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Hangover Time in the Gulf

Ghassan Salameh

After a decade of soaring revenues and frenetic spending, the six "Eldorado" states of the Gulf * are now in a tight economic and financial squeeze. Experts and analysts in the Gulf and around the world are feverishly studying the consequences of this new phase, including its political implications. Symptoms which began to show up back in 1982 are now quite apparent in the litanies of international experts and the lives of the countries' six million immigrant workers.

The governments are no longer the easy spenders they used to be. They have abandoned grandiose projects and have substantially lowered their aid to Third World countries. Several banks and other companies are on the edge of bankruptcy.[1] Even a hurried tourist will notice that the palatial hotels of Abu Dhabi are often down to only 20-30 percent occupancy.

Local citizens no longer change cars every year. A large number of engineers and business promoters are unemployed. People visit the enormous American-style shopping centers much less despite the goods overflowing the shelves. The situation has become so serious that several countries, notably Saudi Arabia and Kuwait, have invited World Bank consultants to advise on ways of restoring order to their battered finances.

The present crisis is the result of four main factors:

• *Dependency on Oil.* These six countries depend largely on their oil sales to nourish their respective treasuries. This dependence varies from 65 to 95 percent of total public revenue, depending on the country and the year. Obviously, any change in oil price or oil sales has a very large effect.

• *Declining Demand.* World consumption of oil has been stagnant over the past five years because of the slowdown in the world economy and because of conservation measures stimulated by the high price. Demand for OPEC output has declined considerably, (from 55 percent of world production in 1973 to 41 percent in 1981 and 28 percent in 1985) as major new fields outside of OPEC came on stream in such countries as Mexico and Britain. To support prices, OPEC set up a system of production quotas in March 1983, but paradoxically this favored non-OPEC producers, as well as OPEC members like Nigeria who ignored the quota. As other countries expanded their production, the squeeze on OPEC increased. Saudi Arabia, the self-proclaimed swing producer, was hit hardest. Saudi production, which had peaked at 9.8 million barrels per day in 1980, plummeted to well below the 4.3 million barrels per day implied by the quota. It declined to 3.5 million barrels per day by early 1985, and in August it fell further to 2.3 million barrels. The kingdom was producing less than one-fourth of its 1980 output, and around one-fifth of its potential.

• *Falling Prices.* The Iranian revolution set off a panic that led to an artificial price surge—what was called the "second oil shock." Official prices rose from $12 per barrel in late 1978 to $35 per barrel in 1980. This level was completely unjustified in economic terms and a decline was inevitable. Even the outbreak of the Iran-Iraq War in September 1980 had no major upward effect on prices; the interruption of supplies merely delayed the coming downturn for eight or nine months.

Since 1980, oil prices have weakened continuously. The Saudis persuaded OPEC to lower the official price by $5 a barrel in 1983, bringing it more in line with the current market. But that still did not stabilize prices. Nor did production cutbacks or quotas. Through many meetings and seminars, quarrels and reconciliations, OPEC ministers were unable to forestall the inevitable drop in price. By the summer of 1985, the price had fallen to $25 a barrel, and even that level was maintained only thanks to radical Saudi production cuts.

As other producers shaved their prices and took still more of the market, the Saudis felt increasing pressure to act. In October they sharply dropped their own prices through a series of "net-back" deals, and Saudi oil minister Zaki Yamani warned that prices would fall to $18. Since then, the price has tumbled steadily and Saudi production has begun to rise. In December 1985, OPEC ministers met at Geneva's Hotel Intercontinental—scene of so many Olympian surprises in the past—and resigned themselves to accept increased Saudi production at the expense of lower prices. The day after their announcement, the price of a barrel fell by $3 on the Rotterdam spot market and Yamani soon warned that prices would fall to $15. A $10 barrel had now become a real possibility.

• *Drop in the Dollar.* The Gulf financial crisis has actually involved more than the fall in oil prices alone. The early stage of the oil price decline was partially offset by the rise of the Reagan super-dollar, the transaction currency for the overwhelming majority of oil contracts. But in 1985 the dollar finally started to decline. The dollar denomination for oil revenues became particularly painful after September 1985, when the Big Five industrial powers met and decided to push the dollar further downward. Altogether, the dollar lost more than 25 percent of its value between January 1985 and January 1986, greatly magnifying the effect of the oil price decline.

Calm in the Face of Adversity

The third oil shock, which bore down on the producer countries at the end of 1985, was a remarkable change of fortune from the earlier shocks. But in spite of grave concern in many quarters, the panic some observers anticipated did not materialize. In fact, Gulf leaders are presenting the crisis as if it were a simple "normalization" which will align the Gulf economies with those of the rest of the developing world.

Though the crisis has been building for several years, its implications are far from fatal. Two-thirds of the proven world oil reserves are still located in the region, mostly in the Gulf Cooperation Council (GCC) states. There are also huge gas deposits, notably in Qatar, which has the world's third largest reserves. Though world demand has stagnated, oil remains an indispensable energy source. A climb in prices and in OPEC production in the not-too-distant future is very possible, either when the North Sea wells are exhausted, or in the event of a genuine recovery in the world economy.

Meantime, oil revenues remain substantial. If they seem small

* Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates, Oman—the states of the Gulf Cooperation Council.

in comparison to recent years, they are still enormous in relation to the incomes of other countries in the region. What miracles Egypt could produce with the $30 billion that Saudi Arabia reaped in 1985 through its oil exports! Income per capita remains 15 times greater in the Gulf than in Yemen or Sudan, and an unskilled Egyptian worker can still earn more in Kuwait than a cabinet minister back home.

Gulf rulers like to remind their subjects that oil revenues began to flow *after* their dynasties were established in power. They had already implanted their political and military rule over impoverished tribal societies when oil first appeared in the 20th century. So oil earnings appear to be a result of their historic conquest (as in the case of the house of Saud) or of power slowly consolidated (as in the case of the house of Sabah in Kuwait) as well as their successful alliances, foreign and celestial. As Shaikh Zayid of Abu Dhabi is wont to proclaim, with a certain serene fatalism: "God gave me oil, and He can take it back at a moment's notice."

But the relative calm of the Gulf leaders in the face of the current adversity is likely to be undermined by the further uncontrolled drop in oil prices in early 1986 and by their poor crisis management. Witness the enormous Suq al-Manakh stock scandal of 1982 in Kuwait. Its reverberations still rattle the banking system of the Emirates and the closely-tied Bahraini banking system as well. The scandal began as an incredible poker-game based on post-dated checks, including stocks of companies that themselves were only paper creations. When the bubble burst, there remained $95 billion in unpaid checks, a series of bankruptcies, badly shaken banks, and a government that was especially embarrassed when it turned out that even some of its own members had developed a taste for the game. [2]

Less dramatic but by no means less important has been the brutal fall in real estate prices, particularly in Saudi Arabia, after years of feverish speculation.[3] The Saudi stock market also began sliding from 1983 onwards; it suffered a decline of 30 percent in 1984 and dropped even further in 1985.

The crisis is most acutely felt in the banking sector. The advent of the banking crisis was clearly signalled in 1984, when Dubai's princely family was forced to buy the Emirates National Bank rather than risk a domino collapse within the UAE banking system. The Emirates were particularly vulnerable because the oil boom had set off a banking boom there. Nearly 300 branch offices had been built, yet the loosely-organized federation still lacks a central bank worthy of the name.

In Saudi Arabia, according to a Saudi banking source, the private sector is carrying a $68.8 billion debt. Of this sum, $15 billion is owed to commercial banks and $48 billion to innumerable funds created by the state to promote agriculture, industry, housing and so forth. The most moderate estimates hold that 25 percent of these are "problem loans" which may be uncollectible. Even this figure should probably be doubled. The same difficulty besets the banks of Kuwait, where some experts estimate that two-thirds of the total loan portfolios of the banks are in the "problem" category. The crisis is felt even more sharply in Bahrain, which is now suffering the ill-effects of its many offshore banks that were set up in the 1970s after the first oil shock and the Lebanese civil war.

State and Capital

"Everything depends on the six governments in power." Such is the standard conclusion. It shows how lightweight the private sector really is. Hyper-monetarized, accustomed to easy profits and government subsidies, the Gulf new bourgeoisie prefers speculation to investment and is more at home as the middle man than the entrepreneur. In fact, though these societies are reputedly ultra-capitalist, the monopoly of the ruling families over mineral resources makes the state the determining economic agent. This monopoly has made the governments into enormous income-redistribution machines, with their easy-term loans, inflated contracts, subsidies and grants.

Who can imagine these states actually adhering to an austerity plan? The Saudi government affirms that its budget of about $56 billion has remained at the same level in 1985-86 as during the previous three years. But this is not very impressive. Saudi current accounts shifted from a surplus of $41 billion in 1980 to a deficit of between $13 and $18 billion for each of the last three years. At the heart of the budget are oil production and price forecasts which are 30 to 40 percent overstated. Realistic spending actually should have been sharply cut.

Since the Saudi government has neither the conviction nor the capacity to draw indefinitely on its $100 or so billion in foreign reserves, it has in effect decided to postpone payments. The result is that, out of $56 billion budgeted for 1985-86, only $35-40 billion (the estimates vary) was actually spent. No budgetary cuts on paper, but deferred payments in practice. Complicating matters still further is the illiquid state of Saudi foreign reserves. Saudi Arabia was apparently unable to convince American officials to cancel the special conditions, established by treaty, which prevent the Saudis from withdrawing some of their vast investments in US Treasury instruments.

The US government claims that these investments are the same as any other private placement: if funds are withdrawn before the specified period, there will be a heavy penalty. But the Saudi government asserts it only accepted these conditions because the US government needed them for political reasons. Now the US wants to overlook this, by proposing that Riyadh act like any other lender and use the Treasury investments as collateral to obtain loans from commercial banks. This the Saudis are very loathe to do.

Of the $100 billion in Saudi reserves, about half may be inaccessible, not only because of the Washington treaty but also because most loans to the Saudi private sector, to Iraq and to other Third World countries cannot be called in. There are also placements with Western commercial banks which have wound up in the same situation: loaned out to shaky businesses and to debtor countries in Latin America. These banks are not inclined to honor requests for massive withdrawals either.[4]

The Saudi government has passed the ball to the private sector. Thirty percent of contracts now must be subcontracted to Saudi businesses. The "Saudization" of the public works sector follows that of the banks as well as the huge petrochemical projects of SABIC, the public-private conglomerate. The 1985-1990 five-year plan also projects a 10 percent yearly increase of private investment in non-petroleum industries. $58 billion has already been offered in loans to promoters of industrial projects.[5]

Until now the private sector has preferred the passivity of deposits in foreign banks. When they are invited to invest in the kingdom, the Saudi millionaires see that existing projects do not deserve their financial favor. The bakery, dairy, and cement industries may already have reached the saturation point. Nor is the government disposed any longer to offer free electricity or to subsidize cereal production to the tune of $1000 per ton. Their hesitation could become outright hostility if, as is sometimes suggested, the government were to establish a real tax system.

Political Compensation

The Gulf rulers cannot push their bourgeoisies to show more "economic patriotism" without also offering them a share of political power. It is practically unthinkable that these strata—so long the beneficiaries of unbridled economic liberalism and state support of all kinds—would accept a genuine rationalization of their economic role without some political compensation. Not coincidentally, doubts and fears are heard more clearly among the elites close to the rulers than among the population at large.

An ordinary Gulf citizen would not dare to speak of the post-oil Gulf as "cities turned to salt" like the acerbic 'Abd al-Rahman Munif (presently residing in Paris). And only a Ghazi al-Ghosaibi—minister from a loyalist family above all suspicion—could compose a critical letter of resignation from the Saudi government; writing in the form of a poem, al-Gosaibi compared himself to Mutannabi, famous poet from the Hamdani court of Aleppo, and vilified the servile coterie of his sovereign.

Another voice of protest has come from Suad al-Sabah, a member of the princely family of Kuwait, who is also an economist and poet. In one of her poems she cries:

> My country, I hardly recognize it.
> Is it the bazaar, the bounced check, the gambling houses,
> Is it the Kuwaiti people strangled by its Mafias in broad daylight?
> I refuse to allow oil to be my destiny.

Sometimes even silence can say a lot, as in the case of 'Abd al-Latif al-Hamad, the respected Kuwaiti finance minister who resigned from his post after the al-Manakh scandal. Others have publicly attacked the waste, the ostentatious spending, and the lack of solidarity with the rest of the Arab world. Rarely does a week go by without the parliamentary opposition—be it nationalist or fundamentalist—questioning the Kuwaiti government on such issues as the internal organization of a ministry or the signing of an oil contract. Such pressure, widely publicized by a prolific press, has pushed more than one minister out of office; it even forced a member of the princely family to resign as justice minister in the face of charges of nepotism.

The Gulf rulers are calling on greater economic and financial patriotism from the upper classes, while the latter demand a greater participation in political decision-making. In Kuwait, a revival of the constitution and of legislative elections in February 1985 markedly reduced this clash. But the tensions are far from eliminated, between an increasingly critical opposition and a government that sometimes appears to have second thoughts about the liberalization process.*

Eye of the Storm

Pressures from the region aggravate the internal crisis of these over-rich underpopulated countries. Well provided for but badly defended, they are surrounded by states whose turmoil and conflict threaten to overwhelm them. North Yemen is probably more populous than Saudi Arabia, so its poverty and instability are a constant source of concern. South Yemen is aligned with the USSR, and its recent bloody convulsion posed the specter of a still more radical regime. The Arab-Israeli conflict constantly upsets Gulf tranquility and threatens to continue to do so. Last but not least are the two powerful neighbors, Iran and Iraq, who espouse two equally menacing ideologies—Islamic revolution and secularist republicanism. These two countries have been at war since 1980, and their conflict often spills over into Kuwaiti territory or Saudi shipping lanes.

The Iran-Iraq war has also become a heavy financial albatross for the Gulf petromonarchies. They have been financing the war effort of Iraq, self-proclaimed "Defender of Arabism," to the tune of billions of dollars, since they see a victory of Khomeini's Iran as the greatest danger. The war began in 1980, when oil revenues were at their peak. Today, times have gotten much more difficult. But what can they do? If they stop all support to Iraq, the chances of an Iranian military breakthrough would greatly increase, exposing the monarchies to incalculable consequences from Iran as well as desperate retaliatory measures from abandoned Iraq.

Continuing to support Iraq is increasingly difficult at a time of falling income. The best alternative is to stop the war. But how? One solution proposed in 1982 was to reimburse Iran for war damages, but this has become too expensive and is now virtually impossible. Peace would probably prove as expensive as war, for the Gulf regimes might be forced to help the belligerents rebuild their devastated war zones. At the very least, they would have to allow Iran and Iraq to produce all the oil necessary to rebuild their treasuries. This would force the Gulf states to reduce their own production in favor of these powerful neighbors and it would lead to another unwelcome fall in oil prices.

Today, the monarchies confront these dilemmas with less foreign backing than they have become accustomed to. After the British withdrawal from the Gulf in 1971, the United States became the major foreign power and it used a thousand and one means to maintain the status quo. Faced with the specter of the Iranian revolution and the Soviet intervention in Afghanistan, President Carter did everything possible to "save" the region, then considered "vital" to American security. The Carter Doctrine cost between $10 and $15 billion—to equip the key bases in Oman and Diego Garcia and to establish the rapid deployment force. But Washington's interest has waned now that the economic and financial stakes have become more modest. Alarmist, warmongering articles by the likes of Norman Podhoretz and Robert Tucker have declined in proportion to the fall in production and prices.

American diffidence largely explains the diplomatic "normalization" with the USSR. Following Kuwait's example, Oman and the United Arab Emirates have decided to establish diplomatic relations with Moscow. Saudi Arabia and its two very small neighbors (Qatar and Bahrain) could soon follow. The 1979 Brezhnev proposals have been revived and their implicit terms are now more clearly spelled out: a Soviet promise of non-intervention for a clearer non-alignment policy by the six oil monarchies. The Kuwaitis—who have gone so far as to buy Soviet arms—have led the way by pursuing this policy for the past two decades.

Falling income, regional threats, and waning American support: without becoming panic-stricken, the leaders of these countries are well aware that they are entering a difficult period. Only a short while ago, they seemed to believe that they had found the

* In the 1985 elections, only 3.5 percent of the population—56,848 Kuwaiti men—was able to vote. Women unsuccessfully demonstrated before the elections to gain their franchise.

magic cure: unity in the form of the Gulf Cooperation Council. Established in 1981, this was a prudent measure against the nearby war between Iran and Iraq. Summits followed each other in rapid succession. (The most recent in Muscat in November 1985 was so lavish that it seemed extravagant even to Gulf journalists.) A few joint projects materialized, including a technical university, a dozen joint industrial projects, joint military maneuvers and a united consensus on the Iran-Iraq war. But everyone knows that greater cooperation would mean greater integration with—and subordination to—Saudi Arabia.

Such integration is most definitely not to the taste of Iraq and Iran, and some governments (particularly those of Kuwait and Oman) have also shown reluctance. The elites of the Gulf countries appear divided: they hope for integration, even if it were to Riyadh's advantage, provided that the latter makes some Kuwait-type political changes—democratization internally and diplomatic non-alignment with the rest of the world. Only such attractive political options could legitimize a more developed regional integration around Riyadh. Those intellectuals from Kuwait and Bahrain are not mistaken when they believe that the future and, perhaps, the very existence of their countries now depends on economic, financial and, particularly, constitutional choices that Saudi Arabia can no longer postpone. ■

—Translated by James Paul and Daniel Brown

See **Footnotes**, *page 48*

Mutiny in Cairo

Ann M. Lesch

Wednesday, February 26. The story was on BBC at eight this morning. Central Security Forces (*al-'amn al-markazi*) mutinied last night at the big camp at Dahshur and at two camps in Giza, on the road to Alexandria. Thousands of conscripts burst out of the camps and burned nearby luxury hotels. The government says that the mutiny was sparked by a false rumor that the conscripts' tours of duty would be extended from three to four years. Many people believe the rumor was accurate.

Everyone goes to work as usual, even though people who live near the pyramids report that shooting and burning went on through the night and that some residents joined with the insurgents. When the regular army troops came to search apartment buildings for the mutineers, some of them were hidden by residents. Several nightclubs were trashed by local youths, not by the conscripts. This afternoon, youths in the poor working-class area of Imbaba also took advantage of the absence of the security forces. When they were arrested their mothers forcibly freed them from the local police station, which local residents then set on fire. In my neighborhood of Dokki, several residents sympathize with the conscripts.

There are reports of clashes in other parts of the city. I hear later that fighting broke out between security forces and army troops in Maadi by 10 a.m. There were gunshots and car windows smashed in the modern shopping center on Road 9 and in the Old Maadi market. Security conscripts ran down Road 15 in their underwear (so they couldn't be identified) smashing car windows, until helicopter gunships chased them away. Residents of Maadi could hear gunfire for hours from the east, where prisoners from Tura and mutinous conscripts had escaped toward the desert and the Mukattam Hills.

Tensions had been mounting here for months. Israel's raid on the PLO headquarters in Tunis, the Achille Lauro incident and the US Sixth Fleet's hijacking of an Egyptian airliner all fed an anger and hurt pride that extended from people on the street to President Husni Mubarak himself. The disastrous Egyptian commando attack on an Egyptair plane hijacked to Malta in mid-November compounded the confusion and doubt of many Cairenes about Mubarak's policies and the regime's close ties to Washington.

The case of Sulaiman Khater added to the credibility gap between the public and the government. Khater was a conscript in the Central Security Forces on guard duty in Sinai who shot to death seven Israeli tourists in early October. The government argued that he had gone berserk; Khater claimed he was following orders. Prominent intellectuals petitioned that the case be moved from the military court to a civil court, so that the full evidence would be made public. But the real shock came in January when Khater died in a military hospital. The government stated he had committed suicide, but many Egyptians believe he was murdered by the Israeli Mossad or on orders from the Egyptian high command. Central Security police had to quell protests which broke out in his home village and in neighboring Zagazig, where he had been a law student.

Public discontent also had its material component. The prices of basic foods had risen noticeably. Even such staple winter foods as lentils were costly and hard to find. Government exhortations to produce more and to contribute money to reduce the national debt were greeted cynically, particularly at a time of revelations of corruption by a former minister and high-ranking bank officials. Workers struck over pay and benefits in the major factory complexes of Mahalla al-Kubra and Shubra al-Khaima; the government responded by arresting over 100 strike leaders.

All this had made Mubarak visibly angry. In an interview in the weekly *Al-Musawwar* in January, he warned that there were limits to criticism and hinted that the critics might be worse off under another president, an apparent allusion to the alternative of military rule. Some opposition politicians feared that their newspapers would be closed down and rumors spread that Defense Minister Abu Ghazaleh was pressuring Mubarak to appoint him as vice-president while retaining his defense portfolio.

Most Cairenes believed that these accumulating tensions were bound to lead to trouble, but that any outburst would likely come later in the year, when the impact of decreased oil production, worker remittances and tourism would be more evident. Certainly no one thought that the Central Security Force would mutiny.

The Central Security Force had been built up as a major tool for maintaining control, especially following the January 1977 bread riots in Cairo. Its tasks included directing traffic, guarding embassies, government buildings and hotels, and curbing riots. The nearly 300,000-man force included military conscripts as well as salaried security police. The conscripts were largely illiterate rural youths who did not qualify for regular military duty. No

Forum

Nuclear Dumping in Sudan and Somalia?

I am not a subscriber, but find your magazine worthwhile enough to pick up more often than not at a local bookstore. The September 1985 issue on Sudan was particularly good. Gayle Smith's article on George Bush's visit mentioned discussions on nuclear waste disposal in the Sudan desert. The November-December *Africa Report* mentions a Kenya complaint to the UN in September about alleged talks between Barre and Deputy Defense Secretary Frank Carlucci on possible nuclear waste burial in the Mudug and Hiran regions of Somalia. Just what is going on here? There's been some scuttlebutt about how some defense transuranic wastes may be inappropriate for both the New Mexico WIPP dump and the future commercial repositories, and this sketchy information makes it appear as though regions of the Sahel are being analyzed for possible dumping grounds. Does anyone on your staff have any more information on this?

Also, it would be interesting to see MERIP devote some more space to Yemen, the PDRY in particular. There were individual articles on both Yemens in recent issues on the Arabian Gulf, but the recent civil war between the Muhammad and Ismail factions in South Yemen seem to indicate that it's time to do a dedicated issue on that region, of the depth characterized by the Sudan issue. It would be particularly valuable to get some solid information on Soviet and East German military interest there, particularly communications/intelligence and berthing facilities. As you are no doubt aware, there has been a lot of press speculation and controversy about what facilities do or do not exist in Aden and Socotra.

Anyway, keep up the good work. If your quality continues at the level it's been for the last few issues, I may have to break down and subscribe.

Loring Wirbel
Burlingame, California

Credit Where Credit's Due

I refer to the review published in your October-December 1985 issue of Emile Habiby's *The Secret Life of Saeed, The Ill-fated Pessoptimist.*

The reviewer failed completely to mention the names of the translators or of PROTA, the Project of Translation from Arabic Literature which oversees the translation of worthy books of literature from Arabic. I would have thought that the editorial board would make sure that such an obvious omission is rectified before the article appears. The amount of work that particular translation has taken was enormous.

I am speaking not only as one of the two translators of the work, but also as founder and director of PROTA who feels that translators ought to be honored and at least rewarded on the intellectual level.

Salma Khadra Jayyusi
Cambridge, Massachusetts

We regret the omission.—*Eds.*

Footnotes, *from page 43*

1 There are abundant examples of enterprises in difficulty: 'Ali and Fahd Shobokshi (Jiddah) owe some $400 million to banks and have ceased payments. In Dubai, the Galadari empire (banks, hotels, commercial centers) has crumbled like a house of cards.

2 Of the 47 enterprises whose shares are traded in Kuwait's official stock exchange, between 32 and 35 are technically bankrupt.

3 Land sales, an essential source of income for the "big families," has practically ceased. In the past three years, properties have been losing an average 50 to 60 percent of their value every year in the six Gulf countries.

4 In 1985, the Saudi trade deficit of $25 billion placed it second in the world, behind the US.

5 This plan is more than optimistic, as it foresees average yearly investments amounting to $55 billion. Some of the things it foresees for 1990 are the departure of 600,000 migrant workers, and the doubling of the industrial sector's contribution to the GNP (up to 15 percent). The kingdom's industrialized partners are being asked to invest the equivalent of 30 percent of their exports in joint ventures with the kingdom.

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