THE POLITICAL ECONOMY OF THE ARAB OIL-PRODUCING NATIONS: CONVERGENCE WITH WESTERN INTERESTS

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As demand for oil and oil prices continues to rise in the West, interest in the oil producers cartel, the Organization of Oil Exporting Countries (OPEC), has similarly increased. Most Western analysts have been concerned about a possible recurrence of an energy crisis such as that which followed the October, 1973, Arab-Israeli war. The increasing dependence of the United States and other Western powers on oil produced in Arab states and the threat by Arab leaders to use the "oil weapon" for political ends, have caused Western analysts to stress the potential for conflict between the Arab oil producers within OPEC and the Western industrialized nations. The notion of an adversary relationship between OPEC and the West continues to dominate Western thinking, in part because Arab oil producers have linked the supply and price of oil to continued Western support for Israel.

This study is concerned with a number of considerations which have been largely neglected by students of OPEC and the "oil crisis." In their preoccupation with the potential for conflict between Arab oil producers and Western consumers, Western writers have frequently failed to appreciate the extent to which the interests of the powerful core of OPEC—the Organization of Arab Oil Exporting Countries (OAPEC)—converge with, rather than diverge from, those of the West. Analysts have not given due consideration to the hypothesis that increasing economic interdependence between the OAPEC states and the West will tend to mitigate the possibilities of conflict. A second hypothesis, which reinforces the central argument about economic interdependence, is that the cleavage within OAPEC between those states which are ideologically radical and hawkish on oil prices and those which are politically conservative and more moderate is more a consequence of internal problems than of conflict with the West. This cleavage is exacerbated by Soviet support for the radical bloc within OAPEC and the threat that the conservative OAPEC states feel such support presents to their own regimes.
Table 1 Crude Oil Production in Arab Oil-Producing Nations, 1975-1976 (in 10^3 b/d)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>YEAR 1975</th>
<th>YEAR 1976</th>
<th>ANNUAL CHANGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>7075.4</td>
<td>8575.1</td>
<td>+21.2</td>
</tr>
<tr>
<td>Iraq</td>
<td>2261.7</td>
<td>2279.7</td>
<td>+ 0.8</td>
</tr>
<tr>
<td>Kuwait</td>
<td>2084.2</td>
<td>2143.6</td>
<td>+ 0.5</td>
</tr>
<tr>
<td>Libya</td>
<td>1479.8</td>
<td>1932.1</td>
<td>+30.6</td>
</tr>
<tr>
<td>UAR</td>
<td>1663.3</td>
<td>1927.8</td>
<td>+15.9</td>
</tr>
<tr>
<td>Algeria</td>
<td>1020.3</td>
<td>1076.2</td>
<td>+ 5.5</td>
</tr>
<tr>
<td>Qatar</td>
<td>437.6</td>
<td>487.1</td>
<td>+10.8</td>
</tr>
<tr>
<td>Oman</td>
<td>328.3</td>
<td>366.0</td>
<td>+ 7.6</td>
</tr>
<tr>
<td>Egypt</td>
<td>206.0</td>
<td>328.0</td>
<td>+37.2</td>
</tr>
<tr>
<td>Syria</td>
<td>172.9</td>
<td>175.0</td>
<td>+ 1.2</td>
</tr>
<tr>
<td>Bahrayan</td>
<td>61.9</td>
<td>58.0</td>
<td>− 6.5</td>
</tr>
</tbody>
</table>

OAPC Total | 16791.4 | 19348.6 |
Total OPEC | 27192.2 | 30576.2 |
% OPEC | 61.8 | 63.3 |
Total World | 57430.7 |
% Total World | 33.7 |

1. Although Oman is not officially a member of OPEC and OAPC, it has followed the lead of the oil cartel in setting prices.

2. This increase is due to Israel's return of the Abu Rudayis oil fields in the Sinai Peninsula.

Source: Petroleum Times, April 1, 1977, pp. 15-16; Middle East Economic Digest Annual Review, December 31, 1976, p. 3.

To argue that increasing interdependence between the economies of the Arab oil producers and Western consumer nations will tend to decrease the potential for conflict between the two is not to argue that the Middle East is moving toward an era of political tranquility. As long as the Arab-Israeli dispute remains unresolved, a renewed conflagration between the Arab states and Israel is always a possibility. Another Arab-Israeli war would inevitably politicize the economic ties which exist between the Arab oil producers and Western consumers. Furthermore, the arguments proffered are not intended to imply a harmony of interests between the Arab oil producing nations and the West. While conflict in the Middle East thus remains a distinct possibility, it is hypothesized that increased interdependence as well as intra-OAPC conflict may influence the degree to which the Arab oil producers, particularly conservative states such as Saudi Arabia, will be willing to initiate hostile actions against the West similar to the 1973 oil embargo.

The thesis that interdependence reduces the potential for conflict between the Arab oil producing nations and the West needs another qualification. Even if a comprehensive Arab-Israeli peace settlement
were reached in the near future, peace in the Middle East would not be assured. It cannot be assumed that the only basis for conflict between the OAPEC states and the West is Western support for Israel. The massive arms race currently taking place in the Persian Gulf between Saudi Arabia and Iran also poses a threat to stability in the region. Since the United States supplies arms to both Saudi Arabia and Iran, it may very well be drawn into any conflict that might develop between these two oil-producing states. The intention of the United States to supply F5E fighter aircraft to Egypt raises the possibility of the United States getting embroiled in a war by proxy with the Soviet Union—should Egypt and Libya, a Soviet client, engage in hostilities. The intensifying conflict between Algeria and Morocco over former Spanish Sahara poses problems for the United States. Algeria is a major producer of oil and natural gas and a recipient of Soviet arms, while the United States is a major arms supplier to Morocco. Conceivably, the United States could become involved in intra-regional conflicts over which it would have little direct control. These conflicts could lead individual oil producers to cut off oil supplies to the United States and to urge other OAPEC states to do the same. These factors must be kept in mind when one considers the hypotheses which are proposed.

INTERDEPENDENCE IN OIL MARKETS

The growing economic interdependence between the Arab oil-producing nations and the West is most apparent in the oil market. Were it not for the increasing demand for oil in the West, oil would not have attained such extraordinary significance as a political commodity. Until the late 1960s and early 1970s, when demand for oil began to outstrip supply, many oil producing countries, including Saudi Arabia, experienced budgetary deficits. A sharp increase in the demand for oil in the West in the early 1970s accounts for the present surpluses which have accrued to many OPEC countries, especially the OAPEC states. According to the American Petroleum Institute, while 67 percent of United States oil imports in 1973 came from OPEC nations, only 21.6 percent came from Arab states within OPEC. By the end of 1977, 84 percent of United States oil imports came from OPEC member nations with the OAPEC share having risen to 42 percent of total United States imports (New York Times, Dec 29, 1977). Europe and Japan are likewise highly dependent upon Arab oil. Western Europe, for example, absorbed almost 44 percent of Saudi Arabia’s oil exports in 1976 while Japan
accounted for nearly 20 percent of such exports. Overall, Japan imports over 80 percent of its oil from the Middle East (MEEQ, Feb. 11, 1977; Hurewitz, 1976:138).

The increased dependence of the West upon Arab oil would seem to be a source of reassurance for the OAPEC states. Nevertheless, one of the greatest fears among OAPEC producers is the specter of a depression in the West which would lead to a precipitous drop in the price of oil. Except for a recession in 1974 and 1975, producer fears have not been realized. However, demand for oil in the West has slackened, with United States consumption of OPEC oil expected to rise only 3.5 percent in 1978 as opposed to 6 percent in 1977. Furthermore, as a result of the decline of the value of the U.S. dollar, it has been estimated that OPEC members lost approximately $5 billion between September 1977 and March 1978. Any attempt to raise oil prices during periods of weak economic growth in the West would be self-defeating since it can only further erode the value of Western currencies. While emphasizing Western dependence upon Arab oil, it should also be kept in mind that Arab oil producers are as dependent upon Western markets as are other single commodity economies of the underdeveloped world (New York Times, Mar. 5, 17, 1978).

In the longer term, however, increased interdependence due to oil sales to the West would greatly enhance OAPEC power. Despite a sluggish world oil market during 1977 and 1978, long term projections indicate that the West will grow more, not less, dependent upon Arab oil. As the largest OPEC and OAPEC producer, Saudi Arabia is using the amount of oil it produces to wield subtle economic and political influence in the West. Although the Arabian American Oil Company (ARAMCO), which is still 40 percent U.S. owned, has developed a $22 billion plan to increase Saudi oil capacity to 16 million barrels per day during the early 1980s, the Saudi government has indicated that, in the future, it will be more responsive to world market conditions than to the specific needs of the United States. According to Saudi oil minister, Shaykh Ahmad Zaki Yamani, for the next two years, Saudi production will exceed its present output of 8.5 million barrels per day only if world oil demand increases. Energy specialists of the U.S. General Accounting Office predict a global energy shortage in 1983 or 1984, unless the Saudis substantially increase their oil production within the next few years (MEED, Jan. 20, 1978:29). Thus the Saudis, and their allies within OAPEC, have acquired an important bargaining chip to use in their economic and political dealings with the West, particularly the
United States.\(^4\) If Western demand for oil does show a marked increase within the next decade, the Saudis will probably be less likely to hold down oil prices as they did in 1977 and 1978.

One of the central reasons why the West remains so dependent upon OAPEC oil is its inability to develop either alternative energy resources or a comprehensive energy policy which stresses conservation. For the United States, which has been the least successful of the advanced industrialized nations in energy conservation, continued importation of large quantities of foreign oil has also meant the erosion of the U.S. dollar. The decline in the value of the dollar has angered many of the oil producing countries. Within OAPEC, Saudi Arabia and Kuwait have threatened to call upon OPEC to shift from the dollar to a basket of Western currencies as the basis for oil payments. Such statements have only further weakened the dollar and have led to a lowering of stock prices in the United States.\(^5\) On other occasions, the Saudis and their allies have expressed their continued confidence in the dollar. The impact that statements by OAPEC officials can have upon the value of the dollar not only illustrates the increasing interdependence between oil producers and oil consumers but also demonstrates the increasing influence of OPEC and OAPEC in Western economic affairs.\(^6\)

A second area of increased economic interdependence stems from the oil sales surpluses accumulated by certain OAPEC states. The United States Treasury estimated that OPEC surpluses from 1973 to 1976 were between $135 and $145 billion dollars. Of this total, $32.5 billion was invested in United States treasury securities ($13.8 billion), federal and corporate bonds ($3.7 billion), corporate stocks ($4.1 billion), bank deposits ($8.8 billion) and direct investments in corporations, banks and real estate ($2.1 billion). The same treasury report placed OPEC investments in European money markets at $22.5 billion in 1974, $8 billion in 1975 and $10.5 billion in 1976. Of total OPEC investment in the United States, Saudi Arabia alone accounts for about $20 billion of this amount. The fact that most of these surpluses or "petrodollars" are invested in short-term, highly liquid assets, such as bank deposits, treasury notes and corporate securities, makes them particularly vulnerable to inflation and serves to check too rapid a rise in oil prices which would feed inflation (\textit{MEED Annual Report, 1976:14, 31; MEED Special Report, 1976:27; MEES, May 30, 1977:17; New York Times, July 3, 1977, Sept. 22, 1977}). Thus, Arab oil producers have gained a vested interest in the continued economic health of the West.

While technically retaining control over their foreign investments,
Arab states have ceded much of the funds' management to a relatively small number of Western financial institutions. Most of the almost $47 billion in foreign assets controlled by the Saudi Arabian Monetary Agency (SAMA) in 1976 was thought to be managed by five American banks: Chase Manhattan, Morgan Guaranty Trust, Bank of America, First National Bank of Boston and Citibank (MEED Special Report, 1976:27). Despite the opening of 28 new Arab banks in London and 18 in Paris since the 1973 oil price increases, Arab investments of petrodollars in Europe are largely managed by European or joint-venture banks. Clearly Western financial managers are still more highly trusted than their Arab counterparts (New York Times, Nov. 27, 1977). Neither the economies of the OPEC countries nor those of the non-oil-rich Arab states such as Egypt and Syria are capable of absorbing the petrodollar surpluses (MEES, May 30, 1977:14). The need to use Western nations as a source of investment for petrodollars serves to check the resort to hostile actions on the part of the OPEC states. This desire to avoid conflict with the West should intensify as the Arab states shift more of their Western investments into longer-term holdings such as banks, real estate, and public utilities. Indeed, there is an added incentive to invest in Western countries in order to help maintain the stability of their currencies.

Concurrently, the investment of huge petrodollar surpluses in Western consumer nations has made these countries much more attuned to OPEC and OAPEC interests. A United States Senate Foreign Relations Committee report published in September, 1977, warned that the $50 billion in short-term assets which OPEC countries have invested in the West could be withdrawn in the event of a new Middle East crisis; this would cause considerable political and economic instability. Although the Arab oil-producing countries need the West as a source of investment, they can wield considerable influence by shifting funds from one oil-producing country to another. Perhaps the most obvious use of petrodollar surpluses was the Saudi demand for a seat on the executive board of the International Monetary Fund as a quid pro quo for becoming the second largest contributor to the IMF's Witteveen facility (MEED, Aug. 19, 1977:30; Sept. 2, 1977:24).

A third level of increasing economic interdependence rests on the fact that in each oil-producing country oil exists in finite quantities and will eventually be depleted. In Saudi Arabia, which has the largest proven reserves, oil is expected to last another 80 years, while in other countries, such as Algeria, oil reserves will be exhausted within the next
25 years. The fact that most of the Arab oil-producing nations were, prior to the discovery of oil, primitive tribal societies with no significant economic base, with a small if not non-existent agricultural sector, and sparse populations, has not been forgotten by the hegemonic classes which presently dominate these states. Algeria and Iraq, which have relatively large populations and developed agrarian sectors, face more acute problems of development than do the tribal monarchies of the Arabian Peninsula and Libya. All OAPEC states have therefore embarked upon massive development programs to industrialize their societies and to make them as agriculturally self-sufficient as possible before their oil is exhausted.

The scramble to industrialize and develop modern agrarian sectors has meant that not only have the OAPEC states expanded their economic ties with the West through increased oil exports but they have also drastically increased their imports from the West. Saudi Arabia's imports from Common Market nations increased from $43.8 million per month in 1973 to $231.3 million in 1975. The corresponding figures for all OECD countries were $122.4 per month in 1973 and $604.9 million in 1975. By the end of 1976 the Arab world had replaced the United States as the EEC's main trading partner, accounting for 13 percent of EEC exports as against 11 percent for the United States. For its part, the United States was expected to sell over $14 billion in goods to 19 Middle Eastern and North African countries in 1977 which represented a 27 percent increase over 1976 (MEED, Feb. 4, 1977:13, Feb. 18, 1977:15). The vast majority of such Arab imports include capital goods and advanced technology, manufactured commodities, arms, food and luxury items.

THE IMPACT OF INDUSTRIALIZATION

The massive import of capital goods and Western technology is linked to the intense desire of OAPEC states to initiate the rapid industrialization of their countries. Since most of the OAPEC nations have very small populations, Arab planners have sought to stress industrial projects which are capital intensive wherever feasible. Given the sophisticated nature of these industries, most require a relatively long period of time to be implemented. One such project involves the Saudi coastal towns of Jubayl and Yanbu. The Saudi Arabian Bechtel Company, a subsidiary of the Bechtel Corporation, the giant American construction firm, received a twenty year contract in 1976 to transform the towns into industrial centers. The ultimate cost of the Jubayl site, which will
Table 2  Population and Per Capita Income of the Arab Oil-Producing Nations, 1974

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (in thousands)</th>
<th>Per Capita GNP (in dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>15,175</td>
<td>650</td>
</tr>
<tr>
<td>Bahrain</td>
<td>245</td>
<td>2,250</td>
</tr>
<tr>
<td>Egypt</td>
<td>36,350</td>
<td>280</td>
</tr>
<tr>
<td>Iraq</td>
<td>10,770</td>
<td>970</td>
</tr>
<tr>
<td>Kuwait</td>
<td>991</td>
<td>11,640</td>
</tr>
<tr>
<td>Libya</td>
<td>2,240</td>
<td>3,360</td>
</tr>
<tr>
<td>Qatar</td>
<td>190</td>
<td>5,830</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>8,008</td>
<td>2,080</td>
</tr>
<tr>
<td>Syria</td>
<td>7,127</td>
<td>490</td>
</tr>
<tr>
<td>UAA</td>
<td>198</td>
<td>13,500</td>
</tr>
<tr>
<td>Oman</td>
<td>750</td>
<td>1,250</td>
</tr>
</tbody>
</table>

Source: *Middle East Economic Digest*, August 20, 1976, p. 28.

include the world's largest desalinization plant, petrochemical installations, an aluminum smelter, an iron and steel complex, power generating plants, and a huge telecommunications center, is placed at $45 billion dollars. Literally hundreds of Western firms have sub-contracted to complete various aspects of the project. Some are extremely costly projects such as Jubayl; others are more modest ventures such as the Umm Sa'id fertilizer plant in Qatar or the huge drydock facilities in Dubayy and Bahrayn. But all such projects require a long time for completion, hence a considerable Western presence in the Arab oil-producing countries for some years to come. In addition, the OAPEC states do not have the requisite managerial expertise to operate these sophisticated industrial projects once they are completed, which means that foreign managers must be employed. Since the United States and Great Britain have been the major suppliers of Western technology, capital goods, and expatriate managers to the OAPEC states in general, and to the Arabian Peninsula in particular, OAPEC members would be highly reluctant to jeopardize their industrialization programs by engaging in hostilities with the West. The United States has repeatedly warned that a renewed Arab oil embargo would be considered an act of aggression. Were such a boycott enacted, it seems certain that the forced exodus of American nationals from the participant countries, which would result, would have disastrous ramifications for these fledgling development programs.

In addition to the advanced technologies, capital goods, and manufactured products, which the OAPEC states import, significant quantities of their food also come from the West. Libya, for example, produces only 14 percent of its domestic needs while importing the remaining 86 percent from the EEC (MEED Special Report, 1977a:vii). States such as Saudi Arabia and Kuwait have invested heavily in
agricultural joint-ventures with Egypt and Sudan. Although oil producers such as Saudi Arabia and Libya hope to be self-sufficient in food production during the next decade, most experts feel that such goals are unrealistic. Since too-rapid development in agriculture (e.g., through indiscriminate irrigation) could lead to the salinization of topsoil and hence exhaustion of the land, anticipated self-sufficiency in food production probably will not occur until the next century. Meanwhile, growth in domestic populations and the increasing influx of expatriate labor employed in domestic industry and construction may increase, not decrease, OAPEC dependence on food from the West for at least the remainder of this century (MEED Special Report, 1976:22).

Increased economic interdependence is perhaps most dramatically evident in the area of arms sales. As the Arab oil-producing nations accumulate ever larger surpluses, and invest substantial amounts of capital in domestic development, fears of internal and external subversion greatly increase. This has been especially true in the Arabian Peninsula where Saudi Arabia, Kuwait, the United Arab Emirates (UAE) and ‘Uman have been particularly wary of the expansion of Soviet influence in the region—through Iraq, the People’s Democratic Republic of Yaman (PDRY) and Ethiopia.

To a lesser extent, the Arab arms buildup has been a response to the massive defense program undertaken by Iran. What is most significant for our present concerns is that the vast majority of arms purchased by Arab oil-producing states, especially those in the Arabian Peninsula, has been from Western countries, primarily the United States, Britain, and France. By August, 1976, the United States had sold $6 billion worth of arms to Saudi Arabia. Under the most recent proposal of the United States government, Saudi Arabia will purchase 60 F-15 Eagle fighters (plus training and maintenance facilities) at an additional cost of $2.5 billion (MEED, Special Report, 1976:31; New York Times, Feb. 15, 1978). Arab awareness of dependence upon Western arms has prompted attempts to develop domestic arms industries such as the proposed $10 billion complex at Al-Kharj, Saudi Arabia, which is being planned by Edward Durell Stone Associates of New York. Recently, France signed an arms accord with Egypt, Saudi Arabia, Qatar and the UAA, which are part of a Cairo-based Arab arms consortium, to build French arms under license in Egypt. Rather than making Arab states independent of Western arms, such agreements only serve to create greater interdependence between Western and Arab armed forces. (New York Times, Feb. 18, 1978, Mar. 15, 1978).
As with purchases of capital goods and technology, arms sales to Arab oil-producing countries have recycled a considerable amount of Arab petrodollars in the West. Such sales have created dependence among Arab armed forces on spare parts, technical advisors and maintenance personnel from the West. Indeed, this has been precisely one of the policy objectives of the United States government since 1973 (New York Times, Feb. 17, 1978). Of the $10 billion dollars that Saudi Arabia allocated to defense in the 1976-1977 budget, a considerable portion was spent on the construction of military installations and on arms training and maintenance programs. While most construction in Saudi Arabia is being carried out by the U.S. Army Corps of Engineers, training programs are being conducted by a host of Western corporations such as Lockheed, Northrop, Litton Industries, Raytheon, Vinnel and British Aircraft Corporation (BAC) (MEED Special Report, 1976:31; New York Times, Feb. 24, 1975). These corporations have also provided substantial numbers of maintenance personnel. It is therefore possible that the armed forces, especially the air forces, of the Arabian Peninsula oil-producing states would be severely hindered, if not rendered ineffective, were Western military advisors and technicians to withdraw from these countries.

The nature of increased economic interdependence between the Arab oil producing nations and the West becomes more apparent if we consider the problems of human resources facing most of the OAPEC states. Ambitious industrialization projects, a rapid expansion of the domestic infrastructure, and drastic increases in the size of Arab armed forces have necessitated a large-scale mobilization of educational resources. Large numbers of Arab students have been sent abroad to Western universities, while Western firms and educational institutions have been employed to establish massive vocational training programs as well as new programs of higher education in the OAPEC countries (MEED, Dec. 3, 1976:8-10; MEED Special Report, 1976:16; MEED Special Report, 1977a:ix). A shortage of technical expertise has meant that large numbers of Western managers and technocrats have found employment in the Arab oil-producing states. The British firm of Career Group of Companies stated in an April, 1977, report that 59 percent of all overseas technical appointments by British employment agencies were in the Middle East, primarily in Kuwait, Saudi Arabia, Iran, Iraq and Qatar (MEED Special Report, 1977c:iii). Some countries, e.g., Libya expect to reduce their dependence on foreign manpower by 1980. But while Libya's dependence on foreigners will decrease from 60
percent to 40 percent of the workforce, Saudi Arabia’s dependence is expected to increase from its present level of 24.4 percent to 53.5 percent in 1980 (Wells, 1976:41).

Much of the technical-managerial manpower shortage in the conservative OAPEC states is exacerbated by the tendency of royal family members to avoid pursuing public and private sector careers which require technical training or managerial expertise. Saudi princes, for example, prefer positions in the armed forces and foreign ministry or provincial governorships to positions in the planning ministry or the national monetary Agency. It is true that the Saudi royal family is limited in numbers and that the Saudi regime gives high priority to placing members of the royal family in key positions relating to the defense and national security of the state. Yet, it seems clear that members of the Saudi royal family enjoy their oil wealth far more than they like to work to create it. Similar attitudes prevail in the other conservative monarchies. In Kuwait, where Kuwaytis form only 40 to 45 percent of the population, members of the royal family and the native populace prefer plush public sector directorships, which require little work and which yield lucrative salaries, to positions in the private sector (MERIP Reports, 1975:6). The results of such attitudes, in Kuwait and elsewhere, is dependence on expatriate expertise.

A final dimension of the increased economic interdependence between the Arab oil producers and the Western oil consumer nations involves multinational capital. The interaction of Western and Arab capital is most evident in the oil industry. Other OAPEC states were induced to emulate Libyan nationalization of some foreign oil companies and demand for participation in others. In most instances, host governments did not opt for nationalization but rather demanded participation rights. Thus 60 (but not 100) percent of ARAMCO is currently owned by the Saudi government. No less significant are joint-venture enterprises in banking, commerce, and industry. To date, joint-venture enterprise is most prominent in the banking sector. Examples include the London-based Saudi International Bank, which is controlled by SAMA and includes American, British, Japanese, Swiss and private Saudi capital, and the Paris-based Banque Arabe et Internationale d’Investissement which incorporates American, French, British, German, Qatari and Kuwayti capital as well as capital provided by the Abu Dhabi government (MEED, Sept. 24, 1976:38; New York Times, Nov. 28, 1977). The commercial and industrial spheres include enterprises such as the Anglo-Saudi firm of Laing-Wimpey Alireza—which includes the
prominent 'Ali Riza family of Jidda—and Algosaibi Grandmet SDCC Services, which was formed by the Algosaibi (al-Ghusaybi) family of Bahrayn with British and Danish capital (MEED, July 2, 1976:20-21; MEED Annual Review, 1976:28).

While need to industrialize and develop their armed forces has made the Arab oil producing states highly dependent on the West, it has similarly created a dependence of the West upon Arab markets. The development of massive markets for manufactured commodities, capital goods, arms and manpower (especially during a period of sluggish economic growth) has created a bonanza from which none of the Western industrialized countries wishes to be excluded. As a result, OAPEC members, particularly more powerful producers such as Saudi Arabia, have been very effective in playing various Western firms off against one another. OAPEC has also used its highly valued markets to force Western firms to comply with the Arab boycott of Israel (MEED, Sept. 26, 1977:13). In addition, Arab oil producers have sought to use larger numbers of firms from friendly underdeveloped nations in order to gain better terms from Western firms. In 1977, the Saudi Ministry of Industry abruptly cancelled bids from Western firms for rural electrification projects claiming that the projected costs were too high. Instead, contracts were awarded to firms from Pakistan, India, Taiwan and South Korea (MEED Annual Review, 1977:78). Western firms were put on notice that they would lose additional contracts in Saudi Arabia and other OAPEC countries if they offered inflated bids. While the Arab oil producers need Western industrial goods and technical expertise, only through the continued purchase of large amounts of Western industrial commodities by the Arab oil producing nations can the consumer nations hope to recycle their petrodollars—thereby limiting their trade deficits and maintaining healthy economies.

THE RADICAL BLOC WITHIN OAPEC

In discussing increased economic interdependence between the Arab oil-producing nations and the West, the focus has been primarily on the conservative pro-Western monarchies of the Arabian Peninsula. However, OAPEC also includes a so-called radical bloc comprised of Algeria, Iraq and Libya. In light of the professed hostility of these countries to Western interests, and their strong ties with the Soviet Union, these countries might provide an exception to the hypothesis that increased economic interdependence should lessen the likelihood of conflict with the West.
Superficially, it would appear that the larger populations and developed agrarian sectors of Algeria and Iraq, as well as the access to Soviet arms by all three members of the radical bloc, would make them immune to dependence on the West. Closer scrutiny of the economies of these countries shows that this is not the case. The members of the radical bloc within OAPEC, particularly Algeria and Iraq, feel the need to achieve rapid economic development more acutely than do the conservative OAPEC states. In Algeria and Iraq, large populations and relatively limited oil reserves necessitate higher oil prices to finance rapid economic development. Libya, which has been more reserved in its call for increased prices, seems to be influenced more in its relations with the West by the ideological concerns of President Mu'ammar al-Qadhafi and the ruling Revolution Command Council than by economic considerations. Nevertheless, Libya is highly dependent on Western manpower and technology.

The problems facing Algeria and Iraq stem in large measure from their increasing indebtedness resulting from the imports of large quantities of Western capital goods and technology. As with many other developing countries, this indebtedness has been exacerbated by the inflationary spiral in the West. Thus the Algerian government has given high priority to heavy industry, such as a proposed multi-billion dollar complex which will produce machinery for the steel, chemical, petrochemical, electric and mining industries. Dubbed "Little Pittsburgh," this project will be constructed by a foreign consortium and is expected eventually to employ 25,000 workers (MEED, July 9, 1976:18).

While its development plans are impressive on paper, Algeria is finding it increasingly difficult to finance such projects. During 1976, the United States Import Export Bank restricted any further loans to Algeria, except those on projects bringing a quick return to investment. The bank claimed that Algeria was too heavily in debt and could not continue to support its debt service on large loans when its oil revenues were lower than had been forecast. Oil output increased only 3.1 percent between 1975 and 1976. The delay in implementing many development projects was also cited by the bank as a reason for Algeria's poor credit rating (MEED, Sept. 10, 1976:12).

Not only has Algeria been adversely affected by insufficient oil revenues but also by the refusal of the Federal Power Commission to ratify the shipment of large quantities of liquified natural gas to the United States. Algerian proven natural gas reserves, which comprise 2,800 billion cubic meters, are the most extensive in the world. Under
the Second Development Plan (1974-1977), the Algerian government allocated 40.6 percent of investment capital to the development of the hydrocarbon industry. The inability of Algeria to ship liquified natural gas to the United States in any significant amount has meant the loss of its largest potential market. Most observers feel that American reticence is based upon national security questions concerning Algeria's socialist orientation (MEED, April 1, 1977:18).

Like Algeria, Iraq is engaged in an ambitious development program. In 1977, 38 industrial projects were expected to be completed at a cost of $1.04 billion by the state supervisory body, the General Organization for Planning and Industrial Construction (MEED, Nov. 23, 1977:6). Iraq has also experienced problems resulting from a sluggish oil market and a rising import bill. Thus Iraqi oil production in 1976 increased only 0.8 percent over that of 1975 (see Table 1). Further indications of economic difficulties are apparent: a budget deficit of $475 million in 1975, the small 4.2 percent increase in state spending in 1977 as compared to 1976, and a public debt of over $6.5 billion. Government officials are also concerned about productivity in Iraqi industry. Minister of Industry and Minerals, Fulaayih Hasan al-Jasim, informed a Baghdad symposium in September, 1976, that while investment in industry during the past five years had been three and one-half times as great as during the previous twenty years, returns on investment in Iraq were among the lowest of all developing states. According to al-Jasim, Iraqi industry was running a deficit of $410 million and operating at only 30 percent of its productive capacity. The Iraqi government's concern with this situation was underlined by Vice President Saddam Hussayn who asserted that there would be no wage increases for either workers or management until productivity in industry improved (MEED, Sept. 17, 1976:13).

The third of the radical states within OAPEC is Libya. Having ousted King Idris and the al-Sanussi family in 1969, the Libyan regime of Mu'ammar al-Qadhafi is anathema to the royal families of the Arabian Peninsula who fear a fate similar to that of the Libyan monarchy. While wealthier in per capita terms than either Algeria or Iraq, Libya has experienced a lag in export earnings since 1970 due to a steady decline in oil production—which only began to reverse itself in 1976 (MEED Special Report, 1975a:v). Libya shares with Algeria and Iraq the problem of acquiring sufficient revenues to meet the rapid escalation in the price of imported capital and manufactured goods necessitated by a comprehensive development program. Unlike Algeria and Iraq, Libya
does not have adequate manpower to meet its development needs. Large numbers of Egyptians and Turks are already employed in Libya, and the Libyan government is seeking to import still more workers, especially Turks (MEED, Mar. 25, 1977:23; MEED Special Report, 1977c:xiv). Many Western analysts feel that Libya’s ability to implement its development program will be determined by whether or not it can acquire the requisite manpower resources.

The desire of this radical bloc within OAPEC to raise oil prices has led to a struggle with the conservative oil producers. The tension finally led to open confrontation during the January, 1977, OPEC meeting in Qatar and the emergence of the so-called two-tier price system. The moderates led by Saudi Arabia and its client, the UAA, agreed to only a 5 percent increase in the price of oil during 1977 while Algeria, Libya, and Iraq, together with Iran and Kuwait, increased their prices 10 percent in January and agreed upon another 5 percent on July 1, 1977 (MEED, Jan. 7, 1977:7). This power struggle was resolved in favor of the moderates, once the OPEC states which raised prices suddenly faced a drop in demand for their oil. The National Iranian Oil Co. (NIOC) reported a drop of almost 50 percent in its oil sales during the week following the January conference, and during February it was reported that Iraqi crude was being sold at a 30 to 35 percent discount (MEED, Jan. 7, 1977:7, Feb. 18, 1977:22). The cancellation of the additional 5 percent price increase during the July, 1977, OPEC meeting not only indicated once again the extent to which oil producers are dependent upon Western markets, but it also underlined the extent of Saudi Arabia’s hegemony within OPEC and OAPEC.

As I have suggested, the strident rhetoric of the radicals within OAPEC is less a testament to their ideological commitment to socialism than to their concern with development problems and their discontent with the conservative Arab states which dominate OPEC and OAPEC. It is not surprising, therefore, to find that Iraq and Libya actually increased the amount of oil sold during the 1973 boycott (Stork, 1974:225-226, 235). While the media in these countries accuse the United States of being an imperialist power, American firms continue to be awarded lucrative contracts in both Algeria and Iraq. Despite Libya’s lead among the Arab oil producers in nationalizing foreign oil companies, relations between Western multinationals and the Libyan government have been cordial (New York Times, Sept. 17, 1976).

The cleavage within OAPEC between conservatives and radicals suggests an additional hypothesis which reinforces the arguments re-
garding economic interdependence. The state apparatus in the conservative oil-producing nations has severely limited political participation to the tribally based royal families, the upper echelons of the religious hierarchy, a small number of influential merchant families, and technocrats. One of the most severe internal contradictions facing the conservative Arab oil-producing regimes is how to preserve their traditional monarchies in the face of attempts at rapid industrial development. Rapid socioeconomic change without any corresponding political change bodes ill for the conservative monarchies. These regimes have already been challenged by opposition emanating from the military, native technocrats in the oil industry, and the large numbers of Palestinians who are employed in these states (Halliday, 1975:78-79, 80; Oman: A Class Analysis, 1974:6).

The threat of the radical OAPEC states is as much political as it is economic since they all possess highly nationalistic republican regimes which provide an alternative political model for anti-monarchist elements in the conservative states. Furthermore, the radicals have been staunch supporters of the Palestine Liberation Organization (PLO) which contains a large Marxist faction hostile to the conservative monarchies. Given the large number of Palestinians among the working classes and technocratic strata, the conservative oil producers are faced not only with potential domestic opposition but also with a Palestinian fifth-column within their borders.

Consequently, the conservative oil producers are even less willing to provoke a severe confrontation with the West. Saudi hesitancy following the outbreak of the Six Day War to institute an oil embargo against the United States brought protests from Palestinians in the oil fields. Similar protests have erupted in Kuwait where Palestinians comprise over half of the total population (Stork, 1974:113; MEED, Sept. 3, 1976:3-4). Were another Arab-Israeli war to erupt, the conservative OAPEC regimes would face the unsettling prospect of having to choose between failure to initiate an oil boycott—thereby incurring the wrath of the domestic populace and Palestinian elements—and, by initiating a boycott, provoking the United States and its NATO allies to withdraw their military and technical personnel. Such a step on the part of the West would deal a serious blow to economic development in these countries and make the conservative monarchies more susceptible to internal subversion.

A third hypothesis relates to the conservatives' fears of increased Soviet penetration into the Middle East. Attempts have been made with
varying degrees of success to woo present and former Soviet clients such as the PDRY, Somalia, Egypt, Syria, Sudan, and the PLO away from Soviet influence. Since Soviet influence has often been enhanced by increased political instability in the Middle East, and given that the Soviet Union is most influential in the radical states, it is in the interest of the conservative members of OAPEC to prevent renewed conflict with the West from erupting, for this would place them in a weaker position regarding the Soviet Union and its Arab allies.

Not only is the West essential to all OAPEC states economically, but it is essential to the conservative OAPEC states militarily if they are to retain their hegemony within OAPEC. This does not mean that the interests of Western countries and the conservative OAPEC states are identical. Hostility to Israel is still intense within these states (although recent indications are that Saudi Arabia would recognize Israel in the event of a comprehensive peace settlement) (New York Times, Mar. 10, 1978). The declining value of the United States dollar threatens to lead OPEC to raise oil prices or to shift from the dollar to another Western currency as the accepted basis of oil payments. However, the response of Saudi Arabia, the most powerful OPEC and OAPEC member—hence the key to OAPEC-Western relations, has been relatively moderate regarding its political and economic differences with the West. The Saudi regime is no longer speaking of an oil boycott in the event of a new Arab confrontation with Israel but rather of a significant increase in the price of a barrel of oil. On economic issues, the Saudis tacitly supported the West in the North-South dialogue by refusing to support radical demands for transfers of wealth from the prosperous industrialized nations to underdeveloped countries. Saudi Arabia has committed some of its massive reserves to easing the budgetary deficits of those underdeveloped countries which are resource-poor and have suffered from the rapid increase in oil prices since 1973 (MEED, Mar. 4, 1977:39). By assuming a greater role in the international economic system, Saudi Arabia has indicated a willingness to relieve the West of having to commit its own resources to assure the continued health of the world economy. Having joined the elite among Western nations who exercise a dominant role in global economic affairs, the Saudis have also become more committed to assuring its continued health and stability, thus reinforcing their reluctance to provoke confrontation with the West. As the Saudis envisage their future role, it is to act as a powerful broker between the advanced industrialized countries of the West and the underdeveloped world (New York Times, Dec. 23, 1977).
SUMMARY

It has been argued that the increasing economic interdependence between the OAPEC states and the West will continue to reduce the possibilities of renewed conflict between oil producers and oil consumers such as occurred during the fall of 1973. It is predicted that all of the OAPEC states will become increasingly reluctant to resort to another oil embargo as their investment in programs of economic and military development continues to grow. The costs of a withdrawal of Western investment and technical expertise as a result of an embargo would deal a serious blow to such development programs. Similarly, it would leave many regimes, especially the conservative monarchies of the Arabian Peninsula, vulnerable to political challenges by radical elements within the Arab world and to the threat of increased Soviet influence. Thus, the hypothesis that economic interdependence will increase is reinforced by considerations relating to intra-OAPEC cleavages and the desire of the conservative producers to maintain their political and economic hegemony within the oil cartel. For the West, the disruption of oil supplies and trade with highly lucrative Arab markets would represent a political and economic disaster. As a result, the advanced industrialized countries are eager to avoid conflict with the Arab oil-producing nations and increasingly seek to placate them in their political and economic disputes with the West. Rather than solely emphasizing the potential for conflict between OAPEC and the West, greater attention should be given to the nature of the emerging alliance between its conservative members, especially Saudi Arabia, and the dominant Western power, the United States.

NOTES

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1. OAPEC, established in January of 1968, contains ten member states: Algeria, Saudi Arabia, Bahrain, Egypt, Iraq, Kuwait, Libya, Qatar, Syria, and the UAA. As of January 1, 1976, OAPEC possessed 49.5 percent of world oil reserves—clearly dominating the larger OPEC cartel.

2. In 1968 and 1969, for example, Saudi Arabia ran budget deficits of 549 million Riyals ($2.03 billion) and 535 million Riyals ($1.80 billion), respectively (MEED, Special Report, December 1976:24).

3. Indicative of this fear are remarks made by Kuwayti Minister of Finance, ‘Abd al-Rahman al-‘Atiqi, in a recent interview with the Middle East Economic Survey (MEES). Arguing that the oil
producers and the West have to find a way to stabilize the "vicious inflationary process" in manufactured goods, money, and oil, al-'Atiqi warned, "if the industrialized countries do not step down from their pedestal and reach an understanding with us, we shall drown together for we are all in the same boat" (MEES, 1977:16).

4. For example, in exchange for the sale of fifty F-15 fighter aircraft, Saudi Arabia was reported to have guaranteed oil shipments to the United States totalling 2.5 million barrels per day for the next three years.

5. For example, the Dow Jones industrial average fell 12.30 points on November 29, 1977, after it was reported that OPEC was considering raising the price of oil (New York Times, 1977).

6. It is interesting to note that King Khalid reportedly informed President Carter during his trip to Saudi Arabia on January 3, 1978, that he did not want to see any further erosion of the U.S. dollar. The following day the United States Treasury stepped in to support the dollar (MEED, 1978:4-5).

7. As part of the trend toward longer term investments, one can cite the recent acquisition of a 20 percent share of Financial General Bankshares, Inc., a Washington-based bank, by investors from Kuwayt, Saudi Arabia, and the UAA (The New York Times, 1978).

8. Rustow and Nugno (1976:128, Table 1): It should be noted that other sources put Saudi Arabia's reserves at about 60 years while Blair feels that true reserves are much higher (MEED, 1976:19; Blair, 1976:18-19).


10. Although no systematic data have yet been accumulated on political recruitment in Saudi Arabia, this is definitely the impression I received in interviews with officials at the Saudi Arabian Monetary Agency and with a member of the prominent 'Ali Riza family of Jidda in August 1974. Also note the composition of the present Saudi cabinet in MEED Special Report: Saudi Arabia (1976:1) and Who's Who in Saudi Arabia (1977:263 et passim). It should be noted that of the 38 princes listed, only seven are actively engaged in commercial affairs and only two of them have had formal training in business and finance.

11. Contrast the stridency of "hawar ma'al-raf'iq 'Adnan al-Hamdani hawla istratijiyat al-siyasa al-naftiya" [an interview with Comrade 'Adnan al-Hamdani, Secretary General of the Ba'th party's Committee on Oil Affairs Concerning Oil Policy Strategy"] in majallat al-naft wa-l-tammiya [Journal of Oil and Development] (1975:21-33) with the list of contracts awarded by Iraq to foreign firms in MEED Annual Review (1977:67-68). It should be noted that one of the most prominent of the foreign firms operating in Iraq is the Bechtel Corp. of San Francisco.

12. In 1977, the Saudis were talking of a $3 increase in the price of a barrel of oil.

13. In the North-South Dialogue, Saudi Arabia, and to a lesser extent, Iran opposed "'OPEC hawks'" such as Iraq and Nigeria at the conference. They supported the West on such issues as raising the question of oil supply and demand and in fighting to prevent the issues being moved from the forum of the conference to that of the United Nations (MEES, 1977:4).

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