



## U.S.-Saudi Business Council Economic Brief

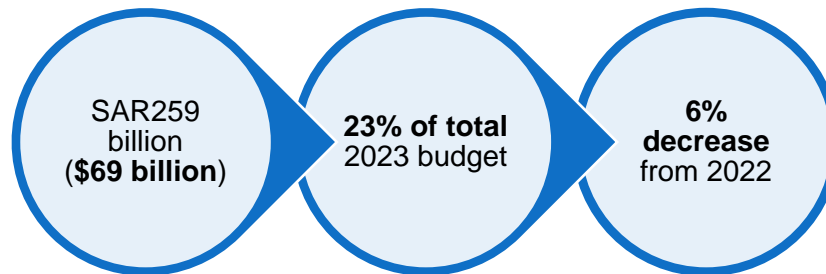
### Defense Sector Update 2023

#### Saudi Defense Spending

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- Saudi Arabia ranks as the world's **fifth largest sovereign spender on military & defense**, according to the Stockholm International Peace Research Institute (SIPRI).
- The government announced a SAR259 billion (**\$69 billion**) allocation for the military sector in 2023, a **6 percent increase** from the SAR245 billion (\$65 billion) in estimated military spending for 2022. Actual military spending in 2022 exceeded the budgeted level by 43 percent.

#### Saudi Arabia's 2023 Defense Budget

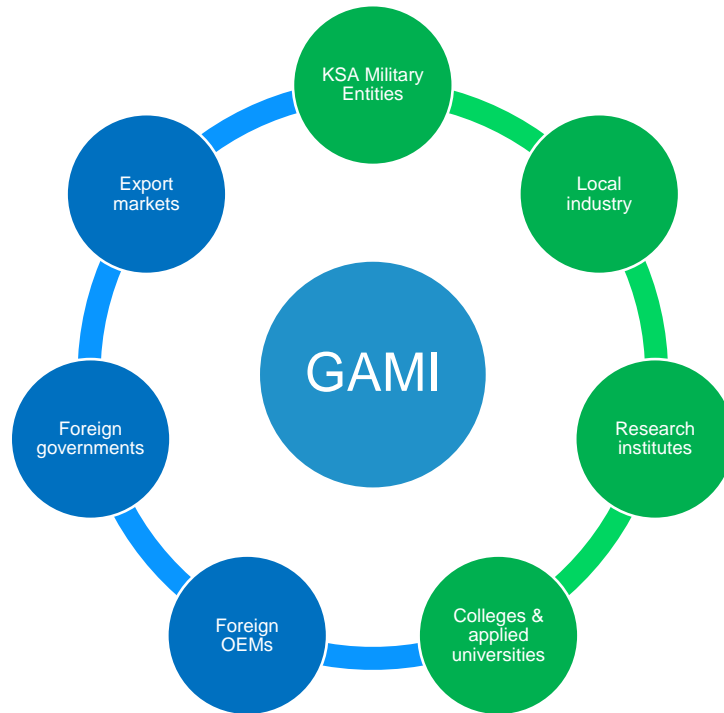


- Defense spending grew by a compound annual growth rate (CAGR) of 3 percent between 2012-2022 as regional conflicts elevated spending and **greater involvement by the Public Investment Fund (PIF) and the private sector in defense-related projects**.
- Defense spending in 2023 is expected to remain range bound, reflecting continued **focus to boost the Kingdom's security** as the **Kingdom aims to continue its spending on the back of higher oil revenues**.
- Projects that are earmarked in the 2022 and 2023 military budget include the signing of localization agreements worth SAR8 billion (**\$2 billion**) and achieving financial returns from the value of the contracts that were signed with a value of SAR29.7 billion (**\$8 billion**).

## GAMI and SAMI

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- SAMI, which is 100 percent owned by the PIF, has **acquired both Aircraft Accessories & Components Co. Ltd. (AAC) and Advanced Electronics Company (AEC)**. AAC is part of the Ministry of Defense's economic offset program and has longstanding ties with U.S. defense companies while AEC, also originally an economic offset company, is one of the Kingdom's most established local defense manufacturing companies.
- SAMI has also established **joint venture agreements** with several international companies, including U.S. companies **L3Harris Technologies** and **Lockheed Martin** as well as Spain's state-owned shipbuilder Navantia, France's Thales Group, and Belgium's CMI Defense. SAMI is positioned to be the national domestic military manufacturing company through further acquisitions, local investments, and international partnerships.
- **GAMI's Industrial Participation program** involves agreements with contractors to include local industries in the supply chain and ideally build new capabilities that will contribute to self-sufficiency in targeted sectors. The program creates opportunities for both direct and indirect participation of qualifying local industries in supply contracts.
- GAMI in 2023, launched the "**Military Industries Enablers**" that will attract investments from local and international investors by establishing a national digital platform that integrates all parties related to the defense sector.



## New Technologies

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- Targeted military technologies by GAMI include **EO/IR, directed energy, radar, RF radio, cybersecurity, electromagnetic weaponry, and AI/machine learning**.
- In the EO/IR field, advanced IR targeting, multispectral, and hyperspectral imaging technology are technologies of high interest. GAMI signed a SAR750 million (**\$195 million**) agreement with local firm **INTRA Defense Technologies** to procure six **unmanned aircraft systems with advanced EO/IR capabilities**.
- The SAMI L3Harris Technologies, LLC joint venture also pertains to the deployment and development of advanced EO/IR capabilities. Other advanced digital technologies including **blockchain encryption**, and **machine learning** applications across data gathering, threat identification, and communications.

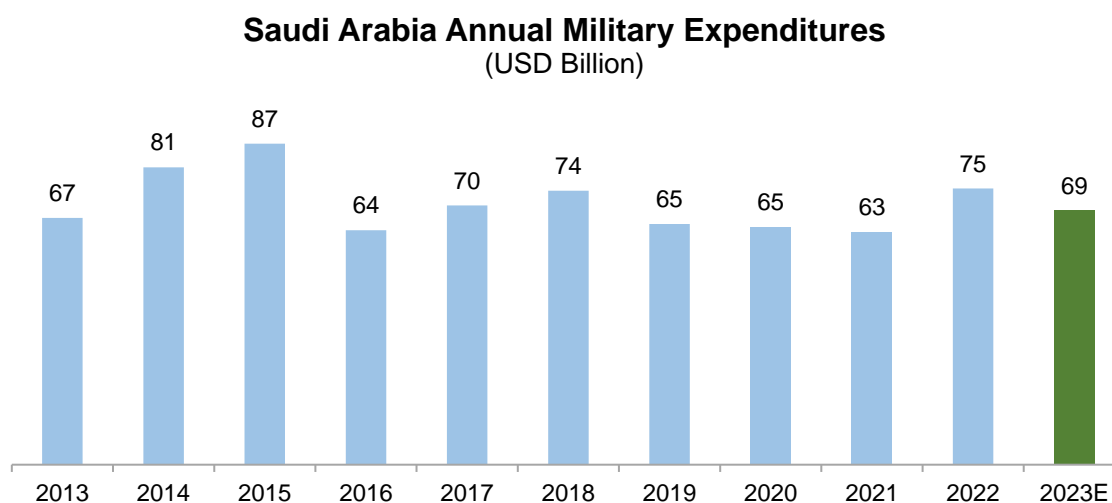
## Localization

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- SAMI's goal is to **localize 50 percent of the Kingdom's defense spending by 2030**. To achieve this, SAMI has established 12 joint ventures with the world's biggest and best

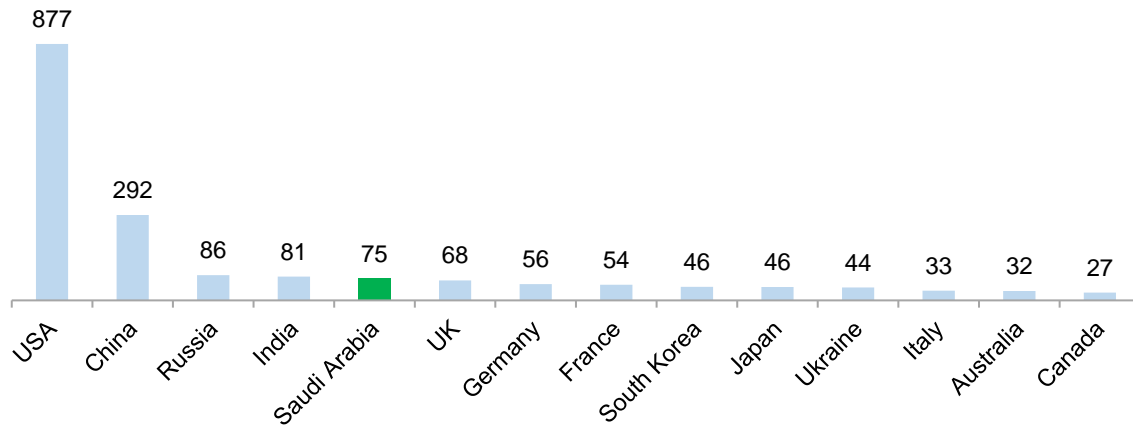
original equipment manufacturers.

- Early signs of progress in Saudi Arabia's defense manufacturing capacity include the deployment of the **first domestically produced fast jet aircraft**, the BAE Systems Hawk, in late 2019. In May 2020, a joint venture between **Oshkosh Defense** and **Al Tadrea Manufacturing** Company to manufacture armed vehicles in-Kingdom was announced. Saudi Advanced Technologies Company (Wahaj) was licensed by **BAE Systems** to manufacture consumable and complex structural components as part of the supply chain for the Eurofighter Typhoon combat aircraft.
- More recently, GAMI announced projects with **Lockheed Martin** relating to the local production of missile interceptor canisters and launchers in March 2022. In August 2021, Honeywell and Saudi firm MEPC signed a deal to localize repair and overhaul of a turbine engine system used in battle tanks.
- In 2023, SAMI entered into an agreement with Turkey's Baykar to **localize the manufacturing of electronic systems, mechanical elements, and drone structures**. It will also include product testing, training, and support provisions.



Source: SIPRI, Saudi Ministry of Finance

### Military Expenditures by Country in 2022 (Billion USD)



Source: SIPRI