



Director of  
Central  
Intelligence

~~Secret~~

25X1

**MASTER FILE COPY**

**DO NOT GIVE OUT  
OR MARK ON**

## **Saudi Arabia: Coping With New Realities**

**National Intelligence Estimate**

~~Secret~~

*NIE 36.6-86  
June 1986*

*Copy 555*

**THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.**

**THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS.**

*The following intelligence organizations participated in the preparation of the Estimate:*

The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organizations of the Departments of State and the Treasury.

*Also Participating:*

The Assistant Chief of Staff for Intelligence, Department of the Army

The Director of Naval Intelligence, Department of the Navy

The Assistant Chief of Staff, Intelligence, Department of the Air Force

The Director of Intelligence, Headquarters, Marine Corps

25X1

~~SECRET~~

25X1

**NIE 36.6-86**

**SAUDI ARABIA: COPING  
WITH NEW REALITIES**

Information available as of 25 June 1986 was used in the preparation of this Estimate, which was approved by the National Foreign Intelligence Board on that date.

~~SECRET~~

SECRET



25X1

### CONTENTS

	<i>Page</i>
SCOPE NOTE .....	1
KEY JUDGMENTS .....	3
DISCUSSION .....	7
Coping With Economic Decline.....	7
The New Oil Strategy .....	7
Domestic Economic Pressures .....	8
Regime Strengths .....	9
Long-Term Domestic Stresses.....	10
The Royal Image .....	10
Religious Extremists.....	10
Role of the Shia.....	10
Expatriates.....	11
The Young.....	11
Foreign Policy Retrenchment.....	11
Declining Checkbook Diplomacy.....	11
Accommodating the Radicals .....	11
Ties to Washington.....	12
The Security Relationship.....	14
The Arab-Israeli Issue.....	14
Weakening Commercial Links.....	14
Riyadh's Lower Profile.....	15
Limited Opportunities for Moscow.....	15
Abdallah as King.....	15
Alternative Scenarios .....	16
An Iranian Victory Over Iraq.....	16
Another Arab-Israeli War .....	16
A Major Change in Regime .....	17

SECRET

25X1

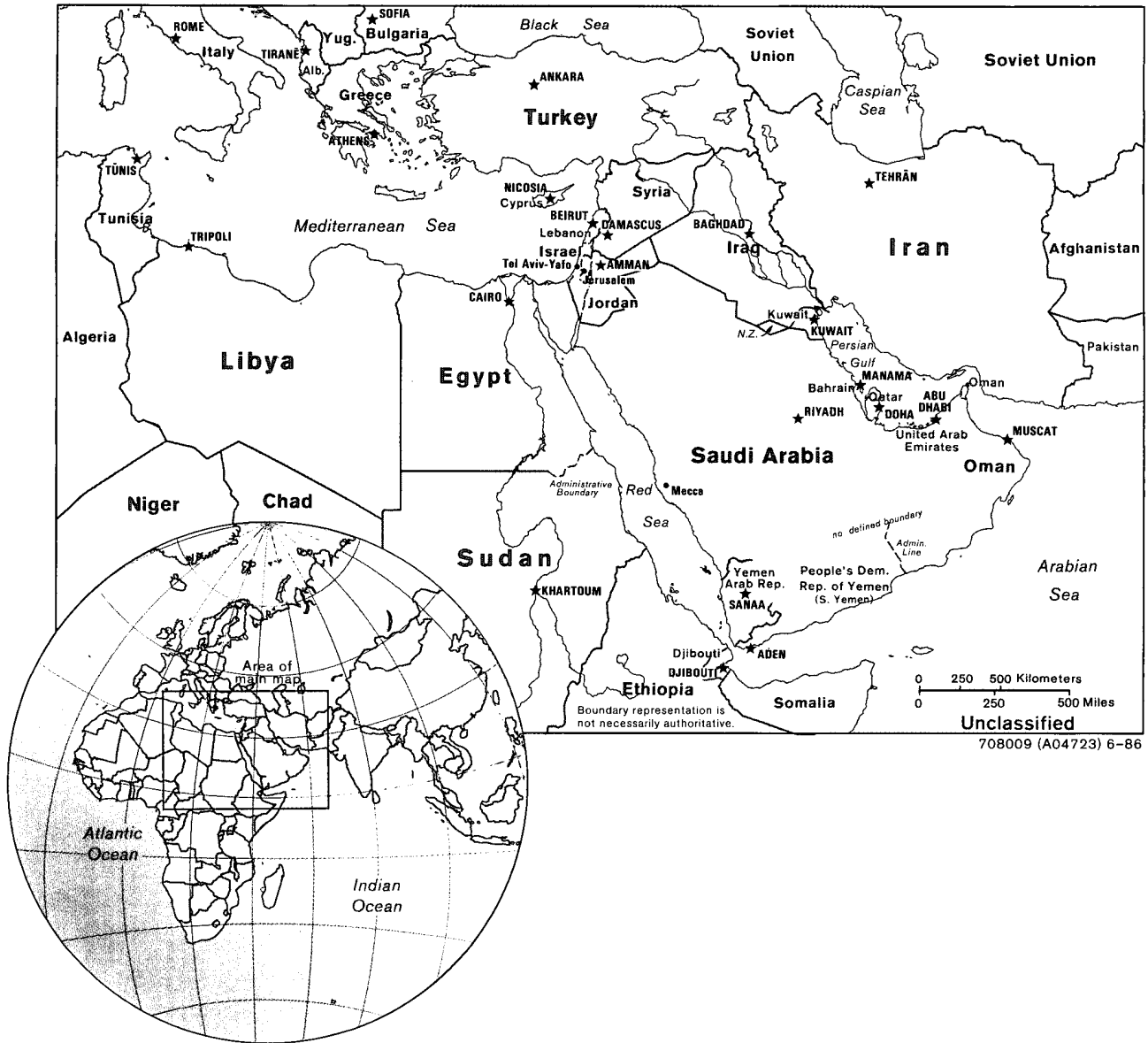
### SCOPE NOTE

After decades of close ties to the United States, Riyadh, for various reasons, is growing more critical of that relationship. At the same time, the declining oil market is eroding Riyadh's economic prosperity and financial power, key elements of Saudi domestic stability, and foreign policy leverage. This Estimate—the first on Saudi Arabia since 1979—examines the effects of these two major developments on Saudi Arabia and assesses their impact on US interests over the next two years. It evaluates how the government is likely to manage the economic downturn in the Kingdom, the uncertain oil market, and the increased tensions in the Middle East. The Estimate not only presents the most likely course of events over the next two years or so, but also explores possible alternative scenarios.

25X1

SECRET

25X1



SECRET

25X1

## KEY JUDGMENTS

Pressures on Saudi Arabia are eroding its strategic security, diminishing its diplomatic leverage, and increasing its domestic problems. The Royal Family will, nonetheless, be able to maintain its hold on power over the next two years. *The most significant trend that we detect is that Saudi relations with the United States will probably weaken*—unless the Kingdom should face an urgent need for US military support against, for example, an Iranian military attack.

25X1

The Saudis will face a number of difficult *domestic problems* that will test their political skills:

- Coping with the economic decline will be Riyadh's most pressing problem. Oil revenues have dropped from \$110 billion in 1981 to \$24 billion last year, and there is little prospect for a dramatic turnaround over the period of this Estimate. Economic concerns will permeate Saudi domestic and foreign policy decisions as Riyadh tries to satisfy key domestic groups and maintain an effective checkbook diplomacy.
- King Fahd's political style is increasingly remote. The Royal Family, particularly Fahd, suffers from an image of excessive profligacy—an image magnified by the economic hard times. It is unlikely that he will substantially change on this score, or will markedly improve his autocratic decisionmaking style. Senior Royal Family members will act to diminish Fahd's authority and force a more consensual style if his policies are seen to be failing. Fahd's identification with close US-Saudi ties will constitute a source of vulnerability for Fahd.
- Religious extremists, both Sunni and Shia, will pose the most serious domestic security threat, particularly during the annual pilgrimage to Mecca and the Shia holy month of Muharram. (The hajj begins in early August this year and Muharram in early September.) The large expatriate community will be a security concern, but expatriates are unlikely to engage in major antiregime activity.

25X1

At the same time *external pressures* on the Kingdom are growing:

- Saudi oil policy has placed it on a course of increasing confrontation with Iran and Libya, which may intensify pres-

SECRET

25X1

sure on Saudi Arabia to protect their vital oil revenues. Iran's reaction to the growing threat it faces from Saudi oil policy has increased the risk of an Iranian-Saudi clash and the chance of a wider war in the Gulf.

- The moribund peace process leaves little hope for resolution of the Arab-Israeli problem and complicates Saudi defense and foreign policy planning.
- Despite diminished oil revenues, Saudi Arabia will still fund radical elements such as Syria, the PLO, and Iraq.
- Increased Iranian success in the Gulf war threatens the Kingdom in the form of encouraging religious extremism, terrorism, subversion, disturbances among the Eastern Province Shia, and disruptions of the annual pilgrimage to Mecca.
- A widely perceived US preoccupation with counterterrorism at the expense of the peace process increases criticism of US-Saudi ties. [REDACTED]

25X1

*We judge that none of these problems will lead to political upheaval over the next few years.* Despite its difficulties, the Kingdom will be able to draw on significant assets to protect its interests. It will still have great wealth and the ability to manage economic problems, a population largely loyal to the Royal Family, an increasingly effective security apparatus, and a leadership that has steered the Kingdom through major, rapid changes with few destabilizing dislocations. The uncharacteristically aggressive oil policy adopted in mid-1985 to increase revenues, recapture a larger share of the market, and enforce OPEC discipline will remain strongly popular at home, despite the expense of antagonizing a militant coalition of oil producers—Iran, Libya, and Algeria and perhaps Iraq over the longer term. [REDACTED]

25X1

The Saudis are likely to contain the economic disruption of the decline in oil revenues, while trying to lay the groundwork for future economic improvements. The government is encouraging economic diversification away from reliance on crude oil revenues, taking steps to develop domestic financial markets and is accelerating the privatization of government-owned enterprises. [REDACTED]

25X1

*The present erosion in US-Saudi relations will probably quicken,* even though the two countries will retain many ties and overlapping interests. A chief force behind continuing closeness is the Saudis' belief that only the United States would be likely to respond quickly and effectively to a direct military attack on Saudi Arabia. [REDACTED]

25X1



SECRET

25X1

We foresee the following trends in US-Saudi relations:

- The core of what in the 1970s was considered a special relationship—the US interest in Saudi oil and Saudi access to US security assistance—will continue to erode. Prospects are dim over the period of this Estimate for a much tighter oil market or a turnaround in US security assistance to Riyadh, both of which would be necessary for revitalization of the historical security-for-oil relationship.
- The Saudis perceive the United States as increasingly unable and unlikely to meet the Kingdom's weaponry needs. Western Europe will be the winner from the decline of US-Saudi relations in the security field. West Europeans will assume from the United States a more prominent position in providing the most advanced and lucrative weaponry to the Saudis.
- US-Saudi commercial ties will continue to weaken as a result of the economic downturn in the Kingdom.
- US assistance will continue to be an important element in Saudi defense planning, but Riyadh still will agree to military cooperation only if it meets narrowly defined Saudi interests. US requests for enhanced military access are likely to be rebuffed.
- A "Saudi first" economic policy will shrink the sphere of Saudi economic interests, making Riyadh even less responsive to US requests for Saudi aid to third countries and organizations. Moreover, because of political pressures in the region, Riyadh will more than ever want to dispel the perception that it is the paymaster for US foreign policy objectives. [REDACTED]

25X1

These looser US-Saudi ties will only marginally improve prospects for Soviet influence in the Kingdom. Saudi-Soviet economic and cultural ties are likely to expand somewhat over the next two years, but renewed diplomatic ties to Moscow are unlikely. [REDACTED]

25X1

Although we anticipate no major changes in Saudi Arabia over the next two years, there are certain alternative scenarios to the above that, though less likely, would pose significant risks to US interests should they occur:

- An Iranian victory—or even significant successes—over Iraq would greatly increase domestic uncertainty and military pressure on Saudi Arabia and risk greater US involvement in the Persian Gulf region.
- Another Arab-Israeli armed conflict would further strain the Saudi-US relationship, with the Saudis seeking to distance

SECRET



25X1

themselves from Washington and the security relationship undermined by strong US support for Israel.

- A major change in regime, although highly unlikely, would have major negative consequences. A Saudi Arabia moving sharply either to the radical right or left would be likely to engage in destabilizing action in the region, adopt radical Islamic causes, and use oil policy as a political weapon, all of which would have profoundly negative consequences for the interests of the United States and moderate regional states.



25X1

SECRET

25X1

## DISCUSSION

1. Pressures on Saudi Arabia are weakening its strategic security and its diplomatic leverage and increasing its domestic problems. It continues to respond through a process of political and economic retrenchment. Riyadh is less confident that it can count on close ties to Washington to strengthen its regional security, although it sees no meaningful alternative to ultimate dependence on the United States. Domestically, the Saudis are trying to stretch drastically reduced government revenues while preserving programs and subsidies the Saudi population has come to expect. External problems, such as the unresolved Arab-Israeli dispute, the ongoing Iran-Iraq war, and tensions between radicals and moderates in the region, all strain Saudi Arabia's ability to stay out of conflict and maintain its traditional checkbook diplomacy.

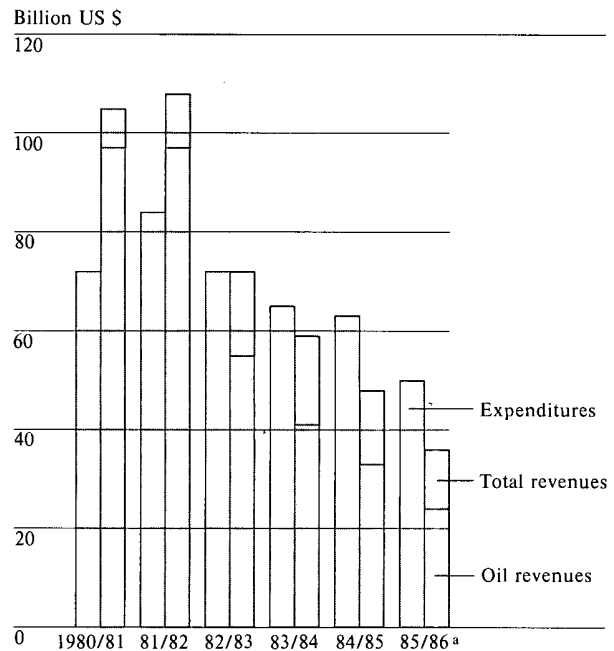
## Coping With Economic Decline

2. In mid-1985, the Saudis became alarmed by the uncertain oil market and their own drastically reduced oil revenues:

- Weak demand for OPEC oil caused Saudi output to plummet temporarily to a 20-year low of 2.2 million b/d last August, far below the 3.8 million b/d target upon which last year's budget was based.
- Annual revenues fell from a peak of \$110 billion in 1981 to about \$24 billion in 1985.
- Last year, Riyadh faced budget and current account deficits of nearly \$20 billion each.
- Unwilling to make cuts that matched the revenue decline and hoping the market would turn around, Riyadh was drawing down its liquid financial reserves at a rate that would exhaust them in less than four years.

3. **The New Oil Strategy.** The Saudis apparently believed that their economic situation had become untenable, because in mid-1985 they embarked on an aggressive oil marketing campaign—including netback deals—that was certain to anger a coalition of militant oil producers—Iran, Libya, and Algeria and probably Iraq over the longer term. By embarking on this new

## Saudi Budget



<sup>a</sup> Estimated.

Note: The Saudi fiscal year is based on the Islamic year, which is 10 to 11 days shorter than the Gregorian year. Fiscal year 1985/86 was 22 March 1985 to 11 March 1986.

309585 6-86

strategy, Riyadh abandoned its role as OPEC swing producer. The Saudi strategy is designed to accomplish several goals:

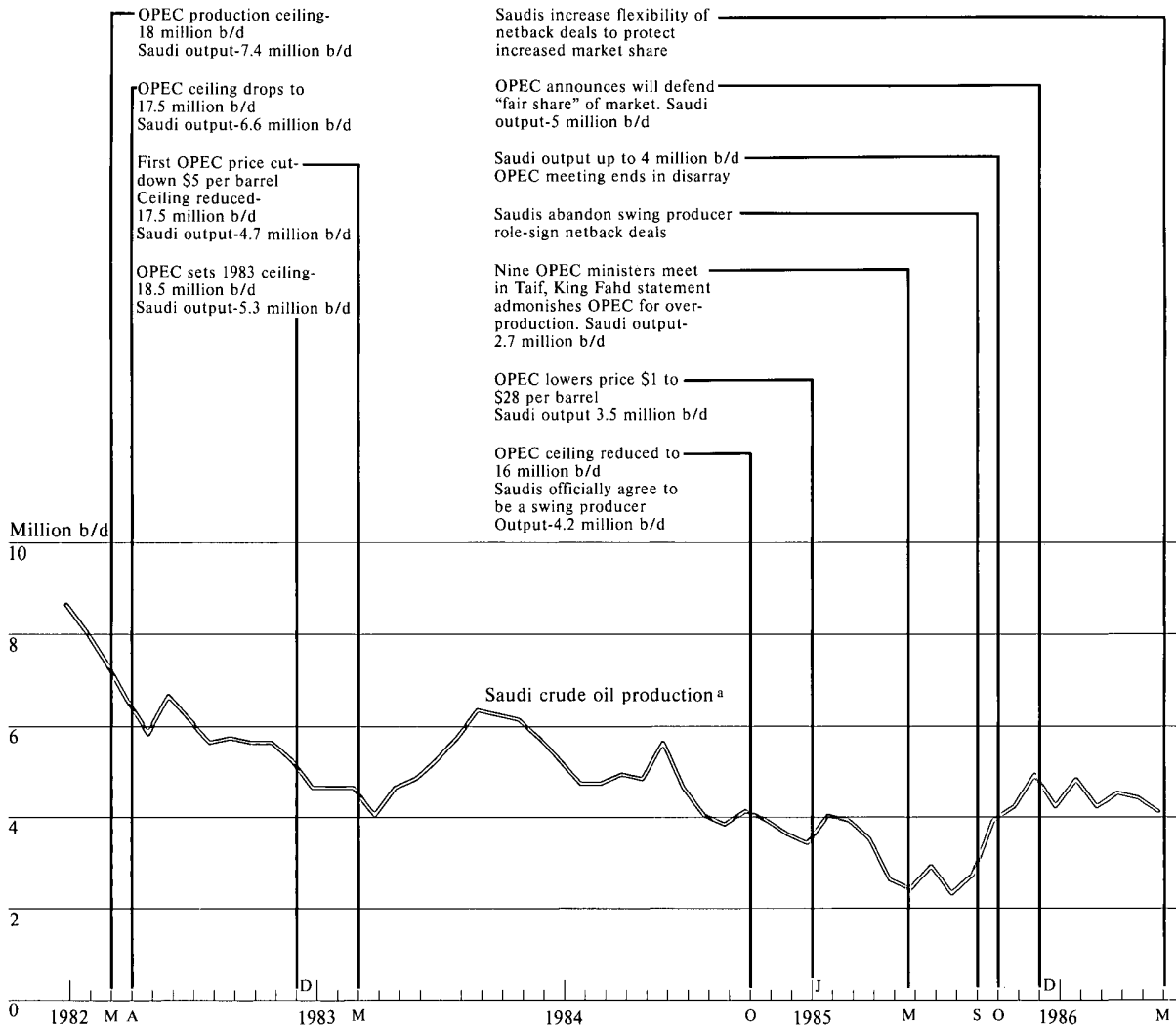
- Increase near-term oil revenues to dampen deep spending cuts and foreign reserve drawdowns.
- Capture a greater market share and force producer cooperation on price and production.
- Ensure a growing long-term market for oil by stimulating consumption and discouraging alternative energy development.

4. The Saudis have more than doubled production. Aramco output averaged 4.3 million b/d in May 1986, up from 2.2 million in August 1985—and ex-

SECRET

25X1

## Evolving Saudi Oil Policy



<sup>a</sup> Including Saudi share of Neutral Zone production.

ports have nearly tripled. If the Saudis sustain this level of output and prices this year average \$15 per barrel, Riyadh will earn about \$20 billion. Although the Saudis will still face a substantial budget deficit, the trend of rapidly declining revenues has been halted.

5. The Saudis will adjust their policies over time in response to market forces. Riyadh is unlikely to alter

its oil policies to appease Tehran, but could accommodate some of Iran's demands if the Iranians appeared willing to compromise.<sup>1</sup>

6. **Domestic Economic Pressures.** The uncertain oil market and accompanying economic downturn will

<sup>1</sup> For a detailed examination of the current world oil market, see SNIE 3-85 (Secret April 1986, *Implications of the Oil Price Decline*. (v)

SECRET

SECRET



25X1

not pose serious threats to the political stability of the regime over the next two years. Riyadh's more aggressive stance has helped shield it from domestic criticism resulting from economic hardships, and the new policy has been popular with most Saudis, who have long believed the Kingdom bore the brunt of the burden in OPEC.

7. Still, if oil prices remain depressed, Riyadh will likely retain prominent status in the international financial community but will have to become more flexible about its economic goals. It is resigned to drawing down liquid international reserves to cover some revenue shortfalls, but this financial asset cushion—currently approximately \$55 billion—is insufficient to cover large deficits should oil revenues remain depressed for several years. Riyadh has also pared expenditures, but further cuts will be difficult without more wrenching adjustments to the Saudi standard of living.

25X1

8. Some segments of the population are bearing a disproportionate share of the austerity measures enacted so far. Although the vast array of cradle-to-grave subsidies will be only minimally cut over the near term, younger Saudis are finding fewer good educational opportunities and fewer chances for high-paying entry-level employment. Civil servants are being significantly affected by cuts in their benefits.

25X1

25X1

9. Many businessmen and bankers are also feeling squeezed, and they are unhappy with government arranges to private firms, government efforts to shift part of the economic burden to the private sector, and budget delays. Expanding government investigations of some Saudi businessmen, sometimes with the direct intervention of the King, will heighten unease in the business community. The business community will continue to seek a greater voice in economic policy, and the government may respond by seeking businessmen's advice and cooperation more often and developing new domestic financial markets.

25X1

25X1

10. Other elements of the population have been more insulated. Military and security personnel have been largely exempted from benefit cuts and will not be significantly affected, even if the situation gets much tighter. Funding for arms purchases probably will remain at or near current levels. The religious establishment, which depends heavily on government funding, is not likely to suffer many cutbacks, because the King will want to avoid a potential public confrontation with the ulema and criticism from religious conservatives. In addition, the conservative elements of society are content to see a slowdown in the modernization of the country.

11. Popular concern with Riyadh's handling of the economic downturn lingers, however, and is compounded by the perception that the Royal Family has insulated itself from sacrifices. The Al Sa'ud, particularly King Fahd and his brothers and sons, are doing little to curtail their spendthrift habits, and many Saudis believe the Royal Family still spends as profligately as it did during the oil revenue heydays of the 1970s. Royal Family stipends—up to \$274,000 a month—and other generous allowances consume more than \$1 billion annually, and Royal Family members continue to enrich themselves through preferential treatment on government contracts. Several hundred princes, moreover, collectively owe billions of dollars of unpaid and probably uncollectible debts to Saudi and Western banks. The King appears insensitive to criticism of his lifestyle, and we have no indication that the Royal Family has used any of its enormous personal fortune to mitigate the Kingdom's economic woes.

12. If the new oil strategy does not invigorate the slumping Saudi economy, the King will come under increasing criticism from the Royal Family and government, but it is not likely to threaten his position over the next two years. If budget problems worsen, however, an increasing number of influential princes and nonroyal technocrats would blame Fahd personally.

25X1

25X1

13. The economic downturn is not likely to spur serious domestic unrest over the next couple of years, however, even if public grumbling grows substantially. There does not appear to be any opposition elements organized or motivated enough to exploit the economic downturn to weaken the regime. Any antiregime activity that does occur is likely to be sporadic and small scale. The few scattered incidents in 1985 did not indicate significant opposition to the regime.

25X1

**Regime Strengths**

25X1

14. Saudi Arabia can draw on significant assets in managing its domestic and foreign policy difficulties. Despite the economic downturn, it will still possess vast wealth and a population largely loyal to the ruling family. Its leadership has steered the Kingdom through major, rapid change with few destabilizing dislocations, and the Royal Family has demonstrated strong cohesion and ability to present a united front.

25X1

15. King Fahd is likely to maintain tight control over the government and probably will not face significant challenges to his decisionmaking domi-

25X1

SECRET

SECRET

25X1

nance over the term of this Estimate. He enjoys the support of his six full brothers, most of whom hold senior positions in the government, including Minister and Vice Minister of Defense, as well as Minister and Vice Minister of Interior. He also has the support of many of his 21 half brothers, the surviving sons of 'Abd al-'Aziz, who have a strong vested interest in maintaining the dominance of the Royal Family. We do not anticipate serious tension between the King and his nearest potential rival, Crown Prince Abdallah. Both men probably will keep their rivalry subordinate to larger Royal Family interests. [REDACTED]

16. Fahd will be able to capitalize on a strong tradition of loyalty from nonroyal government officials who have benefited from their service to the Royal Family. Many of them have served for decades, providing stability in key areas such as oil policy, economic development, and financial management, and they lack independent power bases from which to challenge the ruling family. Fahd has also circumscribed the ability of the religious leadership to operate independently while maintaining a strong sense of religious legitimacy of the regime and has reduced tribal leaders to largely perfunctory roles. [REDACTED]

17. Fahd's cautious style will also facilitate the Kingdom's stability and security. Although not a forceful statesman, he has shown himself adept at avoiding direct involvement in potentially dangerous regional clashes, while assuaging enemies and supporting friends. He also has moved carefully in dealing with domestic critics, following the Saudi tradition of punishing only rarely and moving where possible to co-opt and rehabilitate opponents to avoid creating potentially powerful antiregime voices. [REDACTED]

18. A key element in Saudi stability is the process of succession, which is likely to remain secure well beyond the term of this Estimate. We detect little opposition to the accession of Crown Prince Abdallah upon the death of Fahd, unless his health worsens significantly, and of the subsequent accession of Prince Sultan. [REDACTED]

#### Long-Term Domestic Stresses

19. *The Royal Image.* The King is criticized for his autocratic decisionmaking style, his extravagance, and his aloofness. Although he will maintain the appearance of consensual decisionmaking on risky or controversial issues, he is likely to tighten the reins even more over the period of this Estimate. This trend will increase dissatisfaction among some other Royal Family members and senior technocrats who will believe

themselves increasingly superfluous. It is unlikely that Fahd will ever reverse his image of being impious and extravagant, but he may take steps to curtail his spending in response to perceived public resentment. [REDACTED]

25X1

20. Fahd's arrogation of power through the placement of insiders in key positions will continue, but at a gradual pace checked by pressure from other members of the Royal Family, especially Abdallah. These moves will not only increase Fahd's power but will also lay the groundwork for the continued dominance of the King's full brothers, particularly Sultan, long after Fahd is gone. [REDACTED]

25X1

25X1

21. The King is likely to come under greater pressure to open up the political process over the next two years, as the economic downturn sharpens political awareness. He is not likely to move in that direction over the term of this Estimate, however. In fact, he has slowly curtailed the power of those institutions that until now have provided at least some broader participation—for example, the Council of Ministers has become largely ceremonial. Despite earlier tentative commitments, he is not likely to establish a Consultative Assembly, fearing that it would open a Pandora's box of criticisms and challenges to the regime. [REDACTED]

25X1

25X1

22. King Fahd, rather than opening up the political process, is likely to continue tight control in the form of press censorship, imprisonment of regime critics, suppression of nongovernmental organizations, and restrictions on travel and education abroad. Over the short term, this will further cement royal control, but over the long term it could work to create greater opposition to Fahd. [REDACTED]

25X1

25X1

23. *Religious Extremists.* Religious extremists pose the most significant domestic security threat to the Kingdom. There has been an upswing in religious fervor in the Kingdom over the last several years, both Sunni and Shia, that is likely to feed religious opposition to the regime. So far, however, the regime's accommodation of the sensitivities of the Sunnis has been effective in averting significant opposition from this quarter. [REDACTED]

25X1

25X1

24. *The Role of the Shia.* The emergence of an active Shia opposition movement is unlikely within the next two years—particularly since the appointment of the King's popular son as governor of the Eastern Province—and would not fundamentally threaten the regime. Such opposition, however, would lead to harsh government repression of the Kingdom's most disadvantaged minority and probably increased terrorism. Shia disturbances would be most damaging during a

SECRET



25X1

period of wider unrest throughout the Kingdom. Iran will continue to provide support to dissidents from the Eastern Province, where the majority of Shia live. It will facilitate travel of Saudi Shia to Syria and Iran and support their indoctrination and training. Iran may try to use Gulf Shia as surrogates for terrorism or sabotage should Tehran employ a terrorism option against Riyadh. Current Iranian anger over Saudi oil policy and support for Iraq increases the chances that Iran will use terror tactics against Riyadh.<sup>2</sup>

role of swing producer in OPEC. They will define their own interests more narrowly in economic terms, and they will be less forthcoming to many of those states who have long depended on Saudi largess. Riyadh will seek even more to avoid high-visibility and high-risk diplomacy, especially if it is likely to involve a drain on its finances or highlight the US-Saudi connection.

25X1

25. *Expatriates.* We see little prospect of major antiregime activity among the more than 3 million expatriates in the Kingdom. They are a mixed and fragmented group with approximately 800,000 Yemenis from the Yemen Arab Republic (North Yemen) 500,000 Pakistanis, and 400,000 Egyptians comprising the largest groups. Most are eager to preserve the economic advantages of employment in the Kingdom, and the regime tightly controls them with visa and work permit requirements, as well as aggressive deportation policies and economic inducements. The regime will treat isolated cases of worker unrest harshly, with the probable support of the Saudi populace.

28. Events in the Persian Gulf area and on the peninsula will remain the Saudis' main concern. The threat of hostility from Iran will lead Riyadh to continue efforts at strengthening the Gulf Cooperation Council, to garner what leverage it can from strength in numbers. If a more hostile regime consolidates its power in the People's Democratic Republic of Yemen (South Yemen), Saudi Arabia will focus greater attention and resources on the southern peninsula.

25X1

29. *Declining Checkbook Diplomacy.* Riyadh has cut back foreign aid for the last several years and it is not likely to rebound. Aid disbursements, which totaled about \$5 billion in 1985, may be cut, unless regional events—such as a flareup of the Iran-Iraq war—necessitate extraordinary payments. Saudis are likely to delay payments that they deem nonessential and to focus less heavily on project and oil aid.

25X1

26. *The Young.* The current economic downturn has severely affected young Saudis. The younger generation has long been apolitical, but 70 percent of the population is now under 25 and is finding employment and business opportunities sharply reduced. Younger Saudis have come of political age during a period of Islamic revival, moreover, and are likely to view their own declining economic opportunities as evidence of misguided and corrupt policies by the regime. The impetus for antiregime activity is likely to be strongest on the university campuses. Although radical fundamentalist groups are still small on most campuses, they are growing in size and influence, appear to be wielding increasing control over curriculum and staffing decisions, and are undermining moderate elements in the university system.

30. Well over half of Riyadh's foreign aid has gone to several key recipients—Iraq, Syria, the PLO, Jordan, Pakistan, North Yemen, and the Afghan resistance. Riyadh will maintain cash assistance to Iraq, Syria, and the PLO at high levels. Oil aid to Iraq probably will decline with the increase in Iraqi oil exports, but cash assistance—largely for military purchases—will continue, unless there is a significant decline in hostilities. Riyadh will maintain its current high level of aid to Syria to support the major Arab military power in the Arab-Israeli conflict, to buy protection from Syrian-sponsored terrorism, and to try to reduce the radical/moderate split in the Arab world. Others like Jordan, Pakistan, North Yemen, and the Afghan resistance, will continue to receive significant amounts of aid, as long as Riyadh sees them as important to its own security. Countries of less immediate concern to or more distant from Saudi Arabia will find it more difficult to extract Saudi assistance. Saudi aid to non-Arab Muslim states and multilateral organizations will be reduced or more tightly controlled.

25X1

25X1

25X1

**Foreign Policy Retrenchment**

27. The Saudis' economic concerns will dominate their foreign policy to a degree unprecedented in their recent history and probably prompt Riyadh to shrink its sphere of interests. The Saudis are likely to maintain their newly adopted "Saudi first" position toward other oil producers and are unlikely to return to the

31. *Accommodating the Radicals.* In situations where radical states come under pressure from the United States or become involved in confrontations with Israel, Riyadh will feel compelled to support

25X1

25X1

25X1

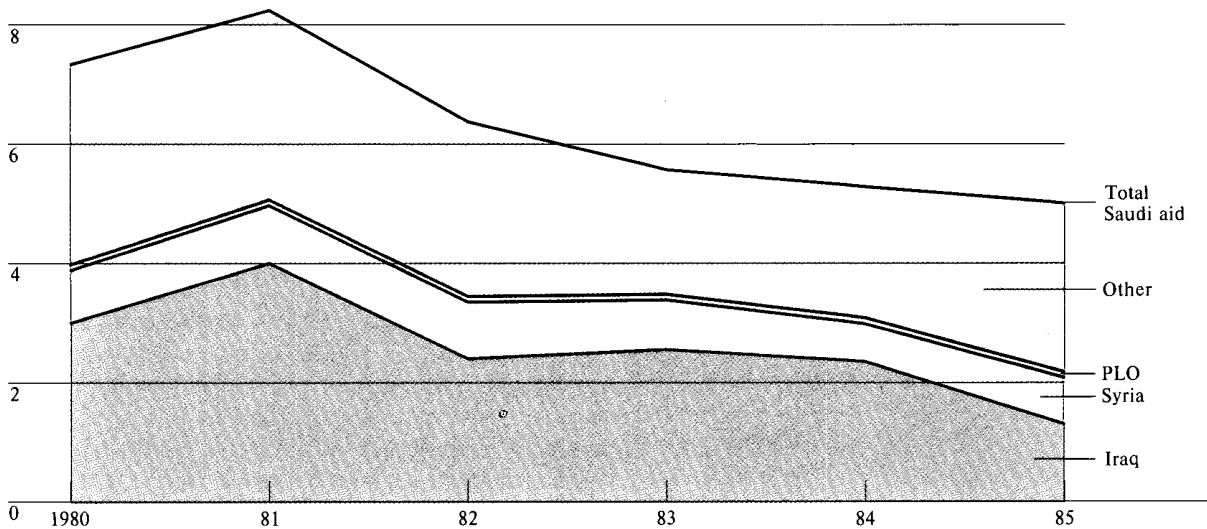
<sup>2</sup> For a more detailed examination of subversive and terrorist threats in Saudi Arabia, see NIE 39-86, (Secret ) January 1986, *The Terrorist Threat to the Gulf Cooperation Council States: The Next Eighteen Months.*

SECRET

25X1

### Saudi Arabia: Assistance to Iraq, Syria, and PLO (and Total Foreign Aid)

Billion US \$  
10



309586 6-86

publicly the radical position. The Saudis will continue to look for ways to strengthen broader Arab unity, even at the risk of appearing to accommodate the radicals. [redacted]

#### Ties to Washington

32. Saudi Arabia will continue to pursue many regional and international policies well beyond the term of this Estimate that serve both Saudi and US interests. Saudi Arabia will:

- Continue to support moderate Arab states and promote the development of a moderate Arab consensus.
- Try to thwart the spread of leftist and militant Muslim influence in the region.
- Remain staunchly anti-Communist and continue to fear encirclement and eventual attack by the Soviet Union.
- Continue—perhaps at reduced levels—foreign aid disbursements to moderate regimes and international organizations, complementing US goals and alleviating financial pressure on Washington.

— Side with Iraq in the Iran-Iraq war and support the Gulf Cooperation Council states in trying to counter Iranian terrorism and subversion.

— Want a stable oil market and a sound world economy to best preserve its own significant financial assets.

— Try to reduce regional tensions and prevent hostilities that might involve Riyadh and ultimately Washington.

— Promote the unity of the Gulf Cooperation Council and its economic and trade relationship with the United States. [redacted]

33. Fahd has significant political capital invested in the close Saudi-US relationship and will try to preserve not only fundamental US security guarantees but also the appearance of mutual Saudi-US interests to forestall potential damage to his credibility. The perceived weakening of US commitment to the Kingdom and indifference to Saudi equities in the region is a significant blow to Fahd's authority with both the Royal Family and the public. [redacted]

12  
SECRET

25X1

25X1

25X1

25X1

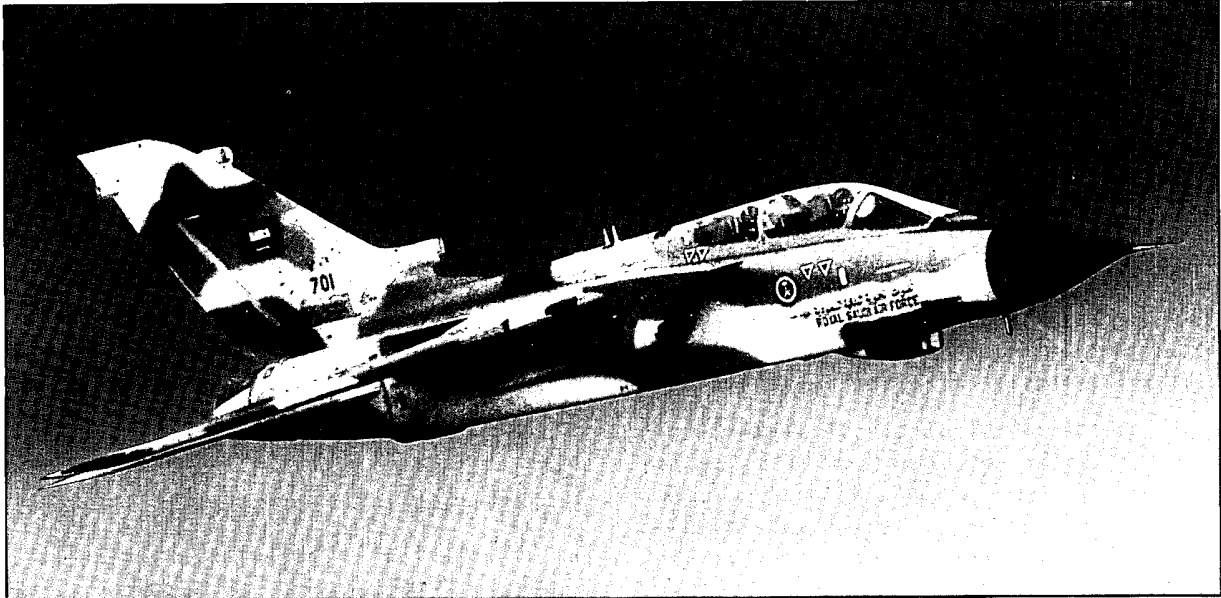


SECRET



25X1

Saudi Arabia's New British-Made Tornado Aircraft



309582 6-86

25X1

34. Despite the range of overlapping interests, Riyadh's historically strong ties to Washington have weakened over the past five years and are likely to loosen further over the period of this Estimate:

- The core of what in the 1970s was considered a "special relationship"—the US interest in Saudi oil and the Saudi access to US security assistance—will continue to erode. Prospects are dim over the period of this Estimate for a much tighter oil market or a turnaround in US security assistance to Riyadh, both of which would be necessary for revitalization of the historical security-for-oil relationship.
- The Saudis perceive the United States as increasingly unable to meet the Kingdom's security needs in providing sophisticated weapons, after last year's turndown of F-15s and Congressional opposition to the latest missile sale and the delivery of AWACS.<sup>3</sup> Western Europe will be the

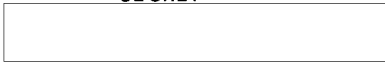


winner from the decline of US-Saudi relations in the security field. West Europeans will assume from the United States the prominent position in providing the most advanced and lucrative weaponry to the Saudis.


- Commercial ties will continue to weaken as a result of the economic downturn in the Kingdom. The West European and East Asian share of the Saudi market is growing—in part due to dissatisfaction with US policies. US access and influence in the country is decreasing, and the Saudis are concerned with the possibility of US trade barriers against Saudi petrochemicals.
- Riyadh and Washington probably will continue to disagree over the peace process.
- US assistance will continue to be an important element in Saudi defense planning, but Riyadh will still agree to military cooperation only if it meets narrowly defined Saudi interests. US requests for enhanced military access are likely to be rebuffed.

25X1


SECRET




25X1

— A "Saudi first" economic policy will shrink the sphere of Saudi economic interests, making Riyadh even less responsive to US requests for Saudi aid to third countries and organizations. Moreover, because of political pressures in the region, Riyadh will more than ever want to dispel the perception that it is the paymaster for US foreign policy objectives. 


**President Reagan Welcomes King Fahd During State Visit, February 1985**

35. **The Security Relationship.** The senior leadership in the Kingdom—particularly King Fahd—will continue seeking US assurances on a variety of issues because they judge that only the United States is likely to respond quickly and effectively to a direct military attack on Saudi Arabia. Despite domestic and Arab criticism of the United States, moreover, Riyadh believes that the perception of strong US backing is an effective deterrent against external threats. 


25X1

36. The result of US failure to sell advanced weapons to Riyadh will be increased Saudi efforts over time to diversify arms supplies and a concomitant weakening of US influence over—and access to—the Saudi military. The Saudis will hope to minimize erosion of their regional political influence, suspecting that both allies and adversaries will judge Riyadh is now less important to Washington. 

25X1

37. **The Arab-Israeli Issue.** Saudi skepticism over the US commitment to a comprehensive peace settlement also is likely to deepen over the period of this Estimate. Riyadh continues to believe in the necessity of pursuing a comprehensive settlement and fears Washington will focus its efforts only on a bilateral Israeli/Jordanian dialogue. 

25X1

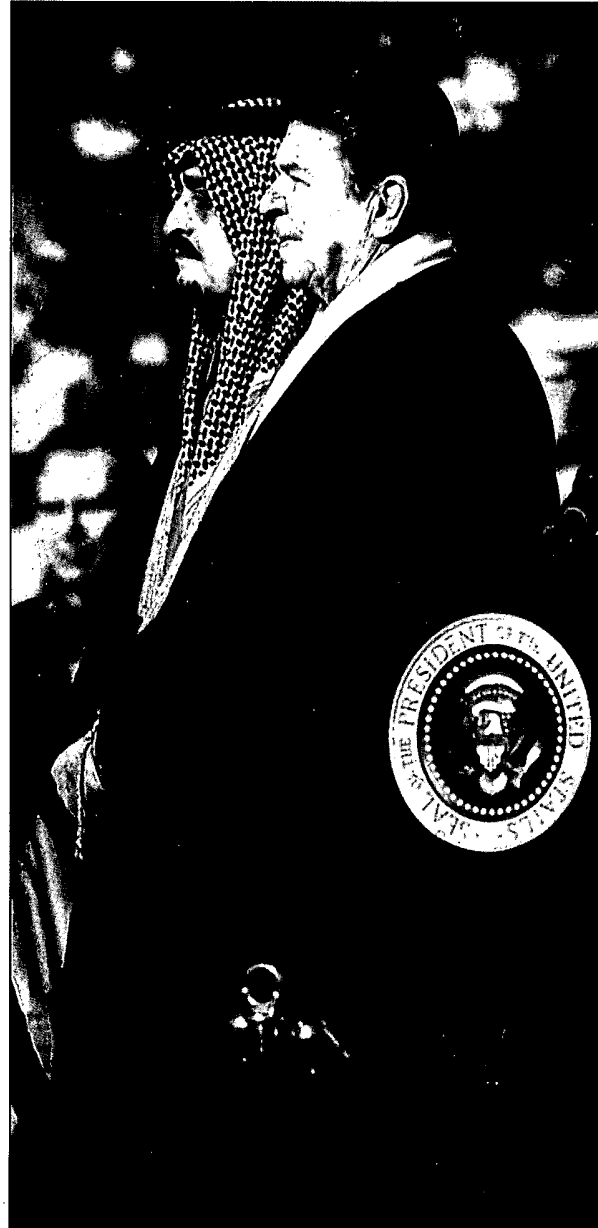
38. Riyadh also believes the United States has abandoned its role as an impartial mediator of the Arab-Israeli dispute in favor of closer ties and greater support for Israel. The Saudis were dismayed by Washington's initial support for the Israeli raid on the PLO headquarters in Tunis. This response to the attack on the territory of a moderate Arab state with close ties to Washington raised the specter of US acquiescence in such attacks on Saudi Arabia. Riyadh also suspects that the United States will continue to focus its efforts on the terrorism question and the developing quarrel with Libya, to the detriment of issues more important to Saudi Arabia. 

25X1

39. **Weakening Commercial Links.** Close Saudi-US business and commercial links—which, in the past, partly offset many bilateral diplomatic tensions—have loosened significantly over the last two years and are likely to erode further over the term of this Estimate.

25X1

25X1





309581 6-86

SECRET





25X1

The economic downturn in the Kingdom has put financial pressure on US companies operating there, and American businessmen are pessimistic about business prospects. Most companies have scaled back their operations, many report difficulties with unpaid debts and late payments, and some have decided to drop out of the Saudi market. 

lopsided nature of Riyadh's relations with the two superpowers as an anachronism, and they probably believe that they can improve relations with Moscow without forfeiting the ability to call on Washington in a crisis. Even so, Riyadh is unlikely to turn to Moscow to take up any of the slack left by US inability to provide major weapon systems. 

25X1

40. The American expatriate community, which has provided the United States unique access to the Kingdom, has declined sharply—from about 60,000 in 1983 to less than 38,000 in 1986, a drop of about 37 percent—and is likely to shrink further as the economy wrings out. The Saudis will look for cheaper labor in Western Europe and elsewhere and bring more Saudis into the work force. As a result US influence derived from a large US presence will erode significantly. 

45. *Abdallah as King.* Abdallah's accession probably will be a marginal setback for US interests but the change may be more in tone than substance. While certainly not anti-United States, Abdallah does not have the same personal commitment as Fahd to a strong US connection, but he, too, probably sees the United States as the only country that could respond in a crunch to Saudi security needs. 

25X1

25X1


46. Abdallah is more mercurial, more prone to lecturing US officials on the evils of US policy, and—

25X1

41. *Riyadh's Lower Profile.* Loosening ties to Washington will make the Saudis reluctant to involve themselves in regional issues important to Washington:


**Crown Prince Abdallah Greets National Guardsman**

— They will avoid pressing Syria, Libya, or the PLO on the issue of terrorism, to avoid becoming a target themselves.


— Although Saudi Arabia wants a stable and moderate Egypt, it is unlikely to champion Egyptian reintegration into the Arab League, barring an Arab consensus. 



25X1

42. Most important, Riyadh will stay on the periphery of the peace process, and US expectations for a Saudi role are likely to go unrealized. The Saudis will press Washington to engage the Palestinians and wring concessions from Israel but will be reluctant to become visibly involved themselves. They will only support an initiative that has general Arab backing, Syrian approval, and mainstream PLO support. 

25X1

43. *Limited Opportunities for Moscow.* Looser Saudi-US ties do not translate into significant opportunities for Moscow over the period of this Estimate. Prospects for renewal of Soviet-Saudi relations are poor. Soviet occupation of Afghanistan and involvement in South Yemen continue to be major obstacles to Soviet-Saudi relations. Even if relations were reestablished, however, Saudi Arabia would remain fundamentally opposed to the Soviet Union. 

25X1

44. The Saudis are likely to gradually expand economic and cultural contacts with the USSR over the next two years. Economic pressures are leading Riyadh to explore business prospects with Communist countries, particularly China. Less conservative elements of the Saudi population have come to see the



25X1

309583 6-86

SECRET

25X1

unlike Fahd—has his power base in the tribal and conservative religious elements of society. Based on Abdallah's predilections, some policy shifts might include:

- More open sympathy for Palestinian and Syrian policies toward Israel.
- Permission for a harsher anti-US tone in official statements and the press on the Arab-Israeli conflict.
- A diminution of the power and influence of the largely pro-US Al Fahd bloc. [redacted]

### Alternative Scenarios

47. Although we anticipate no major changes in Saudi Arabia over the term of this Estimate, there are a number of scenarios that, should they occur, would severely affect US interests in the Kingdom. We examine three:

- An Iranian victory over Iraq in the Iran-Iraq war.
- Another Arab-Israeli war.
- A major change in the Saudi regime. [redacted]

48. *An Iranian Victory Over Iraq.* If Iran wins its long war with Iraq, Riyadh would see its own interests seriously threatened, particularly if the result were a new government in Iraq heavily influenced by Iran:

- Eastern Province Shia would press the Kingdom's Sunni leadership more openly for greater religious and political autonomy.
- Sunni/Shia clashes probably would result, fed by historical enmity and harsh government repression.
- Open disagreement probably would develop between more traditional, establishment-oriented ulema and younger, more activist religious figures, potentially leading to clashes and demonstrations.
- The security risk to US personnel and installations would increase.
- The leadership would tilt toward even greater conservatism to preserve its claim to religious legitimacy. [redacted]

49. Riyadh would try to contain the spread of Iranian influence by trying to balance political accommodation toward Tehran with expanded security cooperation with the United States and regional allies.

If the Iranians threatened the Saudis more directly, they would turn openly to the United States:

- The King would encourage more overt signs of US support for the Kingdom, but probably would not agree to pre-positioning of US military equipment and increased US access to Saudi military installations.
- Riyadh would also try to expand ties to West European countries and seek additional sophisticated weaponry from the United States and Western Europe.
- The Saudis might increase joint military exercises—including troop maneuvers—among the Gulf Cooperation Council states.
- They may seek wider military cooperation with Jordan, as well as additional mercenary troops from allies such as Pakistan and Bangladesh.
- They might move closer to Egypt as a possible counterweight.
- They would fund anti-Iranian and antiregime elements inside Iraq. [redacted]

50. *Another Arab-Israeli War.* Although Saudi Arabia would try to avoid direct major involvement in renewed hostility between Israel and her Arab neighbors, such a conflict would pose domestic and regional difficulties for Riyadh. A likely Israeli victory would remind the Saudi populace of the regime's inability to defend Arab and Islamic interests:

- Jerusalem would remain under Israeli control.
- Riyadh will not have facilitated Palestinian self-determination, despite significant cash aid to Arafat and the PLO.
- The traditional security relationship with Washington would appear at its weakest, given US support for the Israelis.
- The lack of a Saudi military option to Israeli military threats would be highlighted, bringing into question the value of Riyadh's massive defense expenditures over the past decade. [redacted]

51. Bitterness at Saudi weakness would be felt most strongly among the military, although the regime probably would be unwilling to commit more than a token force. Riyadh would feel compelled to participate in a major Arab-Israeli war, but would have limited options:

- The regime would move closer to Arab hardliners and quickly distance itself from Washington.

SECRET

[Redacted]

25X1

- Riyadh would dig into its pockets to help rebuild Syrian and Jordanian military capacity.
- Riyadh might threaten to use oil to pressure the United States and West European countries to impose a settlement that would protect Arab interests.
- If Egypt remained out of the conflict, Riyadh would level sharp criticism against Cairo and continue to oppose Egyptian reintegration into the Arab world. [Redacted]

hardline on Arab-Israeli issues, more hostile to Israel, and more critical of US policies.

- The chances of democratic reforms would be even more remote. [Redacted]

25X1

52. The Saudis' few potential options reflect the inability of their wealth to mitigate the country's vulnerability. The Saudi Royal Family would continue privately to seek US commitment to its security, despite public criticism of Washington, because Riyadh would judge that the United States remains the best insurance against a major external threat. [Redacted]

54. Least likely but most dangerous for Washington would be the coming to power of a regime driven by extremist Islamic ideology. Such a regime would be the least accommodating to US interests. The leadership probably would purge pro-Western elements in the existing government and would emphasize anti-Western ideology as a test of political legitimacy. The security situation for Western and particularly US expatriates would worsen significantly. [Redacted]

25X1

25X1

53. *A Major Change in the Regime.* Any significant change would have negative consequences for the United States. A move by senior military officers—probably with some Royal Family participation—to seize power might follow a major military setback or humiliation at the hands of Israel or Iran, especially if the military believed the King had mishandled it. Domestically, the military would crack down more harshly on dissent, and there might be a lengthy period of instability as rival military elements sought to consolidate their own power. For Washington:

55. The United States would have few options to deal with such a government. It would be aggressively anti-Israel and supportive of radical Islamic causes. It might offer haven and training to paramilitary and terrorist elements. Controlling a fourth of the world's oil reserves, it probably would use oil policy as a political weapon. It would seek cooperation with other countries in the region that are strongly anti-US and would harass the United States in international forums. It would exploit possession of the Islamic holy places to further its political legitimacy and regional goals. It would also be more aggressive toward its peninsula neighbors on territorial issues and would work to overthrow the currently moderate Gulf monarchies. [Redacted]

25X1

25X1

- While such a regime may seek a military relationship with the United States, it would be more

**Page Denied**

Next 1 Page(s) In Document Denied

~~Secret~~

~~Secret~~