



## **INTERNATIONAL RISK ASSESSMENT**

# **The Stability of Saudi Arabia in the Face of Mounting Terrorist Attacks**

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### Introduction

A series of bloody terrorist attacks and killings of Western contractors in Saudi Arabia in the past several months has led to mounting concerns that the world's biggest oil producing state is facing a full-blown war between shadowy but fanatical terrorists bent on overthrowing the ruling Al-Saud royal family and disrupting the flow of oil to the world economy. More than 30 foreign expatriate workers have been killed, world oil prices have soared because of fears that Saudi oil supplies might be affected and growing numbers of skilled foreign workers that are vital to the maintenance of the Saudi economy are leaving the country.

The Saudi government has moved aggressively to eradicate the threat from these militant organisations, arresting hundreds of suspects, killing a number of senior terrorist leaders, and cracking down on financial channels of support. But despite some successes, the terrorist threat appears to be increasing rather than decreasing. This deteriorating security situation could lead to continuing volatility in world oil prices with serious implications for global economic growth and inflation.

### The Recent Outbreak of Terrorist Attacks and Killings

Saudi Arabia has witnessed a sharp upsurge in attacks since April from terrorist organisations believed to be closely associated with Al Qaeda. The attacks have been primarily aimed at foreign, especially Western, oil workers based in the kingdom, but have also included Saudi government facilities. They include:

- A car bomb explodes outside of an Interior Ministry building on 21 April, killing four people and injuring nearly 150 others.
- A gun attack by terrorists at a petrochemical site in Yanbu in Western Saudi Arabia at the beginning of May kills five foreigners.

- An Al-Qaeda cell of terrorists attacked a foreign compound in Khobar in Eastern Saudi Arabia, killing 22 people, mostly foreign oil workers, and holding another 50 hostage.
- In early and mid-June, three US defence contractors were either killed or kidnapped by terrorists claiming to belong to Al-Qaeda. A film crew from the British Broadcasting Corp. was also shot at in early June, and one of the cameramen was killed.
- On 18 June, a US engineer, Paul Johnson Jr, who was working for a US defence contractor was decapitated by Al Qaeda terrorists after the Saudi government rejected demands calling for the release of all detained militants in the kingdom.

### **The Saudi Authorities Fight Back**

In response to this surging terrorist onslaught, the Saudi authorities though have scored a number of successes:

- Al Qaeda's top commander in Saudi Arabia, Abdulaziz al-Muqrin, was killed along with three other militants in a shootout with Saudi security forces on 18 June, just hours after the killing of Paul Johnson, the US defence contractor. Al-Muqrin is believed to have been responsible for Johnson's killing as well as some of the recent terrorist attacks in the kingdom. News reports indicate that Saleh al-Oufi, an ex-Saudi policeman and long-time Al Qaeda operative, immediately took over from al-Muqrin to become Al-Qaeda's leader in the kingdom.
- Othman Hadi Al Maqboul al-Amri, who was on a name-list of 26 most-wanted militants issued by the Saudi Interior Ministry, turned himself over to the authorities on 28 June after King Fahd issued a one month amnesty promising to spare the death penalty for any militant who surrendered during this period. The authorities warned though that those who ignored the amnesty would face the "full might" of the government.

## The Scale of the Threat

Western and Saudi intelligence officials and analysts are divided about the scale of the threat from terrorist and extremist groups in Saudi Arabia, but the evidence available strongly suggests that it is significant, increasingly active and is focused against foreign and domestic targets.

Until the 11 September 2001 attacks in the US, the Saudi authorities had consistently under-estimated the threat of terrorist activities within the Kingdom. This meant that the Saudi security services did not actively or aggressively take action to investigate and root out these elements, allowing them to recruit and build up their capabilities. Western intelligence officials estimate that there could be as many as several thousand members of these terrorist and extremist groups located in the Kingdom.

Since major terrorist bombings of May 2003, the Saudi security services have arrested more than 600 people they suspect to have links to Al-Qaeda and terrorist-related activities, some of whom were leading Al-Qaeda organizers. They also claim to have uncovered scores of cells and terrorist training camps within the Kingdom.

US counter-terrorism officials, who have worked closely with their Saudi counterparts in the war on terrorism, added that tons of explosives, weapons and ammunition have also been discovered. In addition, the Saudi government arrested more than 300 Saudi nationals in the immediate aftermath of the 11 September attacks. Altogether, more than 1000 terror suspects have been apprehended over the past two and a half years.

While the scale of this round-up is substantial, many more trained Saudi terrorists and freedom fighters are still on the loose. Western intelligence agencies estimate that as many as 5000 Saudi nationals received training at Al-Qaeda camps in Afghanistan from the mid-1990s to 2001 and then participated in civil wars in Bosnia and Chechnya. Many of them are believed to have returned to Saudi Arabia and the Saudi authorities have said they have questioned more than 2000 of them.

This would suggest that there may be upwards of several dozen terrorist cells in Saudi Arabia, although not all are likely to be currently active. Following the bomb attacks in May and November last year, the Saudi authorities rounded up members of two cells, numbering between 16 to 19 members.

US counter-terrorism officials have said that the concerted efforts by the Saudi authorities to crack down on Al-Qaeda in the kingdom has meant that the organisation

at present does not have the capabilities to launch a sustained offensive but could instead conduct limited suicide bombings.

Western intelligence analysts say that these terrorist cells, which operate independently, are well-funded, well-organized and well-trained. They appear to have extensive access to bomb-making equipment, explosives and firepower.

Saudi security forces have had to deal with a series of car bombing attempts over the past few months. One car bombing took place outside of the Interior Ministry in late April that killed several people, but before this incident the Saudi authorities had to defuse five other car bombs. Two of these car bombs had 1,400 kg of ammonium nitrate.

Additionally, in a number of shootouts between terrorist suspects and police, the terrorists inflicted serious casualties because they were equipped with rocket-propelled grenades and other heavy armaments. The discovery of hidden terrorist arms caches in farms in locations north of Riyadh, Al-Qassim Province and Eastern Province in July last year yielded more than 20 tons of bomb-making chemicals, detonators and guns.

## **Major Terrorist and Extremist Groups Active in Saudi Arabia**

There are believed to be an extensive number of active terrorist and extremist groups opposed to the ruling Al-Saud regime, although only a handful have so far been identified to be major organisations.

### **Al-Qaeda**

Al-Qaeda originally was established in Saudi Arabia in the late 1980s by Osama bin Laden and a sizeable proportion of its members were Saudi nationals. One of the original goals of bin Laden was the overthrow of the Al Saud royal family because he thought that the regime was insufficiently Islamic to be the guardian of Mecca and Medina, Islam's holiest sites.

In the mid-1990s, bin Laden was forced out of the Kingdom and into exile first in Sudan and then in Afghanistan. Following the US invasion of Afghanistan in 2001 and its campaign to wipe out Al-Qaeda, the terrorist group changed its structure. Previously a centralized organization under the direct leadership of Osama bin Laden and a small clique of trusted aides, Al-Qaeda became a loose, decentralized network of individual cells that had to fend for themselves with little contact or support from the rest of the

organization. A recent report by the International Institute for Strategic Studies in London estimates that Al Qaeda may have access to as many as 18,000 potential operatives through its worldwide network.

Occasional messages released by senior Al-Qaeda leaders to the news media are one of the few ways that bin Laden and his colleagues have to communicate with their network of members and supporters in Saudi Arabia and elsewhere in the world. These broadcasts continue to press for the violent overthrow of the Saudi royal family.

### **Al Haramain Brigade and Al Haramain Islamic Foundation**

The Al-Haramain (or the Two Holy Mosques in the Arabian Peninsula) brigade is a terrorist group that has claimed to be behind a number of bombings and violent attacks in the Kingdom in the past year, including the most recent bombing on 21 April. Little is known about the group, which says that it is affiliated with Al-Qaeda, and there has been no independent verification of its claims. If the claims of the group are credible, it appears to have focused its actions against the Saudi security forces.

Another organization that shares the same name is the Al-Haramain Islamic Foundation, a prominent Wahhabist charity dedicated to promoting Islamic teachings. In 2002 and January 2004, the US and Saudi governments declared that a number of foreign branches of the Al-Haramain charity were found to have been providing financial backing for terrorist activities to groups such as Al-Qaeda and other militant Islamic movements. These branches operated in Indonesia, Kenya, Tanzania, Pakistan, Somalia and Bosnia-Herzgovina.

### **Links with Foreign Terrorist Organisations**

While most of the activities of terrorist and religious extremist groups in the kingdom have been carried out by Saudi nationals, there is also evidence indicating that Muslim radicals from other Middle Eastern countries have been active within Saudi Arabia. In the summer of 2003, Saudi authorities arrested three Moroccans who were part of an Al-Qaeda cell that had been planning to hijack and crash a passenger jet in Jeddah, a key trading city. At around the same time, Saudi security services raided an apartment in Mecca and killed two Chadians and an Egyptian that were part of another Al-Qaeda cell in one of the country's most holy cities.

### **Other Extremist Organisations and Individuals**

Many other religious extremist groups and networks have avoided openly challenging the Saudi authorities or resorting to violence. They have focused instead on raising funds to support radical Islamic groups outside of Saudi Arabia, including for Hamas in

Palestine, Islamic Jihad and the Muslim Brotherhood in Egypt, and Abu Sayyaf in Indonesia.

After the 11 September attacks, the US cracked down and investigated these charities as they were suspected of channelling funds around the world in support of Al-Qaeda. Last year, two Saudi Arabian charities, the Saudi Preaching Centre and the Global Islamic Rescue Organisation, were ordered to close their branches in Mauritania after they were found to have backed a failed coup attempt.

The Saudi authorities have also clamped down on the activities of several hundred radical clerics for allegedly stirring up religious unrest by preaching anti-foreign and other intolerant messages. This includes the arrest of a handful of clerics who openly voiced support for the terrorist bombings in Riyadh last year.

### **The Extent of Popular Support for Terrorist and Extremist Groups**

Although the terrorist and extremist groups operating in Saudi Arabia continue to be successful in attracting recruits and financial support, especially as anti-US and anti-Israeli sentiment in the kingdom and across the Middle East deepens in the aftermath of the Iraq War, there appears to be little popular or religious support for their activities among the Saudi population. Political analysts point out that the terrorist attacks within the kingdom, especially the targeting of Saudi facilities, have led to a strong popular backlash and curtailed any remaining support for bin Laden and Al-Qaeda.

The Saudi government have also demanded that religious clerics publicly speak out against the terrorist actions. Following the Interior Ministry car bombing on 21 April, senior imams condemned the attacks and warned Muslims against following radical preachers who backed terrorist actions by issuing religious edicts that endorsed such tactics.

A growing concern is that there are elements in the security services that are sympathetic and provide support to the militants. A pro-militant website claimed that police sympathisers provided uniforms and cars during the kidnapping of a US defence contractor in June.

While there is no mainstream support for the terrorist and extremist groups, analysts point to a large and rapidly growing group of unemployed and disaffected Saudi youth that appear ripe for recruitment. Nearly 40 percent of the population is under the age of

15 and many have little chance of finding work because job creation is lagging behind population growth. Moreover, the Saudi education system is geared more towards producing conservative religious converts rather than graduates with engineering or scientific skills.

Terrorist and extremist organisations are able to draw upon this growing pool of fervently religious unemployed youth to fill their ranks, especially from impoverished areas, such as poor neighbourhoods of Riyadh and the arch-conservative central region of Qasim. Consequently, they are likely to continue to be active and regularly launch terrorist attacks. However, they are unlikely to be able to achieve their objective of toppling the ruling regime because they lack popular support.

The reluctance of the Saudi security services in the past to crack down against these terrorist and extremist groups led to suggestions that they enjoyed backing from high-level officials who supported their aims. But now that the Saudi security services and ordinary Saudi citizens have become the targets for attacks, any previous support that terrorist and extremist groups may have received has almost certainly ended.

### **The Response of the Saudi Authorities**

After heavy criticism from US authorities for its inadequate response in dealing with extremist and terrorist groups within the kingdom following the 11 September attacks, the Saudi government began to make concerted efforts to crack down on these organisations. With considerable support from US law enforcement agencies, the Saudi security apparatus has been actively investigating extremist and terrorist organisations, especially arresting hundreds of suspects and unravelling financial networks that provide funds to these movements.

But the Saudi security forces have limited experience in conducting sophisticated counter-terrorism and intelligence operations, preferring instead to concentrate on traditional policing methods that have yielded mixed results. They include the manning of security checkpoints in major cities. To beef up their intelligence and surveillance capabilities, the Saudi authorities have acquired sophisticated satellite surveillance equipment and other high-technology capabilities to monitor communications among terrorist suspects.

While hundreds of terror suspects have been detained, only 8 of a list of 26 most wanted terrorist suspects that have been publicised by the Interior Ministry since last year have been caught or killed.

Political interference has also stymied investigations of terrorist attacks, especially those involving foreign targets. Since the end of the 1990s, more than 10 foreigners have been killed in shootings and bombings that foreign diplomats believed were caused by terrorists or religious extremists. However, the Saudi authorities refused to accept this explanation and insisted that the violence was linked to expatriate groups fighting over illegal alcohol distribution within the kingdom.

But as terrorists have begun to increasingly focus on local Saudi targets over the past year, the Saudi government has significantly stepped up its anti-terrorism crackdown. Immediately after the latest car bombing of an Interior Ministry building, senior Saudi officials said that the government had declared 'total war' against terrorist groups.

### **The Vulnerability of Saudi Oil Facilities and the Impact on Oil Prices**

The attacks on foreign oil workers suggest that Al Qaeda and other terrorist groups are trying to disrupt the kingdom's oil production. While the recent attacks have been against 'soft' targets, there is rising concern that terrorists may in future focus their attention on 'hard' transportation and infrastructure targets such as oil pipelines, refineries and ports.

Some critical facilities that terrorists might seek to attack that would severely disrupt oil production and supply in the kingdom include the port of Ras Tanura in the Persian Gulf, which is the biggest oil exporting port in the world, and Abqaiq, the world's largest oil-processing complex that is estimated to process nearly 7 million barrels per day.

The Saudi authorities have devoted extensive resources to guard its oil infrastructure network and security analysts believe that the chances of a successful attack that could seriously affect production and exports are low. It is reported that there are up to 30,000 guards safeguarding the oil infrastructure and the Saudi government has added US\$750 million over the past two years to its security budget to boost security in the oil sector.

Other experts argue that the Saudi oil infrastructure network has plenty of backup and redundancy capabilities to allow it to continue operations even in the event of a major attack. There are multiple ports, pipelines and refining capacity.

Nonetheless, the fears over a major terrorist strike against Saudi oil facilities have led to the imposition of a 'terror premium' on oil prices in the past few months. Some oil traders say that as much as US\$11 of the recent rise in oil prices on world markets was due to this terror premium, although this had fallen to US\$5 by the end of June.

### **The Targeting of Western and Japanese Interests in Saudi Arabia**

The threat against foreign targets has become acute following the series of terrorist attacks against Western and other foreign workers in the past few weeks. Since December 2003, the US and British governments have issued multiple travel advisories warning against travelling to the kingdom.

The State Department and the US Central Intelligence Agency ("CIA") have been especially alarmed about the likelihood of terrorist attacks against US targets. In mid-April, the State Department ordered the evacuation of most of its diplomats and their dependents from Saudi Arabia and strongly urged the rest of the estimated 35,000 American expatriates in the kingdom to leave because of what it termed as 'credible and specific' intelligence about planned attacks against US and Western targets. Only the ambassador and a skeleton staff would remain at the US diplomatic missions in the kingdom.

The British Foreign Office has tried to take a more low-key response, but following the latest attacks in June ordered the pullout of junior and non-essential diplomatic personnel. British newspapers have also reported that the British government dispatched a 25-strong team of special forces in June to help guard the British embassy and draft a plan to evacuate the 30,000 Britons resident in the kingdom.

US and British diplomatic missions, expatriates and companies, especially defence and security contractors, appear to be most at risk from terrorist attacks. The three US nationals who were killed or kidnapped in the first half of June were employed by US defence firms supporting the Saudi government. Residential compounds housing Western expatriates are also viewed as being of high risk as they are considered to be 'soft' targets.

International Risk has not received any specific information indicating that Japanese interests in the kingdom are being directly targeted for terrorist attack. This is despite the dispatch of Japanese Self-Defence Force units to participate in the US-led coalition peace reconstruction efforts in Iraq.

Diplomatic analysts point out that Japanese companies are not directly involved in providing support for the Saudi armed forces or security services. Nonetheless, Japanese expatriates may be at greater risk if they live or work in areas where there is a high concentration of Western expatriates.

### **Preventing Unrest in Iraq from Spilling into Saudi Arabia**

Saudi political analysts point out that while many people in Saudi Arabia support the violent struggle by Iraqi insurgents to attack US-led coalition forces occupying Iraq and Palestinians fighting against Israel, few are in favour of a similar holy war or jihad against foreign interests in Saudi Arabia. These analysts believe that the overwhelming majority of Saudis are strongly opposed to any terrorist attacks taking place in the kingdom.

The Saudi government is taking steps to prevent any spillover of the fighting in Iraq from spreading into the kingdom. It has sealed its border with Iraq and has installed high technology equipment such as heat sensors to detect any activity. The Saudi authorities are especially concerned that local militants want to go to Iraq to join in the armed resistance against US forces. Saudi officials estimate that thousands of Saudi men would volunteer to take part in a jihad in Iraq.

Despite the stepped up security on its borders, tens of thousands of illegal immigrants pour into Saudi Arabia every month. In March of this year, Saudi authorities said that it had detained more than 50,000 people trying to illegally cross into the kingdom. The overwhelming majority was Yemenis crossing over into the southern part of Saudi Arabia, but more than 700 people were caught trying to get into the kingdom from Iraq.

While many of these people are likely to be refugees fleeing from the fighting in Iraq, the Saudi authorities are concerned that terrorists and insurgents could also be seeking to cross over to attack Western targets. Saudi officials say that explosives and arms have already been smuggled into the kingdom from Iraq. More than 250 people were caught trying to enter the Eastern Province in March.

## **The Israeli-Palestinian Conflict and a Potential Anti-Western Backlash**

Recent negative developments in Israeli-Palestinian relations could spark a serious backlash against Western, especially US interests in Saudi Arabia. According to political analysts, the spate of violent individual attacks against Western nationals in the kingdom over the past couple of years was partly attributable to the ongoing conflict between Israel and the Palestinian authorities.

There is widespread resentment towards the US for its strong support for Israeli Prime Minister Ariel Sharon and his hard-line treatment of the Palestinian situation. There was particular anger at Israel's assassination of Sheikh Ahmed Yassim, the spiritual leader of Hamas, in March. Many Arabs in Saudi Arabia and across the Middle East viewed this as an unprecedented crime by Israel that was endorsed by the US. Israel's further assassination of another Hamas leader, Abdel Aziz al-Rantissi, in April has further incensed Arabs.

If the pattern of past events is a guide, these recent developments could likely lead to more violent reaction against US and other foreign interests in the kingdom over the next few months. The scale of any attacks though will be small and limited compared to the bombings organized by Al-Qaeda.

## **Threat Assessment for Dhahran and the Eastern Province**

Up until the Khobar attack in late May, Dhahran and the kingdom's Eastern Province appeared to be at less risk of a major terrorist attack than Riyadh and its neighbouring ultra-conservative central provinces. Nonetheless, there had been signs beforehand of terrorist activities in this part of the kingdom and security measures were stepped up in Dhahran, Dammam, Jubail, Al-Khobar and other major urban centres in the province.

In addition to the Khobar attack in May, there have been a steady number of terrorist-related attacks in the Eastern Province over the past few years:

- In July last year, Saudi security services arrested 16 militants in Riyadh, Al-Qasim Province and the Eastern Province. Automatic rifles, hand grenades, and bags filled with chemical substances to make explosives were also found in the raids in outlying farms and rest-houses. They are believed to have been smuggled into the kingdom from Yemen or Iraq.

- In May last year, a gunman was arrested outside the US Consulate in Dhahran. This led to the temporary closure of a number of international schools in the city.
- In another incident at the beginning of May last year, a US civilian was shot and killed by an unknown gunman outside a Saudi naval base in Jubail. He was a contractor for the Royal Saudi Navy. The assailant has not yet been found.
- In October 2001, an American oil company employee was killed after he was attacked at a shop popular with local Western residents in Al-Khobar.
- In May 2001, an American chiropractor working in Al-Khobar was maimed after opening a letter bomb addressed to him.
- In June 1996, a bomb attack on a US military housing complex at Al-Khobar killed 19 US military personnel.

According to diplomatic sources, this upsurge in attacks against US and foreign residents in and around Dhahran since 2001 was due to a radical shift in local attitudes towards Americans after the long-running Israeli-Palestinian conflict flared up into violence in 2000.

US diplomats assessed from 2001 onwards that the potential for random acts of violence against US and Western nationals in Dhahran was extremely high. Besides the shootings and letter bombs, there have also been incidents of rock throwing, vandalism to foreign-owned cars and attacks against Western women by over-zealous religious police or muttawan who rigidly enforce Islamic law.

### **The Political Situation in the Eastern Province and the Role of the Shia Population**

The principal source of concern for the political situation in Dhahran and the Eastern Province is the relationship between the Shia Muslim minority and the Wahhabi Sunni-dominated authorities. The Saudi government has imposed tight restrictions on the religious practices of the Shia minority, including banning their literature and preventing them from being employed in strategic sectors of the economy.

Around 1 million Shia Muslims, or around 5-6 percent of the national population, are officially estimated to be living in the kingdom, of which the overwhelming majority is located in the Eastern Province, accounting for as much as 40 percent of the provincial

population. Unofficial estimates suggest the actual total of Shia Muslims could be as high as 2 million.

The Shias have frequently protested their mistreatment by conducting labour strikes and street demonstrations. The authorities have responded harshly, especially during the 1950s and 1960s, by sending in troops to quell the unrest and conducting mass arrests. The Iranian revolution in 1979 sparked further street demonstrations by the Shias and the National Guard used considerable force to put down these disturbances.

During the 1980s and 1990s, the Saudi government sought to improve ties with the Shias by allocating more funds to boost local services. In 1993, the ruling family reached an agreement with exiled Shia leaders to allow greater freedoms for the Shia population in return for a halt to resistance activities from overseas. This pact broke down in 1996 though and there have been sporadic protests in the past few years. In April 2002, there were news reports that several thousand Shias had taken part in political demonstrations in Dhahran. Since then, the political situation has been relatively quiet and there have been no further reports of any significant protests.

Nonetheless, there is some concern that the political transformation of Iraq and the rise to prominence again of the Shia majority there may prompt the Saudi Shia population to demand more political freedoms and greater access to the wealth generated by the Eastern Province. This is because much of the Shia population in Iraq is concentrated in the south of the country, which is close to Saudi Arabia's Eastern Province.

Political analysts believe that for the time being at least, Iraqi Shia leaders are unlikely to be interested in seeking to exert their influence among Shia groups beyond Iraq's borders. These analysts also anticipate that the Shia leadership in Saudi Arabia will remain loyal to the kingdom rather than seek secession, although they will press for improved rights. But the Shia population in the Eastern Province may in future be more willing to be politically active than in the past.

In recognition of the rising aspirations of the Shia population in the aftermath of the toppling of the Saddam Hussein regime in Iraq, Crown Prince Abdullah, Saudi Arabia's de facto leader, met in May 2003 with Shia leaders who presented petitions seeking equal political and religious rights.

If the Shia population were to become more militant, one organization that would likely benefit is the Saudi Hezbollah, a small extremist group that was implicated in the 1996 Al-Khobar bombing. This group was founded in the 1980s by Saudi Shia and sought support from Iran, which provided military training and financial assistance. US intelligence analysts estimate that Saudi Hezbollah has a core of only around 250 members.

**Conclusions: Terrorism will be a Continuing Threat, but the Biggest Long-Term Challenges to Saudi Arabia is Leadership Succession and Political Reform**

Saudi Arabia is now facing a sustained terrorist campaign that will almost certainly lead to more terrorist attacks in the coming months. While the ultimate goal of the militants is to topple the ruling Al Saud family, this is unlikely to happen because the royal family maintains a firm grip on power and retains the loyalty of the security forces and the overwhelming majority of the population.

Instead, Al Qaeda and other militant groups hope to disrupt the country's economy through striking at vulnerable targets such as the kingdom's foreign workforce. This is leading to a major departure of skilled Western expatriates from the kingdom, which could accelerate if more attacks occur. As the Saudi oil industry and other key economic sectors are heavily dependent on foreign expertise for management and maintenance support, this continuing exodus could soon begin to adversely affect the performance of the Saudi economy.

A significant terrorist attack against the oil infrastructure base is also a major concern, but may currently be beyond the capabilities of terrorist groups because key production and refining facilities are heavily fortified. Nonetheless, opportunistic strikes against pipelines, tankers and the less well-defended transportation system is likely with the goal of disrupting oil output and exports and thereby causing sharp increases in world oil prices.

With the mounting terrorist attacks now a clear and present danger to the stability and long-term survival of the Saudi state, the authorities have finally recognised the danger and has put the crackdown and elimination of Al Qaeda and other terrorist groups at the top of its priorities. It faces a long and hard struggle in achieving this goal though as the terrorist and militant groups are able to tap into a growing pool of dissatisfied and unemployed youth and deepening anti-US and anti-Western sentiments throughout the population. This could see militant groups attract more recruits and funding for their activities.

While the terrorist attacks represent a serious headache for the Saudi authorities, the principal long-term threats to the political stability of the kingdom comes from leadership succession within the royal family and the pace of political reforms to cope with rising calls for greater grass-roots participation in the running of the country.

While the royal family continues to maintain a secure grip on power, it faces a rapid turnover in its top ranks over the next decade as the current generation of princes who are in line to take over from ailing King Fahd. The near-term succession process has been largely decided, with Crown Prince Abdullah already in de facto charge of the kingdom. But the longer-term handover to the next generation of younger and less well-known princes has not yet been decided and this could spark growing rivalry and factionalism.

Political and religious opposition to the Saudi government has also been steadily increasing over the past decade. Economic problems and growing urbanisation has also led to popular discontent, which has resulted in periodic outbreaks of street demonstrations, the signing of petitions and other organised forms of complaints.

The authorities have been able to cope with these peaceful protests through a mixture of carrot and stick measures, such as co-opting moderate dissidents and imprisoning or even executing more hard-line extremists. On their own, these diverse elements are not a serious threat to the royal family's hold on power. But they do indicate a growing conservative and religious backlash against the government's opening up to the outside world and its close ties with the US.

For more detailed analysis of current political and business risks in Saudi Arabia, please contact Steve Vickers, President and CEO of International Risk in Hong Kong at (852) 3120-8688 or any of our worldwide offices.

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