an astonishing lack of experienced and objective observers of the Saudi scene. This is all the more noteworthy in the case of American sources when it is recalled that forty years of close relations have passed between the Kingdom and the United States. There can be no early or easy remedy to what now amounts to a critical strategic lack of information and thus of insights.

Conventional political risk assessments, no matter how complex their models, can be no better than the quality of knowledge applied. In the notable case of Saudi Arabia, there is now a large body of technical information--most of it highly proprietary and therefore not available--possessed by western oil experts, mainly American. There is increasing knowledge of the monetary and investment policies, programs and competence of the ministries and banks; there is considerable knowledge about the structure and proficiency of modernized Saudi armed forces.

But there are few opportunities for the foreigner to move beyond the relatively narrow confines of his profession or of the immediate purpose which takes him to Saudi Arabia. These limitations are inherent in any closed society; they are often reinforced by the excessive caution of a foreigner--be he an official

or from a private sector--who cannot risk being considered inquisitive. The limitations are even more effective because of the language and cultural barrier.

For these reasons, there is little knowledge about the relative influence of key Saudi princes, of leading technocrats, of the military, of the religious elite, of tribal groups, or of the shifting relationships of each with the others. The experienced foreign analyst becomes aware early that no simple weighing of influences and possible coalitions offers a sufficient clue to the critical trends in decision making. It is much more the case of ever-changing relationships between different groups of princes reflecting the responsibilities, interests, capabilities and ambitions of key individuals in their circles.

While much is sometimes claimed to be known through personal or professional contacts, in actuality, most of the information necessary for an assessment of the prospects for leadership and policy changes is simply denied the foreigner. Two reasons account in particular for this: the aforementioned language and cultural obstacles and the determination of key Saudis themselves, through their limited delegation of powers and their customary circumspection, to reveal what in their view is convenient or necessary and to conceal the rest.

Two further comments may be helpful. First, foreigners tend to be misled, in effect, by the acknowledged courteousness of the

Saudi host. Far too often, the former tends to confuse the rituals of the Arab, which may often mask tension and differences, with reality. Secondly, the extraordinary importance of the Kingdom in oil and finance, combined with the reticence of its leaders, mean that high significance is attached (by the foreigner) to almost any opportunity afforded him for an encounter, and for the foreigner then to attach special importance to what is said to him on that occasion. He may be right in doing so but there is too often the suspicion of naivete on the part of the visitor. This wariness is all the more justified when the more detached observer notes that, over a given period, most visitors to a particular Saudi depart with the same message.

The second comment pertains particularly to the American. The fact that an overwhelming proportion of Saudis studying abroad do so in the United States is too often assumed to lead to a large measure of respect for, and a genuine, life-long attachment to American ways and means. This has, of course, been the case with some but it ought not to be presumed upon. Nevertheless, it often is and the American, who finds it "easy" to communicate with a U.S.-educated Saudi, and who can joke with him, may be the last among foreigners in the Kingdom to come to realize how little he truly understands, and thus how little he can truly know about the discreet affairs of the Kingdom. It is not that other foreigners are more knowledgeable because they are inherently brighter; it is that the American has an additional barrier to overcome: his own presumptions. We are all limited

by our particular experiences and that may be the right point to stress, along with the true depth and scope of our knowledge of the Kingdom.

Hence, and in summary, the foreigner, by and large, confronts both an alien and a closed society; by intent, the glimpses he has of the "inner circle" offer only fragments of the picture. The signals given him reveal what he is intended to know and may only be indicators of what is transpiring. The signals may also be consciously intended to divert attention or to mislead.

In virtually all cases, a foreigner has carefully defined contacts with certain ranking figures in the Kingdom, rarely wide-ranging, much less profound associations. The foreign analyst infrequently makes clear the limits to his knowledge, which arise from his own background, or defines the perspectives from which he assesses what he thinks he knows.

Finally, it is important that those concerned about the prospects for the Kingdom keep carefully in mind the point that a number of analysts, on whose objectivity we depend, receive income from a variety of Saudi sources; or from commercial/banking enterprises engaged in Saudi Arabia. We have to assume, possibly unfairly, that this has some effect upon their frankness when presenting their views about the Kingdom. It is not always possible to know whether this circumstance pertains to a

particular analyst. As a general rule, the stricture presently applies mainly but not exclusively to American observers.

We have to make clear, however, that we are not "expert" on any country, including Saudi Arabia. Yet this firm has had many years of practice in defining the profile of informed observers of a country and is constantly attempting to determine not only what is being thought about a particular situation but why certain opinions are held, and whether there may be critical gaps in our knowledge; if these exist, then assessments of the situation will be flawed. In short, since very few of those interested in the Kingdom will ever be expert, they should know much more about those analysts to whom they turn for judgments than is usually the case.

There are a number of Arabs who write authoritatively on current events. Very few of them do so on Saudi Arabia largely because the regime actively discourages (or seduces) them. It is mainly on aspects of Middle East affairs, but with reference to countries other than the Kingdom, that Arab commentators need particularly to be looked to. Some of them write only in Arabic and therefore their studies do not, for better or worse, influence the views of the key external powers affecting Saudi interests. Of those who write in English, or are translated, the limits set by Saudi Arabia affect their utility as much as it does others. The Arabs whom we list as "authoritative" are in the Appendix I.

There are some thirty westerners, overwhelmingly of American or British nationality, who are widely regarded as authoritative.* The profile of such a person should include fluency in Arabic, prolonged experience in the Kingdom, objectivity, and extensive familiarity with a number of aspects of Saudi affairs.

While each observer writes from a particular perspective and will thus attach different weights to certain critical factors, there are a number of common themes in opinions of Saudi Arabia's future. While it is these similarities which may be most instructive in assessing Saudi policies, there are some interesting omissions which concern us. We refer to both the similarities and the gaps in this report.

One critical difference is, however, evident when comparing analyses by American and European, particularly British, observers. Overall, Americans attach greater importance to recent specific episodes and statements by key decision-makers (i.e., Fahd's pronouncements regarding the creation of a consultative council), whereas Europeans are more acute observers of the historical and cultural dimension (such as the subtleties in tribal differences and relationships) of Saudi actions.

*Listed in Appendix I. We have searched for Canadian experts on the Kingdom whose experiences range beyond their functional association. While in the next few years several will be emerging, we do not know of such today--outside of government.

The British analyst is more likely also to interpret Saudi events in a broader setting than will the American. The former, for example, will usually be more aware of the repercussions which events around the Peninsula, or in the Fertile Crescent or from the Nile region, will have on the Saudis. The American analyst tends to consider the Kingdom as the center which affects the others. Moreover, the American will give greater attention to the positive ("nation-building") rationale behind Saudi industrial development programs. Interestingly, it is noteworthy that the major studies of Saudi Arabia over the past decade have all been by British authors. When we found it useful to do so, we have emphasized whether a particular view is held more widely by American or European (chiefly British) analysts.

Most of the more authoritative observers do, however, concur that eight general areas must be monitored as most determinative of the Kingdom's future in general and of oil production policies in particular. These are:

- (1) The adaptability of the governance process in maintaining traditional norms and values while coping with the administration and technical challenges from economic development, from Western-educated students and technocrats, and the different interests of princes controlling defense and internal security forces;

More is becoming known of some of these aspects as the Saudis increasingly come in contact with the world outside. Much less is known, however, of the military "balance of power" and extent to which Saudis can cope with the ramifications of social change.

- (2) The ability of leading princes, and their constellations of supporters or allies to maintain an equilibrium or effective working understandings among themselves;

We will make clear in this paper how little is truly known about these critical matters.

- (3) The prospect for a smooth transition of leadership following upon the death of Khalid, and more particularly, when the time comes for the grandsons of Abdul Aziz (the first generation to be basically Western-educated) to assume power; and the possibility that competing tribal leaders will affect the transition;

Again, little is known about the process for the transfer of power and the prospect of increasing an outsider's knowledge is highly uncertain. Observers of the Kingdom are excluded from most of these considerations; they can only guess.

- (4) The impact of U.S. efforts to influence events in the Middle East and their effects both upon Saudi political alignments in the region and on changing relationships between leading groups in the Kingdom;

This is an area of undiminished concern. Most observers can comment on U.S. efforts to influence (events in the Middle East generally but not on relationships between Saudis within the Kingdom and with other Arabs as they are affected by United States' actions.

- (5) The role of the U.S.S.R. in the region--from the Saudi perspective;

Opinions--few facts--make informed judgments about Saudi reactions difficult to arrive at, especially as to differences which may exist between Saudi groupings within the royal family.

- (6) Israeli moves;

Beyond noting Saudi insistence on a "free" Jerusalem and their incomprehension as to why the U.S. will not act to change Israeli policies--most analysts are uncertain as to what the attitude and commitments of the Saudi leadership may actually be on the whole range of interests embedded in the issue of "Israel." Saudi

rhetoric is not a sufficient guide; which prince feels strongly on what aspects is very rarely referred to.

- (7) The effects on the present Saudi regime of success or failure in its more assertive diplomacy within the Arab world and with other key industrial and developing nations.

There is virtually no broad agreement among observers over what motivates a particular Saudi to take a particular stance at a particular time. Some analysts assert that this is really a reflection of their intense pragmatism and general caution. Others warn that the apparent Saudi tactic of keeping options open does not justify an outsider's conclusion that at some critical moment a Saudi will not choose to take a stand and rally support to his cause.

- (8) There is virtually no mention by any analyst of the uses to which Saudi now or in the future might utilize oil and/or their extraordinary wealth placed overseas in the securing of political objectives. There is also little explicit reference to the implications on the Kingdom of existing commitments, internal and external, on Saudi oil policy affecting volume and price. In short, the parameters which limit Saudi options are

seldom referred to although this must be one of their central concerns as it is ours.

What follows, then, is a review, with commentary, of the specific critical factors, and their relative weights, which observers of Saudi Arabia consider to be key to an understanding of the Kingdom.

This report was commissioned by the Department of National Defence, Ottawa. Nothing in these pages depends upon interviews within the Canadian government and no effort was made to shape the observations herein to any supposition on our part concerning Canadian official attitudes or policies, past, present and future. The report is that of "outsiders," which may be its particular value.

Nevertheless, the Canadian national interest in the prospects for Saudi Arabia is implanted in the nation's continuing reliance upon Saudi oil imports--its principal supplier--and therefore the possible shifts in Saudi oil policy and practices affect Canada's need for dependable and adequate supply. These matters are referred to in Appendix IV, so placed as not to interfere with the structure of the report.

There is another Canadian interest: whether it is likely that Canadian armed forces might be requested to participate in a variety of peace-keeping operations in and about the Arabian

Peninsula. There is only one possible observation: the need for such is a constant contingency for which the Canadian government must always be prepared to respond. The circumstances which would call for international, multi-national forces presently exist and, as a reader of this report would have to conclude, are most probably not going to disappear. And, as Canadians may tire of hearing, their nation, as a consequence of history and of reputation, is freer than others to move into exceedingly difficult and sensitive situations, as invited.

Coupled to this aspect of the Canadian national interest is another more broadly defined. As a member of NATO's formally-defined geographic area which would cause other members to reduce their NATO-assigned forces, for example, to cope with developments in the Gulf. Defense contributions from the balance of NATO membership could be increased and on relatively short notice. As long as NATO members' dependence on Middle East supply remains so vital a factor in their security, this will continue to be the case.

The Canadian interest in the Kingdom of Saudi Arabia has many facets. As the leading source of oil for the internationally-traded barrel, it is obviously important. Moreover, as a nation of small population and immense reserves (foreign exchange holdings as well as oil) the government has an exceptional degree of flexibility to increase or reduce output as it sees its interests best served. But Canada, along with other nations,

must be conscious of the fact the Kingdom lacks many of the attributes of a sovereign state. Its capacity to defend itself, for example, against a determined attacker (overt or covert) is in doubt; almost certainly, Saudi Arabia will continue to depend upon an external patron--for the foreseeable future that is likely to be the United States. Hence, to the appreciation of the Kingdom's prospects must be added Canada's continuing evaluation of the durability, scope, and adequacy of United States' policies and commitments in the region not to mention their appropriateness.

Melvin A. Conant
President

September 30, 1982

ASSESSMENTS OF THE KINGDOM: (1982-1995)

HIGHLIGHTS

Introduction

The Kingdom of Saudi Arabia faces many challenges to its stability over the next decade.

Informed observers offer no fresh insights as how old and new domestic and international pressures can be gauged in the Kingdom. Strain is thought to exist in religious, social economic, tribal and leadership affairs, and from the impact of international events upon the Saudi world. It is conventional wisdom to write that if these strains are not accommodated Saudi Arabia's internal and external vulnerabilities will increase.

No analyst is prepared to conclude that adequate measures have been taken to counter growing tensions in the Kingdom. Even prior to the events of November 1979 at the Grand Mosque in Mecca, it was clear to those who watch the Kingdom that the Saudi royal family was facing internal, economic, and governance problems of a magnitude probably beyond its ability to cope. This observation is quite possibly the most important of those held commonly by informed analysts of the Kingdom.

Many analysts conclude that the absolute requirement to avoid internal chaos, is for the oligarchy of princes to possess exceptional skills and sensitivities in governance with no significant intervention in their affairs by external forces (an idyllic circumstance for any country).

Islam

Islam is central to Saudi domestic and international affairs. Any challenge to the House of Saud's claim as exemplar of the faith and defender of the Holy Places would have wide-spread ramifications. Wahhabism, as practiced in Saudi Arabia, may become a divisive rather than stabilizing influence.

Attempts to replace eroding religious values and tribal relationships with royal patronage and social welfare programs are seen by many as a difficult and risky trade-off likely to increase tensions rather than allay them.

The Saudi position as protector of the faith also influences Saudi foreign policy, and places the Kingdom front and center in regional affairs most particularly in the Arab-Israeli confrontation and the Israeli occupation of East Jerusalem and the al-Aqsa mosque -- the third holiest shrine of Islam.

Most analysts agree that there is a potential for a revival of religious fundamentalism in Saudi Arabia which could be most

significant and dangerous were it in coalition with other dissatisfied groups in the Kingdom.

Political and Social Factors

The adaptation of the governance system of Saudi Arabia to meet the needs of increasingly modernized sectors of the population (both royal and non-royal) and traditionalists will be a critical determinant of future internal stability.

Conflicting tribal issues and the concerns of a growing middle class, both royal and non-royal are, as indicated by a British observer, multiplying and escalating. Generally, he notes, they regard the rulers as too oppressive (due in large part to close ties with the ulama), too close to the U.S. and they charge that the national patrimony is being squandered. The remedies to these charges are two-fold and contradictory: to liberalize the society or to introduce a more strictly defined Islamic government. Either solution could be inflammatory.

Returning students from abroad constitute a large part of this new middle class which would exert extreme pressures on the rulers within the House of Saud. Foreign workers, which now constitute over one-half of the Saudi work-force (with no reduction in sight) will be a major challenge.

The dilemma of satisfying demands of the middle class, returning students and controlling foreign workers, without offending the more traditional element of the population, will be difficult to resolve.

The succession of King Fahd to the throne was, at least to outside observers, without significant objection. Dissensions which may have been muted could become evident and significant were Fahd ever questioned as to being the "fittest" to rule.

Increased inter-family rivalry arising from succession struggles, particularly when the grandsons of Abdul Aziz assume power, would create different sets of relationships between dissatisfied princes, non-royal Saudis, and foreigners and could be the most destabilizing internal dilemma the Kingdom will face. The maintenance of, or at the very least, the semblance of internal cohesion will be a critical factor in determining the future of the House of Saud. Most observers conclude that: if the royal family succeeds in presenting a unified front, many of the internal challenges from the modernization process, foreigners, and the adaptation of Islam could be dealt with. Without such a unified front, the prospects for the Kingdom's coping with internal splits is significantly gloomier.

Economic Development

The massive economic development plans of Saudi Arabia are one of the most familiar aspects of the Kingdom to outsiders. The release of Five Year Development Plans and annual budgets make it a less opaque aspect of Saudi planning.

Yet, even these plans are becoming less certain as oil revenues decline and the royal family is known to be attempting to reach difficult compromises on the scope and pace of future economic development goals.

Most analysts agree that agricultural problems, particularly water shortages, inflation, inadequate infrastructure, manpower shortages and, most particularly, the critical and growing reliance on foreign advisors and workers, increase the chances for unfulfillment of plans, unmet expectations, and consequent domestic instability. One British analyst pointed out one part of the Saudi development dilemma, noting that the process has "a grafting" and not a natural growth.

European analysts generally see the decision not to cutback over the next five years as reflecting the Saudi belief that the development process has become self-propelling. Dramatic changes in its pace, at this point, would be wasteful of capital already spent and, more critically, would create a backlash from Saudi

princes, leading entrepreneurs, and merchants as a consequence of their unmet expectations.

Saudi plans for modifying these goals of the Third Plan in light of current revenue declines are not yet apparent. It is possible, even likely, that a Saudi consensus to cut-back development spending would never appear as an explicit policy and would instead only become clear after years of underspending budget goals, as has already occurred in 1981.

The ultimate Saudi goal of industrialization is to utilize current oil revenues to create a sustainable post-oil economy. Saudi planners acknowledge that the Kingdom's development has been and continues to be based on oil revenue and financial reserves accumulated from that revenue. The expansion of this base to include significant contributions from other economic resources, downstream oil operations, agriculture and mining, is considered highly unrealistic by most observers.

Hydrocarbon-based development plans, particularly refining and petrochemical development, are accepted as the more viable option, by most analysts, as it is based on utilizing vast natural gas resources which were previously flared. But a discouraging aspect of this, perhaps the most promising of all Saudi economic plans, is noted by one analyst who calculates that at current oil and chemical prices, the six primary Saudi

petrochemical projects would generate a revenue equivalent to that from 250,000 b/d.

It is the consensus of most observers that the other economic sectors, particularly agriculture and mining, offer far less promising prospects of future revenue than even the hydro-carbon based development plans.

Overall the expansive objectives of Saudi economic plans appear unrealizable and consequently many analysts conclude appear to aggravate the very social and political problems brought to the fore with the onset of the oil era. Adaptation or cutbacks may be unavoidable; whether this can be accomplished before sizeable failures are evident and without a backlash from unmet expectations of an increasingly demanding population is not yet clear but is--or should be--of deepening concern.

Oil Policy and OPEC

Discussion of the various centers of "influence" within the royal family over oil decisions illustrates, more than any other aspect of Saudi Arabian analyses, the lack of information due to the extremely closed nature of royal family relationships. Discussions of the subject of oil policy by analysts of different backgrounds and vastly differing bias', label royal family divisions and attitudes in the same way. The very wording of the discussion is often similar, reflecting a most limited access to

key Saudi officials and a standardized flow of information from those few who do speak with outsiders. Tight information control makes clear the primary importance the royal family attaches to an outward appearance of consensus within the ruling circle.

Regardless of the names and objectives of those determining policy, the conserving of oil, and the use of oil to secure external objectives, and to promote domestic goals, will likely be the ingredients that remain influential in determining oil production and export policies. These are the priorities of the current regime and will likely remain so for any successor.

A basic change in production policy, therefore, may not follow even a major upheaval within the leadership. As most observers warn, oil will remain the single vehicle available to any Saudi leader to secure external objectives and achieve domestic goals. For this reason any decrease (below 6 mmb/d) in oil production is likely to be only short-term.

It seems plausible that "at least 6 mmb/d" reflects the revenue requirements of a nation pursuing a lower rate of development, deferring some large investments and still acquiring weapons but on a lesser scale and with a reduced list of countries receiving special aid. If these remarks hold true then the risk to the industrial oil-importing nations of a change in Saudi leadership is lessened. Six mmb/d can be lived with.

Non-U.S. observers have noted that Saudi Arabia's influence in OPEC/OAPEC has been circumscribed by the fact that member nations view the Kingdom as out-of-step also with the goals of the other producers, beyond the Gulf.

Generally, American analysts do not accept that its margin of influence has also been diminished by its declining ability to make drastic changes, both up and down, in production levels. This loss of influence, if it continues, should be seen as one of many possible signals of the Fahd group's lessening grip on power. In addition, presently, many American observers are preoccupied with what they regard as the "demise" of OPEC and therefore deem analyses of the centers of influence within it as inconsequential. To several Europeans, these conclusions are premature and to a few, wholly erroneous and dangerous.

Arabs and Europeans have cautioned that to a very considerable extent the Kingdom (King Fahd) is blamed for the disarray within OPEC. Saudi Arabia has been regarded not so much a supporter of OPEC but as a threat to its members.

This is a new attitude within OPEC and one that a few analysts warn will be most important in Gulf regional relations. Saudi oil policies have become an irritant to other producers and, as one British analyst warns, one of the most potent sources of regional friction.

Foreign Relations

Saudi Arabia's international role as a direct result of oil wealth has expanded the interests and vulnerabilities of the Kingdom.

Analysts generally agree that success in international initiatives will not in itself insure a continuation of the present regime in power, but failure could result in increasing pressures for new leaders.

Opinions differ as to whether the Kingdom can lower its international presence and retreat to a more isolationist policy or whether the only alternative is to proceed with more diplomatic initiatives along with the added responsibilities and risks implied? One prominent American Saudi-watcher warns that the Saudis could well retreat from the active policies presently being pursued and that the industrialized world should be prepared to accept a renewed cautiousness on their part and not over-estimate their capability or desire to act otherwise. However, the revival of a somewhat modified Fahd peace plan at the Fez Summit would imply the regime intends to be a key actor. One consequence, of course, is that this would place even greater emphasis on the Saudi need for active and meaningful U.S. support of Saudi initiatives.

The Arab-Israeli dispute remains at the forefront of Saudi international concerns. Due to the Saudi role as protector of the faith (East Jerusalem and the "faithful" Palestinians), the Arab-Israeli dispute is viewed as the central destabilising regional issue and therefore a direct threat to their own security. Moreover, the U.S. plays the key, external role in the problem. The Saudis are becoming more deeply implicated and the initiatives by King Fahd increase his vulnerability and his need for concrete U.S. actions. The recent Reagan initiatives, while a welcome move in the right direction, if not followed through with pressure on Israel, could make Fahd's position all the more tenuous.

The Arab League agreement on a unified plan, even though significantly different on several key points from the Reagan initiative, makes continued active U.S. involvement imperative, in terms of Fahd's continued U.S. posture.

Little has been written about the impact of the Israeli moves in Lebanon on Mubarak, but many believe that his power base has been greatly compromised. The implications upon Saudi Arabia of a loss of influence and power of Mubarak, would be gravely disturbing. It is a singularly curious fact that so little British or American analyses of Saudi perceptions of Egypt have appeared in print; yet, Egypt likely remains a fundamental concern to any Saudi regime, including the present one, and thus to King Fahd personally.

The possibility of Khomeini's Iran emerging from the war with Iraq as the leading military and political power in the region should be a strong impetus for an unprecedented Gulf Arab unity. The threat of Khomeini exporting the Islamic Revolution has already provided some impetus for Gulf cooperation.

Almost every prospect for the future in Iran could be destabilizing to the Kingdom: whether it takes the form of a Khomeini, the Shi'ite mullahs, the mujahaddin, the prospect of Soviet intervention or the impact of increased Iranian oil production.

Saudi-Iraqi relations are a source of continuing puzzlement to U.S. and European analysts. It was not so long ago that Iraq was perceived by the Saudis as a major revolutionary force in the region. No analyst ventures to guess whether this view has been fundamentally altered. We doubt it has.

It is predicted by analysts in the U.S. and Europe, that were Iraq to continue experiencing defeats in the war with Iran, Hussein's powerbase, currently tenuous, would disappear. An all-out Saudi effort (arms and money, though perhaps covert) to shore up his faltering status would be likely. Were such to prove unsuccessful, all analysts agree the Saudis would be left feeling exceptionally exposed and vulnerable to the actions of a successor. The long historical background to these relationships

is far better known to the British and is scarcely commented on by American analysts of the Kingdom.

Saudi interactions with non-oil developing countries are limited primarily to financial support for Islamic nations. The front-line states (Jordan, Syria and Lebanon) likely receive the majority of such funds though exact figures are impossible to verify. Statistics released by the Saudis on other aid remain the only indicator available to outside analysts of the importance Saudis attach to Third World countries.

U.S.-Saudi-U.S.S.R. Relations

Superpower relations of the Kingdom have received much attention from outside analysts. Relations with one superpower or the other may have a critical influence in determining who rules the Kingdom and what policies or strategies will be pursued.

Until the new Reagan initiatives Europeans cautioned that the U.S. was not seen to have taken firm and decisive actions in response to many regional events -- the fall of the Shah, the hostages, Israel's bombing of the Iraqi nuclear reactor and Lebanon invasion. They concluded that without sustained U.S. follow-through on new Middle East initiatives, Fahd may be unable to continue advocating a singular concentration on a pro-U.S. policy.

American analysts see the Saudi fear of Soviet encirclement, heretofore a mainstay of the U.S.-Saudi "special relationship," as being continually reinforced by Soviet actions in the Horn of Africa, North and South Yemen, and Afghanistan. British observers see perceived U.S. passivity in countering these actions as generating pressure on present Saudi rulers to look for additional guarantees and in different directions.

Most European observers consider some level of Saudi oil production reserved for Eastern Europe as likely within the next five years. A few would not be surprised at a formal upgrading of Saudi-Soviet diplomatic relations.

Internal Security

It is especially difficult for an outsider to discern the strains within the Saudi society which have been brought about by the regime's commitment to rapid modernization. Most analysts consider that while there are signs of discontent, the House of Saud has for the most part been able to control the modernization process and to maintain political and economic stability.

Some contend that the resulting social unrest could have revolutionary consequences as was the case in Iran. Others, particularly Americans, maintain that while not all returns are in on the future direction of Saudi society, the Kingdom's ability to absorb modernization without major political upheaval is impressive.

Most analysts of the Saudi political scene point out that the nation's political institutions have not kept pace with economic development.

Many of the European and American analysts who have commented on the likelihood of a coup attempt are of the opinions that there is currently no evidence of disaffection in the military which would indicate such an attempt. The royal family is acutely aware that there is a long history of military establishments in the Middle East overthrowing monarchies.

Regional differences may be aggravated by tribal rivalries and by various economic, occupational and sometimes ethnic and religious factors. While these have been manageable to date, the dimensions of a nation-wide security watch over such a large area would greatly strain Saudi forces.

The transnational implications of the Islamic Revolution and the incidents of Shi'a unrest in the Eastern Province are grave security concerns to the Saudis. Similarly, the foreign workers who account for nearly 70 percent of the Saudi workforce could constitute a severe challenge to the conservative Kingdom.

External Security Concerns

Most European and American analysts in their appraisals of Saudi Arabia's external security concerns point to the growing anxiety of the Saudi leadership over the Kingdom's vulnerability to the disruptive and destabilizing influences emanating from outside its borders. Because of the nation's vast oil and monetary resources, its strategic location and its physical vulnerability, the leadership embarked upon an accelerated program in the mid-seventies to modernize and strengthen the country's military capabilities. However, for the foreseeable future, Saudi military capabilities will remain limited and the leadership will have to continue to depend primarily on economic and diplomatic measures for its external security, including critically, dependence on an external power.

Israel, analysts agree, remains the major and most immediate threat in Saudi perceptions. Israel's occupation of East Jerusalem, most particularly the Al-Aqsa mosque, and the unresolved Palestinian issue, especially increasingly incendiary Israeli moves on the West Bank, further radicalize all Arab States and increase the potential for an overthrow of conservative regimes.

International communism -- the U.S.S.R. -- is also viewed by the Saudis as a fundamental threat to regional security. Analysts have contended that Soviet moves and presence in the Horn of Africa, Southern Arabia, and Afghanistan are seen as a part of a long-term strategy for the encroachment and subversion of the Arabian Peninsula and the Persian Gulf.

In light of many implications for Saudi security arising out of the Iran-Iraq war and the apparent increasing "imperial" actions of Israel, Saudi Arabia feels more threatened by external developments than at any time since the 1973 Arab-Israeli war.

Lacking an effective military capability, the government has had to resort to foreign aid in its efforts to assist contiguous states against these destabilizing influences. The Gulf Cooperation Council is becoming important to Saudi security plans, though its military capability is distinctly limited.

The Saudis are spending an estimated \$20 billion annually on defense. Many analysts contend that only limited and slow progress in improving Saudi military effectiveness has been made. Shortages of trained manpower and reliance on foreigners will persist in limiting the Kingdom's indigenous defense capabilities.

The security dimension is central to U.S.-Saudi relationship and the Saudis recognize that in a large measure their external security is dependent upon the U.S. Yet, it is on the issue of the U.S. security guarantee that the Saudi leaders are most ambivalent. The political price, domestically, of such a relationship with the U.S. is difficult for any leader of the Kingdom to support. U.S. sensitivity to this dilemma will be essential in years to come.

On balance, the ability of the Kingdom to provide even a moderate level of defense against a multitude of internal and external security challenges will remain severely limited for the foreseeable future. Paradoxically, to reduce this vulnerability by depending on an external "guarantor" -- the U.S. -- creates additional vulnerabilities. The balance, if there is one to be achieved, remains elusive to the Saudis and outside observers alike.

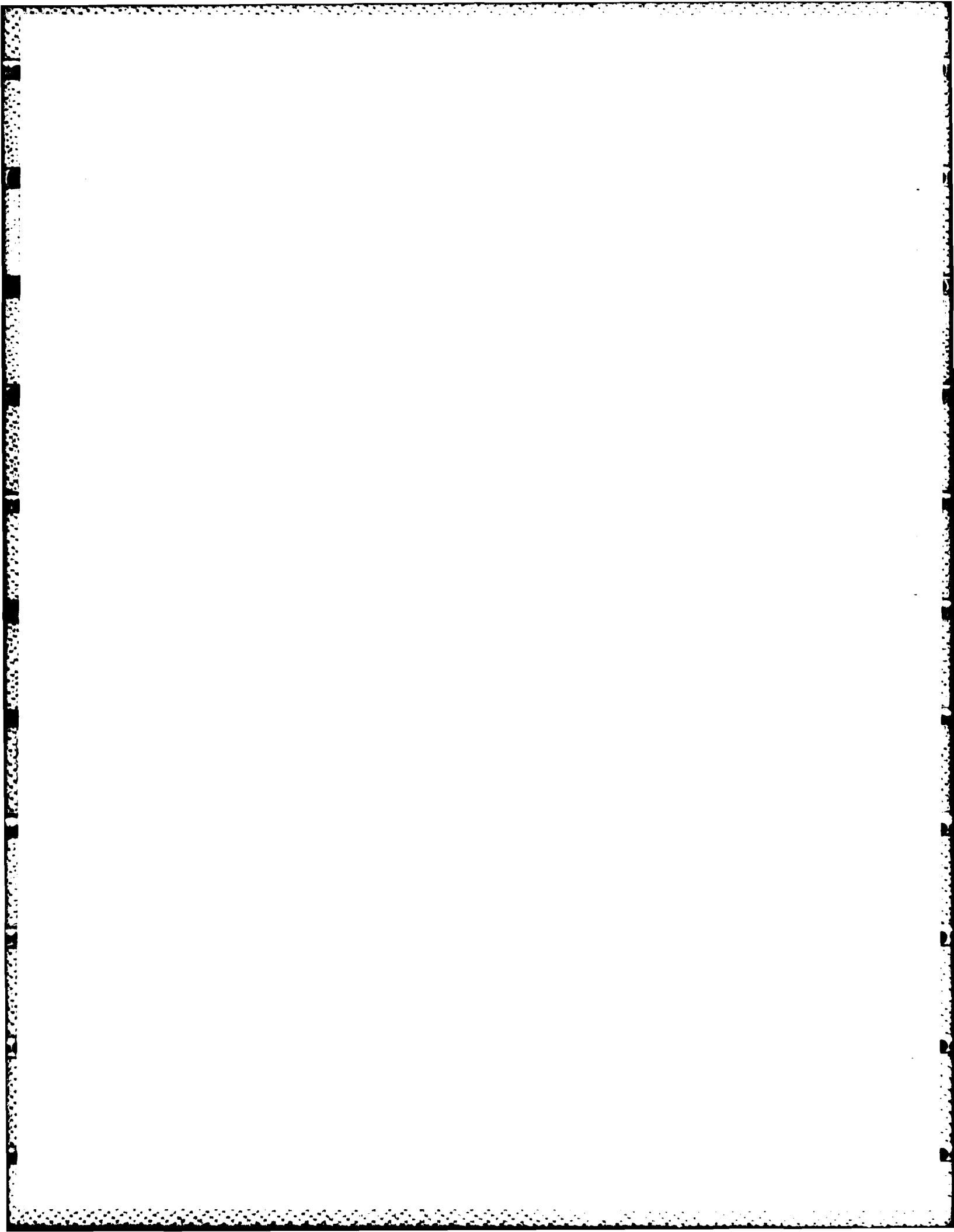
Supply

It is unlikely that given the reduced level of oil demand in OECD, the unprecedented amount of spare producing capacity in OPEC-at-large and the years which economic recovery may consume to restore oil demand to pre-1982, that any plausible supply scenario will give sustained concern to OECD and thus to Canada over the next decade.

Conclusion

The implications to Canada of emergencies in the Middle East are more likely to be felt with requests for peace-keeping forces -- the issue is not going to disappear -- or increased assistance in NATO if other member-states participate in military developments in the region.

Over the next decades change within the ruling group inside the House of Saud is highly likely. But the imperatives of national needs and the requirements to cope with external forces acting upon the Kingdom indicate that after an initial, transition period, Saudi oil policies, including those setting oil export levels and prices, may not be markedly different from those of today.



ASSESSING SAUDI ARABIA:
A REVIEW OF LEADING AMERICAN AND EUROPEAN ANALYSTS

I. Saudi Arabia in 1982

Until 1979, the few indicators of internal circumstances, available to outsiders, supported the view that the Kingdom of Saudi Arabia, with over one-fourth of the world's oil reserves, was one of the most stable nations of the Middle East. Is this observation still valid? The question arises because of the extraordinarily complex forces of tradition and of modernization which intersect in almost all aspects of its affairs.

Tribal relationships remain significant in maintaining a balance within a diverse population. Regional as well as class groupings remain significant. The rulers of Saudi Arabia still maintain their legitimacy derives from their role as leaders of the Islamic faith and protectors of the Holy Places. Saudi society is, however, constantly challenged by the pressures from vast oil revenue and intense, unremitting exposure to the influences of the outside world.

Over 90 percent of the Kingdom's income each year comes from oil, more than \$54 billion in 1979, \$93 billion in 1980 and over \$100 billion in 1981. This wealth, combined with its oil reserves, a small and largely ill-educated population, inadequate military forces led by princes of different backgrounds and

interests, with a group of often extremely wealthy persons at the apex, all subject to extraordinary pressures from rapid changes in their environment, make the nation vulnerable to internal strains and dissension. But hard evidence of this is scanty, concealed as it is by the difficulty in obtaining reliable information.

The emergence of the Kingdom into modern times is a very recent phenomenon. September 1982 marks the 50th anniversary of the unification of the Kingdom by Abdul Aziz. Tribal distinctions and loyalties remain important; tribal disaffection is a potent destabilizing factor which is now perhaps amplified by regional and class grievances. The Hizazis from the Red Sea coast comprise almost one-half of Saudi Arabia's population, yet they possess minimal influence in the ruling group. The Nejdis of central Arabia -- who have been considered less well-equipped than the Hizazis to lead the Kingdom -- continue to monopolize power. To these internal stresses are now added the exigencies of foreign concerns and pressures.

King Faisal spent much of his life travelling throughout the Kingdom (and the world) and may have had a greater awareness of tribal differences (i.e., the more cosmopolitan Hizazis versus the more provincial Nejdis) within the Kingdom than did King Khalid who spent most of his life in the Nejd. King Fahd may present the reverse as much of his life has been in the international realm. There is no indication that tribal

differences increased during the rule of Khalid (though the complete story of the Mecca incident may never be known) but clearly the potential is there. British observers also point to historic tribal rivalries which extend beyond current Saudi national boundaries, i.e., the Hashemites versus the Saud, which could still be consequential in shaping the future of the House of Saud.

Saudi Arabia's international role as a direct result of oil wealth has expanded the interests and vulnerabilities of the Kingdom. Oil--and the uses to which supply and large foreign deposits can be put--has become only one of a whole spectrum of interests to the Kingdom; these wider interests are reflected in a wider range of principal actors in the affairs of Saudi Arabia. These men have become crucial to an understanding and interpretation of the interests and actions of Saudi Arabia. The time is past when Yamani's views, for example, are to be studied as reflecting the Kingdom's policies.

Still, informed observers offer no fresh insights as to how new domestic and international pressures can be gauged in the Kingdom. Strain is thought to exist in religious, social, economic, tribal and leadership affairs, and from the impact of international events upon the Saudi world. It is conventional wisdom to write that if these strains are not accommodated Saudi Arabia's internal and external vulnerabilities will increase. A greater fragility in the process of manipulating interests in

ways that will preserve the essential league of assorted powers and roles which characterize the House of Saud would be the result.

There is now increasing hesitation on the part of almost every observer to come to a summary and positive conclusion about an immensely complicated transition, much of which can only be guessed at by the outsider. Complacency about the future is unwarranted; most of the analysts reviewed for this report see leadership change within the House of Saud in the near-term, or over the next five years. The assumption of power by a non-royal leader is considered most unlikely.

A conclusory yet critical question few analysts ask is: after having examined such critical factors and their significance to oil production policies, what difference would even significant changes in the ruling circle make? Regardless of the names and objectives of those determining policy, will the conserving of oil, and the use of oil to secure external objectives, and to promote domestic and foreign goals, still be the ingredients most likely to remain influential in determining oil production and export policies? These are the priorities of the current regime. Will they remain so for any successor?

Do internal and external commitments compel the present regime, or any successor, of whatever ideological persuasion or motivation, eventually to need to export in the order of 6 mmb/d

to meet basic domestic and foreign objectives, if the regime is not to draw down heavily on its foreign holdings?

The chapters of this report assess each area of interest pertinent to the future stability of the Kingdom of Saudi Arabia firstly, by reviewing the goals and priorities of Saudi Arabia as set forth in the Third Five Year Development Plan (1980-85), the latest budget (1982-83) and the first statement of policy by King Fahd (see Appendix II). Secondly, the assessments of European and American analysts are compared. Thirdly, the prospect as we see it is included.

The sequence of the review, the Role of Islam, Social and Political Development, Economic Development, Foreign Relations, and Defense Policy reflects the priorities given each topic by the Saudis in their public expressions of policy.

II. The Role of Islam

The first goal of the Third Five-Year Development Plan, released May 1980, for the Kingdom of Saudi Arabia is: "To uphold the precepts of Islam and apply and spread the 'Shair'ah' (Islamic Law)."

In King Fahd's first policy statement (See Appendix II) he emphasizes the significance of Islam in all Saudi policies. In his introductory remarks King Fahd notes:

"The unifier of this peninsula, King 'Abd al-'Aziz, came to establish a monotheistic state based on Islamic law so that religion and the secular world are interjoined and the entire nation follows the path of God....."

24 July 1982

Geography and the joint efforts of the al-Saud family and the Wahhabite sect of Islam (which joined forces in the 1700s) have made the Kingdom protectors of the two holiest cities of Islam -- Mecca and Medina. Wahhabism, as practiced in Saudi Arabia, defines and permeates all aspects of Saudi life: the legal system, the government structure, the economy and social mores and values. Any challenge to the House of Saud's claim as exemplar of the faith and defender of the Holy Places would therefore have social, political, and economic ramifications. Will Wahhabism, as practiced in Saudi Arabia, remain a stabilizing force or become a divisive issue as the deep

conservatism of the belief interacts with those who pursue a more modern Islam or even the extreme of secularism?

European analysts warn that the internal repercussions of the rapid accumulation of oil wealth -- growing materialism, consumerism, corruption, and increased Western influence -- are constant challenges to the rigorous ascetic tenets of Wahhabi Islam and could undermine one of the major supports of the House of Saud: its role as exemplar of the faith.

British analysts, in particular, may have been more perceptive in keeping a closer watch on current religious trends in terms of deviations from historical norms. They see digression from these norms, i.e., by the royal family as representatives and protectors of the Islamic faith and royal interaction with the ulama, as warnings of difficulties to come.

Attempts to replace eroding traditional values and tribal relationships with royal patronage and social welfare programs are seen by many as a difficult and risky trade-off, as likely to increase tensions as to allay them.

American analysts have generally discounted the significance of this challenge to Saudi Arabia's Islamic values and have expressed greater optimism that the Kingdom's wealth can prove to be a successful counter to these dangers and will be sufficient to placate dissent.

Most analysts, in the U.S. and Europe, agree that continued acceptance of the rule of the House of Saud will also depend upon its ability to continually justify its assumption of the role of protector of the Islamic faith by providing unchallengeable role models for the Wahhabi sect of Islam and for Muslims elsewhere.

Challenges to the House of Saud's ability to protect the Holy Places--Mecca 1979, East Jerusalem since 1967--and Khomeini's Shi'ite challenge are seen to make its claim to rule vulnerable; they could serve as additional excuses for an effort to change leaders. Europeans were quickest to point out that the attack on the holiest shrine of Islam at Mecca in November 1979 compromised the royal family's claim as "guardian of Islam," revealed weaknesses in internal security and led to questions about the efficacy with which the regime was dealing with disparate tribal and regional forces, and whether the rewards and benefits of new wealth were filtering down at an appropriate rate. The spectre of Iran began to haunt the regime.

Most European observers doubt that Saudi Arabia is immune from the threat of a revival of religious fundamentalism, or even of militant Wahhabism. One British analyst concludes that there is little threat to present rulers from the prospect of a unified constitutional reform movement (as often predicted by U.S. observers), but there is a real challenge from religious opposition which "is so deeply ingrained in the Saudi system as to be to all intents 'structural'."

On this point British analysts note that growing speculation over a resurgence of the Ikhwan or Muslim Brotherhood throughout the Gulf is also disquieting to the royal family.

Whether there is an increasing threat to the House of Saud from the Ikhwan is very difficult to determine. No observer detects the existence of a powerful, unified Muslim Brotherhood within the Kingdom -- as in Egypt or Syria. Regardless, the fear of such reveals that some in the royal family, as well as outside observers, believe they are vulnerable to the "Right" as well as to the "Left."

Estimates diverge on the risk run from an orthodox challenge to the Saudis from the ulama. After the events in Iran, some American observers pinpointed the ulama as potentially a primary source of disaffection. Europeans tend to see their real role to lie in the legitimacy and sense of continuity they confer on the House of Saud and, therefore, their greatest challenge would come from a refusal to support royal decisions, rather than from an increase in grievances. Unlike the mullahs in Iran, the ulama in Saudi Arabia are not self-sufficient. The ulama rely, almost totally, on the royal family for financial support. One U.S. analyst concludes that while alone they may not constitute a major threat, in coalition with others these arch conservatives present a greater risk. A British observer also warns that too fast or too rigid a retreat to the strictest interpretation of Wahhabi Islam by the current rulers, many of whom are seen as

living a double standard by the general population, could also create discontent within the Kingdom.

Furthermore, British and a few U.S. observers point out that circumstances or events which might prevent the House of Saud from offering safe passage to the two million pilgrims that make the Hajj yearly would greatly increase the chance that the ulama would withdraw support from the regime; hence the concern over how the Saudis would cope with an unruly and large contingent of Khomeini followers despatched on the Hajj with very considerable publicity.

At the same time as the Mecca event, there were serious disturbances among Shi'ites in Qatif in the Eastern Province which were reported immediately in Europe and only hinted at months later in the U.S. Reports vary widely of the extent of this unrest and its possible continuation today. Most American analysts (unlike the British) initially accepted Saudi reports there was no trouble in the Eastern Province.

But caution in determining the level of threat posed by the Shi'ites is pointed out by a U.S. observer: were the community in and around Qatif to mount a challenge to the House of Saud, they would find no support from other groups within the Kingdom, even though others, disaffected by modernization, may themselves turn to fundamentalism as an outlet for their grievances. Prejudice against Shi'ites runs high and most other groups (especially the

National Guard) would jump at the opportunity to confront them. One U.S. observer does note that there may be an increasing commonality of interests between Sunnis and Shi'ites in the Eastern Province due to their common interest in keeping oil flowing. (The point is that Shi'ites have not benefitted from oil wealth as much as others; they have not been appointed to positions of authority commensurate to their roles. There are thus other factors in the relationships than religious differences.)

The Saudi position as protector of the faith also influences Saudi foreign policy, most particularly in the Arab-Israeli confrontation and the Israeli occupation of East Jerusalem and the al-Aqsa mosque -- the third holiest shrine of Islam. In addition, Saudi financial aid is primarily limited to Muslim countries and propagation of the faith is put forth as a primary responsibility of the al-Saud.

Most U.S. observers accept that Israel is a security concern of the Saudis, without pinpointing that the major Saudi interest is East Jerusalem and secondarily the threat from dissatisfied Palestinians. Fahd's eight-point peace plan (as discussed in Section VI) was, however, noted by Europeans as reflective of the

*It must be noted, however (to keep the November 1979 events in perspective), that this occurred during the Shi'ite period of 'Ashura, a time of mourning for Shi'ite martyrs when tensions are already running high. Moreover, the period usually coincides with increased domestic violence in Iran.

central Saudi concern in the Israeli-Palestinian confrontation: untrammelled access to the city.

British observers have written that Saudi leadership of the Islamic Conference in Taif (February 1981) illustrates how the Kingdom may find it impossible, in light of its perceived role as leader of the faith, to retreat to a more isolationist, less assertive, international role.

Summary

While all analysts discuss the centrality of Islam to Saudi domestic affairs, there is still debate over whether the Kingdom could or could not be "another Iran." As noted, there are critical differences between the role of the ulama in Saudi Arabia and that of the mullah in Iran. This does not, however, according to many observers, negate the potential for a revival of religious fundamentalism, particularly in coalition with other dissatisfied groups which could undermine and perhaps bring down the present regime.

III. Social & Political Development

"To defend the faith and the homeland and preserve internal stability and security."

This second premise of the Third Five-Year Plan encompasses many facets of internal, social, and political development in the Kingdom. Most observers agree that internal stability will be determined largely by the facility of the regime in balancing social and political development along with economic modernization and the satisfaction of diverse demands from royal princes, the growing middle class and the more conservative traditional Saudis.* Fahd, in his initial address, reintroduced a long-delayed prospect of creating a "majlis al shura," an appointed consultative assembly. Moreover, and perhaps more consequential in the long-term, he hinted at some degree of decentralization of the government process by alluding to measures for implementing the regulations for provincial administration.

*We recognize the inadequacy of western political vocabulary in describing a Saudi circumstance. "Political" is an example where its use by American analysts in particular sometimes suggests an open, organized and (hopefully) representative process still wholly unreal when used in reference to Saudi ways. The British concept of "political" to mean actions meant to shape policies and programs (and to forward the ambitions of a leader and his group) without regard to western-style institutions is much closer to the Saudi Arabia of 1982 and for the next decade.

The adaptation of the governance system of Saudi Arabia to meet the needs of increasingly modernized sectors of the population (both royal and non-royal), and traditionalists, will be a critical determinant of future internal stability. In the present ruling structure there is no distinction between the al-Saud and the government. Royal princes occupy key positions in every department throughout the bureaucracy and the ruling structure is highly centralized. We take note later of the dilemma confronting the regime in the need to assure coming generations with very different education and experiences that there is "room at the top" (or near it).

A Sense of Nationalism?

Little is written about tribal relations in the Kingdom, but some analysts, particularly British, regard the issue as consequential in promoting or countering a sense of national consciousness. Abdul Aziz had reconciled various interests primarily through intermarriages and the distribution of benefits.

Tribal groupings are not strictly geographic in origin. Analysts note that they can be based on blood relationships, or for reason of circumstance, i.e., similar economic conditions and roles in the same region. The 1976 listing of populations (See Table 1), particularly the bedouin, should be indicative of traditionalist's strongholds. Though the numbers appear greatly

exaggerated, the proportions of settled Saudis to bedouin is useful for comparison. A prudent estimate of current nomadic Saudis would be around 8 percent and no higher than 10 percent. Some analysts consider a decreasing bedouin population as a useful barometer indicating a diminution of the tribal role in Saudi politics. Moreover, a few U.S. and British observers have noted that the urbanization of increasing numbers of Saudis, both bedouin and agriculturists, is generating new concerns, both in terms of adequate provision of benefits, housing, medical care, education, etc., and in terms of establishing new groupings within the Kingdom which could overshadow previous tribal allegiances and eventually perhaps displace them.

SAUDI POPULATION ESTIMATES

Table 1

	Total	Bedouins	Settled
Riyadh	1,272,000	306,000	966,000
Mecca	1,754,000	240,000	1,514,000
Eastern District	770,000	80,000	690,000
Asir	682,000	247,000	435,000
Medina	519,000	237,000	282,000
Jizan	403,000	16,000	387,000
Qasim	316,000	101,000	215,000
Hail	260,000	143,000	117,000
Tabouk	194,000	89,000	105,000
Al-Baha	186,000	29,000	157,000
Najran	148,000	56,000	92,000
Northern District	129,000	86,000	43,000
Al-Jauf	65,000	31,000	34,000
Al-Qurayyat	31,000	13,000	18,000
Nomadic site	210,000	210,000	-
Saudis Living Abroad	73,000	-	73,000
Total	7,012,000	1,884,000	5,128,000

Source: Statistical Indicator, Ministry of Finance and National Economy, Central Department of Statistics, Kingdom of Saudi Arabia, 1396 A.H./1976 A.D.

In addition to possible conflicting tribal issues, the concerns of a growing middle class, both royal and non-royal are, as indicated by a British observer, multiplying and escalating. Generally, he notes, they regard the rulers as too oppressive (due in large part to close ties with the ulama), too close to the U.S. and they charge that the national patrimony is being squandered. The remedies to these charges are two-fold and contradictory: to liberalize the society or to introduce a more strictly defined Islamic government.

Returning Students

Observers tend to agree that the returning Western-educated students, both royal and non-royal, are forming a large part of the new Saudi middle class. They are becoming a vocal and potentially strong force within the Kingdom particularly as regards development policy and practices. Their very presence is a challenge to other sources of power; their capabilities are essential and must be sought after by any regime even if--as in the Iranian case--there may be an initial period of repression and great confusion with a revolutionary change in rule.

The absence of a merit system in the Saudi government structure could arguably increase their level of frustration. A few analysts from both sides of the Atlantic have argued, however, the opposite: that these students quickly readapt and

conform to traditional norms, leaving the ways of the Western world, and their inevitable frustrations, behind. Typical of such conclusions is one British observer that noted:

"A certain duality is apparent from the manner in which a Saudi's mental outlook alters when he sets foot on his native soil and changes his western suit for the thobe, gutra and ageel."

Or, to put it differently, observers also point out that the vast majority of returning students do not wish to disturb the modernizing process but intend to prosper in it. There is no way of knowing the number who accept the system but still find themselves frustrated from advancement perhaps because they lack a royal patron.

The Saudi regime is aware of the dissatisfaction of some of the Western-educated students and is attempting to address it, but in ways which observers warn may be ineffective. Foreign scholarships have been cut down and those traveling abroad are increasingly limited to the already more advantaged, wealthier royal families. They are students who upon their return to the Kingdom would have positions which would hopefully help allay frustrations generated by Western-instilled expectations. Other students are encouraged to attend Saudi universities and thereby avoid such exposure. Yet, there are currently more than 13,000 Saudis studying in the U.S. alone. A surprisingly few analysts conclude that out of a population of 4-5 million, it seems unrealistic to hope that this many students can be reabsorbed in roles which meet their expectations under the present system.

This is not to infer, as some American analysts do, that all of these returning students desire to work within the expanding Saudi economy. Many foreign companies in the Kingdom continue to be frustrated in their attempts to expand their Saudi work force, both technical and managerial (manual labor being anathema).

The Kingdom, therefore, according to both U.S. and British reports, may be fostering the growth of a "welfare elite" -- a significant portion of the population which lacks the "work ethic." As long as oil revenues continue to flow, many see no need to work in order to receive their "deserved" portion of the largesse. This attitude could prove increasingly detrimental to Saudi goals of increasing the indigenous workforce, not only the technically trained, but manual labor as well. If returning students are not accommodated, British observers generally see the creation of a volatile group which likely supports an oil production level to match development needs but not to create a surplus to be deposited abroad, thereby depleting reserves too rapidly. They will be looking for allies (perhaps the religious conservatives or disaffected elements in the military) and pressures on the House of Saud are bound to increase.

Foreign Workers

Demands for manpower arising from the accelerated pace of development have created a foreign labor force in Saudi Arabia of 1.5-2.0 million (the official figure is 1.059), or nearly double

the total Saudi labor force. (See Table II.) The need for workers and technicians at Jubail and Yanbu could increase this figure with no hope in sight of reducing it. The "limits" on expatriate labor found in the Third Development Plan are not compatible with the needs of the growing economy. A solution some American analysts offer would be to allow freer immigration, heretofore severely limited. Europeans generally see this as creating rather than solving problems for this closed society. They agree that expatriate labor is, however, increasingly being institutionalized in the Saudi economy and society.

TABLE II

SAUDI POPULATION AND WORK FORCE 1980

I.	Overall Saudi Population	4,300,000
	Males	2,100,000
	Females	2,200,000
II.	Saudi Work Force	1,100,000
	Agricultural	410,000
	Regular Armed Forces	53,000
	National Guard/Frontier Forces	30,000
	Government	27,000
	Other (non-Agriculture/Private Sector)	580,000
	Males	1,092,000
	Females	18,000
	Conscription age Males (16-45)	825,000
III.	Non-Saudi Work Force	2,095,000

Source: Collation of disparate sources, including Aramco, SRI International, Department of State, and United Nations. Figures above are the authors' estimates and do not correspond exactly to any of the estimates of the sources listed.

*These estimates are not presented as authoritative, as estimates of both Saudi population and workforce vary greatly. They are, at least, indicative.

Source: Shaw, John A. and Long, David E., "Saudi Arabian Modernization: The Impact of Change or Stability."

(The Center for Strategic and International Studies, Georgetown University: Washington, DC 1982) p. 46.

The great majority of these workers are Yemeni, Egyptian and Palestinian (who constitute almost 65 percent of ARAMCO's workforce) with increasing numbers of Asians. (See Table III). Each of these groups presents a unique set of potential challenges. There is continued debate among European analysts over whether Arab or non-Arab foreign workers/technicians present the greater threat to the established processes in the Kingdom, or of subversion. Some contend that an Arab worker would present less cultural and religious challenges to the Saudi population. Others counter that the potential for disturbances is greater from the Arab foreigners who are less in awe of the Saudi social, economic, and political systems and are, therefore, more prone to criticize its inherent flaws and injustices. The latter group sees the Westerner, and now the Asian, as a silent observer of the Saudi scene who spends his brief tenure in the Kingdom enduring this strange phenomenon. Is this true for the ARAMCO community and some technical advisers, particularly military, which by-and-large remain for extended periods but interact in limited ways with Saudi counterparts?

One U.S. observer warns that Saudis may be less able to take over the technical jobs demanded by an increasingly industrialized economy. The continued need for foreign technicians will, he warns, be critical and long-lasting.

The regime's difficult task of satisfying demands of the middle class, returning students and controlling foreign workers,

TABLE III
FOREIGN RESIDENTS IN SAUDI ARABIA*

Yemenis	600,000
Egyptians	300,000
Palestinians and Jordanians	100,000
Sudanese	50,000
Lebanese	15,000
Syrians	40,000
Other Arabs	10,000
Koreans	100,000
Thais	50,000
Filipinos	200,000
Chinese	7,000
Indonesians and Malays	15,000
Indians	75,000
Pakistanis	300,000
Bangladeshis	15,000
Sri Lankans	5,000
Turks	40,000
Afghans	20,000
Somalis	50,000
Other Muslims	5,000
Japanese	5,000
American	40,000
German	10,000
French	15,000
Italian	13,000
Swedes	3,000
Greeks	10,000
Other Europeans (includes Canadians and Australians)	10,000
Total	2,103,000

*Aside from Muslim nationalities, the estimates are fairly accurate. There is no attempt by Muslim embassies to determine the size of their respective expatriate communities and estimates vary widely. For example, the estimates on the number of Yemenis here ranged from 400 to 800 thousand. Historically, there have always been large movements of peoples between the two countries. The border was not even partly fixed until the 1930s. Since that time, there has been no real attempt by Saudi Arabia to identify its Yemeni community.

Source: Collation by the authors from disparate sources, including ARAMCO, SRI International, Department of State, and United Nations. Figures above are the authors' estimates and do not correspond exactly to any of the estimates of the sources listed.

Source: Shaw and Long, op. cit., p. 48.

without offending the more traditional element of the population is a challenge of great proportion. Observers are looking for answers in the governing process and its possible adaptations.

Process of Governance

"The House of Saud is not blinded by delusions of grandeur or convinced of its own infallibility even if it does sublimely assume its right to rule. Yet the royal leadership's haphazard and archaic ways of consulting its variegated subjects look desperately inadequate."

Richard Johns, The House of Saud, p. 536

Discussion of the various centers of "influence" within the royal family illustrate, more than any other aspect of Saudi Arabian analyses, the lack of information due to the extremely closed nature of royal family relationships. Discussions of the subject, by analysts of different backgrounds and vastly differing bias', label royal family divisions and attitudes in the same way. The very wording of the discussion is often similar, reflecting a most limited access to key Saudi officials and a standardized flow of information from those few who do speak with outsiders. Tight information control makes clear the primary importance the royal family attaches to an outward appearance of consensus within the ruling circle.

The much publicized process of "majlis" (open consultation), while useful to maintain traditional means of access to the royal family is mainly used for the redress of personal grievances. European as well as American observers view it as an inadequate

institutional device to allow increased participation in decision-making and it may be that an increasing number of the Saudis regard it as an anachronism, useful perhaps, but increasingly distractive for the leadership.

While we must wait for evidence of the adaptation of political structures, one British analyst notes that even without firm and formal actions change may be occurring; a very gradual process of enlarging upon consultative processes is thought to be underway. It may be coming about at a pace akin with the preferred Saudi method of reaching a decision -- through the sometimes painfully slow process of achieving a consensus.

While Saudi intentions and procedures may be good and appropriate to address real challenges, observers warn that their cumbersome decision-making process may prove too time-consuming to provide timely change in the governance of the Kingdom.

The same conclusion may pertain to the Shi'ite issue in the oil-rich Eastern Province. Beginning in 1980, however, Riyadh did begin to pay more attention to the development program in the Eastern Province and to the benefits not received by the Shi'ite community, but available to others in the Kingdom, and to the quality of the governor sent to the region. Whether the reforms come fast enough, are sufficient and are permanent, remains to be seen; there is doubt on this point on the part of informed

analysts who consider stability in the Eastern Province essential to oil security.

The Saudi Elites

If differences within the royal family become more stressful and evident, pressures for modifications in the governance process will grow. American analysts continue to categorize these divisions as "generational," with the older princes leaning more toward a pro-Western stance and the younger reflecting a narrower, more nationalistic, more self-seeking ("What's in it for me?") attitude. Such characterizations are easy for the Westerner to recite, but Europeans warn that they are too simplistic to define the Saudi royal family. To take one critical example, divisions among princes regarding oil production levels and prices are not along generational lines alone.

Since succession in Saudi Arabia is not based on primogeniture but the family designates the oldest and presumed most fit to rule as King, analysts accept that there is ample room for disappointment and disaffection. Once designated as ruler, he must continue to be respected or be challenged as to fitness -- as occurred with King Saud in 1964. The Saud-Faisal rivalry confirmed that any successor must: (1) retain support of the armed forces; (2) obtain support of the ulama; and (3) gain support of leaders from many family branches of the Al-Saud.

Faisal was able to accomplish all three and thus became King as Saud went into exile. Whether Fahd's succession to the throne has satisfied these criteria and is as smooth as it initially appears may be unknown for years.

King Fahd's Rule

The style of Fahd's rule has been a continuing concern of British analysts, whereas most Americans remain more concerned with the line of succession and the pro- or anti-Western labels attached to the various princes. Western labels are, however, deceptive and often lead an observer to ignore other more significant factors, such as the impact on Saudi affairs of a King or Crown Prince who opts to by-pass the ijma process, or the far-reaching consequences of a King's neglect of tribal divisions, or ineptness in distributing largesse. These may be far more important to Saudi stability of rule.

Abdallah, the traditionalist leader of the National Guard and the member of the royal family associated with advocating the interests of the bedouin tribes, became Crown Prince, as expected, on the accession of Prince Fahd, his half-brother. Abdallah is accepted as a counter to the dominance of the Sudayri brothers (Fahd, Sultan, Nayif, Abd al-Rahman, Turki, Salman, Ahmed). (See Chart I). While Abdallah cannot be categorized as anti-American (as some observers do), to date his primary concerns have been internal-tribal problems in Saudi Arabia as

well as inter-Arab relations. He may be least well-equipped to eventually guide the Kingdom through intense change but his native intelligence may serve him better in the transition than other observers prematurely conclude. He is among the least known of the key princes.

CHART I

KEY MEMBERS OF THE FAMILY OF KING ABD AL-AZIZ

ABD AL-AZIZ IBN ABD AL-RAHMAN (b. 1880; r. 1902-53; d. 1953)

	MOTHER'S NAME
SAUD (b. 1902; r. 1953-64; d. 1969)	<i>W'adhba bint Muhammad</i>
FAISAL (b. 1906; r. 1964-75; d. 1975)	<i>Tarfah bint al-Sbaykb</i>
Abdallah (b. 1921; former minister of interior)	<i>Sultana bint Ahmad al-Sudayri</i>
Khalid (b. 1941; governor of Asir)	<i>Haya bint Turki bin Jilawi</i>
Muhammad (b. 1937)	<i>Iffat bint Ahmad al-Tbunayan</i>
Saud (b. 1941; foreign minister)	" " " "
Abd al-Rahman (b. 1942; army officer)	" " " "
Bandar (b. 1943; air force)	" " " "
Turki (b. 1945; intelligence)	" " " "
Muhammad (b. 1910)	<i>Jawharah bint Musa'd bin Jilawi</i>
KHALID (b. 1912; r. 1975-82)	" " " "
Nasir (b. 1920; former governor of Riyadh)	<i>Bazza</i>
Sa'd (b. 1920)	<i>Jawharah bint Sa'd al-Sudayri</i>
Musa'id (b. 1923; his son killed Faisal)	" " " "
Abd al-Muhsin (b. 1925; governor of Medina; "free prince")	" " " "
Fahd (b. 1921; r. 1982 -)	<i>Hussab bint al-Sudayri</i>
Sultan (b. 1924; minister of defense)	" " " "
Abd al-Rahman (b. 1926)	" " " "
Nayif (b. 1933; minister of interior)	" " " "
Turki (b. 1934)	" " " "
Salman (b. 1936; governor of Riyadh)	" " " "
Ahmad (b. 1940; deputy minister of interior)	" " " "
Abdallah (b. 1923; crown prince 1982-)	<i>Al Fahda bint Asi al-Shuraym</i>
Fawwaz (b. 1934; former governor of Mecca; "free prince")	<i>Bazza</i>
Mish'al (b. 1926; former governor of Mecca; minister of defense, 1951-56)	<i>Shahida</i>
Mit'ab (b. 1928; minister of public works and housing)	"
Talal (b. 1931; "free prince")	<i>Munayir</i>
Nawwaf (b. 1934; head of royal palace under Saud)	"
Badr (b. 1933; deputy commander of the national guard)	<i>Haya bint Sa'd al-Sudayri</i>
Abd al-Ilah (b. 1935; governor of Qasim)	" " " "
Abd al-Majid (b. 1940; governor of Tabuk)	" " " "
Majid (b. 1934; governor of Mecca; former minister of municipal affairs)	<i>Muhdi</i>
Sattam (b. 1943; deputy governor of Riyadh)	"
Muqrin (b. 1943; governor of Hail)	<i>Barakah al-Yamaniyah</i>

Sources: Adapted from Brian Lees, *A Handbook of the Al Sa'ud Ruling Family of Saudi Arabia* (London: Royal Genealogist, 1980); H. St. J. B. Philby, *Arabian Jubilee* (London: Robert Hale, 1952), pp. 250-71; David E. Long, *Saudi Arabia*, Washington Papers 39 (Beverly Hills: Sage Publications for the Center for Strategic and International Studies, Georgetown University, 1976), pp. 66-68; and "The Royal House of Saud," *Financial Times* (London), March 30, 1978.

Source: Quandt, William B., Saudi Arabia in the 1980s: Foreign Policy, Security and Oil. (The Brookings Institution, 1981) p. 172 and 173.

Sultan, now Minister of Defense, has become the Second Deputy Prime Minister. Better versed in the world outside the Kingdom than Abdallah, he is also better known. The assumption of American analysts that he possesses more of the qualities necessary to rule is undoubtedly correct -- in western terms. He would be a determined negotiator, however, more of a "modern."

Increased inter-family rivalry arising from succession struggles would create different sets of relationships between dissatisfied princes, non-royal Saudis, and foreigners. The maintenance of, or at the very least, the semblance of internal cohesion will be a critical factor in determining the future of the House of Saud. Most observers conclude that: if the royal family succeeds in presenting a unified front, many of the internal challenges from the modernization process, foreigners, and the adaptation of Islam could be dealt with. Without such a unified front, the prospects for the Kingdom's coping with internal splits are significantly gloomier.

IV. "Controlled" Economic Development

The massive economic development plans of Saudi Arabia are one of the most familiar aspects of the Kingdom to outsiders. The release of Five Year Development Plans and annual budgets make it a less opaque aspect of Saudi planning. The third goal of the third Five Year Plan is:

"To sustain balanced growth by developing economic resources and enhancing income from oil in the long-term, while consuming depletable resources."

Can the economic base of Saudi Arabia be diversified in light of resources and the religious, social and political constraints discussed in Sections II and III?

Most analysts agree that the major constraints are: agricultural problems, water shortages, inflation, inadequate infrastructure, and manpower shortages. These problems increase the chances for unfulfillment of plans, unmet expectations, and consequent domestic instability. A European analyst pointed out one part of the Saudi development dilemma when he noted that the process is a "grafting" and not a natural growth. The critical and growing reliance on foreign advisors and workers is, as we have indicated, a subject to which inadequate attention is given.

The first and second development plans, according to both U.S. and European analysts, led to an unequal distribution of benefits between rural and urban populations and to the unequal

development of the provinces. One British observer noted that the inequitable process, coupled with overspending in a limited economy, was leading the Kingdom to a development failure and a sharp dichotomy (rich versus poor) within the society. Has the third plan altered these trends?

The third plan (see Table IV) stresses basic human needs -- education, housing, medical care -- of the Saudi population, but, contrary to the expectations of most outsiders, it continues to outline increased spending in most sectors. Most significantly, projects, including those of the twin industrial centers of Jubail and Yanbu, continue to have very high priority though it is these same industrial projects about which most analysts remain highly skeptical in terms of their feasibility and applicability for Saudi Arabia.

European analysts generally see the decision not to cutback over the next five years as reflecting the Saudi belief that the development process has become self-propelling. At this point, dramatic changes in its pace would be wasteful of capital already spent and, more critically, would create a backlash. It would come from Saudi princes, leading entrepreneurs, and merchants as a consequence of their unmet expectations -- which some outsiders define as a euphemism for excessive greed and the scale of corruption engendered by sudden, unearned wealth.

Several American observers have regarded the development question from the perspective of nineteenth century industrialists--a modern industrial society is inherently good--and are less concerned about the appropriateness of the process or the effect of imported technology on a society ill-prepared to employ it.

TABLE IV

PRINCIPAL PROJECTED ELEMENTS OF THE THIRD DEVELOPMENT
PLAN TOTAL COST: 782.8 BILLION SAUDI RIYALS

<i>Sector</i>	<i>Cost (in Millions)</i>	<i>Some of the Expected Objectives</i>
Roads	37,764.3	28,085 kilometers
Seaports	23,782.0	46.8 million tons
Communications	28,907.0	1,177,000 telephones
Electricity	52,585.2	15,320 megawatts
Works and housing	21,204.4	35,853 houses
Municipalities	58,121.0	Improvement and development of towns
Water	39,602.0	816,000 cubic meters
Agriculture	7,974.5	Reclamation of land and increase of agricultural products
Education (male)	52,473.0	1,027,369 students
Education (female)	23,989.0	613,648 students
Universities	24,709.0	73,490 men and women students
Health	34,884.8	23,325 beds
Basic industries	25,564.0	Industrial complexes
Petromin	27,684.0	Refineries, storage tanks, and oil pipelines
Civil aviation	35,710.0	26.5 million passengers
Airlines	8,700.0	54 aircraft
Commerce and silos	5,584.0	—
Posts	3,655.8	—
Industrial regions	2,006.8	—
Social welfare	3,504.9	—
Youth	4,500.0	—
Judiciary	3,221.5	—
First Aid	628.1	—

Source: Ministry of Planning

Source: Shaw, John A. and Long, David E., "Saudi Arabian Modernization: The Impact of Change on Stability." (The Center for Strategic and International Studies, Georgetown University: Washington, D.C. 1982), p. 29.

Agriculture and Water Supplies

A European analyst has noted that Saudi statistics suggest a decline in the workforce engaged in farming from 40 percent in 1970 to 28 percent in 1975. It's share of the nonoil GDP has dropped from 12.1 percent in 1970 to 2.4 percent in 1978. Total cultivated area has also declined. Another basic constraint on Saudi development which is often noted in Saudi plans, but discussed in depth by only a few outsiders, is the growing problem of providing sufficient fresh water for industrial programs and an increasingly urban population. Massive desalination plans continue to be outlined, but one British observer cautions that their success will hinge on exorbitant costs and developing adequate infrastructure to deliver the fresh water.

Manpower

Development of human resources (training workers and increasing productivity) is a focal point of the third plan but, both British and U.S. analysts concur, as discussed in Section II, due to a limited population base, the problem of basic Saudi literacy, the limited role of women in the workforce and morale issues -- the "welfare mentality" -- the Saudiization of the economy will be impossible. Were the limitations on foreign workers, as outlined in the Third Plan, to be strictly adhered

to, U.S. and Europeans agree, development/industrialization goals would have to be sharply curtailed.

The Third Plan foresees a total increase in the work force of 155,000 from 1980-1985. (It was 725,000 from 1975-80). The total number of foreign workers was to increase by 9,000. Outsiders generally agree the goal of increasing the foreign workforce by 9,000 has already been surpassed, but warn it could once again become a constraint. Plans to improve the literacy rate of Saudi citizens are central to the Third Plan, but a few analysts warn that lack of education will remain a serious constraint on the workforce. Similarly it is noted, that without major changes in jobs allowed for Saudi women (which now account for 37 percent of students currently studying in the Kingdom), goals for Saudiization are unlikely to be achieved.

Sustaining the Economy

The ultimate Saudi goal of industrialization is to utilize current oil revenues to create a sustainable post-oil economy. Is this feasible? Saudi planners acknowledge that the Kingdom's development has been and continues to be based on oil revenue and financial reserves accumulated from that revenue. The expansion of this base to include significant contributions from other economic resources, downstream oil operations, agriculture and mining is considered highly idealistic by most observers, wasteful by others, and some have warned of the consequences to

the Kingdom of a likely failure to find a substitute for oil revenues.

Hydro-carbon based development plans, particularly refining and petrochemical developments, are accepted as the more viable option, by most analysts, as it is based on utilizing vast natural gas resources which were previously flared. Nevertheless, these are to be subsidized through cheap energy supply--which will in itself be costly--and there is no assurance a beleaguered European and Japanese petro-industry will make room for Saudi exports. At a time of surplus there is less need felt to obtain Saudi oil at any price.

A disparaging aspect of these investments is noted by one analyst who calculates that at current oil and chemical prices, the six primary Saudi petrochemical projects would generate a revenue equivalent to that from 250,000 b/d.

It is the consensus of most observers that the other economic sectors, particularly agriculture and mining, offer far less promising prospects of future revenue than even the hydro-carbon based development plans.

Compatibility

A more abstract, but perhaps equally significant issue of economic development is whether Saudi society will be compatible

with a highly industrialized society and if the changes envisioned can be accommodated in light of the Saudi mentality and attitude toward work.

Only a few analysts take all of the aforementioned social, political and economic dilemmas to this ultimate conclusion. One British observer cautions that the adaptation of the Saudi population to the mores and values presently identified with an industrial society could be disastrous; an Islamic model of development he warns could perhaps be more appropriate, but has yet to be defined and tested.

To date, declining oil production and prices have not forced any apparent modification of the central themes of the Third Development Plan. There has been little European or U.S. analysis of the new Saudi budget for fiscal year (FY) 1983 (April 1982-April 1983) which calculates \$91.4 billion in expenditures, an increase from the \$87.1 billion budgeted for FY 1982 (only \$82 billion was actually spent). It reveals no real rise in expenditures, implying, one American concludes, that the Saudis may anticipate a continuing lesser world oil market in the short-term.

Certain components of the new budget do, however, show significant changes. Allocations for basic human services--health and social services--show projected increases of over 20

percent from FY 1982. Defense expenditures are 12 percent higher. No increases are projected for Jubail and Yanbu.

This budget does not include foreign aid expenditures which could easily add another \$20 billion over the next twelve months especially if the kingdom aids financially pressed exporters.

If the Saudis were to persist in using only current revenues to cover budget expenditures, this new budget could be financed by oil production averaging 7.5 mmb/d at a world prices of \$34.00 plus another \$2 billion earned from non-oil trade. But the Kingdom has other options.

The Saudis could opt to use foreign investment earnings, which will likely average \$15 billion (realized on total foreign investments approaching perhaps \$150 billion.) In the past, the Saudis have disliked drawing on these reserves, but doing so remains a viable option, particularly were Saudis to see this as only a one to two year transitional period.

Other alternatives available to the Saudis include underspending, as occurred in FY 1982, or cutting back on foreign aid (which may total \$20 billion including continued aid to Iraq) or defense (which may approximate \$20 billion). The latter two choices would, however, have other non-financial costs and ramifications which may be considered too high.

U.S. and European analysts alike have repeated the warning that Saudi development plans are not comparable to a European government budget. They are, in fact, seen by Saudi planners as "wish lists." Things to be accomplished....in time. But, perhaps not within the time frame denoted by the yearly development outline.

Generally U.S. analysts have taken this admonition and used it as the explanation for continued delays in completing infrastructure, projects, etc. However, the flexibility offered by such "wish lists" cannot be discounted when ascertaining minimum or maximum oil production levels necessary to realize development goals and other objectives.

Could this mean, at least in the short-term, that budgeted Saudi expenditures could be drastically cut either to deal with declining revenues or in a firmer world oil market to allow the Kingdom to regain a still greater level of influence in OPEC or secure some other objective? Of the Saudi budget outlined in Table IV, no more than 33 percent could be considered expenditures essential to promote "basic human welfare" (defined as including health, education, housing, water, communication agriculture, social welfare and youth.) Therefore, just one-third of the new FY 1983 \$92 billion budget could be considered too risky to alter in the short-term. Added to this is another perhaps \$10 billion in "essential" defense expenditures. Could Saudi Arabia meet its basic needs on a

budget of nearly \$40 billion? This could be earned from producing around 4.0 mmb/d priced at \$34.00. Production could fall to 3.0 mmb/d and still meet such revenue needs if foreign investment income was used. Again, this would only be for a short period and only if the goals of such lower production levels were considered to be essential to the Saudi national interest. It is an intriguing question largely ignored by foreign analysts.

All such calculations are conjecture as so little is known about internal Saudi priorities and decision-making. It does illustrate, however, that there is likely to be a somewhat greater flexibility in Saudi revenue needs and hence, production levels, than analysts conclude. But very few observers are able to discuss these specifics which is another measure of the scope of our lack of information-in-depth even on such a very crucial point.

Overall the expansive objectives of Saudi economic plans appear unrealizable and, more consequently, many analysts conclude they appear to aggravate the very social and political problems brought to the fore with the onset of the oil era. Adaptation or cutbacks may be unavoidable. Whether this can be accomplished before sizeable failures are evident, and without a backlash from unmet expectations of an increasingly demanding population, bears watching.

A drastic decline in oil revenues (more extensive than the current 1981-82 and maybe 1983 drop in revenues), whether it would be due to continuing declines in oil prices would have a major impact on Saudi Society. Only a few analysts have commented on this danger which is connected with the Saudi decision not to scale-down development plans. The threat from unmet expectation of an increasingly welfare-oriented society, has apparently been accepted as a significant one by Saudis as well as by some outside analysts.

Kuwait, facing many of these same dilemmas, has apparently concluded that grandiose industrialization programs are inappropriate for the country's long-term welfare. Future reliance on diversified foreign investment income as a replacement for oil revenues has become the long-term goal. There may be a lesson in the Kuwaiti example for Saudi Arabia although whether increasing dependence on unearned income is good for the soul is still to be considered. But if the point is that Kuwait has recognized the infeasibility of its major development projects, and that Saudis may come to think this way as well, then the viability of the Kingdom's program is even more suspect.

V. Oil Policy and Influence on OPEC

Our oil policy will continue to be based on our interests and the interests of our future generations, and will not be deflected from its course by the temptation of temporary short-term benefits or by tendentious outside pressures. Time has proved the correctness of what we have said and the accuracy of our predictions, and if others had listened to us our collective power as Arabs and oil producers would not have been weakened. We shall give the same attention to the interests of the developing countries as to our own national interests of the world as a whole.

King Fahd
July 24, 1982

Oil Policy Decision Making

Debate will continue within the royal family and in the ministries over optimum production levels.* ARAMCO, apparently, has been given the "go-ahead" to increase sustainable capacity to approximately 12 mmb/d (not to be complete until 1986-87), but it is doubtful that capacity will be fully utilized once in place (current maximum sustainable capacity is about 10.5 mmb/d, a level reached at the beginning of the Iranian-Iraqi war). The implication is that the capability to produce more is to be assured; the intentions are less clear.

*The Saudi government does not issue official information on oil production policies and forbids ARAMCO to do such. This being the case, analyses of oil policy and decision-making have basic uncertainties underlying their arguments.

Oil policy decisions are still based on consensus within the royal family, with the advice of the Supreme Petroleum Council and are administered by Petromin. As with other policy decisions, it appears that when a consensus among key royal family members is not reached, no resolution is possible.

King Fahd and the second Deputy Prime Minister and Minister of Defense Prince Sultan have been associated with supporting "high" production levels around 8.5 mmb/d or above in order to avoid price surges from tight supply; to satisfy the demands of the industrialized world; to secure higher revenues for modernization (and defense), and rapid development plans; and to meet the Kingdom's expanding overseas commitments.*

*The need for sufficient associated gas to run Saudi industrial projects in Jubail and Yanbu has led petroleum analysts to set 7.5 mmb/d as the minimum production level necessary to produce sufficient associated gas. The recent installation, however, of dual fuel systems at many power stations coupled with increased availability of non-associated gas, have probably greatly reduced this minimum level. Associated gas is no longer in itself a determinative factor in high oil production levels.

Would a basic change in production policy, therefore, only follow a major upheaval within the leadership? Perhaps, but as most observers warn, oil will remain the singular means available to any Saudi leader to secure external objectives and achieve domestic goals. For this reason any decrease (below 6 mmb/d) in oil production is likely to be short-term.

It seems plausible that "at least 6 mmb/d" reflects the revenue requirements of a nation pursuing a lower rate of development, deferring some large investments, still acquiring weapons but on a lesser scale and with a reduced list of countries receiving special aid. At least there would probably be more general agreement that 10 mmb/d is a less likely level. If these remarks hold true then the risk to the industrial oil-importing nations of a change in Saudi leadership is lessened. Six mmb/d can be lived with.

According to almost all observers, five other factors will be significant in the determining of future production levels and thus the whole direction of Saudi policies generally:

One, increasing domestic demand for oil and gas will limit future exports. In 1976 the Kingdom's oil needs were approximately 358,000 b/d. It is predicted this could rise to 2.0 mmb/d by 1988 due in large part to growing needs from refineries and petrochemicals.

Two, the general level of OECD oil demand, the availability of optional oil sources and the objectives of the Kingdom with respect to other regional suppliers (such as Iraq, Iran) etc.

Three, Saudi Arabia's ability to market increased quantities of its medium-to-heavier crudes. The required ratio has been 65:35, light: medium-to-heavy, but new direct deals with Petromin require a 50:50 ratio more in line with the proportions of Saudi reserves. This 50:50 ratio is also now required for joint venture partners taking incentive crude and is rapidly becoming "the norm." Can this policy be sustained in the present circumstances of a surplus in international oil? Only with great difficulty.

Four, 100 percent takeover arrangements between Saudi Arabia and the four ARAMCO owners were said to have been concluded in the second quarter of 1980. ARAMCO continues to manage Saudi oil production. Further details on the agreement, including confirmation of the complete takeover and the amount of entitlement oil to be granted to the ARAMCO partners, are not available.

Five, to date Saudi Arabia has agreed to make available approximately 1 mmb/d of incentive crude. The entitlement formula for this crude has been 500 b/d for every \$U.S. 1 million invested by a foreign company in Saudi Arabian industrial (heavy) development. Were incentive crude deals once again deemed

necessary to attract investment, production levels, or more likely ARAMCO liftings, will be adjusted. In this policy as well, the attractiveness of incentive crude to investors has been greatly reduced by the present market surplus.

We believe that analysts of the Kingdom would agree a significant, long-term change in oil policy, i.e., of sustained production at a level much below 6 mmb/d, is not anticipated.

OPEC

Events over the past several years in OPEC will likely have long-term implications for the Kingdom.

Saudi Arabia's leading role in OPEC has been an important source of power -- but also of vulnerability -- for the present regime. British observers point out that anything the Saudis attempt through OPEC has to be judged in the context of overall relations in the Gulf. During the 1970s, because of its large reserves, strong finances and excess capacity, Saudi Arabia was able to propose price moderation within OPEC. However, its role/influence within the organization is changing.

In the fall of 1981, Saudi Arabia, after months of over-production, forced an OPEC agreement to a unified market price of \$34.00, illustrating the Kingdom retained some degree of influence in setting oil terms. After a winter of declining

demand, in March 1981, OPEC agreed to a general production ceiling of 17.5 mmb/d. (Saudi Arabia, which maintains that production levels are a sovereign right, announced in a parallel initiative it was reducing its own production another 500,000 b/d to 7.0 mmb/d, lowering OPEC's effective ceiling to 17.0 mmb/d.) The ceiling appeared to be effective, initially, as prices firmed, even reaching official OPEC prices in late May, but continued unprecedented declining demand along with increasing production by other suppliers and widespread price-cutting led to an effective abandonment of the production programming schedule in July 1982.

Generally, American analysts do not accept that the Saudi margin of influence has also been diminished by its declining ability to make drastic changes, both up and down, in production levels. This loss of influence, if it continues, should be seen as one of many possible signals of the Fahd group's lessening grip on power. In addition, many American observers are preoccupied with what they regard as the "demise" of OPEC and therefore deem analyses of the centers of influence within it as inconsequential. To Europeans, these conclusions are premature and, to a few, erroneous and even dangerous.

On balance, with the exception of the Kingdom's earlier aid to Nigeria, observers are in a quandary as to Saudi Arabia's tactics in a period of increasing producers' concern over loss of revenue. Arabs and Europeans have cautioned that to a very

considerable extent the Kingdom (King Fahd) is blamed for the disarray within OPEC. Saudi Arabia has been regarded not so much a supporter of OPEC but as a threat to its members; Saudi oil policies have become an irritant to other producers and, as one British analyst warns, one of the most potent sources of regional friction. The Saudi general objective of keeping oil prices at a moderate level will continue to run counter to the objectives of most other OPEC members and, indeed, of non-OPEC suppliers as well.

As the OECD nations generally continue to experience low GNP growth rates and questionable energy/GNP growth ratios, the role of the Kingdom is still thought to be critical in either maintaining high production to press for a long-term moderate oil pricing strategy or further reducing production in attempts to sustain current prices. Saudi Arabia has lost most of its price-determining leverage within OPEC from present and potential other OPEC states and non-OPEC increases in supply.

Yet, there should be more awareness of the fact that were the Saudis to move to an "irrational" policy of greatly increasing their exports, they could devastate the world oil market.* Still many analysts agree that the Kingdom is likely to continue to press for some agreement on a long-term oil pricing

*"irrational" as the OECD might regard it.

formula. The achievement of such is regarded as highly unlikely because those OPEC members with large resource bases and small populations which are seeking to ensure a future market will be unable to strike an effective compromise with OPEC members needing immediate high revenues and which possess a more limited resource base in relation to development needs.

VI. Foreign Relations

The extreme cultural disparities between western observers and the Saudis make a determination of the underlying forces shaping Saudi foreign policy particularly difficult. The impact of history on present-day policies is given varying levels of importance by different observers. Whereas, for example, many British analysts conclude that Saudi concerns over the threat from Egypt or the Hashemites remain as real today as they have been historically, some American observers appear to dismiss such factors as no longer relevant.

Also complicating the analyst's problem is the Saudi penchant for imprecision in public statements of international policy. The habit of regarding Saudi public statements as a definitive indication of Saudi policy, can prove misleading; European observers, particularly, have repeatedly mentioned this ambiguity and factor it into Saudi international concerns and projections of likely moves.

Analysts generally agree that success in international initiatives will not in itself insure a continuation of the present regime in power, but failure could result in increasing pressures for new leadership.

Analysts agree that oil and oil money (rial diplomacy) are the Kingdom's principal means to implement foreign policy goals.

This is universally recognized. Will these assets be sufficient to counter the external challenges which the Kingdom faces?

After the fall of the Shah, the Saudis began to take moves to strengthen the Gulf states defenses and hopefully goals. The GCC was a direct result of these efforts.

The embryonic Gulf Cooperation Council (GCC) (comprised of Saudi Arabia, Oman, Kuwait, the UAE, Qatar and Bahrain) though proceeding with economic cooperation proposals, has become more active on political and security matters than U.S. & European analysts initially predicted; a discussion of joint defense arrangements discussed below is well underway, though only a few American observers have attached much significance to the effort.

Of all the present initiatives of the Saudi regime, Europeans analysts have speculated the GCC may be indicative of a key effort to mobilize the Arab Gulf (less Iraq) in ways thought most unlikely only several years ago.

Opinions differ as to whether the Kingdom can lower its international presence and retreat to a more isolationist, policy or whether the only alternative is to proceed with more diplomatic initiatives along with the added responsibilities and risks implied. The revival of a somewhat modified Fahd peace plan would imply the regime intends to be a key actor. One

consequence, of course, is that this would place even greater emphasis on the Saudi need for active and meaningful U.S. support of Saudi initiatives.

With regard to the Saudi role in international affairs, several European analysts have concluded that as long as the House of Saud does not become too deeply identified with a losing side and more importantly supports the Arab cause (pro-East Jerusalem, pro-Palestinians and anti-Khomeini), the vulnerability of the present ruling group is not increased by these international activities. They see the gambles with Lebanon, Syria and Jordan as safe ones -- so far -- though a few have debated that Saudi Arabia's minor role in aiding the PLO in Beirut could come back to haunt them. But, they conclude, were international activity to take the Saudis out of the "Arab mainstream" or alienate the military or large segments of the expatriate labor population (especially Palestinians, Yemenis, Egyptians and Pakistanis), there could be realignments within the House of Saud, and perhaps even confrontations.

Arab-Israeli Dispute

As discussed in Section II, due to the Saudi role as protector of the faith (i.e. East Jerusalem and the "faithful" Palestinians) the Arab-Israeli dispute is viewed by Saudis as the central destabilizing regional issue and therefore a direct threat to their own security. Moreover, the U.S. plays the key,

external role in the problem. The Saudis are becoming more deeply implicated.

Now the Arab League has apparently agreed, in principle, on a unified plan to proceed on negotiations with Israel. U.S. observers have noted that though the plan does differ from the Reagan initiative in several key aspects, it does indicate a more unified Arab approach to resolving the dispute than has been evident since the Camp David Agreements were signed. As King Fahd moves to lead the Arab camp, his need for success increases exponentially.

Egypt

With the successful return of the Sinai, followed by the Israeli invasion of Lebanon and intransigence over the West Bank and Gaza Strip, opposition to the bilateralism which many see as dominating Egyptian-Israeli relations has increased Mubarak's vulnerability. The Saudis will be greatly interested in moves Mubarak makes in this regard.

Several Europeans have cautioned that if Mubarak's desire to re-establish Egypt's leading role in the Arab world should lead to a resurgence of pan-Arab nationalism, Saudi Arabia would strongly oppose it and Saudi support for Mubarak (otherwise likely to increase) would drop precipitously. They caution that the Kingdom is haunted by memories of Nasser.

Still, the implications upon Saudi Arabia of a loss of influence and power of Mubarak would be gravely disturbing. It is a singularly curious fact that so little British or American analysis of Saudi perceptions of Egypt have appeared in print; yet Egypt likely remains a fundamental concern to any Saudi regime, including the present one, and thus to King Fahd personally.

Iran

In light of Iran, most analysts warn that concern in Saudi Arabia is growing about the effects of modernization and the fragility of highly centralized and, perhaps, self-isolating governing groups, which may be too closely dependent upon foreigners -- especially the U.S. As discussed above and in the light of the Shah's collapse, development plans were questioned (though proceeding) and close watch maintained on the Shi'ite population. Conservative, restrictive Muslim laws are from time-to-time being reinforced.

Observers note that the possibility of Khomeini's Iran emerging from the war with Iraq as the leading military and political power in the region should be a strong impetus for an unprecedented Gulf Arab unity. The threat of Khomeini exporting the Islamic Revolution has already provided some impetus for Gulf cooperation. Several Americans see it also as an opportunity for Saudi leadership to seek that larger role described earlier, and to expect support for it; there is no other state which currently could lead in the task.

Almost every prospect for the future in Iran could be destabilizing to the Kingdom: whether it take the form of a Khomeini, the Shi'ite mullahs, the Mujahaddin, the prospect of Soviet intervention or the impact of increased Iranian oil production. We believe the likelihood of continued anarchy in

Iran would also present a continuous risk to the House of Saud as it would stimulate radical (both Left and Right) movements. These may be as fearsome to the House of Saud as the Soviet threat (which, as discussed below might be eased by oil deliveries to the East Bloc).

Iraq

Saudi-Iraqi relations are a source of continuing puzzlement to U.S. and European analysts. It was not so long ago that Iraq was perceived by the Saudis as a major revolutionary force in the region. No analyst will venture to guess whether this view has been fundamentally altered. By virtue of its resource base, geography and manpower, Iraq still has the potential to be one of the major powers in the Gulf. In time, as Saudis have long appreciated, Iraq could again be a major Arab power in the region -- an event which would again deeply trouble a Saudi regime.

It is predicted by analysts in the U.S. and Europe that were Iraq to continue experiencing defeats in the war with Iran, Hussein's powerbase, currently tenuous, would disappear. An all-out Saudi effort (arms and money, though perhaps covert) to shore up his faltering status would be likely. Were such to prove unsuccessful, all analysts agree the Saudis would be left feeling exceptionally exposed and vulnerable to the actions of an Iraqi successor. The long historical background to these

relationships is far better known to the British and is scarcely commented on by American analysts of the Kingdom.

Non-Oil Developing Countries

Saudi interactions with non-oil developing countries are limited primarily to financial support for Islamic nations. The front-line states (Jordan, Syria and Lebanon) likely receive the majority of such funds though exact figures are impossible to verify. Statistics released by the Saudis on other aid remain the only indicator available to outside analysts of the importance Saudis attach to Third World countries.

In 1981, Saudi loans to developing countries included \$347.6 million through the Saudi Fund for Development, almost 14 percent of total Saudi aid for the year. Other channels are through the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Islamic Development Bank and the OPEC Fund for International Development, in addition to the World Bank and the International Monetary Fund. Saudi funds to these last-listed multilateral institutions may be curtailed if oil revenues continue to decline. All other aid channels, particularly bilateral and Arab-centered, analysts agree, will likely receive higher priority (but the Saudis will be under great pressure to aid other producers (such as Mexico) which are in severe financial difficulties).

Saudi aid to proximate developing countries in promotion of internal and regional security is discussed in Section VII.

U.S.-Saudi-U.S.S.R. Relations

Superpower relations of the Kingdom have received much attention from outside analysts. Relations with one superpower or the other may have a critical influence in determining who rules the Kingdom and what policies or strategies will be pursued. The question of continuing identity of U.S.-Saudi interests is being reexamined by both sides. American observers have accepted the essentiality of the U.S. presence. European analysts are not as certain that the U.S. role is irreplaceable. Europeans and some U.S. observers accept that U.S. pressure on Saudi Arabia to support the initial Camp David agreements was miscalculated.

Until President Reagan's initiative of September 1, 1982, Europeans cautioned that the U.S. was not regarded to have taken firm and decisive actions in response to a series of events in the region, which may have compelled King Fahd to conclude he is no longer able to continue advocating such a singular concentration on a pro-U.S. policy with members of the royal family who seek a more independent stance for Saudi Arabia. Pressure on Fahd to employ leverage (oil if possible, financial if it is not) to achieve Saudi objectives would increase.

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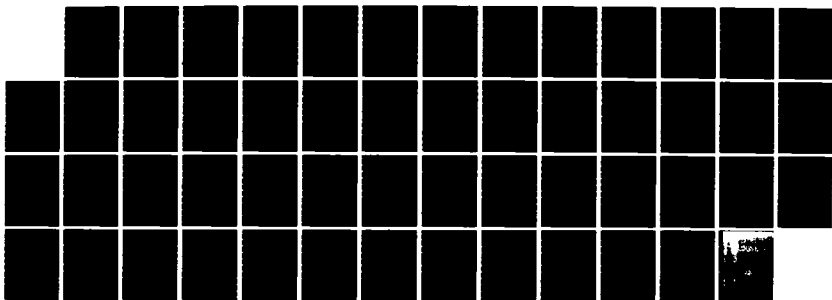
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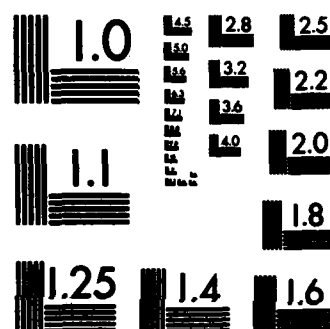
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European analysts warn the U.S. relationship could be greatly impaired.

(A salient historical note partially explains Saudi ambivalence towards the U.S. The Saudis defeat of the Hashemites in the 20th century was predicated, in part, on the need to limit foreign influence in the region. Saudi independence from European influence was the banner. The duality of this heritage and present-day Saudi needs make apparent the Saudi need for a discreet U.S. role in the Kingdom.)

The Saudi fear of Soviet encirclement is continually reinforced by Soviet actions in the Horn of Africa, North and South Yemen, and Afghanistan.

British observers see perceived U.S. passivity in countering these actions as generating pressure on present Saudi rulers to look for additional guarantees and in different directions.

Saudi Arabia and the U.S.S.R. have, in fact, never formally broken diplomatic relations. They have not, however, exchanged diplomatic representatives since the 1930s. U.S. and Europeans have noted that some Saudi-Soviet interaction has already taken place. East European arms destined for Iraq have been passing through Saudi Arabia (and paid for by Riyadh); and periodically, one capital makes open-ended overtures to the other.

Most European observers consider some level of Saudi oil production reserved for Eastern Europe as likely within the next five years. A few would not be surprised at a formal upgrading of Saudi-Soviet diplomatic relations.

VII. Saudi Security Concerns

A fundamental aim of the Saudi regime is to assure the security of the Kingdom against external threat and to maintain domestic political and social stability. The present Saudi regime sees its own permanence as an essential factor in the country's survival. On all these points, Saudi Arabia is not different from other states.

But during the greater portion of its short history as a nation state, Saudi Arabia was relatively isolated from the rest of the world. However, the nature and pace of events since the 1967 Arab-Israeli war have brought about a growing awareness on the part of the Saudi leadership that the dangers to the Kingdom's security and well-being are both external and internal to an unusual degree. Furthermore, many internal trends and developments are influenced by events beyond the nation's borders. It is these elements, plus the enormous stake in oil and the vulnerability of oil facilities, which gives Saudi security a special meaning.

Many of the issues involved in security have been referred to in the context of changing political forces emanating from rapid economic and social change. They are referred to again in this section to emphasize their security aspect.

Internal Stability and Security

As indicated, it is especially difficult for an outsider to discern the strains within the Saudi society which have been brought about by the regime's commitment to rapid modernization. Most analysts consider that while there are signs of discontent, the House of Saud has for the most part been able to control the modernization process and to maintain political and economic stability. However, there is no assurance that it will be able to do so in the years ahead. The following are among the potential problems and sources of instability which various European, American and other analysts have cited.

Some analysts, particularly American, consider that the Mecca incident was exaggerated in the West and that although the episode was a shock to Saudi leadership at the time, in retrospect it has been viewed by the regime as an incident of little significance (although a useful warning of armed malcontents). Other analysts, primarily European and Arab, believe that the affair was symptomatic of the social and cultural strains raised by the impact of change on a traditional society and that it was a protest against the secularization of the ruling dynasty.

Some contend that social unrest could have revolutionary consequences as was the case in Iran. Others, particularly Americans, maintain that while not all returns are in on the

future direction of Saudi society (or of Iranian), the Kingdom's ability to absorb modernization without major political upheaval is impressive.

Most observers consider that internal cohesiveness within the House of Saud is critical to its continued leadership; the principle of first among many is the key to its survival. Although there are differing views within the ruling family on policy issues, to date the family has managed its internal problems with skill or known when not to press an issue as was the case in the apparent serious dispute over oil and foreign policy in 1979-80. But, as noted below, the division of military forces can be viewed as an obvious ploy to separate potential opposition. European and American observers generally agree that the question of succession--perhaps even more than differences over policy--is potentially the most dangerous threat to internal cohesiveness. Some analysts have suggested that if there is a risk of inter-familial rivalries, it is more likely to occur when power passes from one generation to the next.

Many of the European and American analysts who have commented on the likelihood of a coup attempt are of the opinion that there is currently no evidence of disaffection in the military which would indicate such an attempt. The royal family is acutely aware that there is a long history of military establishments in the Middle East overthrowing monarchies. One American analyst surmises that the greatest potential for a military insurrection would occur in the aftermath of a Saudi

military failure and/or embarrassment. Another American observer suggests that the Saudi growing military will play an increasing role in the shaping of Saudi foreign policy. If the political leadership fails to respond to the military, there is some possibility that professional officers, encouraged perhaps, or in league with, religious conservatives and restless technocrats, will seek power for themselves. Such a league, often discounted for the inconsistencies and differences implicit in such groupings, has a chance at least for the medium term.

British and American analysts point out that there is a potential source of instability in the resentment that persists in some parts of the Kingdom over the predominance of the House of Saud. The resentment is felt most deeply in the Hijaz, but also in Asir, in Jabal Shammur and in Hasa. In the event of some upheaval at the center of government, these regional discontents might assert themselves. An American analyst suggests that successionist dreams are more likely to materialize in the east. From the Eastern Province perspective, it is "our oil" and the Shi'ites who make up 50 percent or more of the Eastern province's population have serious grievances against the Nejd Wahhabis. Regional differences may be aggravated by tribal rivalries and by various economic, occupational and sometimes by ethnic and religious factors. While these have been manageable to date, the dimensions of a nation-wide security watch over such a large area would greatly strain Saudi forces.

European and American analysts have also emphasized the transnational implications of the Islamic Revolution and the two incidents of the Shi'a unrest in the Eastern Province. The Shi'ite minority, constitutes a large portion of the Saudi labor force in the oil fields. It possesses the potential for sabotage and the capacity to inflict devastating damage to the Saudi economy. The security concerns here are concentrated as nowhere else in the Kingdom.

Observers on both sides of the Atlantic emphasize the concern of the Saudi government over the problem of "stateless" immigrant workers who are estimated to constitute 70 percent of the workforce and who are excluded almost completely from state benefits available to Saudi nationals. The largest and most worrisome group for the government is the 600,000 Yemenis who could prove to be a significant destabilizing force. American analysts also point out that there can be little doubt that clandestine organs of external political movements such as the PLO, and agents of radical Arab regimes such as the People's Democratic Republic of Yemen (PDRY), Libya and Iraq, as well as Iran are present in the foreign labor force. European analysts in particular have stressed the implications of the PLO in the aftermath of Lebanon. If there is no movement towards a solution to the Palestinian issue, there could be an increase in radicalism in the Arab world and particularly in such conservative states as Saudi Arabia. How capable is the Saudi security system for coping with such undertakings? There is no

way of telling. Intrigue, assassination and corruption are long familiar aspects of subversion.

External Security Concerns

Most European and American analysts in their appraisals of Saudi Arabia's external security concerns point to the growing concern of the Saudi leadership over the Kingdom's vulnerability to the disruptive and destabilizing influences emanating from outside its borders. Because of the nation's vast oil and monetary resources, its strategic location and its physical vulnerability, the leadership embarked upon an accelerated program in the mid-seventies to modernize and strengthen the country's military capabilities. However, for the foreseeable future, Saudi military capabilities will remain limited and the leadership will have to continue to depend primarily on economic and diplomatic measures for its external security including dependence on an external power.

Saudi Perceptions of the External Threat

Analysts on both sides of the Atlantic generally hold similar views regarding Saudi perceptions of the nature and sources of the external threats to the stability and security of the Kingdom. In some instances American observers tend to attach greater importance to the implications of the Soviet threat than do the Europeans. In their appraisal of Saudi security concerns the analysts have noted that from Riyadh's vantage point, Saudi Arabia is practically surrounded by states which pose some form of threat to the Kingdom.

The Saudis believe that an expansionist Israel is a major and immediate threat to the region. The continued Israeli occupation of Arab lands and the unresolved Palestinian issue not only fosters the forces of radicalization among the Arabs but also the possible overthrow of conservative regimes. In addition, the Saudis consider that any increase in Soviet influence in the Middle East has in a large measure been facilitated by the Arab-Israeli confrontation and U.S. support of Israel.

European and American analysts, in commenting on Saudi Arabia's view that international communism is a fundamental threat to the Islamic society, note that Saudi hostility to the Soviet Union has intensified in recent years particularly since the U.S.S.R.'s invasion of Afghanistan. Although there is

general agreement that the Saudis view the nature of the Soviet threat as being indirect, there are differences regarding the extent to which Saudi planners perceive the forces of political change in the region are being controlled by the Kremlin. One American analyst contends that many Saudi planners consider that South Yemen's ties to Moscow stem from a long standing radical hostility towards its conservative neighbors rather than that of a Soviet satellite.

Still, many observers concur that the Saudis may opt for accommodation with the U.S.S.R. were this to be perceived as a preferable alternative to increasing tensions and direct confrontation. In this regard, some level of Saudi oil reserved for the Soviet Union or Eastern Europe would not be surprising to European observers.

Another American analyst contends that: Soviet moves and presence in the Horn of Africa, Southern Arabia, and Afghanistan are seen as a part of a long-term strategy for the encroachment and subversion of the Arabian Peninsula and the Persian Gulf; Riyadh views the Cuban troops in the PDRY as a potential surrogate force to be used on the Arabian peninsula; and that Riyadh also believes Moscow will require Gulf oil during the 1980s, and if need be, will take steps to obtain the same. The ground is being prepared.

The Saudis have long been concerned over the vulnerability of their southern border and the intentions of the South Yemen Marxist regime. The Saudi leadership considers the country's southern border to be its most vulnerable strategic point (in view of the greater attention given to the oil provinces and facilities in the Northeast) and is apprehensive over the implications of the possible merger of the two Yemens. Nor has Riyadh forgotten that Egypt has the largest forces in the Arab world and that Nasser had bombed Saudi Arabia in 1965 during the confrontation over Yemen.

As the Iran-Iraq war enters its third year, the Iranian invasion of Iraq has ground to a halt, at least temporarily, and Baghdad is attempting to stop the export of Iranian crude by bombing the Kharg Island terminal and by threatening tankers in the vicinity. According to a British observer, the Iranians have accused the Arab oil exporting states in the Gulf of acting as "purse masters of Baghdad," and Teheran has told the moderate Arab states to prevent the further escalation of the war. Iran has also warned that it will take retaliatory action and will stop the flow of oil through the Gulf if Iraq continues its raids.

With no end of the war in sight most western analysts hesitate to predict the outcome of the conflict. However, as one observer has pointed out, it is evident that neither of the contestants will be immune from the domestic consequences of the

war and it will have an impact on the leadership in both countries. In the case of Iran, the internal situation is deteriorating and the opposition to the regime is biding its time. The situation is more apt to deteriorate. In Iraq, change in the present leadership could restore an anti-Saudi regime and the resurrection of such policies as irridentist claims on Kuwait and the regime's support for the Marxist guerillas in Oman's Dhofar Province. Faced with the implications arising out of the Iran-Iraq war and the fear of an "imperial Israel" Saudi Arabia feels more threatened by external developments than at any time since 1973.

Saudi Security Policy

In commenting on the Government's efforts to counter the perceived threats to the Kingdom, observers generally indicate that the regime's overall strategy is to: strengthen conservative and anti-communist forces in the region and to reduce Soviet and Communist influence in the area; to develop a credible defense structure; and to promote stability in the Middle East. The problem for the Saudis is that lacking an effective military capability, the government has had to resort to foreign aid in its efforts to assist contiguous states against destabilizing influences in order to further its own immediate security; to participate in the economic and military development of other Arab states, especially those confronting Israel and to help the "status quo" states repel Soviet and Communist

influences. None of these is exceptional or surprising; the question is the nature of the role of the Kingdom in attempting to be involved in the whole range of efforts.

Yet, during the past decade, the Gulf states under the leadership of Saudi Arabia have been developing various aspects of cooperation. The irredentist ambitions of the Khomeini regime, the transnational implications of the Ayatollah's attempts to export the Islamic revolution and the increasing instability in the Gulf stemming from the Iran-Iraq war contributed to the formation of the first regional grouping in the Persian Gulf--the Gulf Cooperation Council (GCC). As one observer noted the GCC initially avoided emphasizing the security aspects of their cooperation in order not to provoke Moscow. However, a number of developments in the region, especially the alleged Iranian-supported plot in Bahrain last December, focused attention on security matters.

As mentioned in the section on Foreign Relations, the Gulf Cooperation Council has become more active in political and security matters than many American and European analysts anticipated. In commenting on the proposed measures for cooperation in strategic and security-related fields, an American analyst has observed that the biggest practical impediment to collective security efforts among the membership stems from their enormously heterogeneous conditions. Although the military capability of the GCC is distinctly limited, the combined

strength could have, in time, a limited deterrence capability against regional aggression. Other analysts have suggested that in order to meet some of their security requirements the Council will have to look beyond the bounds of the GCC. Iraq is not a member of the Council and some analysts contend that without Iraqi membership and/or support the GCC lacks sufficient means to protect oil supplies. Among other defense measures being considered, Riyadh is pressing a plan for an integrated air defense of the area. Others question the desirability of Iraqi participation because of the possibility that in the event of a change of regimes Baghdad might return to its previous and long-standing attempt at the subversion of Gulf sheikhdoms. Some analysts have suggested that the GCC is potentially an ideal vehicle for establishing cooperation between Cairo and Riyadh.

Additionally, the 750-mile Saudi east-west pipeline with an export terminal in the industrial city of Yanbu on the Red Sea coast, which began operating in July 1981, improves security of supply and is a major defense asset. It is the first strengthening of the logistics structure since TAPLINE in 1950. It is currently carrying over one mmb/d but has a capacity of 1.85 mmb/d of crude and 300,000 b/d of NGL, with plans for expansion. With this new alternative export outlet, Saudi Arabia can increase Red Sea exports in the event of a closure of the straits of Hormuz which, if totally effective, would close the export line for most of OAPEC's exports. This pipeline may in

time be comparable to the projected Omani terminal which might have a greater effect and for more than just Saudi oil.

In their assessment of the Saudi regime's perceptions of the "special relationship" with the United States, European and American analysts point out that the security dimension is central to U.S.-Saudi relationship and the Saudis recognize that in a large measure their external security is dependent upon the U.S. They perceive the military relationship to be the principal test of U.S. reliability and commitment to the Kingdom. However, the Saudi leaders are ambivalent over the relationship. While they seek security guarantees they are reluctant to say so publicly and they do not feel they can pay the political price such a relationship entails because of U.S. support of Israel, and Camp David.

Saudi Arabia is thus reluctant to be seen moving too close to the U.S. The Kingdom is unwilling to provide forward bases and does not want an increased American presence in the Gulf. As evidenced in connection with plans for obtaining basing facilities for the RDF, the Saudi leaders while privately supportive of a "U.S. over-the-horizon naval presence," are sensitive to any American attempts to increase its military presence in the region. The Saudis stress their desire to "prevent the Gulf region from becoming an arena for rivalry among

the foreign powers," especially to keep the Gulf free from the presence of any super power.

Relations could be enhanced by greater understanding on the part of the U.S. and the Western world of Saudi Arabia's tenuous political situation in the area. Saudi Arabia's sensitivity to issues of Arabness as well as Islam made it difficult for it to identify fully and publicly with past American policies, particularly with regard to the Palestine issue.

Political considerations are an important factor in Saudi arms purchases. The Saudis want highly visible U.S. assistance in the form of arms sales and from time to time the issue becomes a litmus test of the U.S. commitment.

Defense Policy and the Military Establishment

The Saudi leadership is ambivalent about the desirability of having a modern and effective military force. The regime is concerned over the loyalty of the military yet recognizes that there is a need for a modern military establishment to protect its vast oil wealth and to insure domestic order. During the past decade the Saudi military establishment has been reoriented from a force which was almost solely concerned with internal security to one which seeks to provide an effective deterrent against a wide range of external threats. In view of the Kingdom's small population base and its physical vulnerability,

and the fact that Saudi assets are not located in one easily defended region, the modernization program was undertaken on the premise that the armed forces--particularly the air force--must make optimum use of advanced technology to attain maximum mobility and firepower capabilities to compensate for limited manpower.

According to American analysts the priority Saudi security goals are: the preservation of internal security; dealing with local security issues affecting the periphery of the Kingdom and the deterrence of regional aggression against Saudi Arabia and the other GCC states.

American analysts note that insofar as direct aggression is concerned, Saudi Arabia is primarily vulnerable to air and naval attacks. The Kingdom faces only a limited threat of ground invasion by Iraqis or Israelis.

At present Saudi Arabia faces three potential fronts; the northern, eastern, and southern. The northern front extends from the Gulf of Aqaba to Kuwait and includes Israel, Syria and Iraq as the primary potential threats. The eastern front lies along the Gulf and includes Iran and Iraq. Marxist South Yemen is the major concern on the South.

The Saudis recognize that militarily there is no realistic proposal of competing directly with such regional powers as Iran,

Iraq, Israel or Syria much less countering any Soviet military aggression. However, Saudi Arabia has the capacity to develop a small effective air force that can use the most advanced aircraft to provide air and ground defense and make aggression costly. The greatest Saudi concern is that the Kingdom may face either a two-front attack or that an aggressor will also use subversive techniques to undermine the country internally at the time it attacks. The Saudi leadership is also especially apprehensive over the possibility of Israeli preemptive attacks against Saudi oil and military installations in the event of a renewal of the Arab-Israeli war.

The Saudi Arabian Armed Forces and the paramilitary forces (estimated to be some 100,000) consist of five major organizations. The Ministry of Defense and Aviation, headed by Crown Prince Sultan exercises supervision and operational control over the army (35,000), the Navy (2,200) and the Air Force (14,500). The National Guard (30,000) is under the personal control of the King through its commander Crown Prince Abdallah. The frontier forces are under the Minister of Interior headed by Prince Nayif. (See Appendix III)

Several measures have been taken to assure control over the military. In addition to the senior princes who head the major organizations, there are members and adherents of the royal family at all levels and special units are responsible for the safeguarding against military insurrection. The separation of

the Army and the National Guard precludes an easy takeover of power by either. However, the division of responsibility encourages rivalry within the family, mitigates against coordination between the army and the Guard, and exacerbates the power struggle over control of the forces--a factor which is inherent in the issue of succession.

The Saudis are spending an estimated \$20 billion annually on defense which represents nearly one quarter of their annual GNP. However, the bulk of this spending is for military infrastructure and the level of spending is expected to reduce in the future although some analysts question whether the level of expenditures will decrease after infrastructure is completed. Despite the levels of expenditure, the Saudis appear to have made only limited and slow progress in improving their military effectiveness.

According to American analysts the modernization program for the armed forces is reaching the point where the Army and the Air Force can deter most forms of local aggression in the Persian Gulf and establish a basis for collective security with neighboring states. The Saudi naval capability is quite restricted and even upon the completion of its build-up, the forces will be insufficient for the nation's maritime defense. The National Guard's firepower and mobility is also being improved; nevertheless, the Kingdom's oil production facilities remain potentially vulnerable to small scale terrorist attack

until internal security measures equal conventional military improvements.

European and American analysts report that the defense forces are hampered by shortages of manpower, a lack of training and technological background, and illiteracy. The question of technical proficiency in the use and maintenance of sophisticated equipment is an issue which will take time to overcome. In addition the low level of education of the population will continue to be a barrier for at least a generation. The problem is being worsened by the competition for trained manpower from the civilian sector and by the decline of the tribal sector from which the military have drawn a large proportion of their recruits. An American observer has noted that the combined demands of the Kingdom's military modernization and expansion and civil development leave Saudi Arabia little better off in relative terms than it was five years ago.

The emphasis on advanced technology has created the requirement for large numbers of expatriate military and civilian personnel to train Saudi military in the operation, maintenance, servicing and support of the weapons. Although the Air Force is probably the most advanced branch of the service the provision of ground support and logistical backup remain largely dependent upon expatriate personnel. For example, it has been estimated that the Air Force will depend upon U.S. support to operate the F-15 aircraft well into the 1990s.

The continuing requirement for large numbers of expatriate personnel are indicative of the degree of combat readiness of the military forces. In the event of hostilities the dependence on expatriate personnel could limit the effectiveness of forces.

Other major factors affecting the military capability of the forces are: the lack of adequate coordination and liaison between the three military establishments; the limited degree of joint training and the need for improved communications. In addition, the Saudi military personnel lack managerial experience especially in the logistical field. The varied sources of military equipment, while giving the regime diversification and political leverage, greatly complicates the training, logistics, maintenance and support effort.

It is only to be expected that the achievement of a credible defense posture will take more years; it is not yet present.

VIII. Summary and Prospects

Conventional analyses are inadequate when applied to Saudi Arabia. The gaps in reliable information available on certain areas i.e., comparative influences within the House of Saud, coupled with the extreme cultural dissimilarities between foreign observers and the Arabs of the peninsula lead to hypotheses based more on conjecture rather than knowledge. Moreover, among those few with better access and a longer-term perspective, many choose to protect this access by producing studies which offer little insight and which tend to consider Saudi problems as manageable.

Accepting these shortcomings, there are critical factors listed by both American and European analysts which influence the prospects for the present regime and the stability of the House of Saud. Yet, differing perspectives lead to the assigning of differing weights to each factor.

American observers generally focus on several critical factors as determinative of the future stability of the present Saudi rulers. External factors generally dominate their analyses. The future role and activities of the U.S.S.R. in the region are central issues, as are events in Iran (few note historic Saudi concerns over Iran/Persia), and Iraq. American observers rarely mention the pivotal role of Egypt in Saudi calculations nor do they regard the Yemeni problem to Saudi security as a serious issue.

Further down an American list of vital issues are Saudi internal problems. The fulfillment of development goals, the ability to allow for increased political participation by western-educated students and a growing urban middle class are mentioned. Appeasement of the ulama, success in relegating foreign workers to a permanent second class and isolated status, and the process of royal succession are not often discussed at length.

Europeans, particularly British analysts, look to some of these same factors, though suggesting different outcomes, and include other signals to be watched in assessing the success of the regime in managing the Kingdom's affairs. Instead of the fulfillment of development goals, noted by American analysts, British analysts regard the implementation of a more appropriate scale and pace of development as critical--one which would offer fewer challenges to traditional norms. A revival of religious fundamentalism within the Kingdom would be included among the risks being run.

The issue of increased political participation is often viewed as a western-instilled necessity. The need is more likely for some method (beyond the majlis process) through which those who wish to address specific concerns can do so. In light of Saudi history, even an approach to a full-scale type of democratic assembly would be, British analysts conclude, inappropriate, unsuccessful and unlikely to be attempted.

Succession

Few British observers see succession issues in the House of Saud as easily resolved. They point to the Saud-Faisal dispute in the early 1960s as illustrative of the type and severity of problems to be anticipated. It was more than a decade after the transfer of power from Saud to Faisal in 1964, before even a few analysts began to learn how strained the transfer had been and how close the Kingdom may have been to open, internal hostilities.

Fahd's selection to be King may not have been as smooth as has been indicated by Saudi sources. The selection of Abdullah as Crown Prince may not imply unity between two totally different princes but a possible uneasy compromise yet to be resolved.

One large question mark remains when measuring the future qualities of Fahd as King: Will he attempt to centralize his power and become a much more single-handed ruler than Khalid has been or will he promote a more participatory, less centralized Saudi government as he suggested in his first statement? An attempt to further centralize his power could challenge the Saudi ruling process of consensus, and thus be risky. His prior actions suggest Fahd may attempt to rule with less consultation or consensus-building, but he also has the necessary perspective to recognize the dangers this could entail for royal family unity. The style of his rule will be a critical factor in

determining how successful he is in maintaining the support necessary from other members of the royal family.

Were Abdullah to assume responsibility for the secular, day-to-day affairs of the Kingdom, as Fahd had done under Khalid, much of the responsibility for modifying and defining development plans as well as oil production necessary to realize these would, in these circumstances, fall to him. Though little is known of the present Crown Prince, his tribal background and strong current ties with the bedouin, suggest that highly conservative, conservationist policies might be the result. Yet the King's and the rest of the royal family's needs for revenue may be unmet by such approaches.

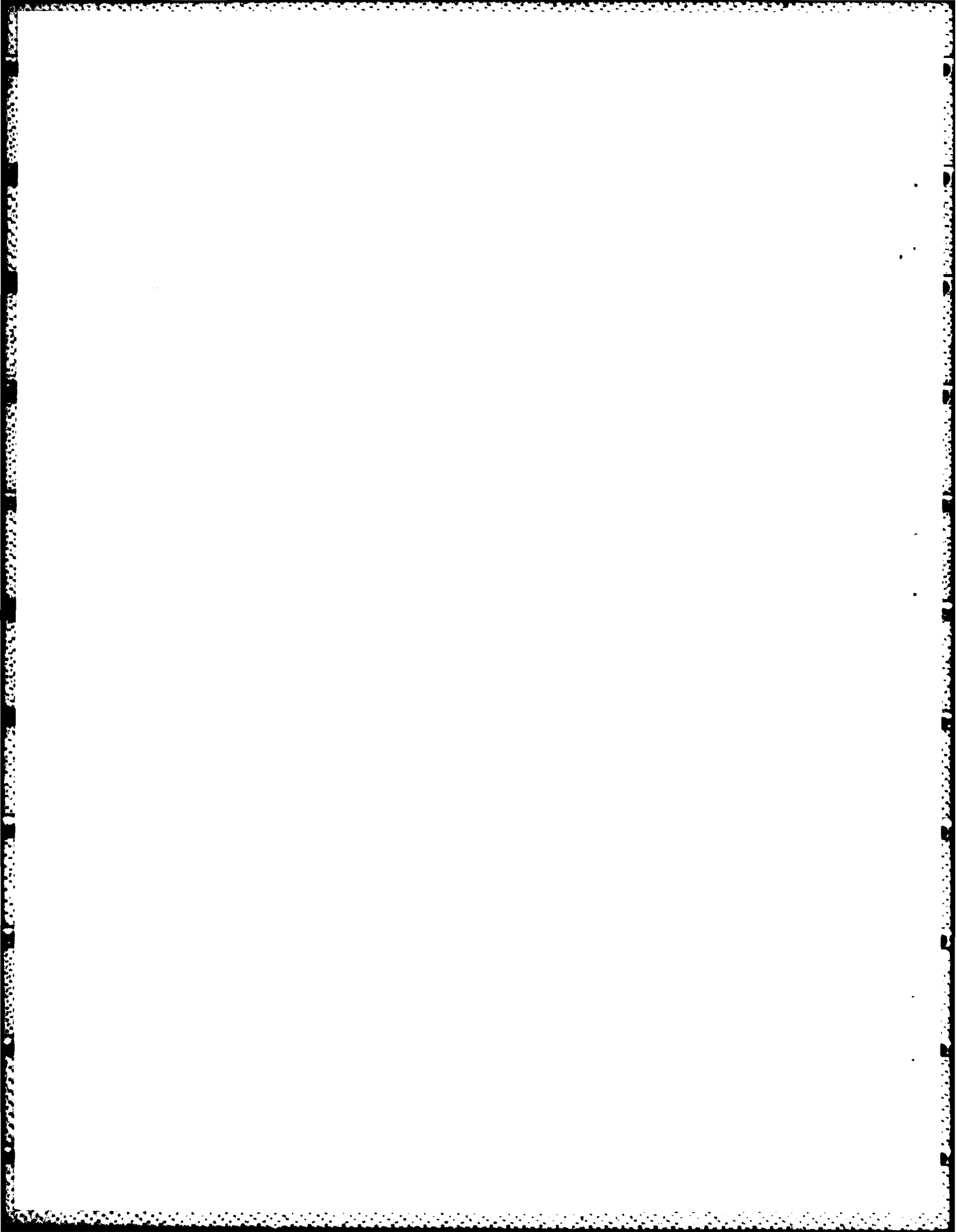
Is Crown Prince Abdullah expected to give up his post as head of the National Guard? Since his power base is in these tribes which constitute the National Guard, if separated, he could be politically emasculated, lacking support from other segments of Saudi society.

The Islamic Component

With the death of Khalid, the royal family confronts a new, little discussed, vulnerability; whether there is a leading prince who is able to assume the Islamic leadership role which implies the special characteristics which Faisal and then Khalid

embodied, and which gave substance to the Saudi claim as guardian of the Holy Places. King Fahd does not have the reputation and standing required; Crown Prince Abdullah may be the most likely candidate to attempt to fill the role, but even this tribal leader lacks some of the necessary qualities of King Faisal and (to a lesser degree) King Khalid. The qualities necessary are difficult to elaborate, but include some mixture of the role of conciliator, not only of Saudi tribal interests, but of Muslim concerns in general, as well as being an undoubted exemplar of the faith. An absence of such a leader leaves a void in the royal family, in the Kingdom generally, and for the Muslim world-at-large. The effort by the King is his first statement to reveal himself, as in the tradition, is in marked contrast to his highly publicized behavior of earlier years. He may come to "measure up"; it is too early to tell.

The Islamic influence on Saudi foreign policy is rarely analyzed. Many Saudi statements including those by King Fahd, are to a large part, rhetoric, but they are significant in that they indicate Saudi awareness of their international responsibilities plus an alertness to the requirement to meet the challenges of the Khomeini leadership across the Gulf, and the seeming spread of Islamic fundamentalism nearly everywhere.



Social and Political Dislocation

Accommodation between Wahhabi values and social and economic change is held by most analysts to be the ultimate goal of the Saudi regime. But can strict traditional Wahhabi values be used to support a process of rapid social and economic change? Restatements of ideological standards coupled with periodic "purges" of unacceptable behavior--alcohol and role of women--appear an insufficient response. The role of Islam in the Kingdom, while unlikely to provoke an Iranian revolution-type reaction, should be seen as a central critical factor with the potential to undermine the present Saudi leaders.

There has been little analysis of how the new King will cope with the internal challenges of balancing social and political development with a dynamic economic sector but some preliminary observations can be drawn. King Fahd, having been responsible for the day-to-day rule of the Kingdom during the rule of Khalid, is aware of these oppositions and contradictions as evidenced in his initial policy statement. Tribal differences, though muted in recent years, could surface were oil revenues to be curtailed. Foreign-educated students still return to confront a ruling structure in which, if they are non-royal, they have little part and if they are royal, they must defer to elders without sufficient opportunity for participation. Frustration is inevitable. The future role of Saudi women, rarely discussed by analysts except in terms of their severely circumscribed life

styles, will be a particularly sensitive issue in respect of the Kingdom's social and economic future.

Plans for de-fusing and containing student disaffection by limiting those traveling abroad and by increasing enrollment at Saudi universities, could prove futile. Throughout the Middle East, universities have stimulated the growth of radical ideologies. Whether there are even the beginnings of such university groups inside Saudi Arabia is shielded from Westerners. But if they do not exist, it is likely they will; they certainly occur in the foreign institutions. But here again the opportunity does not exist for most analysts to have the sustained contacts which would confirm or deny what could be a crucial issue.

Economic and Related Aspects

The problems generated by the Third Plan's economic developmental goals will have to be addressed as the momentum of high speed changes continues: these are mainly issues of the distribution of wealth, ever-escalating imports of agricultural products and luxury consumer goods, and the challenge to the next generation of leaders to forge a new kind of social cement to replace the old.

The issue of foreign workers could be of greater future significance than most analysts predict. Generally ignored by

analysts is the extraordinary role played everywhere by the foreign technician, a role which will almost assuredly remain essential for decades to come and will in itself be a source of resentment to Saudis however necessary the foreigner will remain.

An extremely conservative successor to Saudi rule determined to "clean house" could single out evident manifestations of foreign-contrived modernization and shut sites down for a protracted period. Nevertheless, this possibility is generally not considered in the category of more likely contingencies despite the experience of post-Shah Iran.

Security

We draw particular attention to the dependence of Saudi's military on expatriates. This need is unlikely to diminish for many years and places a question mark on the reliability of these forces both in terms of domestic and external security.

We have not discussed the vulnerability of key oil facilities; the impact of their being severely damaged would have on Saudi internal stability could be very considerable. The consequences abroad could be deeply disturbing which puts priority to the discovery of what spare inventory exists and the extent to which experts are capable of quick mobilization to effect repairs.

We have every reason to believe that sources of instability exist and cannot be managed or deflected in familiar ways; too much has been happening with more to come and the regime will need to come to terms with these phenomena. The prospect is that within the House of Saud changes in power balances among the key princes is altogether to be expected within the next five years as one group succeeds the present and tries to cope.

Even most optimistic observers of the Kingdom of three years ago are now increasingly hesitant to predict stability and orderly change in government. The Kingdom is facing such innumerable internal strains that, if left alone, it might be able to at least partially accommodate. But all observers accept as a basic premise that Saudi Arabia will not be able to isolate itself to deal with these problems. Intra-Arab, intra-Muslim and superpower politics will continually penetrate its borders. As tensions either internally or externally motivated increase, a shift of cliques within the House of Saud is likely within the next five years; highly likely within a decade. External factors seem to be a more likely cause for a shift since these are less susceptible to Saudi prescriptions.

We have suggested that such would not necessarily greatly change Saudi interest and policies. But if it did, we do not foresee that the range of problems within the Kingdom, or on its borders, or with the importing industrial nations, will be different because of a change within the ruling groups. After a

probably difficult period of transition, Saudi Arabia would still have to address its changes and its opportunities. Oil--for the many decades ahead--will still be its principal asset. To deal with security issues on its borders, across the Gulf and possibly again the Red Sea, Saudi Arabia will need a patron. While the "special relationship" with the United States will be modified, the inescapable fact would appear to be that for many years to come there can be no substitute for the American role.

APPENDIX I

Sources

These sources reflect a variety of backgrounds and biases. Among others with substantial experience in the Kingdom, former American ambassadors often acquire personal financial interests in Saudi prospects which may affect their frankness and objectivity. This is also true for academics. Since the existence of such interests is not always revealed, an effort to determine whether these exist should be unending.

U.S.

James Akins
 *John Duke Anthony
 Thomas Barger
 Ralph Braibanti
 John C. Campbell
 Raymond Close
 Anthony Cordesman
 *Herman Eilts
 Fred Halliday
 Parker Hart
 *Karen Elliot House
 *Michael Hudson
 *Youssef Ibrahim
 Helen Lackner
 *George Lenczowski
 *David Long
 *Joseph Malone
 David Martin
 Theodore Moran
 Robert Neumann
 Malcolm Peck
 *William Quandt
 Barry Rubin
 *Gary Samore
 Bruce Scott
 John Shaw
 *Gary Sick
 *Philip Stoddard
 Dale Tahtinen
 Bayley Winder
 Dov Zakheim

U.K.

James Bedore
 James Buchan
 Shahram Chubin
 Michael Field
 *Christine Helms
 *David Holden
 *Richard Johns
 *J.B. Kelly
 *Robert Lacey
 Peter Litwak
 Peter Mansfield
 *Tim Niblock
 James Piscatori
 Azi Piasco
 *Richard Preece (now USG)
 Jonathan Raban
 Jamal Rasheed
 John Rossant
 Louis Turner
 Vallerie Yorke

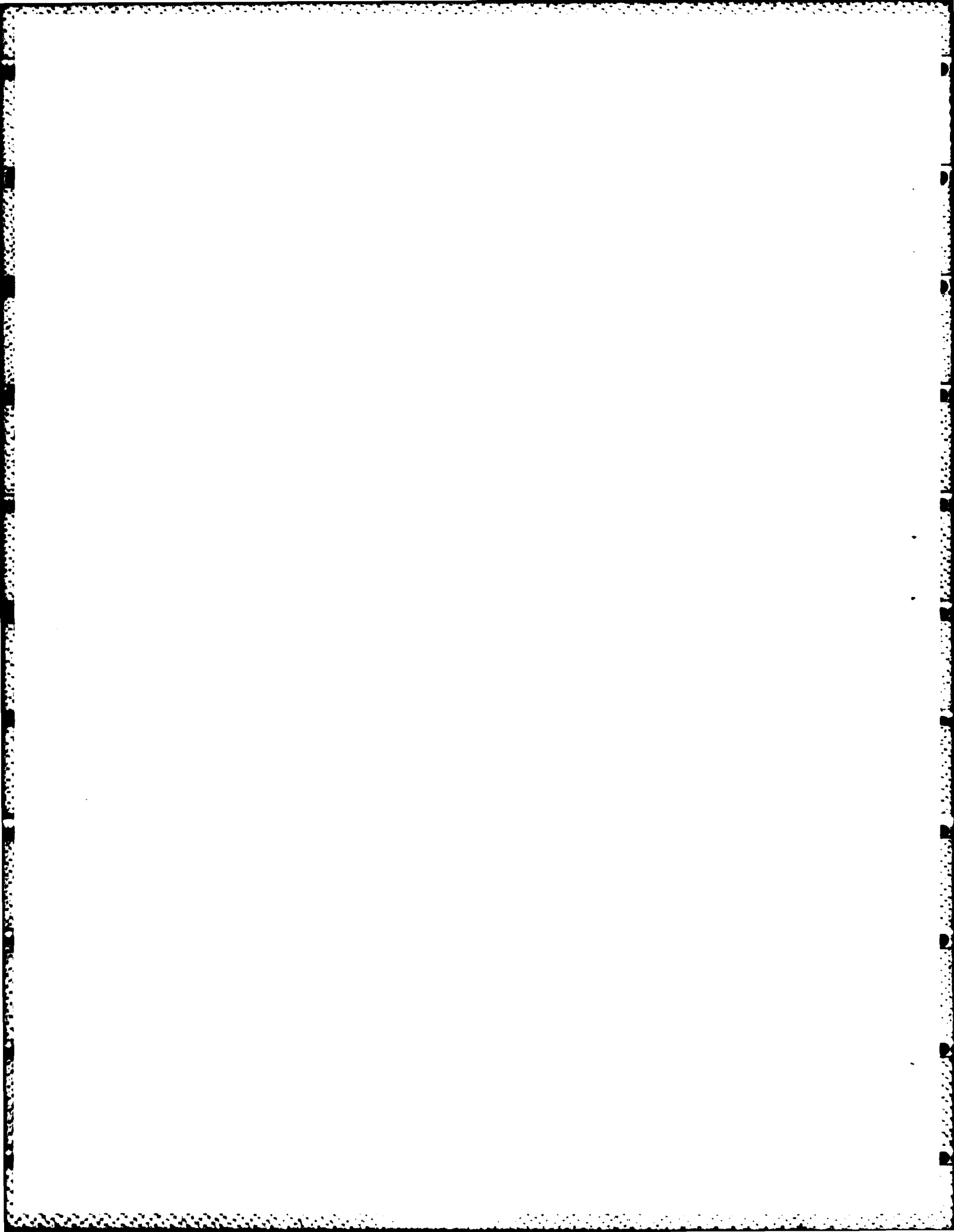
EUROPEAN

*Arnold Hottinger
 *Klaus Mehnert
 *Michel Tatu

OTHER

Fouad Ajami
 Adeed Dawisha
 Mazher Hameed
 Albert Hourani
 Emile A. Nakhleh
 Ibrahim Oweiss

* Notes primary sources used for comparison



APPENDIX II

Full Text of King Fahd's Statement

It gives me pleasure to offer every one of you congratulations upon the completion of the Ramadan fast, and I ask the Almighty to grant us many Ramadans in the years to come. On this blessed occasion it seems appropriate to me to review with you the principles upon which our domestic and foreign policies are based.

The unifier of this peninsula, King 'Abd al-'Aziz, came to establish a monotheistic state based on Islamic law so that religion and the secular world are interjoined and the entire nation follows the path of God, the path of genuine struggle and diligent endeavor.

Both before and after 'Abd al-'Aziz the banner of monotheism was carried by men who fulfilled their covenant with God, the most recent being the late King Khalid, may he rest in peace, who has gone to his Lord after faithfully discharging his duty and adding to the heritage left by his brothers, fathers and ancestors. We pray for Lord's mercy on him and for his eternal rest, and he remains an example in the hearts of his people although he is absent in body. The responsibility of governing has passed from one hand to another smoothly and without difficulties because the Islamic faith is the basis of justice, and justice is the basis of power. Government in accordance with God's revelation is a responsibility and a duty we undertake, and one our hearts approach with trembling for fear of failure and retribution.

*The proposed innovations - originally announced by King Khalid upon his accession in 1975 - comprise the enactment of the Basic Statutes of Government (the country's first constitutional document), the establishment of a Consultative Council to work with the Council of Ministers, and the introduction of regulations dealing with provincial administration. After considerable delay an eight-man committee to review and finalize legislation for this purpose was set up in March 1980 (MEES, 24 March 1980).

Source: Middle East Economic Survey, Vol. XXX, No. 42, 2 August 1982, pp.7-10.

The Kingdom of Saudi Arabia is one of the countries of the Islamic Commonwealth: it is of them and for them. It was founded to carry the banner of the call to God, and God has honored it with serving His house and the mosque of His Prophet. The scale of its responsibilities has increased accordingly, its policies have been singled out, and its duties have grown. In carrying out these duties on the international level, the Kingdom obeys God's command to call others to his path in wisdom and righteousness and follows the example of the Prophet - God's peace and blessing upon him - when he faced misfortune and great hardships, using the mind as he would force. Islam is a religion of mercy and reason and power which rejects destruction and fights demagoguery as it would fight humiliation, weakness and demoralization.

This is the starting point of our policy at home and abroad. It is therefore the responsibility of all believers - and particularly of the leaders of the Muslims and their 'Ulema - to assist us and accompany us on the path of the call to God and to apply his ordinances to the various aspects of life. We extend our hand to them with a sincerity untroubled by suspicion and an unwavering determination uncorrupted by weakness. When there is good will and firm determination and our ranks are united, the Islamic nation will become the strongest in the world, firstly through its faith, then through the vast wealth God has bestowed upon it and its important geographic position, all of this backed up by a military power with which to intimidate our enemies and protect our friends. If this goal for which we are still striving had been achieved by now, the great powers would not be hatching their conspiracies against us to fragment and divide us, the Palestinian people would not have remained for all these years without an entity to defend or a homeland to live in, Afghanistan would have remained independent and unsullied by the foot of the invader, our occupied Arab territories would have been recovered, and our people would breathe the air of freedom and be relieved of the oppression of tyrants.

If the Islamic countries unified their ranks, Israel would not be able to flaunt the aggression which has killed thousands of innocent women and children in Lebanon. But the conspiracies of the enemies of Islam against us are not confined to raids or occupation. These are the most obvious manifestations of their conspiracies, and perhaps the least damaging. What is most to be feared is that they will attack us from within with two of their most destructive weapons, the sowing of dissension among our countries and driving our citizens to extremism. We do not believe that imperialism, whether old or new, is innocent of the fires of factionalism which are flaring up between the Islamic countries and which call to destruction and play upon the emotions of our people, provoked by wrongs from both East and West, in order to turn them inwards to destroy and to wreck and to speak a language alien to Islam, the language of violence without humanity, killing without pretext, and living in ivory towers far from reality and the truth.

In our foreign and domestic policies we proceed from this perception and on this basis, and we take our successive steps according to the circumstances facing us. Our first area of coordination is with the League of Arab States, which encompasses the Arab nation and defines our interaction with it. Within it we try to cooperate with our Arab brothers to speak with one voice and mend our differences, since we believe that in unifying our ranks lies a deterrent force, while fragmentation means weakness and disgrace. We sincerely hope that the marginal differences between the Arab countries will be overcome and that it will not be long before Egypt returns to the arms of its Arab brothers, thus increasing our strength and ending our estrangement.

With our brothers in the Gulf we were successful in establishing, within the wider sphere of the Arab League, a strong and effective entity in the form of the Gulf Cooperation Council to serve as an example of the kind of cooperation between fellow Arabs which must be achieved and to serve as a buttress strengthening the Arab League and as a shield protecting the Arabs from harm and deepening the bonds between them.

You all know how, from this sacred land, the call for Islamic solidarity went out from Saudi Arabia, and how it was assailed from both East and West. They tried to stifle the idea at birth, but the determination of sincere Muslim leaders enabled us to establish the Islamic Conference Organization (ICO) and the organizations and institutions that sprang up from it or are working to achieve its ends. This is the sphere within which we carry out our Islamic activities, and it is no less powerful or important than the sphere of the Arab nation. Islam is our glory, and Muslims are our support and our strategic depth. The road before the ICO is long, and it has only covered the first stage of its journey. But if it were now what we hope it will become in future there would be no war between Iraq and Iran, nor would the blood of Muslims continue to be shed while the differences between them widen and their countries are visited by ruin and destruction.

In the name of Islam, which is our common bond, I call upon those responsible for the continuation of this war to acknowledge the law of God, to stop shedding precious blood, to submit to God's commands and to put an end to this war and to the causes behind it.

In the international sphere we work within the United Nations and its branches and organizations. We are bound by its Charter and we support its efforts and combat any acts aimed at weakening it and diminishing the power of international law with the aim of substituting for it the force of arms and the language of terrorism. Our behavior has reflected and will continue to reflect our belief that we belong to the international community as one family whatever differences of interest there may be, and it also reflects our belief in the principles of peace based on right and justice. We believe that international security and political stability are linked to economic justice and arise from it.

Our domestic policy in all areas and sectors is inspired by Islam and the call to it. Clearly the most important area concerns the methods and means of government. Government in Islam is consultative, in which the ruler listens to the views of influential people, asks their advice, and seeks their help in governing. This is our policy, as it was the policy of our forefathers. When life in our Saudi society developed, it became necessary for the consultative system to evolve with it and to draw up the basic statutes of government. The late King Khalid appointed a committee of high-ranking officials and dignitaries to define the main principles for these basic statutes and for the consultative council and then to draw them up in final form. The committee finished drawing up these principles and submitted them to the King, but his death prevented the completion of their study. This issue will be among the foremost of our concerns and our efforts will be divided towards promulgating in final form a comprehensive set of statutes defining responsibilities, rights and obligations and regulating the institutions of government and its powers in accordance with the Book of God which is our constitution. This will be accompanied or preceded by the completion of the measures required to implement the regulations for provincial administration. We will then have completed the organization of the system of government at all levels.

We thank God for our success in carrying out the development plan aimed at establishing our infrastructure. Our citizens today benefit from services comparable to those in the most advanced countries in the world. This is acknowledged by even those foreign observers who doubted our ability to acquire modern technology in the short time in which we have done so. I ask God to make us successful in completing the coming plan as we were in the previous plan. We will thus succeed in bringing about a real transformation in our economic infrastructure leading to the diversification of our productive base. Signs of this are already appearing as we see progress in establishing the basic industries, an increase in locally produced goods, a concentrated effort to explore for minerals and indications of vast mineral wealth. We all take pride in the revival of agriculture in the various parts of the Kingdom, and people are now looking forward to the day when we are self-sufficient in many agricultural products. The state

will support this effort to achieve an important national goal.

The coming five-year plan will concentrate on two areas, the development of Saudi manpower able to participate in development and deserving to benefit from its bounty, and the improvement of the environment. Our goal will always be the fair distribution of income among our citizens, so that every individual may benefit, however remote his village may be from civilization or however far his city is from the center of industrial and construction activity.

Among our aims is to continue the propagation of knowledge at the rate it has been proceeding and then to raise the level of education so that the improvement in quality matches the growth in educational facilities. We will also direct our attention towards improving the efficiency of state employees and combating red tape, and towards modifying financial and administrative regulations to achieve this end. Foremost among our concerns is the strengthening of our armed forces in order that they may be deterrent to any enemy who is tempted to violate the security and stability of our beloved country. To this end we will spare no cost.

Our oil policy will continue to be based on our interests and the interests of our future generations, and will not be deflected from its course by the temptation of temporary short-term benefits or by tendentious outside pressures. Time has proved the correctness of what we have said and the accuracy of our predictions, and if others had listened to us our collective power as Arabs and oil producers would not have been weakened. We shall give the same attention to the interests of the developing countries as to our own national interests of the world as a whole.

I have spoken to you of our hopes and goals and I have explained to you our government's plans and commitments. I want you as individuals to be aware of your responsibilities towards your religion and your country, for a country consists of the people, and the government which represents them and on whose behalf it works. It is through the exertions of its people and their efforts that a nation advances and realizes its hopes, and your responsibility before God is great and your opportunity to work is great. So observe the teachings of your faith and hold fast to your values and work, for you have been granted the opportunity to rebuild your civilization, and if it passes it will never return.

A special and heavy responsibility lies upon our youth, for they are our strong right hand today and our planners of tomorrow. They must not imitate the lost youth of the West and be carried away by corrupt pleasures and lose themselves. They must not succumb to extremism for our religion is a tolerant one which does not accept extremism.

I do not want to end my speech to you without referring to the tragedy which is taking place in Lebanon, where Israel has gone beyond all bounds of arrogance and conceit and launched a war of total annihilation, killing innocent old men, women and children in the full sight and hearing of the world's conscience. We have made and are making concentrated efforts; and are trying unceasingly and untiringly at every international level and in every political arena to curb Israel's arrogance and defiance and to make it put an end to its criminal aggression and withdraw its forces to behind the border. We hope that God will help us and crown our efforts with success.

As I speak to you now I feel the great responsibility and the heavy trust which God has called on me to carry. I pledge to God and to you that I shall devote all my efforts to working for your well-being and for the prosperity, security and stability of this great country, and that I will be a father to the young among you and a brother to the older, for I am no more than one of you who shares your pains and your joys.

APPENDIX III

SAUDI ARABIA'S MILITARY CAPABILITIES

THE DATA in this appendix were obtained from numerous sources, including conversations with U.S. Department of Defense officials. The following publications were particularly helpful: International Institute for Strategic Studies, *The Military Balance, 1980-1981* (London: IISS, 1980), p. 47; and Abdul Kasim Mansur (pseud.), "The American Threat to Saudi Arabia," *Armed Forces Journal International*, September 1980, pp. 52-53.

TOTAL DEFENSE SPENDING, 1980-81: \$21 billion

ARMY (30,000+ personnel)

Equipment

- 380 tanks (520 on order)
- 200 armored personnel carriers (200 on order)
- 250 scout cars (144 on order)
- 10 batteries Improved-Hawk surface-to-air missiles (6 on order)

Organization

- 2 armored brigades
- 2 mechanized brigades
- 2 infantry brigades
- 3 battalions of royal guards
- 3 artillery battalions
- 2 paratroop battalions
- 33 antiaircraft artillery batteries
- 10 surface-to-air missile batteries

AIR FORCE (14,000 personnel, 130 experienced pilots)

Equipment

- 105 F-5 aircraft
- 27 Lightning interceptors
- 62 F-15 Eagles on order
- 59 C-130 transports (20 other transports on order)
- Sidewinder, Maverick missiles
- AIM 9-L air-to-air missiles on order
- 5 AWACS on order

Organization

- 3 fighter-bomber squadrons
- 1 interceptor squadron (1 to be organized)
- 2 helicopter squadrons

NAVY (2,000 personnel)

- 10 surface attack (3 more on order)—with harpoon missiles
- 3 surface attack—torpedo
- 4 minesweepers
- 53 patrol craft (large and medium)
- 4 landing craft

NATIONAL GUARD (17,000 personnel)

- 20 battalions (4 modernized; 4 more to be modernized 1982-85)

MAJOR MODERNIZATION PROGRAMS

- "Peace Sun": 62 F-15 Eagle interceptors (1981-83)
- AWACS: 5 E3-A aircraft, 1985
- Armored brigades: French AMX-30 tank
- Naval expansion: possible French program of \$3.5 billion

Source: Quandt, William B., op cit., p. 174 and 175.

APPENDIX IV

Supply Scenarios for an Assessment of Saudi Arabia

Note: For reasons advanced in the main text of this report, it is more difficult to define the reasons for a particular Saudi oil decision than is assumed by energy economists generally. While considerations of the market obviously enter into policy debates they do not appear to have been dominant factors in any of the key price choices the past decade: 1974, 1975, 1976-77, 1978 and 1979.*

The co-mingling of economic, political and defense interests of the Kingdom reflect domestic and foreign concerns. We do not know the weight given these concerns in reaching decisions about supply nor which prince or technocrat advocated certain factors.

Saudi Arabia is nearly unique among the oil producers in having considerable latitude to select a supply policy out of a broad range of options. Its comparatively small population suggests the possibility of satisfying basic economic and social needs

*These are the subject of a little-noticed but significant article by Theodore H. Moran, "Modeling OPEC Behavior: Economic and Political Alternatives," International Organization, Spring 1981.

("benefits") with production far below even the current level (about 5.5 mmb/d) assuming a willingness to draw down on the Kingdom's foreign assets placed overseas. No other producer in the region has that same flexibility.

Should the Kingdom opt for the other extreme and increase production and exports, the present level could technically be doubled. This theoretically gives the Saudis flexibility and a capability to influence the market (or to secure a political or defense objective) which is unavailable to any other oil exporter. But, as discussed in the report, the Saudis oil production flexibility, both up and down, is circumscribed by other factors.

The Saudi regime has been generally moderate in its oil policies for reasons which probably have a great deal to do with what it thinks would strengthen its "special relationship" with the United States. The Saudi assessment of the economic well-being of the OECD states would possibly be the next priority; following this consideration would then come the ordinary revenue needs of its domestic and foreign commitments. The importance of these priorities will not likely diminish over the next decade or beyond.

In the text of the report, reference is made to 6 mmb/d as a level of production likely to meet key domestic and foreign goals. We express the view, moreover, that any regime, not only the present one, would, after an initial transition, need to meet most of the same needs currently being met in domestic and foreign programs. Six mmb/d would not permit the further accumulation of such huge revenue surpluses as occurred in the 'seventies; it is also a level which helps meet the objections of Saudis who have regarded production levels up to 10 or 11 mmb/d as unconscionable in light of oil being a depleting resource necessary to sustain future generations, and with the assumption that the real value of it as an asset in the ground could only increase.

A production level below 6 mmb/d would, we believe, begin to have an unacceptably severe impact on programs and incomes, on the level of defense expenditures, and on the largesse distributed to princes.

The unusual latitude which Saudi Arabia has to set its oil exports is constrained, however, by what the Kingdom anticipates the energy market will be: the rate at which alternatives to oil are being encouraged by governments, the successes of energy R&D, the

discovery rate of petroleum reserves outside of OPEC states, etc.

These parameters to Saudi decisions are in addition to how they define the market and their options, in the context of 6 mmb/d, and in terms of a general situation of tight supply or spare capacity. In a period of tight supply, or its anticipation, the Saudi tactic can be employed of making substantially more oil available if that suits their purposes; they can also further restrict supply by lowering the volume of their exports by reason of their minimum requirements. In a period of substantial spare OPEC capacity -- today it is in the order of 18 mmb/d -- Saudi Arabia's options are fewer for alternative sources are readily available; the Kingdom's influence is markedly less. If it reduces its own contribution to world supply, the shortfall is made up from elsewhere; if it increases supply it merely adds to the surplus.

The principal challenge to Saudi oil is coming, as it has in the past, from Iran. For thirty years the competition between them to supply a larger share of the world oil market has been raucous, unremitting and inconclusive. Yet how these two oil giants manage their competition is a highly important consideration. (It also reflects an historically hostile confrontation which extends back for many centuries.)

In this context, then, how might Canada be affected by events within the Kingdom which might affect dependable and adequate supply?

The basic assumptions underlying the effects on Canada are:

- a) For the longer term, no event in the region and no Canadian reaction could cause Canada to be singled out for embargo. Canada will be affected only in a situation of a general embargo or a contrived, large-scale shortfall. Neither is likely.
- b) Canada's import prospects could be affected by the actions of other nations, primarily those of the United States, Israel, or from the ramifications of the competition now resuming between Saudi Arabia and Iran. The first contingency would result in higher prices, the second would result in lower prices. Neither is likely to affect volumes for Canada after a relatively brief period of some reduction in supply. The IEA is available.

Even a sweeping change in the present Saudi or Iranian regimes could not alter the long-standing adversarial relationship between these two regional powers. Sooner or later, their differences would reappear. We believe, then, that a continuing pressure upwards on

supply will result from that competition. Only war damage or sabotage could likely lead to reduced supply.

No other development is likely to cause as much prolonged tension in oil supply as the Saudi-Iranian "competition."

The following five scenarios represent wholly reasonable contingencies. Note that in each case there is no marked increase in demand such as would provoke another quantum price leap. Except in war, price movements are more likely to be at the margin, over the next decade or longer, general energy price trends will come closer to a 3 percent real increase (annually). The very large spare producing capacity (for ordinary rates of production) found in OPEC (but not elsewhere) cannot plausibly be fully utilized at the level of early 1979 when it was in the order of 3 mmb/d, in contrast to the present 18 mmb/d, except over many years. The general OECD economic circumstances of low economic growth and somewhat lower OECD energy growth rates, though likely not so low as experienced over the past eighteen months, are common denominators for all five cases.

A. Scenario One:

A simple continuation of present circumstances of substantial OPEC spare producing capacity, an over-supply of oil at existing export levels, and a lack of firmness in

prices at the margin even as inventory drawdowns reach the level at which some replenishment begins to take place. In this context, OPEC "discipline" is unachievable owing to price discounting and the inability of Saudi Arabia and Iran to compromise on their shares of the market.

Effect on OECD? Zero.

Effect on Canada? Zero.

B. Scenario Two:

A modest OECD economic recovery sets in; oil demand rises slowly, the OPEC spare capacity diminishes and marginal real price increases return.

Effect on OECD: moderate price increases, supply adequate

Effect on Canada: moderate price increases, supply adequate

C. Scenario Three:

A Saudi determination to increase its volume of exports to 8 mmb/d at which level Iran's current level of exports could not conceivably compete without large discounts, much less so with any increase of Iranian production; price falls drastically; Saudi Arabia draws down its immense financial

reserves and Iran's revenues collapse. Iran responds by sabotage or open attack upon key Saudi oil facilities, gravely damaging them. The Saudis attack Iranian facilities (Kharg Island). International oil suffers a loss of perhaps 7 mmb/d (5.5 from Saudi Arabia and 1.5 from Iran) for a period anticipated to last 6 months. Prices rise. The IEA is on standby.

Effect on OECD? Major but potentially large OPEC effects avoided by virtue of the still very large OPEC spare producing capacity.

Effect on Canada? The subsequent price rise and competition for supply until spare capacity is brought into production would affect the Atlantic provinces.

D. Scenario Four:

A sweeping change in the Saudi regime produces new leaders, reflective of the Islamic fundamentalist movement, determined to reduce the scale, scope, and pace of development and to be without the foreign (western) presence in the new state and hence reduce oil production for export to minimal levels. (Iran increases its exports.) The Saudi adversarial relationship with Iran is reduced, for the short-term.

Effect on OECD? About 3 mmb/d net loss (all from Saudi Arabia); acceptable with spare producing capacity outside the Gulf.

Effect on Canada? After an initial jump, a return to moderate real price increases of 3 percent annually.

E. Scenario Five:

Israel formally annexes the West Bank; Arab riots and Palestinian exodus follow. Syria and Jordan warned not to move. The United States "insists" Israel desist. Saudi Arabia and Egypt warn both the United States of its inaction and Israel of the consequences if it does not relent. Israel perseveres and in an attack annihilates Jordanian air force. Saudi Arabia embargoes oil to all supporters of Israel. Gulf producers, Algeria, Libya join. The IEA is not activated as European members and Japan believe U.S. inaction mainly responsible for oil cut; fearful of oil nations' retribution. The European Community's (EC) emergency program goes into effect. Oil producers then embargo the EC to pressure the United States. Other OPEC suppliers maximize supply.

Effect on OECD? Severe for 30-45 days, then spare capacity comes on stream.

Effect on Canada? Severe on Atlantic provinces for 30-45 days.

The following observations should be noted:

- (1) If Scenario Two gets under way, and Scenarios Three, Four, or Five erupt, the consequences on OECD and on Canada would be more severe.
- (2) Canada is not a large enough importer to shape supply policies of producers; Canada will be, in effect, one of a number of "innocent bystanders."
- (3) The consequences upon Canada of Saudi events will more likely be the result of requests to participate in further peace-keeping operations or to increase forces committed to NATO as other member-states contribute forces to the Gulf.
- (4) In terms of likelihood, we believe Scenarios One and Two are highly probable. These are what could be termed commercial circumstances and will prevail for many years.

Scenario Three is probably not an immediate concern but something similar to it represents a likely contingency over the next decade.

Scenario Four is a likely circumstance five to ten years ahead.

Scenario Five represents, without qualification, what could be described as a "clear and present danger."

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Security Classification

DOCUMENT CONTROL DATA - R & D		
(Security classification of title, body of abstract and indexing annotation must be entered when the overall document is classified)		
1. ORIGINATING ACTIVITY Department of National Defence Operational Research and Analysis Establishment		2a. DOCUMENT SECURITY CLASSIFICATION UNCLASSIFIED
		2b. GROUP
3. DOCUMENT TITLE Assessing Saudi Arabia A Review of Leading American and European Analysts (1982-1995)		
4. DESCRIPTIVE NOTES (Type of report and inclusive dates)		
5. AUTHOR(S) (Last name, first name, middle initial) Conant (Melvin A.) and Associates, Ltd		
6. DOCUMENT DATE March 1983	7a. TOTAL NO. OF PAGES 143	7b. NO. OF REFS --
8a. PROJECT OR GRANT NO. 96132	9a. ORIGINATOR'S DOCUMENT NUMBER(S) Extra-Mural Paper No. 22	
8b. CONTRACT NO. 2ST82-00077	9b. OTHER DOCUMENT NO.(S) (Any other numbers that may be assigned this document)	
10. DISTRIBUTION STATEMENT Unlimited distribution		
11. SUPPLEMENTARY NOTES	12. SPONSORING ACTIVITY ORAE	
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KEY WORDS

Saudi Arabia
Oil policy
Role of Islam
Foreign relations
Political stability
Economic development

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