



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

# Defense, Security, and Aerospace

INDUSTRY REPORT



[www.us-sabc.org](http://www.us-sabc.org)

**Authors:**

Albara'a Alwazir  
*Economist*  
alalwazir@us-sabc.org

Danielle Wedde  
*Economic Business Analyst*

**Disclaimer**

The information that is published in this report was analyzed and compiled from sources believed to be accurate and reliable during the time of publication. The U.S.-Saudi Arabian Business Council accepts no liability for any loss or damage resulting from errors or omissions due to human or mechanical error in any part of this report. The U.S.-Saudi Arabian Business Council provides all information without any warranty.

© 2018 The U.S.-Saudi Arabian Business Council. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the U.S.-Saudi Arabian Business Council.

# Table of Contents

1	<b>Executive summary</b>
2	<b>Saudi Arabia</b>
2	<b>Introduction</b>
2	<b>Budgetary Spending</b>
4	<i>Regional Comparison of Defense Spending</i>
6	<b>Macroeconomic Forecasts</b>
8	<i>BMI Risk/Reward Index</i>
9	<b>Employment</b>
11	<b>Vision 2030 and National Transformation Program Defense Priorities</b>
13	<b>Saudi Arabian Armed Forces</b>
13	<b>International Trade and Investments</b>
15	<b>Cybersecurity, Surveillance, and IT Protection</b>
17	<b>Saudi Arabian Naval Systems</b>
18	<b>Saudi Arabian Aeronautics</b>
19	<b>United States</b>
19	<b>Budgetary Spending</b>
20	<b>Macroeconomic Trends</b>
20	<i>BMI Risk/Reward Index</i>
20	<i>Defense Related U.S. Job Creation</i>
21	<b>Foreign Trade</b>
25	<b>Aerospace, Defense, and Security Exports</b>
26	<b>U.S. Defense Companies</b>
27	<i>Distribution of U.S. Defense Spending</i>
28	<b>Defense Contracts</b>
28	<b>Market Opportunities and Barriers for U.S. Companies</b>
29	<b>Data Sources</b>
30	<b>Appendices</b>



Total population of Saudi Arabia  
**32.3 million**

2017 Nominal GDP  
**of \$687.7 billion**



Total military **2017** spending:  
**\$69 billion**



Projected Impact of Defense on Saudi Arabia's GDP:



2020



2038

Cyber Security Spending



**2017:**  
**\$8 billion**



**2018:**  
**\$15.4 billion**

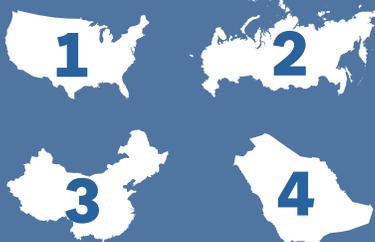
\$110 billion of military deals with Saudi Arabia, will create

**782,000 U.S. jobs**

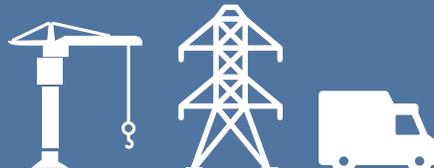
by 2025.



Saudi Arabia has the fourth largest allocated defense budget globally following the United States, Russia, and China.



Top areas for capital investment in surveillance: construction, power, and transport sectors.



Saudi Arabia has the largest market for aircraft parts in the Middle East.



# Executive Summary

The United States and Saudi Arabia have the oldest and longest-standing defense relationship, entering an agreement of mutual defense assistance in 1951. Given this agreement and Saudi Arabia's Western-made weaponry, U.S. defense companies have a significant role in the Kingdom's defense sector. U.S. firms with a presence in the Kingdom – such as Lockheed Martin and Boeing – consistently rank among the top arms producing and defense services companies globally. Other top defense companies include Northrop Grumman, General Dynamics, BAE Systems, and Raytheon. There is an especially strong market for U.S. aircraft parts, and firms may increase their likelihood of procuring government contracts by first establishing a strong presence in the Kingdom.

Defense spending remains a significant contributor to the United States economy, totaling nearly \$600 billion on an annual basis and accounts for over 3 percent of GDP. The United States is the world's top military spender, accounting for approximately 40 percent of global spending. Not only is the defense market vital for U.S. foreign trade, but it is also a key component of the U.S. economy, accounting for over 5 percent of U.S. manufacturing output. Our simulation results indicate that foreign military spending, as a result of the officially reported figure – \$110 billion of military deals with Saudi Arabia, would create 782,000 U.S. jobs by 2025.

In 2017, the United States and Saudi Arabia both ranked among the world's top five defense spenders along with China, Russia, and India.<sup>1</sup> In recent years, Saudi Arabia has been the world's largest importer of weapons, and the Kingdom increased its military imports by 275 percent when comparing the five-year period of 2006-2010 to the following five-year period spanning 2011-2015.

Forecasts indicate that demand in the Saudi Arabian defense and security sector will expand at a compound annual growth rate (CAGR) of 1.48 percent through 2020 and at a CAGR over 1.71 percent over the next decade. We anticipate an increase in output from Saudi Arabia's defense sector; our forecasts show a 1.54 percent CAGR in output over the next decade.

Vision 2030 encompasses two key goals that are central to the defense sector. First, to establish a holding company for the military industry that is 100 percent owned by the Saudi government. The Saudi Arabian Military Industries (SAMI) was created in 2017 for the fulfillment of this goal and will be instrumental in advancing the Kingdom's defense industry capabilities, leading to new defense investments.

The company will head consolidation of local companies and assets. The business units of the company align closely with Saudi Arabia's current capabilities and the country's future requirements.

Second, with regards to Saudi Arabia's diversification efforts, Vision 2030 calls for localized production in the defense sector through direct investment and the creation of strategic partnerships. Ultimately, Vision 2030 aims to promote technology transfer while building its national expertise. Developments in the sector include the expansion of private sector opportunities, increased budget allocations, and major agreements with foreign trading partners.

While Saudi Arabia aims to localize defense-related manufacturing, especially in the aerospace segment, the Kingdom must first establish a framework such that existing small businesses can enter a highly complex supply chain. Achieving domestic defense production through 2030 and beyond will require a large sum of capital for research and development, highly skilled Saudis to develop and engineer equipment and technology, and a newly formed supply chain.

Currently, Saudi Arabia is developing its local defense sector through joint ventures with foreign multinationals. These agreements provide the Kingdom with technology transfer, licensed production assistance, and joint training programs.

Opportunities have emerged in the market for personal and perimeter security products. A need for expertise in the area of cybersecurity also increases with the sophistication of threats. We expect the market for cybersecurity to be one of the fastest growing segments, expanding at a CAGR of 15.3 percent and reaching a market value of \$5.1 billion by 2022.

Other areas of potential growth are additional contracts through technology transfer; growth and sustainment of local spare parts manufacturing; defense and security training programs; intelligence, surveillance, reconnaissance (ISR); and unmanned aerial vehicles.

In terms of growth, opportunities for U.S. companies exist in military aircrafts and parts, ground combat technologies, intelligence, surveillance and reconnaissance (ISR) as well as the naval platforms segment.

<sup>1</sup> SIPRI Military Expenditure Database



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

### **United States Office**

8081 Wolftrap Road, Suite 300  
Vienna, VA 22182  
United States  
Telephone: 703-962-9300 or 888-638-1212  
Fax: 703-204-0332  
E-mail: [ussaudi@us-sabc.org](mailto:ussaudi@us-sabc.org)

### **Saudi Arabian Office**

WASEL 2163  
Urouba Street  
Office 6-1  
Mather North – Unit No. 43  
Riyadh 12334-7795  
Kingdom of Saudi Arabia  
Telephone: 966-11-474-3555 or 966-11-476-2697  
Fax: 966-11-476-7167  
E-mail: [ussaudibc@us-sabc.org](mailto:ussaudibc@us-sabc.org)