

Defense Contracting in Saudi Arabia: Launching Saudi Arabia's Military Manufacturing Sector under Vision 2030

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I. Introduction

Saudi Arabia, a bedrock of stability in the Middle East, has in recent years been surrounded by conflict and unrest. To the north, Iraq and Syria have descended into armed conflict, with substantial portions of their territories having been occupied by insurgent groups. To the south, Yemen's civil war between the government and Houthi rebels has triggered the greatest humanitarian crisis on the Arabian Peninsula. To the east, Saudi Arabia's arch-rival Iran is laying the groundwork for acquiring nuclear weapons. To the west, armed conflict in the Sudan has divided the nation, and piracy at the horn of Africa has disrupted Saudi trade.

In light of conflict throughout the region and Saudi Arabia's commitment to maintain stability within its borders, the Kingdom has sought to build up a world-class military. Saudi Arabia recognizes that a strong military is a key deterrent to growing threats to Saudi national security posed by ISIS across Saudi Arabia's northern border in Iraq and the threat posed by Iran-backed Houthi rebels across the southern border. In response, the Saudi government has appropriated more than USD 50 billion in defense spending in 2017 and over USD 55 billion in 2018.

Saudi Arabia has also begun aggressively partnering with the world's leading defense contractors in developing an indigenous defense manufacturing sector. Saudi Arabia's Vision 2030 and the National Transformation Program 2020 present unprecedented opportunities to military contractors to invest in Saudi Arabia. Crown Prince Muhammad bin Salman has committed to make Saudi Arabia, which is currently a top-four military spender globally and the world's second largest importer of armaments and other military supplies, a leader on the world stage and to localize over 50 percent of military equipment spending by 2030. Led by the Crown Prince's pioneering vision for a local military manufacturing sector, the Saudi government is actively seeking partnerships with the world's leading defense, security and technology firms. Vision 2030 offers these companies unprecedented investment opportunities in Saudi Arabia.

II. Traditional Limitations

Traditionally, opportunities for military contractors in Saudi Arabia have been limited to the sale of armaments and other military equipment to the government of Saudi Arabia and ancillary services relating to those sales, such as:

- Maintenance, repair and overhaul (**MRO**);
- Training Saudi Arabia's officers and enlisted on the operation of military equipment;
- Providing spare parts;
- Mounting and installing equipment;
- Technical support;

- Fitting out military vehicles.

The sphere for military contractors has been further restricted by:

- Regulations prohibiting military contractors from engaging agents on a commission basis in sales of armaments and military equipment to the Saudi Arabian government;
- Supreme Economic Council ban on foreign investment in manufacturing military equipment, devices and uniforms.

III. Paradigm Shift

These restrictions are undertaking a shift with the introduction of Saudi Arabia's Vision 2030 and the National Transformation Program 2020, which seek to incubate an indigenous military manufacturing industry. Vision 2030 states in part:

As we continue to give our army the best possible machinery and equipment, we plan to manufacture half of our military needs within the Kingdom to create more job opportunities for citizens and keep more resources in our country.

...

The benefits of localizing our own defense industries are not limited to solely reducing military spending. It also stimulates other industrial sectors such as industrial equipment, communications and information technology, which in turn creates more job opportunities. Although the Kingdom is the world's third biggest military spender, only 2 percent of this spending is within our Kingdom. The national defense industrial sector is limited to only seven companies and two research centers.

Our aim is to localize over 50 percent of military equipment spending by 2030. We have already begun developing less complex industries such as those providing spare parts, armored vehicles and basic ammunition. We will expand this initiative to higher value and more complex equipment such as military aircraft. We will build an integrated national network of services and supporting industries that will improve our self-sufficiency and strengthen our defense exports, both regionally and internationally.

Localization will be achieved through direct investments and strategic partnerships with leading companies in this sector. These moves will transfer knowledge and technology, and build national expertise in the fields of manufacturing, maintenance, repair, research and development.

IV. Tensions

While Vision 2030 may not lift the ban on foreign investment in the military manufacturing industry, it will without doubt bring other opportunities for partnership between the Saudi Arabian government and the world's leading and most innovating military contractors.

At the same time, however, there will be several tensions at play:

- The Supreme Economic Council has traditionally sought to limit foreign investment in the military manufacturing sector. This restriction was *not* established with protectionism in mind. After all, foreign investment is permitted in manufacturing of civilian goods and products. Rather, the restriction aims to strengthen Saudi national security, since foreign control over