SAUDI ARABIA

Kingdom Assumes a Greater Role In Global Decision-Making Arena

By John Duke Anthony

As a result of the 1990-91 Kuwait crisis, many things will never be the same again. It is a cliche, to be sure, but one that is especially true for Saudi Arabia. Indeed for millions of television viewers and readers of newspapers and magazines the world over, the kingdom during this period was not so much discovered as uncovered as never before.

Over a period of seven months, more than 6,000 journalists and foreign correspondents descended upon the kingdom to cover virtually every aspect of the crisis imaginable. By the time they left, some were on their way to becoming "old hands" — an accolade reserved for outsiders who successfully adapt to the local environment. In the process, the world was treated to more TV sound bites and column inches of print about what Saudi Arabia is and isn't than all the media coverage of the kingdom during the two previous decades combined.

Massive Coverage

In its scope and focus, the coverage was unprecedented. For example, there were in-depth reports on everything from the state of the kingdom's military preparedness and the extraordinary range of assistance it provided to the Desert Shield and Desert Storm operations, to the modernization and diversification of its economy and infrastructure and important, little known, aspects of its history, society and culture. Throughout, what came across more clearly than ever was the range of mutual interests and common concerns that, for longer than many were aware, have linked the country to the outside world, and vice versa.

It was not always so. Indeed, for most of this century, the kingdom has been more than the epitome of Doughty's classic "Arabia Deserta." For the 99.99% of humanity that lived beyond its shores, it was literally terra incognita, in many ways an Arabian Tibet.

Even the general parameters of its geography — in size, representing a third of the U.S., or equal to that of the land mass of the entire European Community — defied comprehension.

The discovery of oil in the kingdom before World War II altered the picture.

Islamic Role

Saudi Arabia's role within the Islamic world — as guardian of Islam's two holiest shrines in Mecca and Medina — has increased dramatically. Where before Mecca was, and remains, the directional center of prayer, of faith and spiritual devotion, for nearly a billion people — one fifth of the world's population — it is nowadays to a greater extent than at any previous point in the history of Islam possible also for virtually any Moslem to visit the shrine in fulfillment of the Islamic duty of *hajj*, or pilgrimage.

Parallel to the kingdom's pivotal position within the Islamic world are its increasingly proactive positions and actions within several regional organizations in which U.S. interests, needs and concerns are immense. Whether within the 45 member nation Organization of the Islamic Conference, the 21-member League of Arab States, the 13-member Organization of Petroleum Exporting Countries, or the six-nation Gulf Cooperation Council (GCC), the role of Saudi Arabia — a founding member of each of these organizations, as it was also of the U.N. — continues to be as active and participatory, and as consistently a moderating force, as any of the members.

Asset Management

These and other important assets that Saudi Arabia brings to table, together with its cautious and conservative record of managing its assets, have earned it a seat near the center of decision-making in international forums. During the Kuwait crisis, it was a major player on the Gulf Crisis Financial Coordinating Committee, which was chaired by the U.S., and also included the EC, Germany, and Japan. And it worked throughout the crisis with the imposition of sanctions against Iraq and Kuwait, to make up the production deficit and thereby ensure a steady flow of oil in adequate amounts at manageable prices.

Biggest Underwriter

Together with its fellow GCC members, after Japan, it has been for the past decade and a half the single greatest underwriter of American deficit, annually investing billions of dollars in U.S. Treasury securities, and allowing interest rates to remain lower than would otherwise have been the case. As such, it has helped substantially to provide the means for U.S. government expenditures for everything from defense equipment for the U.S. armed forces to school lunches for needy children and health care benefits for America's senior citizens.

For most years during the past decade and a half, the kingdom has also ranked among the top dozen trading partners among the 159 U.N. member countries. On the investment side, Saudi Arabia accounts for the lion's share of U.S.-Arab joint commercial ventures in the region as a whole. Further, U.S. corporate investments in Saudi Arabia represent half of the entire world's investment in the kingdom.

The range and reach of the kingdom's impact on international affairs extends increasingly into previously uncharted waters. For example, Saudi Arabia and its fellow GCC members are critical to the prospects for Eastern European countries' ability to reform and develop their economies, with those prospects turning heavily on the need for substantial inputs of energy at manageable prices.

Foremost Forces

In this regard, the kingdom and the other GCC countries are the foremost forces in support of price restraint and the single most available and amenable source of supply.

Saudi Arabia has also continued to play a major role as a source of financial capital in support of the economic assistance needs of close to 80 developing countries, many of which are also the friends, allies and strategic partners of the U.S. Together with Kuwait and Abu Dhabi, the kingdom has for nearly two decades ranked annually in the top three of all nations in terms of percentage of its gross domestic product that is extended in grants and other forms of concessional aid to the less-developed countries.

Many of these countries have been adversely affected by America's steadily shrinking foreign aid programs. The resultant cost-sharing between the U.S., Saudi Arabia, and other GCC aid donors has lessened the burden of American taxpayers. By demonstrating its continuing capability and commitment to provide such assistance, it made a major difference in the effectiveness of the 1990 U.N. sanctions imposed on Iraq in the aftermath of the latter's invasion of Kuwait.

Poorly Understood

Despite the unprecedented degree of media exposure it received during the Kuwait crisis, the kingdom remains poorly understood by most Westerners. Indeed, so preoccupied were many with the kingdom's role in the day-today war and peace prospects attending to the crisis that little attention was paid to additional significant events in the country's development that occurred during the same period.

One event that attracted little notice marked a significant ending of one chapter in Saudi Arabia's history and the beginning of another: the resumption of diplomatic relations between Riyadh and Moscow. Absent since the late 1930s, their restoration in October was the culmination of a steady warming in the relationship dating from the last days of the Iran-Iraq war and the Kremlin's decision to withdraw its troops from Afghanistan.

Following on the heels of glasnost, perestroika and not just U.S.-U.S.S.R. detente but proactive American-Soviet cooperation in the U.N. Security Council, the timing — in terms of Saudi Arabia's need for Soviet support during the Kuwait crisis —could not have been more propitious. In the history of Middle Eastern conflicts in this century, this was the first time that the U.S. and the Soviet Union stood together, not opposed.

Simultaneously, the threads of Riyadh's pre-crisis efforts to settle other regional conflicts moved forward. For example, in Lebanon, where peace among the warring factions had eluded U.N., Arab League, and other efforts for a decade and a half, the 1989 Taif Accord, organized, hosted, and brokered by Saudi Arabia, moved several important steps closer to implementation. And though progress on solving the Palestinian problem had slowed, and the effort to settle Iraq's complaints against the existing regional order proved elusive to Saudi Arabia and every other Arab country, these frustrations were tempered by successes in other areas.

Different Egypt

In one, a different Egypt than the one that threatened Saudi Arabia in the 1950s and 1960s — one more committed to the independence, sovereignty, and territorial integrity of other countries — resumed its previous role as headquarters for the League of Arab States. In another, Syria, which like Egypt had long stood in opposition to many Saudi positions and policies, was quick to respond to the kingdom's request for assistance against Iraq.

Between them, these two former erstwhile adversaries of Saudi Arabia contributed more than 50,000 troops to Desert Shield and Desert Storm. Both, moreover, have agreed to contribute troops to postwar peacekeeping forces in neighboring Kuwait. The phenomenon of Egypt, Syria and Saudi Arabia working in tandem to achieve regional peace and stability represents a major turnabout in traditional intra-regional politics, one that could not have been foreseen a decade ago.

Enhancing awareness of dramatically altered international circumstances in which Saudi Arabians engage in diplomacy, politics, commerce or any other activity is one thing. Comprehending the no less significantly different domestic and regional situation in which the kingdom currently finds itself able to pursue new business opportunities is quite another. Indeed, in terms of investment, trade, joint ventures, sourcing, manufacturing, marketing, exporting, and regional distribution opportunities, there appears to be only limited understanding of the kingdom's significantly strengthened position immediately prior to the Kuwait crisis and, equally, its unique situation and potential in the war's aftermath.

By having positioned itself and its foreign partners to take advantage of these opportunities, Saudi Arabia stands on the threshold of a new era. It is not so much because of what happened in the course of the Kuwait crisis, although the enhanced prospects for regional peace and stability that resulted have certainly improved the situation immensely. Rather, it is related more to the reality of a two-decades-old decision to link Saudi Arabia's overall planning to its economic and oil policies coming to fruition at this time. This special issue highlights a range of developmental and other forces at play within the kingdom as the new era begins.

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Squeeze on Kingdom's Finances Expected to Be Short-Lived

Saudi Arabia's role as the coalition's effective paymaster during the Gulf crisis has placed some heavy demands on the country's economy. However, most experts believe the squeeze on the kingdom's finances will be short-lived. Saudi Arabia's industrialization drive, dating from the mid-1970s, has fashioned a very resilient economy. And the government's coffers have been swelled by billions of extra dollars in oil revenue over the past 10 months. Although 1991 will be a testing year in the kingdom, many Saudi businessmen, keen to restart projects stalled because of the Gulf conflict, are looking forward to the future with optimism.

Saudi Arabia's total bill for the Gulf war is made up of cash payments to the U.S., aid to its regional partners, logistic support to allied armies in the Gulf, and weapons purchases for its own armed forces. Estimates of the final cost of the Gulf crisis to the kingdom vary from $40 billion to $60 billion.

The impact on government finance was not too bad in 1990. Although Saudi Arabia is thought to have made commitments of around $20 billion last year, large chunks of this money have yet to be paid. Economists reckon that the government's budget deficit will not be too much bigger than the roughly $7 billion already forecast.

This year, as more payments have to be made, their impact on government finance will be softened by extra billions in oil revenue. Over the past 10 months, Saudi oil production has risen from its OPEC quota of 5.4 million barrels a day agreed to in July 1990, to about eight million barrels today. So far, the country is estimated to have received over $15 billion in windfall oil profits.

Late last year, with a higher oil price, Saudi Arabia had doubled its oil revenues to about $6 billion a month. If the country can keep up its present rate of oil production, the 1991 budget deficit will probably be kept under $15 billion.

By 1992, both the government's budget and the country's current account are likely to be back in surplus. Saudi Arabia's balance of payments has been helped greatly by the country's very successful import substitution program. In 1982, the kingdom's total imports were 139 billion riyals ($39.7 billion). Last year they were just SR79 billion. The Economist Intelligence Unit forecasts gross domestic product growth of close to 5% for Saudi Arabia in 1991. That's down from over 7% last year, but is still nearly double the rate of growth of most European Community countries.

To help the kingdom through its temporary cash squeeze, the government signed a $4.5 billion loan in May with a group of international banks led by J.P. Morgan. The government has also turned to local banks for a $2.5 billion loan.

Confidence in both the public and private sector is high. Even during the crisis, businessmen were optimistic. For example, in the second half of 1989, 94 licenses were granted by the Saudi Industrial Development Fund. The total value of the projects licensed was SR1.7 billion. In the second half of 1990, 101 licenses were granted for projects with a total value of SR5.7 billion.

In the public and semi-public sectors, a clutch of big companies are pressing ahead with projects. Saudi Aramco is pushing ahead with its long-term program to help expand the country's oil production to 10 million barrels a day by the mid-1990s. All this will cost about $15 billion. Allied to this are plans to invest heavily in the kingdom's downstream refineries, which could cost another $10 billion over the next decade.

Saudi Consolidated Electric Co. for the Western Region is organizing finance for a SR1.2 billion power station at Rabigh. Saudi Iron & Steel Co., a subsidiary of Saudi Basic Industries Corp., has also turned to local banks for a SR500 million loan to finance a new project.

"The country has probably never been such a secure place to invest"

Prince Abdullah bin Faisal bin Turki al-Saud

In the private sector, many companies, particularly in the Eastern Province, are basking in the profits they earned providing logistical support for the allied armed forces in the kingdom during the Gulf crisis. One guide to the private sector's optimism is the performance of the Saudi Arabian Stock Exchange. The CCFI All Sectors Index had risen from a low of 83 in November last year to 127 recently. The exchange's total market capitalization is now around SR50 billion. Trading volume had grown from under 100 deals in January to over 600 in May.

Businessmen are happy to invest and report no problem getting interest from foreign firms. "I think the success of the coalition forces has banished any doubts among foreign firms about the security of Saudi Arabia. The country has probably never been such a secure place to invest," says Prince Abdullah bin Faisal bin Turki al-Saud, chairman of the Royal Commission for Jubail and Yanbu.

The Gulf war has made Saudi businessmen and government officials think more deeply about the direction of the Saudi economy. Some feel that a temporary squeeze on the cascade of funds from the government may benefit the private sector. They argue that it will make companies turn to more commercial forms of financing and force them to become more competitive.

Government officials such as Dr. Abdul Rahman al-Zamil, the deputy minister of commerce, think that Saudi Arabia should work hard on promoting itself as a base which foreign companies can use to export to other Gulf Cooperation Council states, and to what he calls the inner circle of countries close to Saudi Arabia, such as Egypt and Iran.

Says Dr. al-Zamil: "Foreign companies like the big American firms do not need to go to Mexico or Thailand. They should come here. We can provide them with labor at a reasonable cost and a great base for selling their products to a huge market of over 150 million people if you include all the GCC states and nearby countries."

Saudi Role Vital in Gulf War Logistics

By Richard Morgan

"If you recall all the great generals throughout history and analyze the battles they lost, you will find it was often for only one reason: their opponents' superior logistics," says Lt. Gen. Gus Pagonis, the commander on the ground of all U.S. forces in Saudi Arabia. Nowhere is this more true than of Operation Desert Storm. The logistics behind one of the most powerful military campaigns this century was crucial to its success. And an important element in the military buildup was the role played by Saudi Arabian companies, and the excellent infrastructure of the kingdom.

Tough Decision

In the dark days of early August last year, President George Bush, advised by Colin Powell, chairman of the joint chiefs of staff, had a very tough decision to make. The threat to Saudi Arabia from Saddam Hussein's forces was clear. America's response had to be swift.

Normally, combat outfits are sent into a battle zone with supply units closely supporting them. However, President Bush, aware of Saudi Arabia's extensive facilities, decided to send combat troops to the kingdom before any supply units were dispatched. This allowed a defensive shield to be thrown around the kingdom far more rapidly, and thwarted any designs Saddam Hussein may have had on attacking Saudi Arabia.

By December, there were over 220,000 American troops and tens of thousands of soldiers from the other countries in the Allied coalition in Saudi Arabia. "It was one of the most rapid and accelerated buildups in military history," says Gen. Pagonis. "The modern equipment and technology we have today made it possible."

What also made the operation feasible was, first, Saudi Arabia's excellent infrastructure — including the quality of its military bases, many of which surpass even NATO standards. "I think a few of the U.S. commanders expected everything to be similar to Vietnam," says Abdulaziz Kanoo, deputy chairman of the Kanoo Group, one of Saudi Arabia's biggest private companies. "When some of the U.S. officers arrived here, they were amazed by the fine port facilities, modern highways and comprehensive electricity networks."

The second factor in the buildup's success was the ability of Saudi companies to supply many of the needs of the foreign armies in the kingdom. Saudi companies, from conglomerates to small firms and simple merchants, all played their part.

Big Suppliers

The big companies, such as the Riyadh-based Olayan Group, supplied the armies with a range of goods and products, including food, bottled water, rolling stock and trucks. Xenel Industries, another big private Saudi company, based in Jeddah, organized some 5,000 meals a day for the military and for Kuwaiti refugees. Al-Qahtani Maritime, a subsidiary of Al-Qahtani & Sons, a leading Saudi firm, sold about 20 million to 25 million riyals ($5.7 million to $7.1 million) of tires to the coalition forces.

The Kanoo Group's container terminal services worked overtime to help the smooth delivery of supplies from the ports to the troops in the field. The company also did a thriving trade in consumer products.

Thousands of showers were built, and over 50,000 cars and thousands of trucks were hired by the coalition forces. It is estimated that at the peak of Operation Desert Shield/Storm, Saudi firms were supplying the coalition armies and Kuwaiti refugees with over $1 billion of goods and services a month.

Two of the most important roles in the logistic effort were played by Saudi Aramco, the Kingdom's state-owned oil company, and its sister company Samarec, formed in 1988 and responsible for refining and marketing the country's oil.

Within four months of the Iraqi invasion of Kuwait, Aramco had substantially boosted Saudi Arabia's oil production. Total oil output rose from some 5.4 million barrels a day before the crisis to around eight million barrels a day by the end of last year.

Equally impressive was the performance of Samarec. Every plane that flew, every tank that rolled, every ship that sailed was fueled by Samarec. The company had to react quickly in order to meet rapidly growing demands for aviation fuel, gasoline, diesel, and many other petroleum products.

The day the invasion occurred, Samarec's senior managers met and formed an emergency committee at the company's head office in Riyadh. The task they faced was daunting: coping with a trebling in the demand for their products.

Before the Iraqi invasion, Samarec's total output of refined oil products was about one million barrels a day. During the crisis, Samarec had to provide another 300,000 barrels to 500,000 barrels a day for the defense forces, while at the same time building up a reserve, as well as keeping up the same rate of supplies to the local market. It took a huge organizational and distribution effort to handle the surge in demand.

To help distribute all the supplies, about 2,000 extra trucks were ordered from Turkey. New airport terminals were opened. About 3,000 extra Saudi drivers were hired.

Both Gen. H. Norman Schwarzkopf, overall commander of U.S. forces in the Middle East, and the commander of the allied armies during the Gulf war, and Prince Khalid bin Sultan, the commander of the Arab forces in Saudi Arabia during the conflict, were well aware of Samarec's contribution to their efforts.

Triumph of Cooperation

After the cease-fire, Gen. Schwarzkopf, acknowledging the role played by Samarec, wrote a letter of congratulations to Hisham M. Nazer, Saudi Arabia's oil minister. In the letter, he praised Samarec for being "successful in meeting our military fuel demands during every phase of this challenging operation... The cooperation between Samarec and the U.S. Central Command logistics staff was a key factor in the allied war effort."

As well as Saudi companies, foreign firms in the kingdom also played their part in supporting the coalition forces. Lockheed had maintenance and training crews on hand to help service the company's huge C-130 transport planes used by the U.S. Army. Boeing had technical advisers helping to service the Awacs and Chinook helicopters used so effectively in the battle against Iraq.

Among the foreign companies, General Dynamics of the U.S. took a leading role. A wide range of the company's weapons was used during the Gulf war, including the Tomahawk cruise missile, the phalanx gun used on ships to shoot down enemy missiles, F-111 and F-16 fighter planes and the M60 and M1 tanks.

The company has a joint venture in the kingdom with Mansour, a leading Saudi firm. It was already working on a modernization program, converting the 150 M60A1 tanks of the Saudi Army into the more sophisticated M60A3 model, when the crisis began.

Only two weeks after the Iraqi invasion, Mansour-General Dynamics began organizing maintenance teams to help service the M1 tanks of the U.S. Army, which were being shipped to Saudi Arabia. At the peak of the military campaign, the company had over 100 people working in these support teams.

Although servicing the tanks was necessary, the company also carried out a more vital role. A chemical attack from Iraqi Scud missiles was one of the biggest fears among the allied forces during the Gulf crisis. One of the best vehicles for detecting the use of battlefield chemical weapons is the Fox Nuclear Biological Chemicals Reconnaissance System vehicle. However, although used in Europe, the Fox vehicle was not used by the U.S. Army. So 15 were flown out to Saudi Arabia last October, and more soon followed.

General Dynamics had signed an agreement before the Gulf crisis with Thyssen-Henschel of Germany to co-produce prototypes of the Fox for the U.S. Army. So the company had staff who were familiar with the vehicle and could explain the manuals.

On behalf of its U.S. parent, Mansour-General Dynamics organized chemical platoons of maintenance men to accompany each Fox, ensuring that the allied armies would be warned as soon as possible of a chemical attack on the battlefield.

The U.S.-Saudi Commercial Link

By John Duke Anthony

Fifty-three years after an American company, Standard Oil of California (now Chevron) was the first to discover oil in commercial quantities in Saudi Arabia, U.S. firms continue to play a major role in the kingdom's economy. U.S. exports to Saudi Arabia in 1990 amounted to $4 billion, 18% of Saudi Arabia's total imports. While this is down from the 30% market share enjoyed by U.S. firms a decade ago, the dollar amount makes Saudi Arabia the U.S.'s largest export market in the 27-country Middle East and first among the world's more than 120 less-developed nations.

U.S. imports from Saudi Arabia shot up from $6.2 billion in 1988 to nearly $10 billion in 1990, as Saudi Arabia sprang forward to compensate for the daily shortfall of 4.5 million barrels of oil, stemming from Iraq's invasion of Kuwait. Saudi Arabia's ability and willingness to pump oil at capacity — eight million barrels a day in late 1990 and early 1991, compared with 6.2 billion barrels for 1990's overall average — ensured that world supplies were uninterrupted and the price of oil was kept low.

Saudi Arabia has been criticized for maintaining this policy by some OPEC members who would like to see higher oil prices. Any analysis of the U.S. trade deficit with Saudi Arabia — $2.4 billion in 1988, $3.6 billion in 1989 and $6 billion in 1990 — should therefore factor into the equation the kingdom's critical contribution on the oil supply front, for without constant infusions of energy most economies would come to a standstill.

Sustained oil output has affected the U.S. economy in another way: it has softened the blow of recessionary influences. The current mild recession would have been far worse for the U.S. had the price of oil doubled or tripled, as many analysts feared when Iraq invaded its small neighbor. Not only would the U.S. have been in difficult straits, but its allies would have been in even direr circumstances. And the fledgling market economies of Eastern Europe, already reeling from the cut-off in supplies of deeply discounted Soviet oil, might well have been strangled at birth.

Prior to Iraq's invasion of Kuwait and the start of Desert Shield and Desert Storm, the state-owned oil company, Saudi Aramco, announced plans to increase production capacity to 10 million barrels a day by 1995 at a cost estimated at about $20 billion. Three U.S. firms — ABB Lummus Crest Inc., Fluor Corp., and Parsons Corp. — have been awarded contracts to work on the expansion program.

The U.S. remains the largest foreign investor in the kingdom. Led by Mobil Oil Corp., one of the original Aramco partners, total U.S. investment in Saudi Arabia approaches $2 billion. Mobil is a partner in a number of joint ventures with both public and private Saudi Arabian companies. Hundreds of other U.S. firms, large and small, maintain a presence in the kingdom, whether in the form of joint ventures or commercial offices, and a growing number are locating their regional headquarters there.

Saudi Arabian investment in the U.S., traditionally focused on portfolio investments with heavy emphasis on U.S. Treasury securities, was augmented in 1988 by a U.S. partnership with Texaco, another original Aramco partner. Saudi Aramco is a partner in Texaco's U.S. East Coast refinery and marketing network. This brought Texaco guaranteed access to up to 600,000 barrels a day of crude oil.

The leading U.S. exports to Saudi Arabia in 1990 represented a variety of sectors. At the top of the billing were the automotive and agricultural sectors. Saudi Arabia purchased $326 million of U.S. autos, $87 million in trucks, and $178 million in various other non-military vehicles and parts. In a world market where U.S. vehicle exports suffer because of global demand for smaller cars, Saudi Arabian's taste in cars resembles that of many Americans: "We'll take them larger and more comfortable."

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U.S. agricultural exports to Saudi Arabia in 1990 led off with $186 million of cigarettes, $86 million in corn, $86 million in rice, $50 million in wheat seed, $45 million in barley, $39 million in soybean oilcake, $32 million in corn oil, and $14 million in apples.

Other leading areas included $100 million in airplane and helicopter parts; $49 million in air-conditioner parts (Saudi Arabia is the largest export market for U.S. air conditioners), $44 million in oil and gas field machinery parts, $42 million in carpets, and $57 million in irrigation equipment.

U.S. imports from Saudi Arabia are almost exclusively crude oil, with much smaller amounts of fuel oils. Other products have begun to make their way, too, as Saudi Arabia's economy diversifies: for the first time, last year the U.S. imported small amounts of nails ($3 million), wire ($1.5 million), and textile spinning machines ($1.8 million).

There are occasional thorns in the U.S.-Saudi commercial relationship. American producers of recordings have complained in the past that pirated tapes — manufactured in Asia — are sold in Saudi Arabia and other countries. Both governments have voiced their concerns and agree that Saudi Arabia's enactment of a copyright law in 1990 was a step in the right direction.

The issue of product standards — also problematic for the U.S. vis a vis other trading partners, notably the European Community — is another challenge to the U.S.-Saudi commercial relationship. At the Saudi Arabian Standards Organization (SASO) in Riyadh, a variety of experts — British, Japanese, and others — are paid by their respective governments to advise (some say to lobby), SASO to enact standards like theirs, not U.S. ones. (SASO standards are also adopted by the other five GCC countries).

This can be a substantial problem not only in the obvious areas like voltage and lengths, but in the shelf life and labeling requirements of foodstuffs. SASO itself, and a group of U.S. companies represented by the American Business Council of the Gulf countries, have appealed to the U.S. government to fund a U.S. standards expert.

The Congress directed the U.S. Commerce Department to match funds for this purpose by the U.S. private sector in order to establish a pilot standards program. However, Congress to date has appropriated no funds for the program. Not generously funded in its international trade programs compared with America's competitors, the Commerce Department has the expertise and the willingness, but not the money, to help. A private sector group, the Saudi American Business Roundtable, stepped in to fund the placement of a U.S. standards expert in SASO.

After spending an estimated $250 billion on its development since 1975, Saudi Arabia is concentrating its resources on maintaining its infrastructure, increasing the role of the private sector, especially in industrial manufacturing, continuing its emphasis on import substitution, and becoming a regional center for sourcing and distribution throughout the Middle East, South Asia, and Africa. Regarding the kingdom's exceptionally robust private sector, and its increasing ability to export, Dr. Abdalrahman al-Zamil, deputy minister of commerce, says: "What many people seem to overlook is the fact Saudi non-oil exports now reach 74 countries. In the past half decade alone, such exports have registered a 35%-40% increase each year. We've gone from exports valued at between three to four billion Saudi riyals ($857 million to $1.14 billion) a year, to 14 billion riyals, and without any Eximbank or other institutional financing — it's been financed 100% from the Saudi private sector."

He and other leaders within the public and private sectors speak as one in crediting "clear-cut government policies of keeping out of business and clear-cut private sector dynamism as the reason for the phenomenal economic growth rate the kingdom has experienced these past two decades — a growth rate that will be equally, if not more, phenomenal in the period ahead."

The Energy Dimension

Turn any conversation to hydrocarbons, and sooner or later Saudi Arabia will become the point of discussion. Little wonder. It is difficult to discuss the kingdom's position and role in the international energy industry without speaking in superlatives. It has the world's largest oil reserves; the largest field, Ghawar, which contains more oil than all the oil in the U.S., Canada, and Europe combined; the largest offshore field, Safaniya; the largest refinery, at Ras Tanura; the largest number of oil and gas fields — 60; the largest oil company, Saudi Aramco, which has the largest concentration of American civilians abroad.

"An integrated network of mutual advantage"
Hisham Nazer, minister of petroleum

Highest and Lowest

That's not all. The kingdom also has the world's highest production average per oil well; the lowest production cost per barrel; is the world's biggest exporter (the largest source of American oil imports); the most influential member in OPEC and OAPEC; a recognized world leader in protection of the environment and controlling petroleum-based emissions; and, because of its clout in international energy and finance, has seats — the only ones allocated to the world's more than 120 less-development countries — on the boards of the World Bank and the International Monetary Fund.

Its assets and the important role it plays in regional and world energy affairs aside, Saudi Arabia's efforts to achieve and maintain stable oil supplies and prices have often been received in a hostile manner by most of the other OPEC and non-OPEC producers, a number of whom have consistently sought to achieve the highest price possible.

So determined were some OPEC members that they broke their quotas in an effort to capitalize on higher prices. In response, Saudi Arabia in 1986 moved to halt the resultant slide in its market share. The price of oil had slid from $36.48 at the height of the Iran-Iraq conflict in 1981 to $13.49 in 1986, with OPEC's dollar exports during this period dropping correspondingly from $265 billion to $79 billion.

New Philosophy

From that experience, Saudi Arabia emerged with a consensus that it could not bear the burden of oil market stability alone. The government's philosophy since then has been best expressed by Minister of Petroleum Hisham Nazer: "Simple economics shows a mutually beneficial dependence here. Instead of working to pretend that the dependence does not exist, both the producers and consumers will be better served if this growing dependence is translated into an integrated network of mutual advantage for both."

Looking to the future, the U.S. Energy Information Agency has stated that by the year 2000, 57% of U.S. oil consumed will be imported. Given the lean and dwindling supplies of petroleum in other countries, including the U.S., the bulk of these supplies will come from Saudi Arabia and other Arab Gulf countries. This is not a wish, but fact. In the U.S., the world's biggest oil consumer and importer, Americans will have no choice but to cope with this reality. So will its friends. So will everyone else.

Given this situation, policymakers in the U.S. government responsible for such matters may wish to give more heed than have their predecessors to the notion of cooperating with friendly oil producers to achieve market stability.

To be sure, the notion of large-scale or governmental cooperation between oil producers and oil consumers has long been an anathema to advocates of purist free-market economics. "Let market forces decide," they say. But extreme oil market volatility has the potential to severely damage economies that free-market forces have worked so hard to create.

Now may be the time for the largest consumers to align themselves with the moderate, responsible producers through an arrangement that the radical and irresponsible cannot crack.

Men Behind the Saudi Image

By Richard H. Curtiss

During the Gulf war, Saudi Arabia's Information Ministry met the greatest challenge in its history. A country which seldom had issued visas to more than a dozen foreign journalists at a time was suddenly dealing with an unprecedented media invasion.

At the height of the Vietnam war, there were seldom, if ever, more than 500 foreign journalists in South Vietnam. In Saudi Arabia, during Desert Shield and Desert Storm, there were seldom fewer than 400, and at times the number surged to 1,300. Altogether, between 6,000 and 7,000 foreign journalists visited the kingdom between the Aug. 2 Iraqi invasion of Kuwait and the Feb. 27 cease-fire.

Setting Up Centers

Together with military public affairs officers of some 20 coalition countries, the Saudi government set up media centers in Riyadh, the capital, where a large portion of the foreign press corps gathered; Dhahran in the Eastern Province, where most of the foreign forces were concentrated; and, initially, in Jeddah, Saudi Arabia's major port of entry. It was from these centers that the American, British and Saudi commanders and their spokesmen conducted the daily televised briefings seen around the world. Similar briefings for the press of their own countries were conducted from the same centers by commanders of Egyptian, French, Syrian and other forces that had come to join the coalition from points as distant as Morocco and Bangladesh.

Besides becoming the lead players in media coverage of the war, the military commanders and briefers literally mesmerized the world from the Jan. 16 beginning of the air war right up to the post-cease-fire meetings between defeated Iraqi commanders and Desert Storm's American commander, Gen. H. Norman Schwarzkopf and the Saudi commander, Prince Khalid bin Sultan.

Throughout this period, presiding personally over the media centers, was an American-trained Saudi Information Ministry official, Dr. Shihab Jamjoom. His air of assured authority was that of a man on top of his job. That was literally true in the case of the Riyadh media center. Dr. Jamjoom moved for the duration into a suite just one floor above the press center in the Riyadh Hyatt Regency Hotel, across the street from the Saudi Ministry of Defense, and was there 24 hours a day. When he wasn't physically in the press center journalists with urgent requests knew where to find him, and got quick answers or solutions to an amazing variety of questions, requests, and problems.

The unprecedented Saudi decision to admit all journalistic comers reflected the confidence of the main players that the kingdom could handle the influx. No one argued harder for the decision than Information Minister Ali al-Sha'er, his deputies, Dr. Jamjoom and Dr. Fuad al-Farsi in Riyadh, and the Saudi ambassador to the U.S., Prince Bandar bin Sultan al-Saud. Had the press coverage gone badly for Saudi Arabia's reputation, these were the officials who would have taken the heat.

As they predicted, however, things went very well, even as the final days of the ground war resulted in almost round-the-clock press center briefings. And within less than a week after the liberation of Kuwait, the Saudi Ministry of Information was conducting daily one-day press tours of shattered Kuwait City. Royal Saudi Air Force transport aircraft took groups of journalists, accompanied by Information Ministry personnel, from the Dhahran and Riyadh military airports. In Kuwait, they were met by Saudi military buses and conducted to the center of the city where they were allowed to roam wherever they wished and talk to the Kuwaitis who had stayed, and the soldiers who had liberated them and who were removing mines, splicing together electric wires, and repairing water pumps and generators. Then, in the evening, the Saudi aircraft transported journalists back to Riyadh and Dhahran where there were press center facilities to file their stories.

Sense of Satisfaction

"It was a great experience," says Dr. Jamjoom of the press influx that accompanied Desert Shield. He feels the same sense of satisfaction about the debate within the government about allowing so many journalists into conservative Saudi Arabia, which is regarded with religious awe by the world's one billion Moslems, almost one-fifth of the human race.

"I wish there had been more time to take more of the journalists around to meet more Saudis," says Dr. Jamjoom. "We did that wherever journalists expressed interest, and I personally gained exactly what Saudi Arabia gained, a large number of friends, especially among those who were able to stay for longer periods."

GCC Played Key Part in War Effort

By John Duke Anthony

Following Iraq's invasion of Kuwait last August, it became fashionable for various analysts and commentators to speak of the Gulf Cooperation Council (GCC) in the past tense. Many considered the group — established in 1981 by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates — to be dead.

But with the possible exception of the NATO alliance and the Organization of the American States (OAS), probably no other regional organization was as well-positioned as the GCC to cover most of the costs associated with the deployment of troops in the Kuwait crisis. But for this dimension of the GCC, it is questionable whether the international coalition of forces would have been as forthcoming or assumed as great a size — nearly 30 nations.

Certainly, American critics of the U.S. response were quick to complain that the U.S. had no business mounting an operation so massive and of such uncertain duration in the absence of guarantees that Americans would not bear the costs alone. Had the international coalition not been able to deal quickly and effectively with this unfolding dynamic of the crisis in its earliest days, there is little doubt that Iraq would have calculated differently and probably acted much more adventurously than it did following its invasion of Kuwait. In meeting this challenge, the GCC and its supporters demonstrated that the financial component of mounting a credible deterrence and defense can be as important as the military component itself.

Free Fuel

As the soldiers and the equipment deployed to the GCC were already paid for, one of the biggest costs of the deployment was fuel — a commodity to which the GCC had ready access and directly controlled. Just as Saudi Arabia and the other GCC countries provided free fuel to the foreign naval forces that escorted Kuwaiti and other GCC oil tankers through the Gulf in 1987-88, so, too, did they play the same role again in the Kuwait crisis.

In addition to providing free fuel for aircraft, ships and land-based vehicles, Saudi Arabia and other GCC countries contributed billions of dollars in cash to cover a substantial portion of the costs — including the deployment itself, weapons and equipment maintenance, the aircraft leasing — of Desert Shield and Desert Storm. And three GCC countries — Kuwait, Saudi Arabia, and the UAE — spared no effort, along with the U.S., in persuading Japan, Germany, and the European Community to assume a significant part of the expense entailed in assisting the countries most severely hurt as a result of enforcing the embargo. In so doing, Egypt, Jordan, Turkey, and Yemen — the four hardest hit by compliance with the sanctions — plus Bangladesh, Eastern Europe, India, Morocco, and the Philippines, had their plight eased to a greater degree than would otherwise have been the case.

Rendering Aid

Beyond their assistance to those from outside the GCC region who were affected by the crisis, Saudi Arabia and the other GCC countries rendered extensive humanitarian aid to nearly 200,000 Kuwaitis — a third of Kuwait's citizens — who became stateless refugees when they fled the country or were unable to return to Kuwait in the aftermath of the Iraqi invasion. Neighboring Saudi Arabia opened its doors — and many of its homes — to more than 100,000 Kuwaiti refugees. The other four GCC members, collectively, welcomed and assisted almost as many uprooted Kuwaitis. In every GCC country, Kuwaitis were supplied by the governments and by charitable relief organizations with housing, food, and money.

The relative ease with which such large numbers of dislocated and devastated people were absorbed within the region, and then repatriated to Kuwait following its liberation, would have been far more difficult had it not been for the GCC. The GCC's Economic Unity Agreement of June 1981 guaranteed the right of all GCC citizens to live and work in any of the other GCC countries.

In the southwestern Saudi Arabian city of Taif, moreover, an extensive network of logistical, transportation, and communications facilities was put at the service of the Kuwaiti government. The provision of such facilities buoyed the hopes and the prospects of the Kuwaiti people that their homeland would be liberated.

In both the 1973-74 and 1979-80 disruptions in the supply of Middle Eastern petroleum — disruptions that occurred prior to the GCC's existence — world economic stability suffered from the resultant skyrocketing of oil prices. In the Kuwait crisis, the GCC had a profound and salutary influence on the manner in which the world was able to respond to the petroleum dimension of the conflict. The aforementioned GCC decision to provide free fuel to the forces of the countries that came to its assistance was, in itself, a contribution worth billions of dollars.

Of even greater impact globally was the GCC's decision to move quickly to compensate for the loss in oil production caused by sanctions on Iraq. Saudi Arabia shut two pipelines that had previously carried Iraqi oil to export terminals on the Red Sea. Turkey also closed two pipelines that had carried Iraqi oil to a terminal on the Mediterranean. The multinational force, led by the U.S., prevented tankers from delivering Iraqi or Kuwaiti oil and oil products.

Making Up a Shortfall

Saudi Arabia and the UAE were the two GCC members best positioned to make up most of the 4.5 million barrels of daily shortfall that had resulted from the embargo. Accordingly, they and the other two GCC members in OPEC — Kuwait and Qatar — called for an emergency OPEC meeting to obtain, through consultation and consensus, the necessary support to legitimize such action.

In calling for the meeting, however, the GCC members risked the further alienation of fellow OPEC members Iraq and Libya and the other Arab countries that had voted against a successful GCC-supported resolution in the Arab League on Aug. 10 that authorized league members to send troops to defend Saudi Arabia and other GCC countries. In spite of the risks, they called for the OPEC meeting, the meeting was held, and they succeeded in obtaining authorization to raise production levels.

As a result, despite the loss of Iraqi and Kuwaiti oil to the international economy, the GCC-led actions brought world petroleum demand and supply back to their pre-crisis balance. To be sure, petroleum prices skyrocketed despite this decision, but they did so in response to the degree of anxiety and anticipation within world financial markets and not as a result of any GCC acts of commission or omission.

In time, the GCC's leadership and decisiveness under extraordinary pressure from more powerful countries that were adversarily inclined to its position will be seen as more than courageous. It will be seen not only to have blunted the Iraqi sword, but also to have helped, as few other acts could have done, to spare the world economy a recurrence of the major and prolonged shocks occasioned by the oil supply disruption of 1973-74 and 1979-80, prior to the GCC's existence.

Multinational air, naval, and land forces commanders in the Kuwait crisis acknowledge that, just as in the Iran-Iraq conflict, the GCC's multifaceted cooperation in several operational areas was crucial to the overall deployment's success.

Since 1973, Saudi Arabia and the other GCC countries have spent huge sums, mainly in the U.S., in planning, preparing, and pre-positioning facilities, equipment, and troops to accommodate foreign military buildup for the kind of crisis which began on Aug. 2, 1990. The purpose was clear from the start: to deter aggression and, if necessary, to defend against the aggressor.

In the intervening 17 years, thousands of American, British and other countries' officers and troops trained in both their home countries and the GCC region with such contingencies and scenarios in mind. The results of that training and the overall compatibility of the Western and GCC systems of logistics and support greatly simplified and smoothed the core elements of the Desert Shield and Desert Storm operations.

In addition, beginning in 1983 and away from the limelight of the international media, combined military units from all six GCC countries trained, conducted maneuvers, and exercised on each other's territory in pursuit of the same objectives. One result was that when the first soldiers of the multinational force arrived at the GCC military base at Hafr al-Batin in Saudi Arabia in response to Kuwait's and Saudi Arabia's calls for assistance, units of six GCC countries' armies, in addition to Saudi Arabian forces at the regular Hafr al-Batin garrison, were already in place.

But the numbers were far too small to deter Iraq with its sizable army and the quantity and range of advanced equipment it had moved into Kuwait and to Saudi Arabia's border. It was against this background that Kuwait and Saudi Arabia called on the U.S., Britain, and other friendly countries —most of them fellow Arab and Islamic nations — to provide such help as they could.

Deployed and Dispersed

GCC countries' armed forces units and other military personnel were deployed alongside multinational forces at 10 locations throughout the member states. The dispersed forces posed less of a target in the event of an Iraqi attack. This dimension of the GCC-multinational coalition defense operation was notable for having involved the maximum number of GCC members' defense personnel cooperatively in a situation as threatening as any the GCC is likely to encounter. The resulting experience can only prove beneficial in planning to deter future crises.

Among the additional Arab and Islamic contingents alongside the GCC force and the Saudi troops were an estimated 10,000 Kuwaitis, including the entire Kuwaiti Air Force, which managed to escape during the Iraqi invasion; 37,000 Egyptians, 17,000 Syrians, 5,000 Pakistanis, and upwards of 2,000 men each from Bangladesh and Morocco.

To be sure, the barriers to coordination among the non-GCC Arab and Islamic forces were considerable. Strategic and tactical doctrines differed; there were also language barriers, logistical logjams, and great differences in levels of training, experience, and equipment. Even so, the process of interforce cooperation and deployment proceeded far more efficiently than anticipated by many among the professional military establishments of the countries involved. That decades of GCC member countries' cooperation, often in close collaboration with those who came to their assistance in 1990, made as much of a difference as any other single set of factors.

Defraying Costs

The members' ability to contribute billions of dollars in both cash payments and in-kind services made an especially important difference in the ability to defray the mobilization and deployment costs of the multinational force. Whether the expense was related to prepositioning defense equipment bought and paid for years earlier for emergency contingencies of precisely the kind that occurred in the aftermath of the Iraqi invasion of Kuwait, or in the form of gratis provisions of fuel, ground and desalinated water, cooling systems, in-country-transportation, accommodations, food, electricity, and other operational, logistical, and related assistance the extent to which Saudi Arabia and its fellow GCC members helped defray significant economic costs associated with the mobilization, deployment, and maintenance exceeded any remotely comparable contribution that could have been forthcoming from any other regional organization in the developing world.

The economic and humanitarian assistance that Saudi Arabia and the other GCC countries provided also helped to sustain the political solidarity of the multinational coalition. Because peoples as poor as the Afghans, Bangladeshis, Djiboutians, Egyptians, Hondurans, Nigerians, Pakistanis, Senegalese, Sierra Leonans, and others were part of the coalition among the beneficiaries of such assistance, the claim of the Iraqi government and its supporters that the conflict was mainly between the world's have and have-not peoples was exposed as cynical propaganda.

Saudis Join Peace Process

By Richard W. Murphy

The Gulf war was a military triumph. Although its full political results are not yet clear, the war has unquestionably opened up possibilities on the diplomatic front, some positive, some negative.

With the cease-fire, Washington moved to revive the Arab-Israeli peace process. One positive result thus far has been Saudi Arabia's decision to take part in a peace conference by approving observer status for the secretary-general of the Gulf Cooperation Council (GCC) at an international conference. In its May 11 announcement, the GCC stated that its members "will also participate in any meetings that will include the countries of the region to discuss issues pertaining to arms control and elimination of all weapons of mass destruction, water resources, the environment and all other related issues."

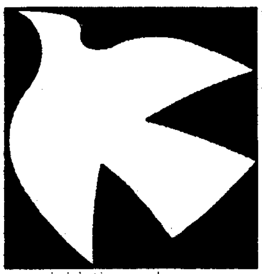
Notable Gesture

The Saudi decision to participate in the conference, which U.S. Secretary of State James Baker has been trying to organize during his four post-war visits to the region, was a notable gesture to the U.S., but above all a break with past Saudi practice. Long cultivated by the U.S. and others as a major regional power, Saudi Arabia, like most states in the region, has asserted that it would welcome a peaceful solution to the Arab-Israeli conflict. But the Saudis had traditionally been reluctant to play any public role in the process of getting to peace. They only sought to play a discreet backstage role, and, with rare exceptions, left diplomatic initiatives to the "front line Arabs" (Egypt, Syria, Jordan, and Lebanon).

One such exception took place in 1981 when the then Crown Prince Fahd created a peace initiative, issued in the name of the GCC, which—slightly modified — was adopted by the 1982 Arab Summit at Fez. The Fez Plan was an advance from previous Arab positions concerning the peace process.

Tepid Response

But it drew a tepid reaction from the U.S., where President Reagan only one week earlier on Sept. 2 had announced his



own initiative, and a negative response in Israel.

Iraq's invasion of Kuwait and its perceived threat to Saudi Arabia and other Peninsula states provided the backdrop for this latest Saudi initiative. Baghdad's assertions that it never intended any aggression against Saudi Arabia were unconvincing. Saudi Arabia responded to the invasion by inviting the U.S. and some 33 other countries to send forces to the kingdom to help defend it and, if need be, compel Iraqi withdrawal from Kuwait.

The kingdom was pleased by the pledge of President Bush in August that when Iraq had withdrawn or been driven out of Kuwait, the U.S. would resume its efforts on the Arabi-Israeli peace process, including the Palestinian issue.

President Bush redeemed his promise when, only eight days after the cease-fire, he sent Secretary Baker to the area to explore the prospects for Arab-Israeli peace talks. In the following six weeks, Mr. Baker returned three more times to the region. On the first three occasions, he reviewed the situation with King Fahd, presumably seeking to enlist Saudi efforts to move the political process forward. That he was apparently unable to do so in the first instance is not surprising.

Regular Visits

During the 1980s, three special U.S. presidential envoys working on Lebanon and other Middle Eastern issues regularly visited Saudi Arabia. Philip Habib, Richard Fairbanks and Donald Rumsfeld each in turn found it valuable to brief the Saudi leadership and to solicit their reactions to ongoing U.S. diplomacy in the other regional capitals. As assistant secretary of state for Near Eastern affairs, I myself made many visits to Riyadh between 1983-89 for the same purpose. We saw the kingdom as a potential player in the peace process. Riyadh welcomed our briefings, but held back on its own involvement.

Two factors explain this Saudi reluctance. First, for most of the past 15 years, the kingdom disagreed with the overall thrust of America's peace-process diplomacy, considering it biased toward Israel and neglectful of Arab interests. Second, and a closely related consideration, it highly valued all other aspects of its American relationship and sought to avoid public fault-finding with our peace efforts.

Riyadh did side with the majority of Arab states in opposing the Camp David Accords in 1977, and the subsequent Egyptian-Israeli peace treaty. It severed diplomatic relations with Cairo after the 1979 Arab Summit in Baghdad. Riyadh was skeptical about the 1982 Reagan initiative, designed to relaunch the peace process, considering it only a minor reworking of the Camp David framework.

As the decade went on, Saudi-Egyptian relations gradually improved and were formally resumed in December 1987. In the meantime, Saudi Arabia had been especially active on another issue threatening regional stability — the Lebanon problem. It consulted frequently with Syrian, Lebanese and American representatives about its solution. It organized and was host to the conference in Taif, which produced the first promising framework for resolution of that savage civil war.

Convergence of Interest

The war with Iraq created an important new convergence of interest between Saudi Arabia, Egypt and Syria, realigning those three countries in a way which Washington hopes will help revitalize the peace process. These countries share a special interest in undermining Iraq's claim to Arab leadership and in exposing as totally cynical Iraq's assertion that its invasion of Kuwait was part of its program to liberate Palestine. The war's end focused Saudi attention at the same time on the need to demonstrate that they had not forgotten the Palestinians and that Riyadh could work for a peace settlement more effectively than Iraq had claimed to do.

While some Israeli spokesmen have dismissed the significance of the Saudi decision to have the GCC represented at a regional peace conference, few who have followed the evolution of the peace process over the past decade will agree. Washington was correct in warmly welcoming this action by Saudi Arabia. It is a major break with its past policy of quiet diplomacy.

Of course, Saudi attendance at a regional conference will not by itself solve any of the basic difficulties facing such a conference. Palestinian representation, for example, remains a thorny issue. The Saudis deeply resented the PLO's position during the buildup of the war, considering it a tilt toward Baghdad. Riyadh suspended its aid to the PLO and the firmness of its reaction has forced tens of thousands of Palestinian workers to leave their jobs. But on the policy level, the kingdom predictably will be cautious about sponsoring creation of an alternative PLO leadership, considering this to the prerogative of the Palestinian community.

Response to Urging?

Some assert that the Saudi government, in agreeing to be represented through the GCC at the regional peace conference, acted only in response to U.S. urgings. Perhaps this is true, but the important fact remains that it has publicly linked itself with the peace process.

Americans tend to forget that every Middle Eastern leader, no matter the post he holds, has constituency problems. There are Saudis who opposed the government's decision to invite the U.S. and other coalition members into the country to help in its defense. Some in that same group will probably be averse to seeing their government contemplate peace with Israel under any circumstances. Riyadh must bear in mind not only the domestic empathy for the Palestinians, but also the anti-Israel sentiments of the Saudi right.

The Saudi government acted in the knowledge that it will face such constraints on its diplomacy. It recognizes its interest in showing that in contrast to Saddam Hussein, Saudi Arabia can work successfully for greater regional stability. It has now taken the first public step to demonstrate that, in company with Egypt and Syria, with the U.S. and the Soviet Union, it can help deliver peace.

(Richard W. Murphy, former U.S. assistant secretary of state for Near East Affairs and former U.S. ambassador to Saudi Arabia, Syria, and Mauritania, is currently senior fellow for Middle East Studies at the Council on Foreign Relations.)

U.S. Envoy Views Middle East Issues

In an interview with Richard Morgan, Chas. W. Freeman, Jr., the U.S. ambassador to Saudi Arabia, discussed a variety of topics, ranging from the impact of the Gulf war on U.S.-Saudi relations to security arrangements in the Middle East and political reform in the kingdom. The following are excerpts from the interview.

Q: What impact has the Gulf crisis had on relations between the U.S. and Saudi Arabia ?

A: America and Saudi Arabia have had a very close relationship of mutual benefit and cooperation for almost 50 years, ever since the late President Franklin D. Roosevelt met King Abdul Aziz aboard the USS Quincy on Great Bitter Lake, part of the Suez Canal, after the Yalta Conference in 1945. As Saudi Arabia has developed economically over the past 25 years, America has helped the kingdom with its modernization drive and in the fields of energy and defense. I think the Gulf crisis has demonstrated to the political leaderships of both countries the wisdom and durability of the arrangements which began in 1945. I would like to add that President Bush and King Fahd have known each other since the mid-1970s, when the president was the director of the CIA and King Fahd was the Saudi minister of the interior. A genuine friendship exists between them, which greatly strengthens the American-Saudi relationship.

Q: How would you assess the cooperation between Saudi Arabia and the U.S. during the Gulf war ?

A: The Saudi military played a key role in the coalition effort to enforce the will of the international community. The Royal Saudi Air Force proved itself to be highly competent. The Saudi Arabian National Guard and Royal Saudi Land Forces were at the forefront of the liberation of Kuwait City. The U.S. servicemen who served here in Saudi Arabia frankly marveled at the highly developed port and transportation infrastructure they found in the kingdom and the well-equipped military bases which, in most cases, exceeded NATO standards. The officers at the U.S. Central Command have nothing but praise for the exemplary cooperation they got from their Saudi counterparts. Preparation and planning for what became Operation Desert Storm was in every respect a joint operation, of which the militaries of both countries can be justly proud.

Chas. W. Freeman, Jr., U.S. ambassador

Q: Now that the Gulf conflict is over, what kind of security arrangements are the U.S., Saudi Arabia and the other Gulf states considering to help keep peace in the region?

A: America and Saudi Arabia have a long history of cooperation on defense. Any post-war plans will be built on what has gone before. We are certainly considering a larger naval presence in the region than we had before the war, at least until the Gulf states build up a better defense force of their own. There will be an accelerated program of joint exercises and training and more cooperation between the air forces of Saudi Arabia and the U.S. These arrangements do not include any plans for permanent bases in the region. However, some military equipment to support the ground exercises may be kept in the area. With regard to Saudi Arabia's stability, sovereignty and territorial integrity, our desire is to help the Saudi armed forces to better defend the kingdom, not to supplant them.

Q: What conclusions do you think Saudi Arabia should draw from the Gulf war ?

A: I think Saudi Arabia has learned a number of lessons. Firstly, the kingdom has learned that you cannot place trust in words of loyalty from other countries. Saudi Arabia now understands that it needs a credible defense force of its own. Secondly, Saudi Arabia has learned that financial generosity does not buy reliable support in a crisis. Between 1978 and 1990, the kingdom dispensed over $80 billion in aid to its neighbors and others. Yet many of the states which sided with Iraq were countries to which Saudi Arabia had been most generous. I am sure the future direction of Saudi aid will be toward specific projects and to the private or semi-private sector, rather than to government officials for balance of payments support. Thirdly, Saudi Arabia now has a better idea of who its friends are. The U.S. and European countries such as Britain and France have shown that they can be counted on in a crisis. And Saudi Arabia's new relationships with Egypt and Syria will be valuable.

Q: How does the U.S. view Saudi Arabia's recently established diplomatic ties with China and the Soviet Union?

A: We think they are very positive, particularly in the case of the Soviet Union. I think these new relationships demonstrate Saudi Arabia's greater maturity and self-confidence, and the kingdom's support for the changes in the Soviet Union.

I believe that Saudi Arabia recognizes that neither the U.S. nor the European countries could have afforded the diversion of military resources which took place if there had still been the same state of Cold War in Europe as there was before 1989.

Q: What is your opinion on the calls for political reform in Saudi Arabia?

A: One of our primary concerns about the kingdom is its stability. So far over the country's 25 years of rapid economic development, Saudi society has not suffered the traumas which usually accompany such modernization. One has to have great respect for the careful way Saudi Arabia's development has been handled by the royal family.

Our own experience in the U.S. suggests that the happiness and stability of a country depends on continuing political as well as economic evolution.

Therefore, we have an interest in seeing a gradual opening of Saudi society, in a manner consistent with the country's tradition and religious heritage. The royal family's past record suggest that they are well able to carry out such a task.

Q: Are you happy with Saudi Arabia's contribution to the current efforts led by Secretary of State James Baker to bring peace to the Middle East ?

A: Yes, I am very content with Saudi Arabia's role. The kingdom has always regarded conciliation between Israel and its Arab neighbors, and Israel and the Palestinians, as vitally important. Saudi Arabia has been a strong supporter of James Baker's efforts from the outset. The kingdom sees no role for itself in a narrow peace conference addressing concrete disputes between Israel, its Arab neighbors and the Palestinians. Saudi Arabia has no concrete disputes with Israel.

It has no territorial claims and has no prisoners in Israeli jails. However, now that it has become clear a peace conference would include working groups to address wider issues such as arms control in the region, Saudi Arabia has made it clear it will participate in such discussions. Saudi Arabia also took the lead in the announcement that the secretary-general of the Gulf Cooperation Council will attend any peace conference as an observer.

SAUDI ARABIA

Spur to Industry

The Sabic Recipe for Success

By John R. Thomson

Saudi Arabia's industrial sector today exceeds more than 2,000 plants, manufacturing everything from Kleenex to candy, from Colgate toothpaste to construction products.

While a number of those companies must import raw materials for production, about one-third use materials made in the kingdom by Saudi Basic Industries Corp., (Sabic). Industrial expansion during the next decade should substantially increase the percentage of locally sourced raw materials.

Particularly Proud

Sabic's influence on the Saudi economy isn't limited to supplying feedstock chemicals and plastic resins to industry, according to Ibrahim Ibn Salamah, vice chairman and managing director. "We are particularly proud to produce several fundamental products to Saudi economic expansion and livelihood," he says. "Steel reinforcing bars (rebar) produced by another subsidiary are a staple of Saudi Arabia's construction industry. The kingdom's thriving farming sector relies importantly on chemical fertilizers, made by three of our subsidiaries, as do a number of countries to whom we export. In fact, Sabic's chemical exports to more than 70 countries world-wide give the kingdom all the economic advantages of adding value to natural resources."

Incorporated in 1976, Sabic undertook three major assignments:

•To add value to associated natural gas which would otherwise have been flared during crude oil production;

•To diversify Saudi Arabia's economy, both domestic and international;

•To provide training for Saudi Arabia's citizens in high-technology industries.

Success to date can best be measured by its growth and its current stature in world industry. In 1986, Sabic earned a profit of $65.1 million on sales of $928.5 million. In 1990, the corporation earned $807 million on sales of $2.4 billion.

Sabic's success is important both economically and as an example to other Saudi companies. Success in a wide range of industries has both profited Sabic's thousands of shareholders, and served as a spur to other private investment.

By 1995, Sabic projects aggregate production of all products to increase to 20 million metric tons, more than 50% above 1991 levels.

Part of this expansion will be in the company's traditional ethane and methane-based products. A 500,000-metric-ton-a year (mt/y) ethylene plant, a flexible feedstock cracker, will allow planned expansion of ethylene glycol and styrene and of the plastic resins polyethylene and polyvinyl chloride.

New products from the flexible feedstock cracker, will use heavier liquid gas raw material than at present to make propylene, benzene and butadiene. The major portion of propylene is slated to be converted into polypropylene, perhaps the plastic resin most in demand in today's market.

Methanol output will increase by one-third; further downstream, production of the key unleaded gasoline component methyl tertiary butyl ether (MTBE) will treble.

Production of such key fertilizers as ammonia and urea will increase by one-third. Steel manufacturing capacity will double by the end of this year.

"These expansions," says Mr. Ibn Salamah, "will permit still more import substitution, at the same time fueling a further expansion in Saudi Arabian industry generally. Today, local industries consume 20 times the amount of Sabic products consumed in the early 1980s.

"We have a kind of chain reaction, here," he continues. "For example, local paint producers and other manufacturers will be able to source a wide range of products when we start producing benzene and butadiene by 1993. In addition, locally produced polypropylene will allow more converters here to switch from imported to domestic supplies. And, of course, this expansion of downstream industries within the private sector is a fundamental policy of our government."

Most of Sabic's manufacturing is done by joint-venture companies at facilities located in two ultra-modern industrial cities, al-Jubail and Yanbu. Partners include such U.S. companies as Exxon, Mobil, Shell Oil, Hoechst Celanese and Texas Eastern, in addition to Asian and European chemical leaders. The foreign partners provide the joint venture with managerial and technical expertise, and receive the cost advantage of manufacturing bulk petrochemicals and plastic resins in Saudi Arabia. The result has been healthy profits and an overall product mix capable of weathering swings in the world chemical markets.

According to Mr. Ibn Salamah, Sabic's success is important both economically and as an example to other Saudi companies. Success in a wide range of industries has both profited Sabic's thousands of shareholders, and served as a spur to other private investment.

Series of Studies

The company has recently published a series of studies for consumer and industrial products, which provide Saudi businessmen with substantial encouragement to invest in local downstream industries. The studies indicate that these products, currently imported into Saudi Arabia, can be profitably manufactured locally.

Other Saudi Arabian companies have been formed with the express intent of creating local joint-venture industries. The newest groups, formed in the past year and reflecting strong investor interest in the chemical sector, include Saudi Industrial Development Co. (SIDC), Arabian Industrial

Development Co. (NAMA), Saudi Formaldehyde Chemical Co. and Gulf Industrialization Investment Co.

A complex of laboratories is being built in Riyadh's second industrial estate, which will help Sabic meet one of its most ambitious goals: to develop, independently, chemical process technology in Saudi Arabia.

Saudi businessmen increasingly recognize that gaining and retaining a technological edge is the key to advancing in the world economy. The Industrial Complex for Research & Development, complete with small pilot plants to manufacture polyethylene, will refine production technology and lead to production of new products, making a new array for advanced feedstocks available for downstream industry. This, coupled with more general technical assistance and advice already available to the downstream sector, will be an important contribution to Saudi Arabia's industries.

Points Proven

The Gulf war proved a number of points to Saudi industrialists and at the same time to prospective foreign investors.

Says Sabic's Mr. Ibn Salamah: "The security of Saudi Arabia's resources in a stable social and economic atmosphere is important both to the Saudis and to the world. With enhanced security, post-Desert Storm, Saudi industry generally but particularly the petrochemical industry, will make the most of its advantages to attract foreign business partners: nearby, plentiful raw materials and good links to the world's fastest growing economies."

(John R. Thomson is senior vice president of Olayan Financing Co., Riyadh. He formerly served as commercial counselor of the U.S. Embassy in Saudi Arabia.)

SABIC PRODUCTION AND EXPANSION PLANS

(all numbers in thousands of metric tons)

PRODUCT		CURRENT CAPACITY	INCREASE BY	EXPANDED CAPACITY
Ethane-Based Industries				
Ethylene		1970	500	2470
Ethylene Glycol		800	400	1200
Ethylene Dicholoride		560	—	560
Styrene		360	54	414
Crude Industrial Ethanol		300	—	300
Vinyl Chloride Monomer		300	—	300
Propylene		—	300	300
Butadiene		—	100	100
Benzene (BTX)		—	70	70
Polyethylene		1100	370	1470
PVC		200	100	300
Polystyrene		100	38	138
Polypropylene		—	200	200
Melamine		20	—	20
Caustic Soda		450	—	450
Methane-Based Industries				
Methanol		1410	630	2040
MTBE		500	1400	1900
Ammonia		1100	500	1600
Urea (gran. & prill.)		1430	600	2030
Compound/Phosphate Ferts		810	of which —	810
NPK		500	—	500
TSP		200	—	200
DAP/MAP		100	—	100
APP (liquid ferts)		10	—	10
Other				
Steel		1750	500	2250
Nitrogen		219	270	489
Oxygen		438	438	876
TOTAL		**14627**	**6470**	**21097**

Banks Prove Their Resilience After a Crisis of Confidence

By Richard Morgan

The Gulf conflict was a chastening experience for Saudi Arabia's banks. The crisis of confidence in the country's banking system, in the immediate aftermath of Iraq's invasion of Kuwait last August, saw billions of riyals leave the kingdom for safe havens abroad. There were dire predictions about the ability of some Saudi banks to survive. However, thanks to the strong support of the Saudi Arabian Monetary Authority (SAMA), the swift defeat of Iraq and the rapid return of business confidence prompted by the early victory of the coalition forces, Saudi banks have confounded the pessimists.

"The banks have been very resilient. All the hard work they have done over the past few years to strengthen their balance sheets has paid off," says Dr. Abdul Aziz al-Orayer, the deputy finance minister. "The banks are now well-positioned to take advantage of the opportunities thrown up by the return of peace to the Gulf."

SAMA gets particular praise from bankers and analysts for helping the banks through the crisis. "They were superb. They handled everything very professionally," says Mardig Haladjian, a Saudi bank analyst at Cyprus-based Capital Intelligence, a bank research group specializing in the Middle East.

During the first few weeks following the Iraqi invasion of Kuwait, some $10 billion in funds, equivalent to over 10% of the Saudi banks' private deposits, fled the country. SAMA moved quickly to ease the liquidity problems and prevent a run on the banks.

Raising the Limit

SAMA agreed to raise the limit on the amount of government bonds it was prepared to discount, from 20% to 50% of a bank's total holdings. It also introduced a dollar/riyal swap facility allowing banks to make weekly currency exchanges of up to $10 million. Some Saudi banks are reported to have benefited from fresh government deposits.

Al-Rajhi Banking & Investment Corp. is the most profitable bank in the kingdom. As the bank handles over half the lucrative remittance business in the country and is particularly popular with expatriate workers, it was one of the banks expected to be hit hard by the flow of money out of Saudi Arabia last year. Although the bank did suffer a steep loss of deposits, it more than made up for this from its customers' large volume of panic remittances and foreign exchange deals as they rushed to send their money abroad. Riyad Bank, 48% owned by SAMA, was well protected by its close relationship with the government.

The big joint venture banks, 40%-owned by foreign banks, were all well supported by their foreign shareholders. Among the Saudi banks' biggest difficulties in the first few weeks after the invasion of Kuwait, was the refusal of many international banks to accept their letters of credit or do foreign exchange or money-market transactions with them. "It was very helpful to us, and I am sure for some of the other foreign banks, to have a strong international bank, in our case Banque Indosuez, which could guarantee our letters of credit and trade finance transactions," says Gerard Delaforge, managing director of Al Bank al-Saudi Al al-Fransi.

Other joint venture banks such as Saudi American Bank, made good use of their branches abroad to soak up money flowing out of their offices in the kingdom. "If a client wanted to move money to Switzerland, New York or London, we could just transfer it to our offices in those cities," says Mehli Mistri, managing director of Saudi American Bank. "In fact, our results over the past year show that despite the crisis, our customer deposits have grown not shrunk.

The conservative exposure of Saudi banks to Kuwait has also helped them to recover. Although Saudi banks' pre-invasion exposure to Kuwait was over $500 million, close to 45% of their money is with the National Bank of Kuwait, easily the strongest of the Kuwaiti banks. And the balance is with partly government-owned banks. Saudi banks have a negligible exposure to private-sector Kuwaiti companies.

Saudi banks have received assurances from SAMA and the Kuwait Central Bank that their funds are recoverable. All interest due on the deposits has been paid. So the principal amounts owed by Kuwaiti banks are classified as performing on Saudi banks' books.

Coping With the Crisis

Saudi banks' 1990 results show just how well they have coped with the Gulf crisis. Saudi American Bank's profit for 1990 was SR527 million ($150.5 million), up on 1989. Saudi British Bank's profit rose nearly 30% from SR148 million in 1989 to SR192 million. Many of the banks' first-quarter results in 1991 have been just as sparkling.

The strength of Saudi banks stems from their profitability. This is largely due to the billions of cheap deposits they have on their balance sheets. Islam frowns on the payment of interest. Saudi banks do not pay interest on current accounts, although many of them do pay interest on savings accounts. This leaves Saudi banks with very healthy margins.

In 1990, the average return on assets for the big Saudi banks was over 1.5%, compared with an average of around 1% for other Gulf banks. The return on equity for the big Saudi banks last year was over 15%, compared with around 10% for other Gulf banks.

Saudi banks will spend 1991 strengthening their balance sheets. On the liability side, the banks will be looking to replenish their deposits by pulling into their networks the estimated SR40 to SR50 billion of funds which are outside the banking system in Saudi Arabia. Saudi American, as the most sophisticated operator in the retail banking market, is probably best placed to increase its local deposits. It already has 35 branches and 50 ATMs. Around 40% of the bank's profits come from retail banking.

On the asset side, the banks will be helping to fund some of the private-sector ventures put on hold because of the war, as well as to help finance contracts many of their clients have won to help reconstruct Kuwait. Helping to rebuild the country should help the banks rebuild themselves as well.