



مجلس الأعمال السعودي الأمريكي  
U.S.-Saudi Arabian Business Council

# Saudi Macroeconomic Overview and Opportunities in the Saudi Defense Sector

Tuesday February 26, 2019

# Housekeeping: How to Participate in Today's Webinar



- Please mute your phones!



- Questions will be taken by the Chat feature, please send in questions often



- Council Members will receive the recorded presentation and slides by email



- For our non-members the presentation and slides will be available for purchase to download at our online store on our website at [www.us-sabc.org](http://www.us-sabc.org) in a few days

# About the U.S.-Saudi Arabian Business Council ("the Council")



مجلس الأعمال السعودي الأمريكي  
U.S.-Saudi Arabian Business Council



- Membership-based organization that has informed, counseled and connected thousands of U.S. and Saudi companies over our 25-year history to increase cross-border trade and investment.
- Over **250** member companies in Saudi Arabia and U.S.
- Our members are part of our **extensive network** of business entities with access to market intelligence, member-to-member connections, logistical support and more.

# USSABC's Programs and Services



## Programs

Business Development Missions

Sector-Focused Conferences

Business Opportunities Forums

## Publications

A Business Guide to Saudi Arabia

Networking Events

Industry Sector Reports

## Business Advisory Services

Market Entry Strategy

Partner Identification and Introduction

In Country Appointments

# Webinar Speakers

Moderator

**Lisa Leander**

Capture Manager

U.S. Saudi Arabian Business  
Council

Panelist 1

**Albara'a Alwazir**

Economist

U.S. Saudi Arabian Business  
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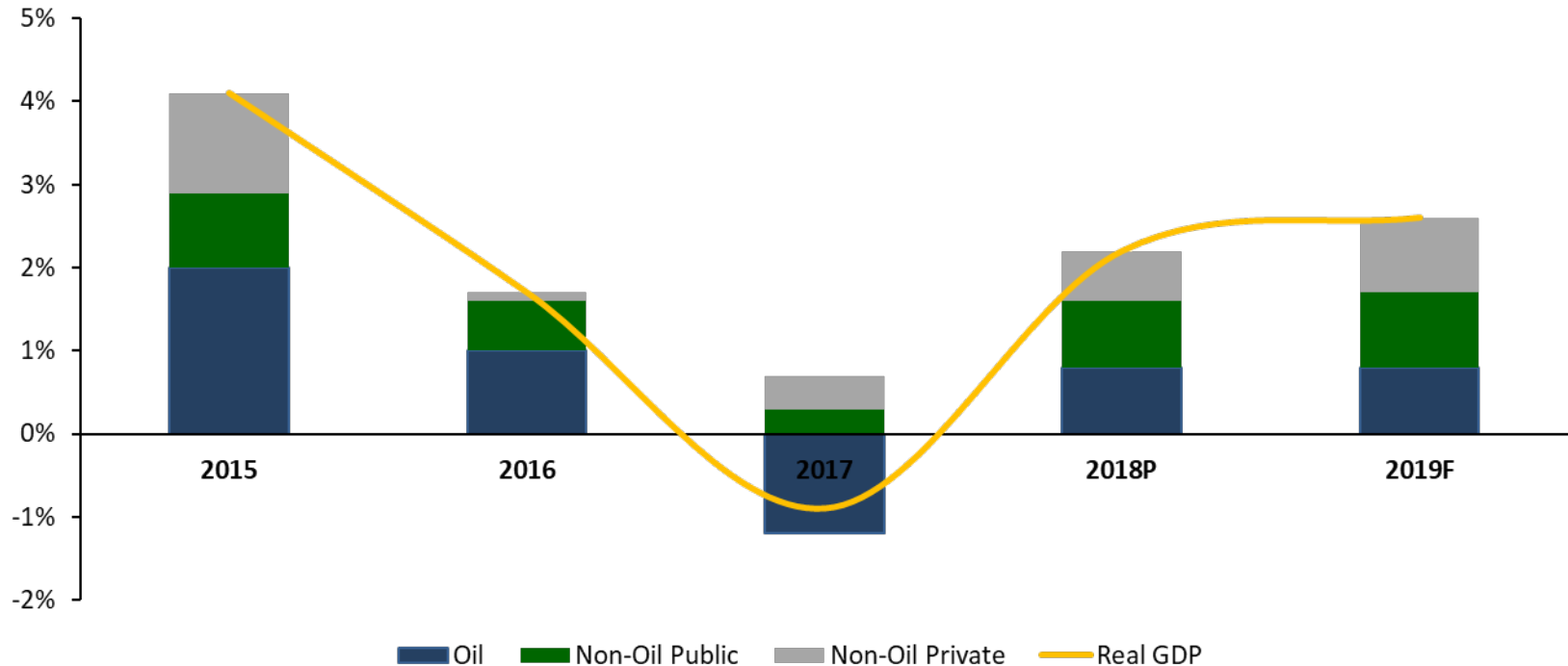
Panelist 2

**Alex Barrasso**

Counselor for Political &  
Military Affairs

Embassy of the United States  
-Riyadh

# Saudi Arabia's Growth Rates



Sources: SAMA, MOF, IMF, USSABC Estimates

- Stagnating global oil prices led to lower economic growth in 2016 & 2017
- Real GDP rebounded in 2018 and is expected to maintain steady growth over the medium-term
- The non-oil private sector will remain supportive given Vision 2030's emphasis on growing this particular area

# Saudi Arabia's Budget Performance

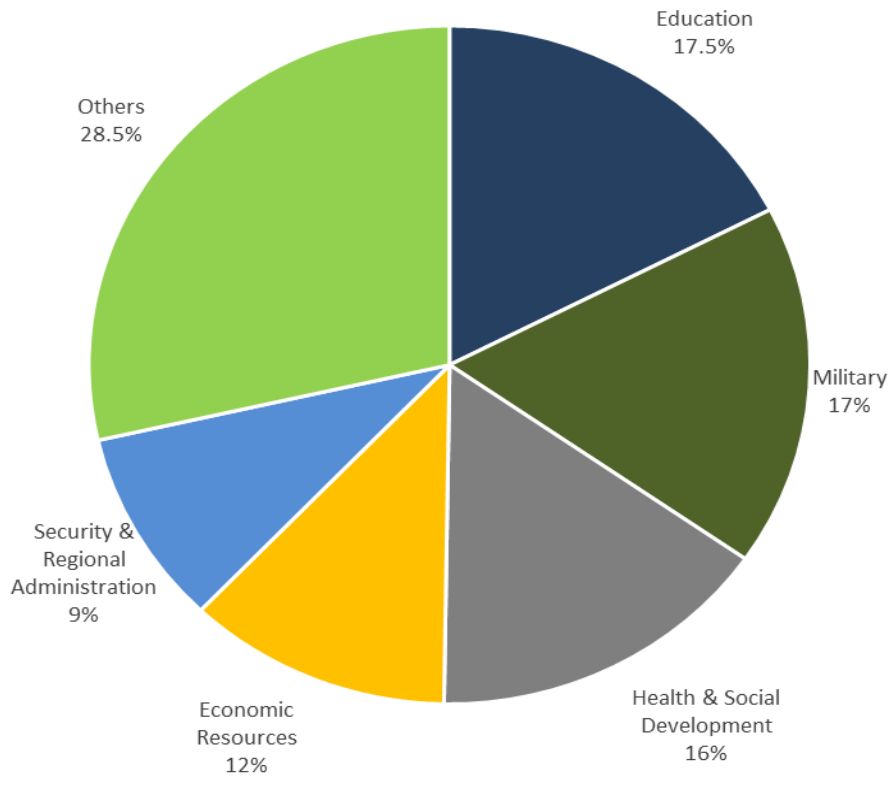
## Official Budget vs. Actual Spending

(in SAR billions, unless otherwise stated)

	2017	2018	2019
	Actual	Actual	Budgeted
Revenue	692	895	975
Oil	604	729	791
Non-Oil	87	166	183
Expenditure	930	1,030	1,106
Current	722	825	860
Capital	208	205	246
Balance	-238	-136	-131
Ratio of GDP	-9.3%	-4.6%	-4.2%

# Breakdown of Saudi Arabia's 2019 Expenditures

## 2019 Allocation of Budgeted Expenditures



### Education

- Expenditures of SAR192 billion
- Construction 719 new schools in 2018
- Establishing 1,724 educational facilities
- Renovation of 259 schools

### Military

- Expenditures of SAR190 billion
- Building advanced systems & capabilities
- Infrastructure projects for military facilities

### Health & Social Development

- Expenditures of SAR172 billion
- 35 new hospitals with capacity of 8,850 beds
- Building of 7 sports cities & stadiums

### Economic Resources

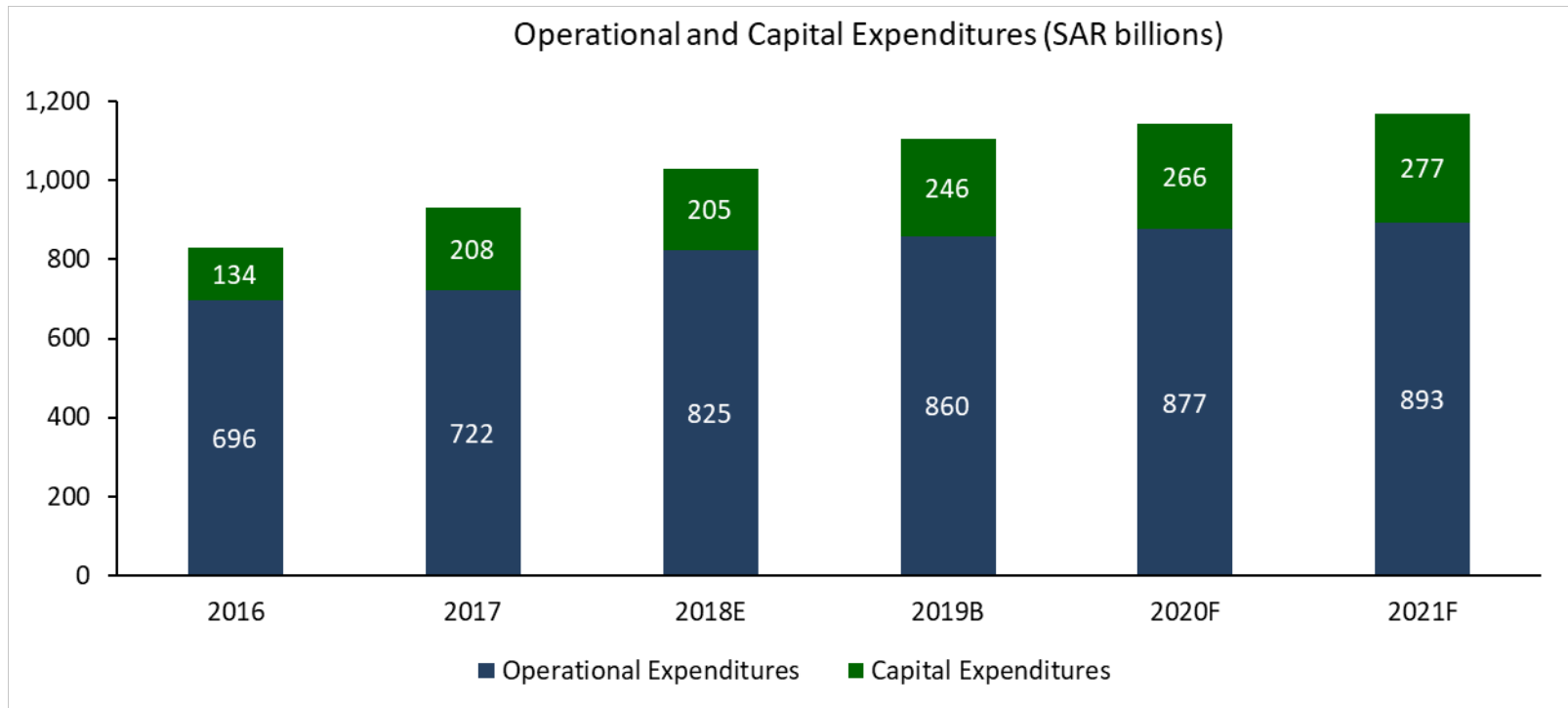
- Expenditures of SAR131 billion
- SAR71 billion allocated for mega projects
- Enhancing urban development projects

### Security & Regional Administration

- Expenditures of SAR103 billion
- Funding security requirements incorporating facilities, supplies, equipment, weapons, and ammunitions

Sources: MOF, USSABC Estimates

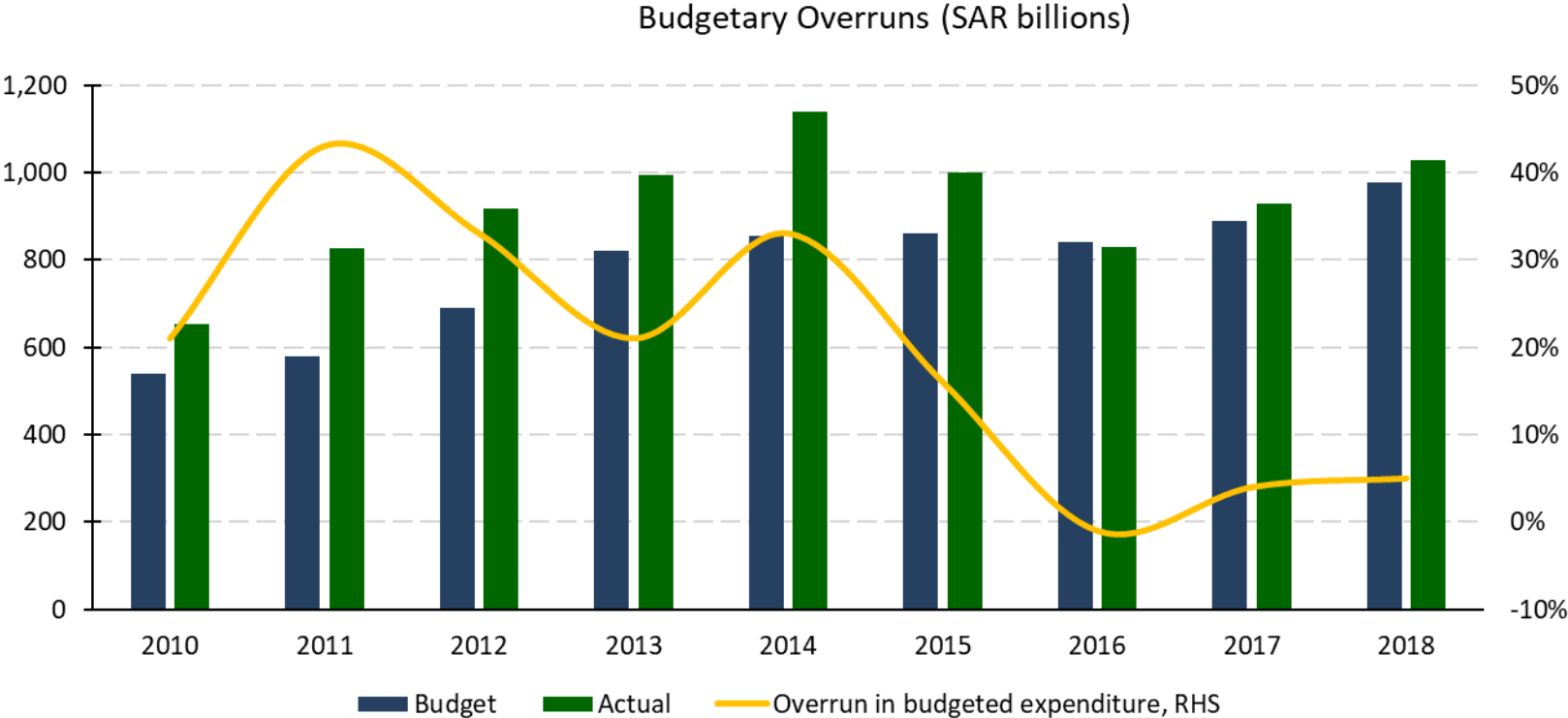
# Shift In Saudi Arabia's Expenditures



The share of capital expenditures to total expenditures has steadily risen from 16% in 2016 to a budgeted 22% in 2019

Efforts are being made to reduce operational expenditures which is dominated by public wage bills

# Saudi Arabia's Balancing Budget



**Adherence to the budget coupled with lower oil prices have helped the Kingdom towards its goal of balancing its budget by 2023**

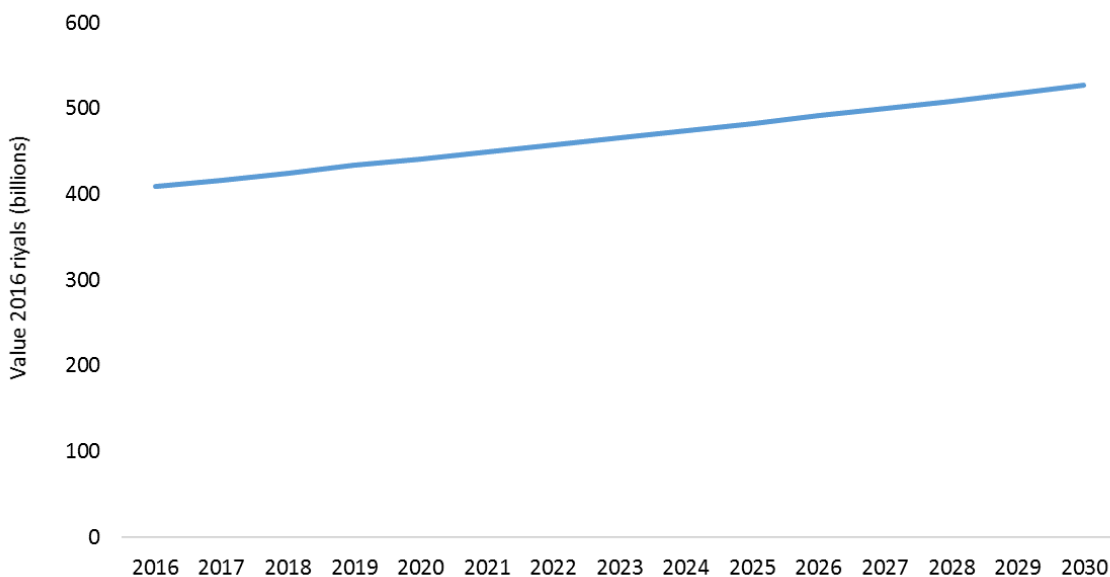
# Defense in Saudi Arabia

- **Saudi Arabia is the world's third largest military spender behind the U.S. and China and the largest importer of arms.**
- **Ministry of Defense and Aviation (MoDA) Structure:**
  - Saudi Arabian Army, Royal Saudi Air Force, Royal Saudi Navy, Royal Saudi Air Defense, Royal Saudi Strategic Missile Force.
  - The Saudi Arabian National Guard (SANG) is an independent entity reporting directly through the Minister of the National Guard.
- **In 2017, Saudi Arabia spent \$69 billion on defense, not including military operations.**
- **The 2019 budget allocated \$78 billion to military and security services.**
- **Security has emerged as a theme – homeland security in securing northern and southern borders, counter-terrorism, cybersecurity.**



# Increasing Sector Demand

**Saudi Arabian defense sector demand, national forecast, 2016-2030**



Source: USSABC, REMI

- There is a strong outlook for the security and defense sector as Saudi Arabia continues investment, signs contracts with international firms, and increases JVs for the design, assembly, manufacturing and maintenance of military equipment.
- The Saudi defense sector has a 1.8 percent forecasted compound annual growth rate (CAGR).
- Local employment in this sector related to government expenditure is expected to grow steadily at a 1.3 percent CAGR.
- Continued growth of the sector reflects the region's geopolitical situation.

# Defense Priorities and Initiatives Under Vision 2030

- **Localization:** Vision 2030 calls for localizing 50 percent of procurement for Saudi Arabia’s military requirements. This target is in line with KSA goals for self-sufficiency and growth by directing spending toward in-country suppliers. At the creation of Vision 2030, only around 2 percent of all military purchase are produced in Kingdom.
- **Creation of Saudi Arabian Military Industries (SAMI) in May 2017:** Vision 2030 called for a government-owned holding company for military industries. SAMI seeks to be one of the world’s top 25 defense companies by 2030.
- **Defense industrialization:** Saudi Arabia has begun to develop less complex industries like spare parts, armored vehicles, and basic ammunition.
- **Applying offsets and contract mechanisms:** Saudi Arabia aims to promote “direct” offset projects where the selling country will join in co-production, licensing, and supply arrangements for the purchased products.



# Localizing Defense

- Looking forward, contracts with foreign suppliers, strategic partnerships, and funding of research facilities will be key focuses for development of the defense sector.
- In the short term, localization will require setting up JVs between international defense equipment manufacturers and Saudi firms, especially for assembly and repair.
- Saudi Arabia can achieve localization in the long-run by requiring that Saudi companies manufacture domestically, including the design and production of hardware.
- Goal to develop the domestic aeronautics sector, including civil aviation.
- There will be a need for human capital and continued training to maintain expertise to effectively operate military systems and technology in Kingdom.



# Key Players in the Saudi Defense Sector

## Leading Saudi companies and institutions in defense:

- **Military Industries Corporation (MIC):**  
Currently largest defense company in Saudi Arabia. Supports national security through the creation of a sophisticated military industry – purchase of arms, ammunition, military equipment.
- **TAQNIA**
- **Advanced Electronic Company (AEC)**
- **Alsalam Aircraft**
- **Middle East Propulsion Company (MEPC)**
- **International Systems Engineering (ISE)**
- **Saudi Arabian Military Industries (SAMI)**



# Selling to the Market and Restrictions

- U.S. companies may work alongside U.S. and Saudi Government to find partnerships that are permissible with regulations and commercially viable.
- CEDA maintains a 'negative list' of sectors in which foreign investors have limitations. The list prevents defense contractors from participating in certain activities in the military sector (manufacturing of military equipment, devices, uniforms). Within the service sector, it has included a restriction on catering to military sectors.
- The local client, normally the Saudi government, oversees the importation of products and customs clearance as part of the sale and purchase of armaments and other military equipment.
- Non-Saudi companies that are registered in GCC countries may obtain SAGIA licenses to undertake the activities in sectors with restrictions on a case-by-case basis.
- Before applying for a SAGIA license, it may be beneficial for defense contractors to arrange meetings with the Ministry of Defense or with branches of the Saudi Arabian Armed Forces to gain support in the process.



الهيئة العامة للاستثمار  
SAUDI ARABIAN GENERAL INVESTMENT AUTHORITY  
SAGIA



# U.S. Support to Develop Saudi Arabia's Local Defense Industry

- **Boeing** announced in Aug. 2015 that it would open an in-country helicopter MRO facility, joint venture with Alsalam Aircraft Co. and Saudia Aerospace Engineering Industries.
- **Lockheed Martin** opened an in-country sensor maintenance facility in Jan. 2016 with Advanced Electronics Company. Subsidiary Sikorsky MOU with TAQNIA in 2016 for in-country production of S-70 Black Hawk helicopters.
- **Raytheon** signed agreement with SAMI in 2017 during state visit of President Trump, also announced formation of Raytheon Arabia subsidiary to develop defense, aerospace and security capabilities in Kingdom.



# Emerging Opportunities Summary

- **Strategic partnerships between research institutions and companies aligned with Vision 2030, including JV's intended to localize military spending**
- **Security needs for the oil & gas industries, including offshore facilities (Saudi Aramco bids to increase security – July 2017)**
- **Investment in military hardware**
- **IT protection – cyber security needs:**
  - **Cyber Security**– KSA's cybersecurity market will grow to over **\$3.5 billion** by 2019 with an annual growth rate of **14.5%**
  - **Active foreign companies** – Includes Microsoft, IBM, Lockheed Martin, BAE Systems, Raytheon, Selex ES, Symantec
- **Development of local industrial and manufacturing capabilities**
  - Meeting industrialization goals as part of Vision 2030 will require building local expertise through training and building a supporting infrastructure, such as IT



# U.S.-Saudi Defense Deals

- The United States remains a major defense supplier to Saudi Arabia, with **\$97 billion** in active and open Foreign Military sales cases.
- Recent defense agreements between the U.S. and Saudi Arabia
  - **Boeing** reported **\$50 billion** worth of deals, expected to support Saudi Arabia's goals of localizing spending.
  - Saudi Arabia expression of interest in acquiring over **\$28 billion** in weapons from **Lockheed Martin**.
  - **JV** between **TAQNIA Aeronautics** and **Lockheed Martin** for final assembly and completion of 150 S-70 Black Hawk utility helicopters for the Saudi government.
  - **General Dynamics** letter of intent to localize the engineering design and manufacturing of armored combat vehicles.
  - Nearly **\$18 billion** of spending discussed to upgrade Saudi Arabia's military command and control.
  - A **\$15 billion** deal for 44 THAAD launchers, missiles and related equipment from **Lockheed Martin**.
  - A **\$6 billion** deal for Saudi Arabia to purchase Littoral Combat Ships.
  - The U.S. State Department approved the potential sale of over **\$1.4 billion** of military training equipment to Saudi Arabia. This included **Lockheed Martin** radar systems (**\$662 million**) and a training program for the **Royal Saudi Air Force (\$750 million)**.

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-Riyadh

# Impact of Vision 2030 on the Defense Industry

Opportunities and Challenges

February 26, 2019

Alexander Barrasso, Counselor for Political-Military Affairs, U.S. Embassy Riyadh

# What is Vision 2030 and why is it important?

Vision 2030 is a sweeping program of socioeconomic and cultural reforms launched in early 2016 by Crown Prince Mohammed bin Salman (MbS). It touches all aspects of life in the Kingdom and encompasses three pillars:

- A vibrant society
- A thriving economy
- An ambitious nation



# A Thriving Economy

## 2030 Goals:

- Increase women's participation in the workforce from 22% to 30%
- Increase the localization of oil and gas sectors from 40% to 75%
- **Localize over 50% of military equipment spending by 2030**
- Rise from current position of 25 to the top 10 countries on the Global Competitiveness Index
- Increase foreign direct investment from 3.8% to the international level of 5.7% of GDP
- Increase the private sector's contribution from 40% to 65% of GDP
- Raise the share of non-oil exports in non-oil GDP from 16% to 50%

For more details: <https://vision2030.gov.sa/en>

# Structural Changes to Achieve Vision 2030 Defense Goals

- In order to posture Saudi Arabia to achieve the defense industry goal in the context of Vision 2030, the Saudi government created **GAMI** and **SAMI**.
- Think of **GAMI** (General Authority of Military Industries) as the government regulator establishing policies, practices and procedures.
- On the other hand, **SAMI** (Saudi Arabian Military Industries) is the business arm, partnering with foreign companies to achieve the localization targets.

# About SAMI



- **Vision:** To be among the top 25 military industry companies in the world by 2030, combining the latest technologies and the best national talent to develop military products and services at par with international standards, and achieve the Kingdom's self-sufficiency in military industries.
- **Mission:** To develop cutting-edge technologies, manufacture world-class products, and provide high-quality services to scale up the military industries sector and secure necessary supplies for our clients.
- **Business Divisions:** Aeronautics, Land Systems, Defense Electronics, Weapons & Missiles.

# SAMI Goals by 2030

- \$1.2B expected value of exports
- \$1.6B will be spent on R&D
- 40,000 direct jobs created
- \$3.7B total direct contributions to KSA's GDP

# How Does SAMI Achieve These Goals?

- Seeks international partners, primarily by forming joint ventures with them that are majority SAMI-owned.
  - Requests the following from its partners:
    1. Commitment to transfer technology and intellectual property
    2. Commitment to at least 50% co-production in the Kingdom by 2030
- Promises its partners consistent business in the fields covered by the joint venture.
- Estimates are that SAMI needs to increase local content by anywhere from 35-45% in order to meet its 50% localization target.

# SAMI Partnerships

- Boeing
- Thales
- CMI Defence
- Navantia S.A.
- Naval Group
- LIG Nex1
- Lockheed Martin
- Elettronica
- Northrop Grumman
- MBDA
- BAE Systems
- UK Defence Solutions Centre
- KACST
- Paramount
- Hensoldt
- Airbus
- L3 Technologies
- Leonardo
- Rheinmetall
- Raytheon
- MBDA
- PSATRI

# Significance for US Companies

- Procurement decisions are now made by multiple actors, not just the uniformed services.
- Firms wishing to be long-term players in the Saudi market should strongly consider building close relationships with SAMI and understanding what steps SAMI is taking to achieve its goals.
- As you market your products, be prepared to engage with both the uniformed services and SAMI. Both have roles in the procurement process.
- As with all commercial arrangements, intellectual property rights and potential transfer must be taken into consideration.

# Role of Commercial Service

- Trade Craft
  - Develop Trade Events in country
  - Conduct International Partners Search and review
  - Lead International Buyer programs to trade shows
  - Market research
  - Country Commercial Guide
- Advocacy
  - On public tender
- Commercial Diplomacy
  - Tariff and non-tariff Trade barriers
- Invest in the USA
  - Assist foreign companies locate in USA



# U.S. & Foreign Commercial Service Contacts

U.S. Embassy Riyadh

<https://2016.export.gov/saudi-arabia/>

Nasir Abassi, Senior Commercial Officer

[Nasir.Abassi@trade.gov](mailto:Nasir.Abassi@trade.gov)

Brenda VanHorn Deputy Senior Commercial Officer

[Brenda.VanHorn@trade.gov](mailto:Brenda.VanHorn@trade.gov)

Olga Ford

[Olga.Ford@trade.gov](mailto:Olga.Ford@trade.gov)

Find more export information on:

[www.export.gov](http://www.export.gov)



# Q&A



Please send in your questions to the Panelists  
via the Chat Function.

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# Thank You!

## Upcoming Events

Webinar: Establishing Your Foreign Entity, Wednesday March 20 (10:00am EST)  
Webinar: Employment Visas, April 2019 (Member's Only)  
Spring Networking Events in Washington, DC and Houston (Member's Only)

### U.S. Office

8081 Wolftrap Road  
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### Saudi Office

Urouba Street  
Riyadh 12334  
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