1979/10

RS/1979-38/STAFF

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Red Sea Conflicts and Cooperation
Regional Balance and Strategic Implications

ARAB FINANCIAL ASSISTANCE TO RED SEA ARAB COUNTRIES

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Background Paper
Cairo, 18-22 October 1979

N O T E

This paper is a preliminary version of a study of the financial assistance from the Arab OPEC countries to Arab countries in the Red Sea area, which I expect to complete by the end of the year.

At this stage in the research project, I have had access mainly to non-official documents (books, specialized magazines, papers). The data which I cite are thus subject to correction and any conclusions I may have drawn from these data are purely provisional. Nonetheless, I believe that the material I have examined so far, which covers the period up to 1977, is sufficient to show a number of interesting tendencies.

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Rome, September 1979

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INTRODUCTION

The term "development aid" is currently used to refer to a transfer of resources mainly from developed countries to the less developed ones. Such flows, however, are to be distinguished from flows that move under normal trade arrangements or as a result of private activities in search of profit. Another characteristic of development aid concerns its terms and conditions which differ from those which would normally apply to flows of trade and capital between nations. (1)

Aid can be made available to help finance a particular project or a particular sector which those in control of the flow of aid (i.e. the donor) believe will have an impact upon the development situation of the recipient countries. The basic attraction of project assistance is that it enables a record to be kept on how the money obtained from abroad has been spent.

The alternative way, however, is not to bother with the detailed uses for which resources are required, but to look instead at the overall needs of the economy. This is known as programme assistance because it is related to a programme of activities over a period of time. Capital is here provided to governments or institutions who do not spell out in detail what they propose to do with it.

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(1) For a detailed analysis on the theories of aid, see: E.K. Hawkins, "The principles of development aid", London Penguin, 1970

A third form of aid giving is technical assistance. To use the West German Minister's definition, technical assistance is "help towards self-help, chiefly through the teaching of know-how". (1)

Technical assistance as such, while it may take a financial form, it more often consists of the direct provision of services especially of skilled manpower. It also involves facilities used to train foreign nationals either in their country or in the donor country or even in a third country.

Aid cannot be separated from non-economic aspects of development. In other words, it cannot be fully understood without prior knowledge of the political and social backgrounds of both donor and recipient states. Political considerations or the existence of old links between countries arising from linguistic, political or historical circumstances very largely determine the allocation of available funds. These political considerations tend to influence the form and condition on which aid is granted. It is useful here to distinguish between the factors motivating the donor countries and those motivating the governments of recipients. In this study, we intend to concentrate on the former group, i.e. the donors. Donors may be divided into four main groups:

1 - The Western industrialized countries (OECD countries);

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(1) Mr. Walter Scheel quotation, see Karen Hollock and Henry Allen Myers, "West German Foreign Aid", Boston, University Press, 1968, p. 67

2 - the centrally-planned countries (East Europe, the U.S.S.R., China);

3 - the international aid agencies;

4 - the "new donors". That is the newly-rich oil exporting countries.

As far as regards the fourth group, the major oil exporting states with their financial strength and their international credit-worthiness, have come to constitute a special grouping, or what John Waterbury calls the North of the South. (1) By contrast, the obviously "Southern" states of the region, devoid of raw material as well as financial resources, are eager to see a greater sharing of the wealth within the region. In this context, aid from the richer Arab countries to their poorer neighbours has played a significant role in the overall picture of North-South relations leading to important changes in regional systems.

The purpose of this study is to provide a comprehensive analysis of the Arab oil exporting countries' foreign aid in terms of its effectiveness as an instrument of foreign policy. The study will examine bilateral and multilateral financial aid flows from Arab OPEC countries to poor Arab countries in the Red Sea area. We will thus, attempt to demonstrate the way in which the newly enriched Arab countries use their financial assets to conduct their foreign policy in a particular area of the Arab world and to determine whether

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(1) John Waterbury, "The Middle East and New World economic order" in The Middle East in the coming decade, Chicago, McGraw Hill, 1977 p. 21

in practice, they are effectively able to exert political pressure on the poor countries of the region in this way.

In the context of the Red Sea project, our definition of the area includes all those countries with a Red Sea coast line, i.e. Egypt, Jordan, Israel, Sudan, the Yemen Arab Republic, the People's Democratic Republic of Yemen (PDRY), Saudi Arabia, Ethiopia, Somalia and the Republic of Djibouti. In this study, however, we have excluded Israel and Ethiopia limiting ourselves to the Arab countries of the area. Saudi Arabia's role as a major aid donor is central. Not only is Saudi Arabia the "most generous" source of aid, but it is also the only country among the donors that aspires to a regional role in the area.

The aid policy of the other donors has fewer direct political implications in the area. These countries, nevertheless, intend, through foreign aid, to promote regional Arab cooperation, to contribute to the economic development of recipient countries in the area and to influence, to a certain extent, the economic policy options of the recipient centres.

TRENDS IN ARAB AID POLICY

Before 1974, Saudi Arabia, Kuwait and Libya were the major OPEC aid donors. Following the 1967 war, the heads of the Arab states, meeting in Khartoum, agreed on annual transfer payments from the oil rich Arab states to help with the cost of the war and the defence burden of the "front line" states of Egypt, Syria and Jordan. These transfer payments have since become standing obligations in the budget of the contributing state. During the period 1970-1973, this budget assistance averaged about $400 million annually, not including financial assistance for the purchase of arms. (1) Arab donors have not published information on these transfers for it is considered ill-fitting for the oil rich states to speak or boast of their contribution of money for a common cause.

Aside from such "silent aid", the assistance effort before 1974 was necessarily small (oil revenue still low) averaging about $80 million. (2) Saudi Arabia, Kuwait and Libya were again the largest donors and Iraq and the United Arab Emirates especially after 1971, also contributed. This assistance was largely channelled to Arab states including those in the front line in an expression of "fraternal" cooperation among Arab countries.

For the small wealthy Arab states like Kuwait, the United Arab Emirates and Quatar, financial assistance helped to strengthen

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(1) see Maurice Williams, "The aid programs of the OPEC countries", in Foreign Affairs, January 1976

(2) Maurice William, op. cit., p. 310

ties of friendship and security with larger and militarily stronger countries in the region (Egypt, Syria, Iraq). Aid is here viewed as a kind of obligation paid by these small oil-rich states with enormous revenues and small population for continued acceptance by their poor by politically dynamic Arab neighbours.

Kuwait, in particular, deploys economic assistance skillfully as an important tool of foreign policy. In addition to supplying assistance grants to the front line states, Kuwait has built small but highly efficient programmes of aid assistance. The aid transactions of other OPEC Arab countries before 1974, were mainly the transfer of funds among Arab states carried out largely in the traditional manner for diverse political and economic ends. OPEC members did not contribute appreciably to international aid again, with the exception of Kuwait which contributed to the World Bank and the International Development Association. (1)

The only multilateral fund which received general Arab support before 1974 is the Arab Fund for Social and Economic Development, established in 1968 with headquarters in Kuwait and managed along the KFAED model.

As we have seen in the period prior to the 1973 oil crisis, the huge majority of Arab aid went to the front line states such as Nasser's Egypt which tended to dominate the politics of the region. The political position of the oil exporting countries, on the other

(1) According to a list presented by the Kuwaiti Ministry of Finance capital subscription to multilateral organizations between 1967-1977 amounted to $1.68 billion, Financial Times Supplement, 26 February 1979

hand, was relatively weak; very often they found themselves in a client relationship vis à vis the major oil companies. Far from aspiring to regional hegemony, they often feared their local allies' aspirations (Nasser's role in the Yemen, Iraqi claims on Kuwait).

Since the Arab Israeli war of October 1973 and the ensuing oil price explosion, the Arab region has acquired a recognized position of economic strength in the world. The huge foreign assets accumulated as a result of the fourfold increase in the value of oil exports, the large volume of foreign aid extended to Third World countries, as well as the possession of more than half of the world's proven oil reserves, have suddenly placed the Arab oil exporting countries in a strong and enviable position in the world of energy and power. This position has enabled them to play a predominant regional role and exercise international influence.

Despite generous pledges to African and Asian countries, the aid policy adopted by the oil-rich Arab states remains highly selective with the bulk of the money flowing first and foremost to "fraternally" associated Arab countries. In 1974, Kuwait Finance Minister Ali Atiki summed up the Arab attitude: "Nobody looked at Arabs before... Why does everybody expect us to be the Godfathers... This part of the world has been neglected for centuries and its wealth has been carried away by foreigners without giving it a hand in development... The major part of our financial aid will be put at the service of Arab countries and to assist muslim countries, particularly in Africa." (1) As it has been demonstrated by the

(1) Middle East Economic Survey (MEES), 15 March 1974

actual pattern of disbursement, the policy adopted by oil Arab states bears out this prediction.

TABLE A

FINANCIAL BILATERAL FLOWS ON SOFT TERMS BY OPEC MEMBERS TO DEVELOPING COUNTRIES

(January 1973 - June 1975)

Disbursement (in million U.S. dollars)

	1973	1974	1975
Total OPEC Aid	1067.66	3085.95	1512.80
Aid to Arab Countries	1013.07	2312.48	1250.49
% of Arab Aid from Total Aid	94.9	74.9	82.7

Source: CNUCED "Solidarité financière et développement" Activité des institutions financières des pays membres de l'OPEP.
New York: United Nations, 1977, p. 14

TABLE B

CONCESSIONAL AID BY OPEC MEMBERS (1970, 1973-1977)

Net Disbursements (in million U.S. dollars)

	1970	1973	1974	1975	1976	1977
Saudi Arabia	155.0	304.9	1029.1	1997.4	2407.1	2373.0
Kuwait	130.0	345.2	621.5	975.3	614.3	1441.8
United Arab Emirates	-	288.6	510.6	1046.1	1060.2	2261.8
Quatar	-	93.7	185.2	338.9	195.0	117.6
Libya	63.0	214.6	147.0	261.1	93.6	109.4
Iraq	2.0	11.1	422.9	218.4	231.7	53.4
Algeria	1.0	25.4	46.9	40.7	53.6	46.7
TOTAL	351.0	1283.5	3385.2	4877.9	4655.5	6403.7

Source: OECD Observer, November 1977

We have already noted how the quadrupling of oil prices in 1973 led to a radical change in this situation. OPEC countries acquired a new role in the international scene. No longer were they vassals of the oil companies. For the first time, North South Dialogue became a meaning for concept. At the regional level, the largest oil producers in the Middle East, Saudi Arabia and Iran, acquired a completely new role. Ever since 1974, Saudi Arabia in particular, has aspired to increase its political influence among oil exporting states in the Gulf, has sought to play a mediating role among the front line states, and, more recently, has become much concerned with security issues in the Red Sea area.

- In practice, it is possible to distinguish between two main groups of Arab oil exporting countries. With the exception of Libya, this classification corresponds to the economic position of the donors. On the one hand, the <u>Moderate States</u>, that is Saudi Arabia and the oil-rich Gulf states. These states are strongly linked to the West for political, ideological, economic and strategic reasons. On the other, the <u>Progressive States</u> (Iraq, Algeria and Libya). These states, with the exception of Libya, have much larger population and thus a much higher absorptive capacity than the oil exporting countries of the Arabian peninsula.

What is to be stressed here is that this distinction between the two groups corresponds as well to a highly significant distinction in the Arab oil exporting countries' policies of aid.

TABLE C

BILATERAL LOANS PROVIDED BY OPEC COUNTRIES ON SOFT TERMS TO RED SEA COUNTRIES (January 1973-June 1975)

Net disbursement (in million U.S. dollars)

Beneficiary Country	1973	1974	1975	% taken by each beneficiary country 1973	1974	1975
Egypt	555.57	868.54	622.92	52	28.1	11.2
Ethiopia	-	1.10	-	-	0.03	-
Jordan	94.38	189.45	81.58	8.8	6.1	5.4
Somalia	5.46	38.98	26.87	0.5	1.3	1.8
Sudan	3.60	98.38	23.45	0.3	3.2	1.6
North Yemen	8.71	73.43	16.06	0.8	2.3	1.1
South Yemen	-	11.42	16.82	-	0.4	1.1
Total OPEC Aid to Red Sea Countries	667.72	1182.92	787.70	62.4	41.4	22.2
General Total OPEC Aid to Third World	1067.66	3085.95	1512.80	100	100	100
Total OPEC Aid to Arab Countries	1013.07	2312.48	1250.49	94.9	74.9	82.7

Source: CNCED, op. cit.

This distinction is both qualitative and quantitative.

- The first point to note is the differing scale of aid given by the countries in both groups. As can be seen from Table B, the conservative countries with a low absorptive capacity have been generous aid donors. (This group, according to OECD reports, is second only to U.S. as an aid donor in world terms.) The progressives, on the other hand, are relatively tight fisted.
- The second distinction is qualitative: that is whereas the conservative countries tend to concentrate a large proportion of their aid in bilateral transfers, countries such as Iraq, Algeria and, to a lesser extent, Libya show a marked tendency to favour multilateral aid mechanisms.

As far as aid to the Red Sea Arab countries is concerned (Table C), the political motives underlying this distinction between the aid policies followed by the two groups are relatively easy to perceive. Clearly, Saudi Arabia, Kuwait, Quatar and the United Arab Emirates have a strong interest, given their own internal political orientations, in maintaining the Red Sea Arab countries in the Western zone of influence. Equally clearly, these countries are today so desperate for resources as to be very open to this influence.

For the progressive countries, the situation is somewhat different, For these countries, the balance of power in the Red Sea is not an immediate source of concern. Very often these countries have sufficient development problems of their own to effectively rule out extensive involvement in ambitious political manoeuvres far from their frontiers.

Let us now proceed to examine in greater detail the specific aspects of these countries' aid policies.

SAUDI ARABIA

(Regional position and foreign policy)

In the economic hierarchy of the Red Sea area, Saudi Arabia acts as a patron for the poor oil-less countries. It is undeniably powerful because of its economic potential but also because it is able to finance clients in the region (Egypt, Sudan, North Yemen, Somalia). Without this capability, Saudi Arabia would enjoy rather limited regional leverage.

At the same time it acts as a partner for the West and a regional broker for "Northern" economic interests, particularly those of the U.S.A.

Saudi Arabia's links with the West can best be illustrated by Saudi Oil Minister Yamani's own words to an Italian journalist: "We know that if your economy collapses, we will collapse with you. In other words, unless the countries of the West are prosperous, we cannot import your technology and your industry. We are not interested in seeing you collapse either for political or economic reasons." (1)

If the Second Development Plan (1976-1980) is implemented, the Saudi economy in the coming years will be dominated by large energy-intensive and capital-intensive industries. An entire range of consumer goods and capital equipment will need to be imported. These imports are bound to make Saudi Arabia still more

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(1) Oriana Fallaci, Intervista con la Storia, Milan, Rizzoli, 1977, p. 421

dependent on the industrialised world than at present. At the same time, the development of a national export-oriented petrochemical industry will increase reliance on Western markets for sales.

A further confirmation of this trend is provided by the "Secret Pact" engineered by Crown Prince Fahd and Treasure Secretary, William Simon, at the end of 1976, by the terms of which Saudi Arabia pledged to invest a large proportion of its surplus earnings in U.S. bonds in exchange for political and military protection. (1) The U.S.A. is concerned about maintaining Saudi Arabian oil production at a level of at least 8.5 million barrels per day. Experts estimate, however, that Saudi Arabian income requirements could be met with a level of production not exceeding 3.5 million barrels a day. If Saudi Arabia is to continue to produce oil in the same quantity as at present, it will be necessary to drastically increase its absorptive capacity. If this is so, the West has every interest in:

1. rapid domestic development (i.e. ambitious development plan);
2. encouraging a high level of Saudi foreign investment, particularly in Western countries;
3. stimulating major military expenditure on imported Western weapons; and
4. an active regional policy in which large sums are devoted to aid to countries in the region. (2)

All these points have a double economic and political purpose. On the one hand they are, in the long run, economic interests of the

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(1) Newsweek, 27 February, 1977

(2) Committee on Energy and Natural Resources, U.S. Senate, "<u>Access to oil - The U.S. relationships with Saudi Arabia and Iran</u>", Washington, U.S. Govt. Printing Office, December 1977, pp. 41-46.

West, on the other the strengthening of Saudi Arabia as a political power in the region is designed to act as a stabilising influence in the zone.

Broadly speaking, Saudi Arabia's foreign policy is based on three related objectives:

1. to halt or reverse Soviet influence in the Middle East and more recently in the Horn of Africa;
2. stabilisation of moderate régimes around the Gulf and the Red Sea; and
3. preservation of oil routes.

These objectives clearly coincide with American strategy in the area. Since the oil price rise in 1973, Saudi Arabia has not only increased its political ability to act, but has also showed increased concern in the security of the Red Sea area, especially after the overthrow of Hailé Selassie and the setting up of a revolutionary pro-Soviet régime in Ethiopia. In particular, the Saudis have been providing aid to the Eritreans and to Somalia, the aim being to counter growing Soviet influence in the Horn of Africa.

At the same time, they are increasingly worried about the possibility of a threat to the security of oil routes in the Gulf and the Red Sea. Saudi Arabia is thus attempting to achieve political stability among states in both areas.

Saudi interest in the Red Sea is likewise linked to the newly-built 1,200 km, 1.85 million barrels per day Yanbu pipeline which runs from the Abquaq terminal in the Ghawar oilfields in the eastern province to the Red Sea town of Yanbu, 350 miles north of Jeddah. This pipeline is designed to reduce Saudi dependence on its present, vulnerable outlet for oil exports, that is passage through the Gulf. As a by-product, the pipeline is designed to provide the feedstock for a new major petrochemical complex at Yanbu similar to the Jubail industrial centre in the eastern part of the country. (1)

If Saudi Arabia is to achieve her security objectives in the Red Sea area, it is obvious that one of the important tools open to it is the selective lease of its immense financial resources in the form of financial assistance.

(Saudi aid policy)

Saudi Arabia has recently emerged as the biggest aid donor in the world after the U.S.A. According to OECD figures, in 1976 Saudi Arabia disbursed no less than $3.6 billion, that is 5.7% of its GNP. (2)

Officially, Saudi aid policy is motivated by the belief that the 1973-1974 oil price surge in which it played a key part, was a blow to the economies of developing countries. Saudi Arabia preferred to present aid to countries badly affected by the oil price rise as an obligation resulting from the Kingdom's sudden acquisition of wealth. Its aid program barely existed before this decade. Nevertheless, whatever the extent of Saudi Arabia's commitments to less developed countries, it does not intend to

(1) The Financial Times, 27 October, 1978

(2) The OECD Observer, November 1977

renounce its solidarity with the "North."

In reality, Saudi relations with its poor neighbors are analogous to those between North and South, the only difference being that Saudi coercive power is limited to the financial sphere.

According to the objectives of the Second Development Plan, Saudi Arabia has committed itself to giving 10% of its revenues in aid to the less developed countries. Between 1973 and 1975, Saudi Arabia spent more than $10 billion on foreign aid. Of this amount, $6.1 billion went to Arab and Islamic countries of which $3.8 billion went towards development projects in those countries and $250 million on humanitarian and disaster relief in Africa and Asia. (1)

There are a variety of reasons which are usually given for Saudi aid granting:

1. "Pure" altruism - In the Islamic tradition, aid is viewed as a kind of alms giving. According to this view, the Saudis feel they have an obligation to contribute to relieve countries hit by natural disasters, refugee problems and increased oil bills.
2. The desire to strengthen the Arab and Islamic worlds. Saudis are extremely interested in enhancing the prestige of the Arab world and in building up a network of alliances tying up the Islamic countries.
3. What is certain is that Saudi aid also involves a number of somewhat more concrete objectives. Aid as such can be used for political ends: to enhance Saudi Arabia's regional influence; to pay off client governments and other political forces; and to maintain these within the Western orbit.

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(1) MEED, 24 September 1976, quoting Saudi Development Fund statistics (MEED - Middle East Economic Digest, weekly, London)

In the region the first priority has been support for the front line states, the aim being not only to increase their military potential but also to keep their respective régimes on a moderate line.

A second objective in Saudi aid policy has been to reduce Soviet influence in the Red Sea area and in the Arab world. Aid has thus been generously extended to North Yemen, Somalia and the Sudan.

Saudi Arabia tends to concentrate a large proportion of its aid program on bilateral transfers. The bulk of Saudi aid is disbursed in the form of grants or very "soft" loans to countries where Saudi Arabia has a direct policy interest. Only part of the Saudi grant aid to these states is a regular subsidy which can be used as balance of payments support to meet budget deficits, which in most cases have been provoked by increased oil bills. Saudi grants tend to be given on a "one off basis" so that the rulers of recipient states, such as Nimeiri in Sudan and Syad Barre in Somalia, have to constantly return to Ryadh to ask for more. The Saudis argue that this is a safeguard against aid being wasted. In practice, however, the Saudi pattern of aid ensures that the aid donor has the maximum political leverage over the recipient. (1)

Saudi Arabia has always had reservations about program assistance because of the ease with which this could be diverted

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(1) Saudi Arabia, Financial Times Survey, 20 March, 1978

to the wrong objective. According to the Saudis, program assistance gives the recipient countries little incentive to put their balance of payments in order. Saudis felt particularly distrustful of Sudanese and Egyptian handling of aid and they steered these two countries to reach an agreement with the International Monetary Fund (IMF) on a stabilising program as a pre-condition for further aid.

The trend away from program aid has lead to the strengthening of the Saudi Development Fund (SDF), created in 1974 in the wake of the 1974 price rise. The fund has been supplied with a capital of $3 billion. Since 1974 Saudi Arabia has seemed to favor the Project approach to aid giving. The attractiveness of this approach is that it enables an account to be kept of the uses to which money obtained from abroad has been put. Above all, it relates means to ultimate ends and makes it easier for the fund to exert accounting control over projects.

The SDF has been giving loans in Saudi rials only, at reduced rates of interest to Arab and non-Arab developing countries. According to the Fund's regulations, the total amount of each project must not exceed 50% of the Fund's capital, nor be higher than 50% of the total cost of the project being financed. The projects must be guaranteed against nationalisation and sequestration in the recipient countries. The Fund is run by a Board of Directors chaired by the Minister of Finance.

(Saudi aid to Red Sea countries)

Egypt

A. Political links with Saudi Arabia

The turning point in Saudi Arabia's regional stature came at the Khartoum conference following the Six Day War in 1967. The Egyptian withdrawal from North Yemen, following the Israeli victory in June of that year, led to Saudi Arabia being confirmed as the unchallenged dominant power in the peninsula. Thus, Saudi Arabia, with growing U.S. backing, saw herself as the emerging leader of the Arabs and the guarantor of stability in the region. Consequently she sought to "deradicalize" her neighbours, particularly Egypt and Sudan.

After Nasser's death, a new warmth in Saudi-Egyptian relations quickly developed. From 1971 onwards, Saudi Arabia, along with other conservative Arab states, began to serve as a go-between in the slow re-establishment of normal relations between Egypt and the U.S.A. President Sadat responded positively to Saudi pleas, for he believed that a strategy of friendship and accommodation with the Saudis would contribute to the economic development of the country. The expulsion of the Soviet military mission in 1972 and the inauguration of an open door policy aimed at attracting foreign capital to Egypt, were partially due to Saudi advice that these moves would be conducive to massive Saudi assistance to Egypt and that they would be viewed favourably by the U.S.A.

Reconciliation with Saudi Arabia has cost Egypt the alienation of Libya. (Previously, Gheddafi had proposed various schemes for unifying Egypt, Libya and Sudan in one economically viable entity. Those schemes caused serious concern to Saudi leaders.)

Thus, after more than a decade of bitter confrontation with Egypt, Saudi Arabia found herself with considerable control over Egypt's economy. In this way, she was able to enhance her regional weight.

Saudi aid to Egypt, as has been stated by John Waterbury, is a good illustration of the kind of relations existing between the two countries.

"Saudis aid Egypt only to the extent of staving off the economy collapse, but never enough to permit it to cut the umbilical cord to the Saudi treasury". (1)

Since the October War in 1973, Egypt's role in the Red Sea area has become particularly important for Saudi Arabia. There are political, strategic and economic reasons for this development.

Historically speaking, Egypt has played a key political role in the Middle East and the Islamic world, as well as in Africa. She has been of great importance in the organization of African Unity and the non-aligned movements. Saudi Arabia's main concern vis à vis Egypt was that she might move dangerously close to the Soviet camp or towards the Arab "radical progressive" countries.

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(1) John Waterbury, op. cit., p. 81

For the Saudis, it was extremely important as well that Egypt remain immune from all kinds of socialism including the Nasserite brand.

The Egyptian performance in the October war convinced the Saudis for the first time that Egypt's armed forces were militarily credible as a regional power, to be deployed most likely in the Red Sea in case of a confrontation with Ethiopia. The Saudis decided, as a consequence, that it was worthwhile financing Egyptian military supplies and compensating for losses incurred during the war if this would enable Sadat's regime to intervene militarily in the area to crush any over-radical regime that might emerge. They even believed that it might be possible to extend this Egyptian role into Africa. Funds were channelled all the more readily in that they served to increase Western and to decrease Soviet influence over Egypt.

Military aid - Saudi Arabia financing Egypt's purchase of arms - lies outside the field of this study. Nonetheless, it should be pointed out that this aid for which there exists no official figures, was extremely substantial. In particular, the Saudis helped to establish the Arab armament organization which was centered in Cairo.

The reopening of the Suez Canal to international traffic served only to enhance Egyptian strategic importance in Saudi eyes, given the insecure situation in the Horn of Africa. Free access to the Canal for tankers carrying Saudi oil is considered a vital Saudi interest.

Already by the time of the October war, Egypt succeeded in building up a significant capability in manufacturing and services sector. On the one hand, the export industries, cotton textiles, were expanding rapidly, on the other, Egypt was able to provide a series of financial and banking services which the Saudis were extremely eager to encourage. This required a drastic change in the socialist oriented economic policies which the Egyptian government had pursued under Nasser.

With the quadrupling of the price of oil, Egypt with its high absorptive capacities provided a useful outlet for excess revenues accumulating in Arab hands. The Saudi aim was to increase the degree of complimentarity and compatibility between the Saudi and Egyptian economies. Egypt could provide an outlet for Saudi capital investment and a market for future Saudi petrochemical exports, while at the same time providing labour to meet the chronic Saudi shortage.

B. Saudi aid flows to Egypt

Soon after the October war and having successfully secured Egyptian integration within the Western camp, Saudi Arabia began to pour enormous sums of money to resettle the Egyptian economy which had been severely damaged by the war. Besides private investments in the building industry, tourism and light industry which will not be discussed here, Saudi Arabia was especially concerned to develop Egypt enough to keep it financially afloat. She thus sought to compensate for Egypt's balance of payments deficit, to pay her long term debts and to develop her industry and infrastructure to a certain minimum extent. At the same time Saudi Arabia helped to finance the reconstruction of the Suez Canal zone.

Contributions to the war effort amounting to roughly $1 billion a year, continued to flow in conformity with the resolutions passed at the Khartoum and Rabat Arab Summit Conference respectively in August 1967 and November 1974. Apart from these, at the beginning of 1974 and in 1975, the Saudis began to inject vast sums of money in the form of what Y. Ahmad has called "seed money" (1), that is as funds aimed at strengthening the economy during the transition from Nasser style socialism to Sadat's open door economy, and to create the appropriate conditions for future investments. The exact amount involved, however, is unknown. These grants, gifts or donations* usually came at the conclusion of state visits and mostly took the form of interest-free subsidies.

During King Feisal's visit to Egypt in 1974, Saudi Arabia granted Egypt $300 million in immediate aid, intended to relieve the balance of payments deficit. (2)

The Egyptian press, however, was somehow disillusioned by this derisory donation. During the visit it was speculated that Saudi Arabia was considering a grant of $1.2 million in banking credit in addition to war reconstruction aid. (3)

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(1) Y.J. Ahmad, Absorptive Capacity of the Egyptian Economy, Paris, OECD, 1976, p. 99

(2) Arab Report and Record, London, 14 February, 1975 (bimonthly)

(3) Y.J. Ahmad, op. cit., p. 108

A few months after the assassination of King Feisal, his successor King Khaled, on July 20, 1975, made an official visit to Egypt and granted credit facilities for $600 million to reinforce the Egyptian economy.

No real <u>program assistance</u> to Egypt was ever really elaborated. Nonetheless, Saudi Arabia paid $200 million for food purchase and housing projects aimed at "improving the living conditions of the Egyptian people." (1) Later, in February 1976, after Sadat's tour of the gulf oil exporting states, Saudi Arabia donated $300 million to Egypt to "enable her to cope with the urgent requirements of her people and solve her pressing commodity supply problems."(2)

There was never, however, much enthusiasm among the Saudis for this kind of budget assistance. As early as 1976 they preferred to refer on all matters relating to debts, or balance of payments deficit, to international specialised agencies such as the IMF or the World Bank.

With the creation of the Saudi Development Fund in 1974, the Saudis revealed their marked preference for the <u>project approach</u> through which they are able to exert greater control over the allocation of funds. By financing specific development projects, the Saudis are likewise able to bring in Western expertise and technology.

Saudi Arabia was highly concerned about helping build up and renovate Egypt's <u>infrastructure</u>. In late 1975, the Saudi government granted a loan of $23 million dollars for the improvement of the telephone system in Cairo and the installation of 3,000 telex lines. (3)

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(1) Arab Report and Record, 1976, p. 108

(2) Arab Report and Record, 1975, p.247

(3) MEES, 2 January, 1976 (MEES - Middle East Economic Survey, weekly, Beirut, Nicosia)

An efficient telecommunications system in Cairo is an especially urgent necessity if the capital is to become an important financial center in the area. The Saudi Development Fund has also discussed the eventuality of granting $150 million for the reconstruction of a road network that would link Cairo to the Canal cities (1). Another $65 million loan was granted to finance railroad projects, along with $20 million for the Heliopolis Helwan highway to link Cairo's northern periphery with the industrial center at Helwan. (2)

The Saudi government was not so interested in promoting Egypt's light or heavy industry. Rather it sought to encourage the private sector and the majority of the Saudi investments in Egyptian industry came from private rather than government bodies. Nevertheless, in some cases the Saudi Government has intervened in developing industries. An example of that would be the Saudi financing the greater part of a British Leyland car assembly plant (3) with British Leyland providing the technology and Egypt the manpower; a representative model of triangular operation Saudi Arabia sought to promote in Egypt and the Sudan.

The Saudi government has also made a loan of $26 million to help improve the state-owned cotton ginning industry.(4)

Saudi Arabia has also sought to participate in the development of Egypt's oil sector. Soon after the October war in December 1973, the Saudi government announced its intention to contribute

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(1) Y.J. Ahmad, op. cit., p.109

(2) MEES, 8 August, 1975

(3) Telex Med., 26 January, 1975

(4) ARR, 27 January, 1976

$60 million to the financing of the Sumed pipeline project, the total cost of which amounts to $400 million to be shared equally by Kuwait and the United Arab Emirates. The Egyptian government will pay half the total cost, that is $200 million, and Qatar $20 million. The 210 miles pipeline, running from the Gulf of Suez to the Mediterranean, has an initial capacity of 40 million tons a year, with a possibility of a further increase to 110 million tons a year. The Sumed pipeline is of particular interest to Saudi Arabia as, together with the Suez Canal, it is expected in the near future to partially attract traffic away from the Cape route and hence increase the importance of the Red Sea as a major oil route.

At the end of 1973, Saudi Arabia proposed to finance the building of a large refinery in a free zone near Alexandria to process the crude oil coming through Sumed. The project cost was then estimated to be around $400 million. Later, Egyptian officials called for a more ambitious refinery complex to be set up on a joint venture basis among Arab states as a follow up to Sumed. Whichever refinery is eventually built, it is likely to be attractive to Saudi oil funds, particularly since the project aims to recycle Arab surplus money for Arab industrialisation and the industrialisation of oil by constructing a processing plant on Arab soil. (1)

Apart from the financial assistance granted to support Egypt's balance of payments deficit and to service part of Egypt's external debts as well as payment of the war contribution, the bulk of Saudi aid to Egypt went to the reconstruction and development of the Suez Canal area. The first Saudi contribution to Egypt was a gift of

(1) Y.J. Ahmad, op. cit., pp. 87-91

$100 million to help rebuild the Suez Canal towns damaged during the war. A Saudi source confirmed that this contribution was not a loan and was separate from the regular financial assistance which Saudi Arabia had been granting Egypt since 1967. (1) Saudi Arabia attaches particular importance to the Suez Canal, more so after its reopening in June 1975. The Canal not only enhanced the economic significance of the Red Sea for the transport of oil and freight, but also transformed it from an appendix to the Indian Ocean into a major artery in terms of economic and strategic importance between the Indian Ocean and the Mediterranean. (2)

Saudi Arabia has been increasingly reliant on the Red Sea for the transportation of its oil to the Mediterranean via the Suez Canal. The reduced capacity of the Tapline pipeline and refinery due to the political turmoil in the Middle East confrontation states, has led Saudi Arabia to become more dependent on the new Yanbu pipeline on the Red Sea as a safer outlet for her oil freight. The construction of an ambitious petrochemical center at Yanbu and the promotion of a complementary oil refining and processing industry in Egypt is a further indication of Saudi Arabia's intention to make continuous use of the Canal for transportation of refined and processed oil.

This will be shipped to Europe in tankers smaller than the very large crude oil carriers. Already more than 30% of the world tanker fleet is using the Canal. Saudi Arabia has subscribed together with the World Bank, AFSED and the KFAED, the U.S.A. and other regional Arab funds to finance Canal improvement projects and

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(1) MEES, 19 April, 1974

(2) Udo Steinbach,"Arab Policy around the Horn of Africa," in <u>Aussen Politik</u>, 3/1977, pp. 303

to accommodate a greater share of the supertanker fleet. As may be seen from Table 1, the Saudi Development Fund has given $50 million to help finance the first phase of enlarging the Suez Canal. (1)

The most significant Saudi loan ($ 161 million) was granted by the SDF for widening and enlarging the Canal in order to fit the generation of supertankers which developed during eight years of closure of the Canal from 1967 to 1975. (2) These vessels (the supertankers) can carry oil to Europe and the U.S.A. via the Cape of Good Hope more cheaply than small vessels using the Canal, but in the long run, with a possible deterioration of the situation in South Africa, even the Cape route may prove unreliable. The big take-off of the Red Sea oil route is expected to come in the early 1980's with the completion of Saudi Arabia's strategic Yanbu pipeline. When this is completed, Saudi oil (refined or crude) will be transhipped in what will then be the expanded Canal. (3)

Since 1976, economic problems in Egypt have become more acute due to inefficient administrative management of the economy. A major difficulty has been the inability to absorb aid. By the end of 1976, Egypt had only spent $307 million of available American assistance, leaving $647 million unspent. In 1977 $310 millions worth of assistance was absorbed, leaving $608 million in unspent aid from the U.S.A. (4) Despite this absorption failure,

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(1) Y.J. Ahmad, op. cit., p. 89

(2) Y.J. Ahmad, op. cit., p. 92

(3) Michael Tingay, Financial Times Survey on Egypt, 31 July, 1978

(4) Michael Tingay, Financial Times Survey on Egypt, 31 July, 1978

Table 1

Suez Canal Financing

(These loans have been pledged for the first phase of the Suez Canal widening and deepening program. All loans, with the exception of the World Bank loan, are soft loans with interest of no more than 4%.)

The World Bank	(at 8½%)	\$100 million
Saudi Development Fund		\$ 50 "
Arab Fund for Economic and Social Development		\$ 41.4 "
Islamic Development Fund		\$ 12 "
Kuwait Fund for Social and Economic Development		\$ 20.7 "
Abu Dhabi Fund for Arab Economic Development		\$ 15 "
US Agency for International Development		\$ 25 "
Japan		\$131 "
Japan		\$ 82.7 "
Bilateral Agreements with:		
West Germany		\$ 10 "
France		\$ 2 "
U.K.		\$ 10 "
Suez Canal Authority		\$ 73.2 "
Suez Canal Fund		\$ 22 "
TOTAL		\$595 million

Source: MEED Special Report on Egypt, May 1978, citing Suez Canal Authority sources aid continued to arrive. This naturally discouraged the Arab donors who began to look for new and more diversified ways to channel their aid to Egypt. Saudi Arabia in particular was keen to refer all matters relating to budget problems to the expertise of international specialised agencies such as the IMF, and has encouraged the formation of consultative bodies including Egypt's main creditors, in order to solve its economic problems.

The implementation of the open-door policy coincided with the worst economic crisis Egypt has known. World wheat prices soared, as did the cost of other essential commodities, and the balance of payments deficit worsened significantly. In an urgent attempt to stabilise the situation and reduce the growth of the budget deficit, the government made the ill-fated attempt to remove a number of basic subsidies. This led to the bread riots of January 1977 which unintentionally set in motion an international rescue operation. In this way, Egypt has been able to base its reform program on firmer foundations. Saudi Arabia and other oil exporting Gulf states participated in this international rescue operation, providing $1.47 billion in loans for direct balance of payments support. (1)

It is important to note that since 1977, Saudi Arabia has come to see Egypt as a bottomless pit for program aid and Saudi payment to Egypt since then appears to have been sharply curtailed. Instead, Saudi Arabia steered Egypt into reaching an agreement with the IMF on a stabilisation program.

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(1) Matthew Rogers, Financial Times Survey on Egypt, July 31, 1978

The Sudan

The Sudan does not enjoy Egypt's strategic position; it possesses neither oil nor other mineral resources and has only one outlet on the Red Sea. The country covers 2 million square kilometers, of which 500 thousand are of arable land. At the present, however, 10% of this area is used for agriculture.

Saudi Arabia's interest in the Sudan is mostly limited to keeping this largest of the African countries within her sphere of influence and to promoting Sudanese agricultural potential in order to make the Sudan both a source of food supply for the Arabian peninsula and a profitable home for Saudi private and public capital.

Since the late sixties, Saudi Arabia has sought to have a more active role in the area. It was particularly alarmed by the emergence of radical régimes in Libya and the Sudan, and sought to undermine them. Libya in particular constituted the main threat to the Saudi hegemonic role in the region. Oil rich with a small population, Libya could bankroll all Egypt and the Sudan's development projects in the name of the overall development of the sub-region.

After Nasser's death in 1970, Egypt moved away from the Libyan régime and seemed to favor a rapprochement with the Saudis and the West. Sadat's corrective movement in May 1971, in which he purged the leftist Nasserite elements, was an indication of the régime change in policy. This finally crystalised after the October war in 1973.

In the Sudan, the raging civil war in the southern regions prevented General Nimeiri from establishing too close relations with his northern Arab neighbors, although he did try to find a solution to the problem in the south. After the abortive Communist coup in July 1971, the Sudanese régime openly adopted a moderate policy and sought to achieve better relations with its African neighbors, particularly Ethiopia.

By early 1972, President Nimeiri had been able to end the civil war in the southern provinces. From then on, the régime began to set its face increasingly towards development on capitalist lines with a mixed economy in order to attract aid and investments from the oil rich Arab states. Saudi Arabia could not but welcome and give its blessing to this move. Moreover, as the champion of the Arab conservative camp, it was also keen to encourage Sudan's shift from pro-Soviet and radical economies to Western-oriented and pragmatic measures.

Like many other Arab oil states since the 1973 huge increase in oil prices, Saudi Arabia viewed the Sudan, with its vast supply of arable land and untapped animal wealth, as an important source of food.

The geographical proximity of the Sudan to the Arabian peninsula suggests the sort of exchange which might be possible between the two regions (oil for agricultural products and labor).

For a long time, most of the financial assistance to the Sudan came from private and public Arab funds, especially from Kuwait. Loans came from Abu Dhabi and Qatar. Relatively speaking, Saudi Arabia was a late comer to the Sudan, and is way behind when compared, for instance, to Kuwait which gave the first loan from its newly established fund to the Sudan as early as 1962. In reality, for a long time Saudi Arabia was suspicious of the Nimeiri régime, despite its change of political line.

Soon after the October war in 1973 and the huge price rise in oil revenues, Saudi Arabia realised the economic importance of the Sudan and the opportunities it offers for future investments. Saudi businessmen, in close collaboration with American and European firms, viewed the Sudan as a potential source of medium and long term profit, despite its acute economic problem. The well-known Saudi financier and entrepreneur, Adnan Khasoogji, told President Nimeiri: "The only way I see of doing anything here, is to bring in a lot of money." (1)

Khasoogji was aware of Sudan's serious financial problems, but a few months after he met President Nimeiri, he managed to organise a $200 million loan on the Euromarket. The loan is to be repayed over 10 years with an 0.75% interest and carries an unconditional and irrevocable guarantee from the Saudi Monetary Agency (SAMA). Without this guarantee, it would have been very difficult indeed for a country like the Sudan to borrow a sum as large as $200 million. (2) The loan was the Sudan's biggest ever, and

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(1) MEED special report on the Sudan, 26 August, 1977, p.2

(2) Financial Times, 22 February 1974

was used to provide the equity capital for a new State investment and finance organisation, the Sudan Development Corporation, which promptly became Sudan's most prominant body in attracting investors. (1)

Saudi Arabia's program assistance to the Sudan has not been as important as its aid to Egypt. The Sudanese economy did not suffer the devastating effect of the war, nor did Sudan have such a heavy military burden to pay. Nevertheless, Saudi Arabia has contributed significantly to making up for Sudan's balance of payments deficit, caused mainly by an increase in foreign short term commerical borrowing. In 1976 Saudi Arabia made a substantial deposit in the Sudanese Central Bank.

Since 1976, however, it has refused to provide program aid until more radical steps are taken to improve Sudan's financial position. Only when Sudan finally reached a one-year agreement with the IMF in June 1978 and devaluated its currency, did Saudi Arabia conclude a $300 million soft loan for payment support, two-thirds of which was to be spent on oil, and $50 million to improve trade deficit. (2)

The Saudis felt that Sudan was not negotiating seriously enough with the IMF on a further three-year agreement, and what is more, Sudan did not implement all the IMF original conditions.(3) The result was that Sudan, having failed to reach a new agreement with the IMF, began to suffer a severe lack of foreign exchange and

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(1) MEED special report on the Sudan, 26 August, 1977

(2) MEED, 25 September, 1978

(3) Financial Times Survey on Saudi Arabia, 23 April, 1979

there were serious fuel shortages and other supply problems. Iraq, Sudan's main supplier of crude oil, cut off supplies because of Sudan's inability to pay the $175 million it owed the Iraqi government in exchange for oil. Saudi Arabia again stepped in to rescue Sudan by providing it with a year's supply of crude oil financed by a soft loan. (1)

The inconsistency of Saudi program aid to Sudan may be disadvantageous to Sudan's overall economic development and may endanger the Nimeiri régime. Saudi Arabia may have found it advantageous to adopt a more coherent aid policy to Sudan. While emphasising on project aid, it could have contributed,together with other Arab donors, more efficiently to resolving Sudan's payment problems.

Saudi project contributions were somehow more compatible with Sudan's development needs. The Saudis intervened in fields where other donors had already operated, and in most cases the Saudi Development Fund concurred with international agencies and regional funds.

Saudi Arabia, together with Sudan's major aid donors, have realised that the country's development will depend almost exclusively on an adequate and efficient infrastructure.

In 1976 Saudi Arabia gave the Sudan $8 million for the development of the Sudanese Water and Electricity Corporation on a government basis. (2)

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(1) Financial Times, 8 August, 1978

(2) MEES, 12 July, 1976

The Saudi Development Fund has contributed $36 million for the construction of a 210 kilometer road which will link 3 major towns near the Chad borders. Besides Saudi Arabia, Japan and West Germany will finance the project, the total cost of which will amount to $83 million. (1)

Of particular importance is a $80 million scheme partly financed by the World Bank ($29 million); the EEC ($16 million); and the Saudi Development Fund ($20 million), to build two airports at Port Sudan and Wau and to rebuild two others at Juba and Malakal. (2)

In contrast with all its other services, Sudan's <u>telecommunications</u> have greatly improved in the last three years, and so much so as to have become probably the most efficient in the whole of Africa. In 1977 the Saudi Development Fund announced it would give a $10 million loan to help Sudan finance the construction of 14 earth stations for satellite communications. The project's total cost is estimated at $47 million. Another loan amounting to $7 million, has been earmarked for the renovation and expansion of radio communications for aviation. (3)

Saudi Arabia has also undertaken to finance the total cost of a telecommunications project to link Saudi Arabia and the Sudan by a microwave system. This link would improve telex, telephone and television links between the two countries. (4)

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(1) MEED special report on the Sudan, 26 August, 1977

(2) MEED special report on the Sudan, 26 August, 1977

(3) MEES, 11 July, 1977

(4) ARR, 1978

Saudi Arabia and the oil rich Arab states of the Gulf have become increasingly aware of the possibility of a world grain shortage and the continuous rise in world food prices. They have also become greatly concerned with the vulnerability of their position with regard to their food supplies.

In most cases of project aid to Sudan, the Saudis have joined forces with other Arab donors, particularly Kuwait. They have also worked together with international agencies along Western sources of technology. It is thus significant that the first loan Saudi Arabia made to the Sudan, was aimed at financing part of the Rahad irrigation scheme. The project will cost $320 million, financed mostly by Kuwait, Saudi Arabia ($28 million); the World Bank; and the U.S. Agency for International Development. (1)

Another agricultural project in which Saudi Arabia is involved, is the livestock and husbandry farm project in south Darfur in the western part of the country. Besides Saudi Arabia, Abu Dhabi; the U.K. and the World Bank are also participating.

Saudi Arabia has also participated in Sudan's most ambitious industry: sugar refining. The Kenana sugar scheme, Sudan's largest project, aims at developing about 85 thousand acres of sugar and producing 330 thousand tons of refined sugar a year. The project is to be completed in 1980. Several firms from the U.K., France, Japan and South Korea are involved in the construction work while the finance comes mainly from Kuwait and Saudi Arabia. In

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(1) Financial Times, 27 June, 1975

late 1978, Saudi Arabia acquired a 18.24% stake in the enlarged equity of the Kenana Sugar Corporation, making it the third largest shareholder after the Sudanese government and Kuwait. In this operation, the Saudis benefited from the devaluation of the Sudanese pound imposed by the IMF and hence paid their holdings in the Corporation at a lower price than the other shareholders. (1)

A promising area of close co-operation between Sudan and Saudi Arabia has been the exploration of the Red Sea mineral resources. In May 1974 the Saudi-Sudanese Committee for the Exploitation of the Red Sea Resources was established to develop the zinc, copper and silver deposits in the Red Sea area between the two countries' territorial waters. Preussag of West Germany was contacted for the assessment of these minerals. Saudi Arabia has undertaken to finance all the work, which is estimated as costing $100 million. Of this amount, $17 million has been spent so far on geological surveys and on equipping seven research vessels. (2)

The Saudi commitment to Sudan's development seems to be increasing. In recent years Saudi aid contributions have primarily gone to projects on which there has been close collaboration with the Sudan, and which could be beneficial in the long run to Saudi Arabia - e.g. agricultural projects such as the Rahad scheme and the Kenana sugar refining project from which Saudi Arabia could secure a guaranteed flow of agricultural products in exchange for oil and chemical fertilizers.

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(1) MEES, December 1978

(2) ARR, December 1978

Jordan

In the context of Saudi Arabia's foreign policy towards the Arab countries, Jordan falls farther North of the Red Sea area and, together with Egypt and Syria, constitutes one of the confrontation states bordering Israel.

As a Red Sea country, Jordan is not of an immediate concern for Saudi Arabia. It has only one outlet on the Red Sea through the port of Aqaba and its significance as a Red Sea country lies mainly in the importance of its port and its function to relieve congestion from Saudi Red Sea ports.

Jordan, with its monarchical Western-oriented regime, does not constitute a political threat to Saudi Arabia. King Hussein has, especially after 1967, sought to concord his policies with those of Saudi leaders. Consequently, Saudi policy towards Jordan has been chiefly oriented at keeping Hussein's regime politically stable, securing its economic survival and preventing it from falling into the hands of radical Palestinians.

Saudi aid to Jordan has effectively started after the six day war in 1967 in the form of <u>budget assistance</u> to compensate the loss of the West Bank and the grossly damaged economy. (1) Apart from this contribution which became a standing obligation for Saudi Arabia to the confrontation states in the name of the common Arab cause, Saudi Arabia with Libya and Kuwait undertook to pay Jordan quarterly

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(1) in conformity with resolutions passed at Khartoum Arab summit in August 1967

sums of $112 million. This assistance from the oil-exporting states was designed to fill in the gap that had been caused by the withdrawal of British and American financial assistance to the Jordanian treasury. (1) However, Arab contributions to Jordan have been temporarily curtailed in 1971 in protest against the Jordanian government treatment of the Palestinians. The U.S., whose direct budgetary support has ceased since 1967, stepped in again to make up the deficit caused by the suspension of Arab Funds, particularly from Kuwait and Libya.

With the quadrupling of oil prices in 1974, huge sums of money were injected into the Jordanian economy. The Arab oil exporting states have pledged to pay $1 billion annually in economic and military assistance for the confrontation states. Saudi's annual share for Jordan's economic development amounted to $57 million. This contribution, plus the $35 million annual Saudi aid since 1967, has been of considerable relief to the Jordanian economy which was shattered by the 1967 war, the 1971 civil war and by the flow of Palestinian refugees from the West Bank.

Saudi budgetary assistance to Jordan has increased considerably since the October war. Contrary to their dealings with Egypt and Sudan, the Saudis did not try to impose conditions as to the way in which the funds are to be allocated. They were apparently satisfied with Jordan's economic performance and had always sought to strengthen

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(1) "Jordan", The Middle East and North Africa, p.

this ally and reinforce the economy. In December 1975, following King Khaled's visit to Jordan, Saudi Arabia promised to provide $215 million to help implement Jordan's 1976-80 development plan, the total cost of which is $2,352 million. (1)

Saudi project aid to Jordan was somehow limited when compared to Saudi project aid granted to Egypt and Sudan. In October 1977, Saudi Arabia gave Jordan a loan of $23 million to help finance the expansion of the Aqaba port for which a $53 million contract was recently awarded. (2) The Saudi Development Fund has never fully financed a specific project in Jordan, but has granted a considerable sum of money for various projects altogether. Thus, in June 1978, the SDF announced that it has given loans to Jordan worth $75.5 million to finance electrical and water projects in Amman and the port of Aqaba. (3)

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(1) ARR, No. 1, 1-15 January 1976

(2) ARR, No. 19/20, 1-21 October 1977

(3) ARR, No. 11, 1-15 June 1978

The Yemen Arab Republic (North Yemen)

Saudi Arabia's immediate concern with North Yemen is justified by the Kingdom's aspiration to keep the southern part of the peninsula with its sphere of influence rather than by its more general hegemonic policy in the Red Sea area. The stability of North Yemen is a vital need for Saudi Arabia's own stability.

Since the establishment of their Kingdom in 1926, the Saudis have laid claim to the whole Arabian peninsula and have always tried to intervene in Southern Arabia to quell any sort of rebellious movement and bring it under their own tutelage. In South Yemen, because of the presence of the British, the Saudis were unable to interfere. In North Yemen, however, Saudi Arabia has continually attempted to play off the traditional tribes against each other while at the same time steadily supporting the ruling Imams.

Throughout the civil war from 1962 to 1969, the Saudis provided the main financial and material support of the Imams' forces and refused to recognise the new Yemeni Arab Republic for fear of the threat it might pose inside Saudi Arabia. After the Egyptian withdrawal in 1967, however, when it became clear that a subsidized republic, in which the traditional tribal forces had not been eliminated, could be no threat, the Saudis drew closer to the republican forces and ultimately abandoned the Imam. When, in 1970, Saudi Arabia established diplomatic relations, the new republic had already opted for a liberal Western-oriented economy and had even passed a law to encourage foreign investors.

Right up to 1970, over three-quarters of the total foreign aid (excluding aid from Egypt) came from the Soviet Union and China. Since then the Y.A.R. has become more reliant on the West. In 1970 North Yemen joined the IMF, the World Bank and the IDA. (1)

Saudi policies towards North Yemen under King Feisal were predominantly aimed at preserving and enforcing this type of republican, tribalist régime that provided a safe flank for Saudi Arabia.

Since the early 1970's, Saudi Arabia has committed itself to providing substantial budgetary assistance to the Yemeni Republic while at the same time continuing to play off the traditional tribes and pay them generous subsidies. These tribes, with secure Saudi backing, were able to considerably weaken the authority of the central government which was mostly made up of merchants, intellectuals and high civil servants.

Saudi Arabia has also had to face mounting tension between North and South Yemen. This frequently led to the eruption of serious fighting between the two states. The Saudis encouraged the North Yemeni to invade the South and overthrow its "Communist régime." The much weakened North Yemeni government, however, was unable to wage a war with its southern neighbour. At the same time, it had to take into account the presence of a number of political forces in North Yemen that were aspiring to unite both countries under one flag.

In October 1972 a peace agreement and another agreement on eventual unification were signed in Cairo. Despite several acts of

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(1) Fred Halliday, Arabia without Sultans, Penguin, 1974, p. 149

terrorism and sabotage between the two countries, it was decided in that same year that talks on unity would continue. Saudi Arabia did not encourage or favor this unity plan. It believed that the radical South could easily absorb the politically shaken and torn North and that a Soviet-oriented united Yemen could constitute a major political threat to Saudi Arabia's internal and international stability.

During the 1971-1973 period of political tension, the Saudis increased their financial and occasionally their military support of the traditional tribes as well as of the exiled South Yemeni groups, leaving the central government nearly isolated and unable to control the ensuing chaotic situation.

During this period, Saudi Arabia did not wish to effectively participate in the economic development of North Yemen. It only granted annual budgetary assistance amounting to merely 80 million Saudi rials ($20 million). (1) This aid was mainly aimed at preventing North Yemen from succumbing to generous Soviet temptations. In its dealings with North Yemen, Saudi Arabia appeared for a while to be heavily reliant on the traditional tribes in order to exert pressure on the central government. Saudi Arabia was furthermore quite distrustful of this succession of weak civilian governments that were unable to carry out a clear cut policy firmly aligned on its side.

By mid 1974, events in North Yemen began to take a new turn. In June of that year, a bloodless coup took place in which a seven

(1) Fred Halliday, <u>op</u>. <u>cit</u>., p. 120

man military junta under the leadership of the pro-Saudi Colonel Ibrahim al Hamdi took power. Al Hamdi promptly suspended the Constitution, the consultative body and the Yemeni National Union. He later stated that the military coup had been necessary to remedy economic and administrative chaos. The policy of the new government was stated to include openess to all Arab states and did not ultimately abandon the possibility of unity with the South.

Saudi Arabia, which undoubtedly had a part in installing Al Hamdi and the military in power, promptly sought to support the new régime and consolidate it. During the year 1975 there were signs that the Y.A.R. was drawing close to the U.S.A and the Saudis appeared satisfied with the new régime's political options. Thus, during the four years of Al Hamdi's rule, Saudi Arabia committed large sums of financial aid, largely devoted to the development of the country. Saudi subventions to the tribes were reduced and more support was given to Al Hamdi.

Saudi Arabia expected that Al Hamdi would reduce Soviet and Chinese involvement in his country. In August 1975, King Khaled gave the Y.A.R. a 810 million Saudi rials loan ($273 million) as a budget and development project support. A year later, in April 1976, it was announced in Riyadh that Saudi Arabia would bear the expense of re-equipping sections of the Yemeni army with U.S. weapons. In response to this Saudi largesse President Sl Hamdi declared that his relations with the Soviet Union were "frozen" and that the Y.A.R. had turned down offers of help with arms from the Soviet Union. (1)

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(1) The Middle East and North Africa 1978-79, London Europa Publications, p. 802, "North Yemen"

Saudi program assistance was hence generously extended to North Yemen. In 1975 $81 million of the $273 million grant given by King Khaled was used to cover the budget deficit. (1) Saudi Arabia also undertook to pay North Yemen's $10 million debt to the Netherland Bank. (2)

In early 1977, following President Al Hamdi's visit to Saudi Arabia, a North Yemeni-Saudi Co-ordination Committee was established to discuss North Yemen financial problems and the development of the North Yemeni economy. At the meeting Saudi Arabia decided to increase its annual aid to North Yemen by $17 million in addition to the current level for arms purchases. (3)

Saudi project aid to North Yemen was particularly generous during the Al Hamdi period. It was mostly directed towards the development of infrastructure rather than industry or agriculture. Most of the project assistance was disbursed through the Saudi Development Fund and had to comply with the Fund's instructions as regards the implementation of the projects, repayment of interest, etc. It also happened that the Saudi government, without refering to the SDF, undertook to finance whole projects on a purely bilateral basis.

Of the first important loan ($273 million) given to North Yemen in 1975, $146 million were intended for the construction of roads. (4) Saudi Arabia has also undertaken to improve the North

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(1) ARR, N° 15, 1-15 August, 1975

(2) ARR, N° 3, 1-15 February, 1976

(3) ARR, N° 2, 1-14 February, 1977

(4) ARR, N° 15, 1-15 August, 1975

Yemen air facilities. The Saudi government financed the primary work for the expansion of Sanaa Airport to proper international standards. In 1975, the Director of the North Yemen Civil Aviation Authority said that Saudi Arabia would spend $4.5 to build meteorological stations at the airports of Sanaa, Taez and Hodeida.(1) In March 1977, Saudi Arabia promised North Yemen a loan of $30 million to develop its technical aviation facilities. (2)

Saudi Arabia has also sought to promote North Yemen's electrical power and water projects. Of the $273 million loan granted in 1975, $30 million were allocated for electrical projects.(3) In 1977 a $39 million loan was extended for the construction of a water system and an electrical project. (4) The Saudi Development Fund also promised to pay $25 million to finance the second stage of an electrification project in Hodeida; part of the cost was met by a loan from the Arab Fund for Social and Economic Development. (5)

Saudi Arabia has also undertaken to finance elementary and secondary schools and teacher training colleges, as well as hospitals and clinics. For the first time, and outside the scope of its program and project assistance, Saudi Arabia has decided to grant <u>technical assistance</u> to North Yemen. It has thus bypassed the Arab League technical assistance program and Fund and has provided 222 Saudi teachers and has paid the salaries of 754 Egyptian teachers.(6)

Until 1977, the Saudis were well satisfied with developments in North Yemen, both from the point of view of the country's internal

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(1) ARR, N° 5, 1-15 March, 1975

(2) ARR, N° 13, 1-15 July, 1977

(3) ARR, N° 15, 1-15 August, 1975

(4) ARR, N° 13, 1-15 July, 1977

(5) ARR, N° 4, 15-28 February, 1977

(6) ARR, N° 7, 1-15 April, 1976

policies and economic developments. In the middle of 1977, however, the political situation in North Yemen began to deteriorate with the assassination of Qadi Abdullah al Hajari, a prominant pro-Saudi North Yemeni figure, who was Prime Minister from 1972 to 1974. This incident provoked violent reactions from the traditional tribes who could not hide their dissatisfaction at Al Hamdi's continual attempts to increasingly centralise government power at the expense of the political position they once enjoyed. In October 1977 Al Hamdi was assassinated and there has since been a great deal of speculation as to who was responsible. At that point the situation in North Yemen became exceedingly precarious. There were a series of successful and unsuccessful coup d'Etats and at the same time there was a growth in the threat from the South.

The Saudis thus decided to become far more directly involved in the Yemen than they had been in the past, if only to avoid a dangerous radicalisation of the régime.

Despite the unstable political situation prevailing in North Yemen after the assassination of President Al Hamdi, Saudi Arabia stepped up development aid and went as far as financing arms purchases from the U.S.A. and persuading the Yemenis to grant naval facilities to the U.S. in order to guarantee political stability in the area.

On December 1, 1977, at the International Development Conference, which was attended by over 200 delegates representing governments and institutions from the West, East and the Arab World, that gathered in Sanaa to discuss North Yemen economic development, Saudi Arabia played a major role in securing the success of the Conference and convincing the international community of the stability of the country.

The Conference ended after a four day meeting, with a commitment to assist the country in implementing its Five Years Development Plan (1977-1981). Saudi Arabia pledged to pay $571 million of the $3,630 million total cost of the Plan. The Saudi Development Fund is the major participant in the Plan, followed by the World Bank; the Arab Fund for Social and Economic Development; and the Kuwait Fund for Arab Economic Development. (1)

The Saudi Development Fund chairman, representing the Saudi government at the Conference, announced that North Yemen topped the SDF's most favored countries list. He also called on the industrialised countries of the OECD to pull their weight in assisting North Yemen and not leave it completely to the Arab world. The chairman said that the SDF could not lend more than 10% of its resources, nor could it put up more than 50% of the cost of any one project. "It would therefore be unrealistic," he implied "to expect Saudi Arabia to shoulder the responsibility for economic progress in North Yemen alone." (2)

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(1) ARR, Nos. 21/22, 1-30 November, 1977

(2) The Middle East, January 1978, p. 29

South Yemen

The People's Democratic Republic of Yemen lies at the Southern tip of the Arabian peninsula. Given that South Yemen territory includes the islands of Perim, Kamaran and Socotra, the Republic is capable of controlling the entrance to the Red Sea. This, in fact, is her strategic importance in the area.

Since the withdrawal of the British in 1967 and the establishment of a radical pro-Soviet regime in South Yemen, Saudi Arabia has done everything possible to destabilize and ultimately overthrow the South Yemeni regime. To do so, Saudi Arabia has been constantly relying on the North Yemeni traditional forces, as well as on South Yemeni exiles.

By the early 1970's, Saudi Arabia has lost all hopes for her plans to topple the radical PDRY regime which was continuously threatening Saudi Arabia's ally in the peninsula: North Yemen. For years, Saudi Arabia perceived the PDRY as an outpost of communist influence which aspired to destabilize the entire Arabian peninsula. As the various attempts to overthrow the South Yemeni leftist regime have failed, the Saudis shifted by the mid-1970's to a new method, that is utilizing their enormous wealth to pay off the South Yemeni regime instead of overthrowing it.

The PDRY regime from its part, has come to realize that its hopes of engulfing the Arabian peninsula with a revolutionary wave were not about to materialize. Despite all its efforts, the PDRY did not succeed in tarnishing the image of the Saudi monarchy. On the contrary, the Kingdom's stature and influence in the Arab world has grown constantly since the October war. Thus, with Egypt's active support, and, to a lesser extent, that of Kuwait, diplomatic relations were established in March 1976. Since then, it has taken hardly a year for these relations to culminate in an official bilateral summit. The joint Saudi-South Yemeni communiqué, at the close of PDRY President Rubay Ali's visit to Saudi Arabia, stressed the importance of resolving all Arab differences through common and constructive dialogue. Both countries also emphasized the need to preserve peace in the Red Sea and insulate the area from international conflicts. (1)

The South Yemeni rapprochement with Saudi Arabia was an indication that the moderate wing in the South Yemeni government wants to follow a more independent political course, to counterbalance Chinese and Soviet influence, to break its isolation in the Arab world and to benefit from Saudi Arabia promised aid.

The rebellion in the Dhofar province was the main issue that the Saudis wanted to resolve with South Yemen. They were particularly resentful of the growing mulitary Iranian presence in Oman. At the same time, they feared that in case of an Iranian withdrawal, the Dhofari rebellion enjoying South Yemeni support might spill over, crush the Omani sultanate and, consequently, destabilize the lower Gulf region. The Yemeni regime equally resenting Iranian presence near frontiers decided to cooperate with Saudi Arabia and cut off

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(1) MEES, 15 August 1977

support to the Dhofaris. Saudi Arabia responded to South Yemeni's overtures by promising generous financial assistance hoping to woo the Yemeni regime from the Soviet camp.

Saudi Arabia has also stirred Kuwait and the UAE to take part in a $400 million aid package which she intended to offer South Yemen. (1)

Improved relations with Saudi Arabia led, in 1976, to talks on aid for development projects. The principle scheme involved was the Aden refinery in which Saudi Arabia agreed to provide one million tons of crude petroleum for processing in Aden. (1) She has even suggested that she should build a pipeline across the desert to Aden from its oil fields near Dhahran. Such a pipeline, which could be over 1,600 km. long, would prvide major Arab exporters and particularly Saudi Arabia, with an additional outlet (besides Yenbo) other than the Gulf. (2)

In 1977, the Saudi Development Fund offered $20 million for electricity projects and also agreed on assistance for a housing scheme in Al Mansoura.

However, in November that year, relations between Saudi Arabia and South Yemen deteriorated because of the South Yemeni support for revolutionary Ethiopia. Both countries recalled their ambassadors and Saudi Arabia, as well as other Arab states, withdrew their aid offers. Meanwhile, the Eastern bloc countries appear to have increased support.

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(1) see Peter Schwab, "Cold War on the Horn of Africa", African Affairs, January 1977, p. 12

(2) The Middle East, February 1977, p. 88

Somalia

Somalia, an ally to the Soviet Union for 17 years, controls the strategic outlet for the Red Sea and the Horn of Africa. Under the leadership of President Syad Barre and the military junta in power since 1969, Somalia has engaged in an original socialist experiment which has given encouraging economic results.

Thanks to Soviet military assistance, Somalia had been able to build up the most powerful and best equipped army in Africa. This naturally allowed the Somalis to cherish the hope of reuniting the Somali-inhabited Ogaden province and North Kenya under one rule and thus build up the "great Somalia". However, when the Soviets began to make precise overtures to the revolutionary regime in Ethiopia, the Somali government waited to assert its independence from the Soviet Union, at least in matters related to Somalia's regional policy. This partially explains Somalia's estrangement with the Soviet Union and its subsequent rapprochement (in early 1974) with the Arab states.

With a Moslem dominated population, Somalia has always had strong ties with the Arab states and has embraced their political causes. But the success of the Arab arms in the October war and the emerging financial power of the Arab oil producers clearly enhanced the attraction of being an Arab. The Arab states have responded favourably to the Somali gesture and endorsed Somalia's entry to the League of Arab states and its affiliated agencies.

They furthermore promised Somalia $100 million in economic assistance for the drought emergency.

The promise of this financial Arab assistance opened the way in front of Somalia for further Arab aid being channelled into the country. For a while, it appeared as if the Somali government had made a choice on relying increasingly on its Arab connection while minimizing its dependence on the Soviet Union. According to Radio Mogadiscio: "This gift cleared away the fog from many things ....we know now on which side our bread is buttered." (1)

Saudi Arabia, whose importance as a regional power was once more confirmed after the October war, sought to take the lead in seizing the opportunity of Somalia's overture, hoping that she would ultimately draw it into the Western camp. Mistrustful of Somalia's Russian connection, shunning its official "Scientific Socialism" and its suspected anti-religious implications, Saudi Arabia nevertleless supported Somalia's entry to the Arab League and promised to grant substantial financial assistance.

Saudi Arabia's policy towards Somalia was mainly aimed at de-radicalizing the regime internally, drawing it closer to the Arab conservative alliance and further away from Radical Arab regimes, such as Libya, Iraq and South Yemen.

Saudi financial assistance to Somalia has been scarce and disproportionate to the generous aid it promised to grant. In 1976,

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(1) "The Democratic Republic of Somalia", in Africa Contemporary Record 1975-76, edited by Colin Legum, Rex Collings, London, 1976

Saudi Arabia pledged $400 million to be made available to the Somali government on condition that all traces of Soviet influence be eliminated. (1) Saudi Arabia also offered to finance the purchase of arms.

The United States, however, were reluctant to encourage a total Saudi involvement in Somalia. All the more, they were not particularly keen on Soviet naval pull-out from Berbera as the Saudis really wish. The U.S. in fact, wanted to use Soviet presence in Somalia to justify its development of a major naval base in Diego Garcia in the Indian Ocean. (2)

Thus, unable to enjoy full U.S. support for its Somali initiative, Saudi Arabia seems to have restricted its aid commitment as well. Financial assistance consisted mostly of an emergency grant of$15 million on account of the 1975 drought and for the resettlement of Nomads. In addition to that, Saudi Arabia has given a $10 million gift for the construction of a mosque in Mogadiscio, (3) and has contributed to the $100 million Arab League loan to Somalia.

In late 1977, however, and with the expending activities of the Saudi Development Fund, Somalia was promised a $70 million loan for financing the $150 million sugar project at Gelib in Juta to which both Saudi Fund and AFSED are contributing (4)

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(1) The Middle East, January 1977, p. 121

(2) see John Spencer, "A reassessment of Ethiopian Somali conflict", in <u>Horn of Africa</u>, No. 3 July-September 1978, p. 28

(3) The Middle East, February 1977

(4) ARR, No. 21-22, 1-30 November 1977

The Republic of Djibouti

In the context of Saudi Arabia's hegemonic policy in the Red Sea area, the tiny French colony (which is also known as the French territory of the Afars and Issas) was no exception in the strategy of drawing the political régimes of the area into its own sphere of influence, thus encouraging them to move closer to the West.

Soon after the French withdrawal in June 1977, Saudi Arabia showed a marked concern for Djibouti's political future. It firmly supported the independence of Djibouti and its entry in the League of Arab States. In view of the given configuration of interests in the Horn of Africa, no solution other than independence was possible. Saudi Arabia in fact feared that short of independence Djibouti, with her persistent tribal and ethnic tensions, might easily be swallowed up by its more powerful neighbors - Ethiopia and Somalia - and that consequently Djibouti might provide an additional battleground for Somali-Ethiopian rivalries. Saudi Arabia also feared that the Adeni scenario of 1967 might be repeated in Djibouti, that is, that the régime might undergo rapid radicalisation after the withdrawal of the colonizer. If Aden and Djibouti were to be controlled by the Soviet, they could in a war situation block the shipment of oil through the Red Sea.

Saudi Arabia was also concerned with the possible collapse of the Eritrean resistance which would enhance the Soviet Union's position in the Red Sea. Likewise Ethiopia, with direct access to the Sea through the Eritrean province, would be less dependent on Djibouti's port and railroad for the transportation of goods and ammunitions and would hence be capable of playing a greater role in the Horn of Africa, at times threatening Somalia, at others intervening in Djibouti.

For these reasons the Saudis are particularly keen on controlling Djibouti's future and on preventing this vulnerable, newly independent enclave from falling into the radical camp. Djibouti thus appears to be more a political than a military or economic problem for Saudi Arabia.

The maintenance of the French military presence in Djibouti to keep order internally and to protect the frontiers has instigated Saudi Arabia to intervene more rapidly in Djibouti through massive financial assistance in order to secure the economic viability of this mini state. Lacking the military muscle which this time is being provided by the French presence, Saudi Arabia has, more than anywhere else in the region, the full freedom to use its financial wealth in order to play a more pronounced, almost undisturbed political role in the Horn of Africa. Saudi Arabia is primarily working at consolidating the moderate régime of President Hassan Gouled, and together with other Arab states, at seeking to promote Djibouti's international position.

Djibouti's economy, as inherited by the French who aimed to promote Djibouti as a service station of the Red Sea, has been mildly reformed by the present government which is even more ambitious and sees Djibouti as the Hong Kong of the Red Sea. All that naturally does not contradict Saudi policy towards Djibouti. Saudi Arabia has undertaken to promote the "domestic tranquility" (1) of the territory through generous financial assistance. In early 1978 Saudi Arabia signed an agreement with Djibouti, giving it a gift of $60 million to be spent on health, education, agriculture, housing, telecommunications, etc. (see Table 2). As mentioned in the agreement, a delegate of the Saudi government is to stay in Djibouti to supervise the implementation of the agreement and a representative from Djibouti is to go to Riyadh to carry on further talks regarding economic collaboration in the future.

The Saudis have also promised a further grant of $10 million (2) and besides this budget assistance, they have undertaken to build mosques, schools, etc. but so far have not participated in specific development projects. Saudi aid to Djibouti will undoubtedly continue, intermittently but surely, so as to keep this newly independent country economically afloat and well in the conservative Arab alignment.

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(1) James Fitzgerald, "Djibouti: a Petrodollar Protectorate?" in Horn of Africa, October-December, 1978, p. 24

(2) Marchés Mediterranéens et Tropicaux, 5 Mai, 1978, pp. 12-15

Table 2

Projects financed by Saudi Arabia for Djibouti

(in thousands of dollars)

Electrical power	4000
Aviation facilities	2000
Cold stores	1800
Telecommunications	4500
Housing	5000
Roads	500
Agriculture	5000
Water projects	900
Administrative equipment	1800
Public Health	6400
Teaching and Arabization	14000
Others	13000
TOTAL	58,900

Source: Jacques Latrémolière, "Djibouti et l'Economie de Service," Marchés Tropicaux et Mediterranéens, 20 October 1978, p. 2766

KUWAIT

(Regional position and foreign policy)

In its actual physical size, Kuwait is by all standards a small country. Small as it may appear and with a small population, Kuwait is no longer considered an artificial creation of the oil boom. Rather, one is more likely to insist on the "affluent society" that has developed in Kuwait, and on the sophisticated administrative and financial apparatus which this emerging mini-state has been able to equip itself with. in 25 years, Kuwait has established adequate and highly efficient financial institutions in order to manage its ever increasing oil revenues and to diversify the use of oil capital.

Kuwait's per capita income is the highest in the world. It is a capital surplus country with a high propensity to save.

Given this situation of Kuwait as a small nation with considerable financial and economic impact, when viewed within the region, its position becomes even more powerful and significant.

Despite its important financial position in the Middle East and Gulf area, among other oil-rich states as well, Kuwait has been unable to adopt an articulated and fairly dynamic foreign policy in the region. Since its independence in 1961, Kuwait has managed to be on "fairly good terms" with all Arab countries by granting substantial financial assistance to all Arab regimes indiscriminately, regardless of their political orientation.

Generally speaking, Kuwait's foreign policy and, to a lesser extent, its oil policy have been predominantly adopted according to and in accommodation with Saudi Arabia, which basically means solidarity with the "North" and Western world, and a regional policy aimed at keeping the poorer Arab countries in a docile political climate under Saudi Western hegemony. Unlike Saudi Arabia which seeks, through the use of its oil revenues, to entertain a "clientèle" relationship between her and the recipient Arab countries, particularly Egypt, Sudan and North Yemen, Kuwait's relations with these countries are directed towards strengthening the "moderate" regimes in these states while keeping them in a strong economic position so that these countries would provide a profitable ground for Kuwaiti private investors and businessmen.

To date, Kuwait has never elaborated a clear-cut policy in the Horn of Africa/Red Sea region. It did not participate at the regional conferences for the security of the Red Sea, though has always kept a watchful eye on recent development in the region. Kuwait is mainly concerned at keeping the freedom of navigation in the Red Sea and through the Suez Canal. Like Saudi Arabia, but with less fervour, Kuwait is also interested in a reduction of Soviet influence in the Horn of Africa.

(Characteristics of Kuwaiti economic assistance)

Financial economic assistance has been the main tool Kuwait has used since its independence to implement its foreign policy or, rather a less ambitious task, to make itself worthwhile to the neighbouring Arab states who were somehow reluctant to accept this dwarf state with huge, incompatible wealth. "Kuwait", to use Soliman Demir's words, "can justify her survival as a political entity in this age of regional internationalism only by serving effectively and impartially as a distributor of economic aid to her neighbours". (1) Kuwaiti aid thus obviously remains a means for winning friends, while trying to allay fears about security.

Dr. Wall distinguishes fear motives as opposed to greed motives behind a country's policy of dispensing aid to other countries. (2) Fear motives can be true in the case of Kuwait to justify its independence as a state, especially considering that neighbours like Iraq feel that Kuwait should be part of their territory and the motives of the Iraqis are not purely nationalistic but more economic and political: to get access to Kuwait's oil fields and to extend their influence in the Gulf area. A significant event in Kuwaiti history has been the establishment of the Kuwait Fund for Arab Economic Development, now a model for Arab aid funds which was after all set up shortly after Iraq's territorial claims over Kuwait in 1961.

The share which Kuwait extends on economic assistance is unequaled by any other donor, a little less than 10% of its national income annually.

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(1) Soliman Demir, The Kuwait Fund for Arab Economic Development, New York, Praeger, 1976, p. 5

(2) D. Wall, "The Charity of Nations: The Political Economy of Foreign Aid", New York, Basic Books, 1973

Before 1973, when the country had a much smaller income than it has now, Kuwait disbursed aid totalling \$1.15 billion. (1) Since 1967, and in keeping with the resolution taken at the Khartoum summit conference, a great part of the money went to finance the war effort against Israel to the front line states Egypt, Syria and Jordan.

Between 1973-1976, aid disbursed totalled \$2.15 billion (against \$3.16 billion committed), and in 1977 alone disbursements were \$1 billion (\$1.3 billion committed). (2)

The Arab Middle East has long counted on either Soviet or U.S. aid. The emergence of the oil rich Gulf states as generous providers of aid has created a sort of <u>middle force</u> that has had a positive impact towards greater balance in the region. For the Arab world, Kuwait has earned without doubt a place among lending powers.

At the same time, Kuwait has been generously contributing to the regional institutions - mainly the Arab League and affiliated agencies. In 1968, Kuwait was a major force behind the establishment of the Arab Fund for Social and Economic Development (AFESD) which operates along the Kuwait Fund organizational pattern. The Inter-Arab Investment Guarantee Corporation, a scheme for guaranteeing Arab investments in the Arab Countries, was another initia-

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(1) Financial Times Survey on Kuwait, 26 February 1979

(2) Financial Times Survey on Kuwait, 26 February 1979 (figures based on OECD statistics)

tive of Kuwait on the regional financial level. (1)

Since the 1973-74 oil price rise, Kuwait became further involved in multilateral institutions extending aid to Africa and the Third World such as the Arab Bank for Economic Development in Africa (ABEDA), the OPEC special fund, the Islamic Development Fund, etc.

To enhance its political and economic position internationally, Kuwait has contributed since 1974 to the funds of the World Bank and various U.N. agencies. In 1975, the Kuwaiti government announced that it would raise its share in the International Monetary Fund from $65 million to $235 million in order to obtain more voting in the organization. (2) According to the list presented by the Kuwaiti Ministry of Finance, capital subscription to multilateral organization between 1962 and 1977 amounted to $1.68 billion. (3)

The Kuwaiti government, however, under pressure from the National Assembly, has become less favourable to generous contributions to international organizations. On several occasions, Kuwaiti officials have stressed their preference with regards the use of oil revenues. According to these officials, priority would go to the development of the national economy (4), then to the development of the Arab countries, followed by that of the countries in the Third World , and finally, part of the oil revenues will go

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(1) See Demir Soliman, op. cit., pp. 58-59

(2) Arab Report and Record, 1 June 1975

(3) Financial Times Survey on Kuwait, 26 February 1979

(4) Kuwait's growing concern about the eventual exhaustion of oil wealth has led to the setting up in 1976 of the Special Fund for the coming generations with U.S.$3 billion capital. (see Financial Times Survey on Kuwait banking and finance, 4.10.78)

as investments in the Western world, while a still small part will go as contribution to international organizations. (1)

In 1974, the Kuwaiti government decided the following allocation of oil funds:

<u>70%</u> for the national economy and the development of the Arab countries

<u>30%</u> for investments in the Western economies.

In 1975, some modifications were introduced in the allocation of funds:

<u>50%</u> for the national economy

<u>25%</u> for development of the Arab countries

<u>25%</u> for the developing countries of the Third World. Only the remaining unimportant portion was reserved for investment in the Western economies. (2)

These budget provisions, however, do not match reality. Indeed, the flow of capital to Western countries was, in 1974/75, considerably greater than that to Arab countries. There is here a contradiction between implementing a policy giving priority to channelling oil funds towards the development of the Arab region and the existing interwoven relations of the Kuwaiti banking and financial institutions with the Western financial system. It would obviously take some time including complicated procedures

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(1) Financial Times, 24 March 1975

(2) Pierre Judet, "<u>Les investissements pétroliers dans l'industrie européenne et les operations triangulaires en direction du Tiers Monde</u>", Paris, Institute de Recherche Economique et de Planification, November 1975, p. 20

for the natural flow of capital from London and New York to be diverted towards Cairo, Africa and the Indian Ocean. (1)

Besides the present interwoven relations between the Kuwaiti financial system and the Western financial system, one must also consider the real amalgamation existing between the state financial bodies and private establishments. Despite the fact that Kuwait is usually referred to as being efficient and sophisticated in managing its oil revenues - as compared with other oil-rich Gulf states, it is at times difficult to make a definite distinction between private and public funds. Thus, because of the two factors mentioned above, Kuwaiti economic assistance tends to be characterized by a high investment content and businesslike practices which are less apparent among other donors.

R. Al Mallakh gives another explanation to the business oriented approach to aid giving. Kuwait is internationally minded thriving on free trade. Economic activities in pre-oil times consisted mainly of trade with the Arab states and particularly Persia and the Indian subcontinent. This mercantile entrepreneurial aptitude marks the Kuwaitis as distinct from their neighbours in the Gulf. (2)

In the area of aid giving, Kuwait, through its fund, whose role will be explained further down, tries not only to give aid in exchange for political goodwill and support, but also tries to

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(1) Pierre Judet, op. cit., p. 20

(2) R. El Mallakh, Economic Development and Regional Cooperation in Kuwait, Chicago, Chicago University Press, 1968, p. 12

turn aid giving into a business that is financially profitable to donor and recipient alike.

(Organization of Kuwaiti Aid)

In Kuwait, as in other Arab aid countries, the Ministry of Finance is responsible for the largest share of disbursements.

Three methods are used in extending aid:

1) The institutionalization of Kuwaiti economic assistance initiated in December 1961 with the Kuwait Fund for Arab Economic Development (KFAED);
2) Loans granted through the State Reserves;
3) The General Authority for Arabian Gulf and South Arabian States founded in 1962 under a different name.

1. KFAED. It can be established with no doubt that the creation of the Kuwait Fund, which came as we have seen above, a few months after Kuwait acquired independence, via a political act. To use R. Stephens' words: "To show the world and the Arab countries in particular that Kuwait is a responsible member of the international community and ready to use its new wealth to help those in need". (1)

Of all the Kuwaiti aid efforts, the KFAED has been the most firmly grounded and the fastest growing. It has also become the most influential assistance agency within Kuwait and in the region. The objective of the Fund is to contribute to the economic develop-

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(1) R. Stephens, The Arab's New Frontiers, London, Temple Smith, 1973, p. 46

ment of the region through the extension of short, medium and long range loans and the provision of guarantees.

The organization of the Kuwait Fund follows the general lines of the World Bank in businesslike procedures, careful financing and project lending. In its 25 years of operation, the Fund concentrated on project approach and followed the method of operation of the World Bank of the 1960s regarding priorities attached to different projects and methods used in project appraisal. Such methods of project appraisal tend to favour infrastructure and power project. (1)

SECTORAL AND GEOGRAPHICAL DISTRIBUTION OF FUND LOANS
(1.1.1962 - 30.6.1978)

(Million KD)

Country Groups	Agriculture and Primary Sectors	Transport, Communications and Storage	Electricity	Industry	Total	%
Arab Countries	69,610	125,930	64,890	78,617	339,077	69.2
African Countries	13,310	21,100	13,470	4,500	52,380	10.7
Asian Countries	12,200	8.800	58.700	16,345	96,045	19.6
Other Countries	1,200	1,130			2,330	0.5
Total	96,320	156,960	137,060	99,462	489,832	100.0
%	19.7	32.0	28.0	20.3	100.0	

Source: Kuwait Fund for Arab Economic Development, 16th Annual Report 1977-1978, p. 58

(1) For further details on this issue, see Demir Soliman, op.cit. pp. 50-51

Social projects like education and family-planning are not considered by the Fund. Kuwait officials, as a matter of fact, are somewhat reluctant to venture into such fields.

The financial aspects of the appraisal policy "require the linking of a credit to one specific project. The scheme must be profitable and revenue-yeilding as well". (1) The total amount which can be advanced must not exceed 50% of the foreign exchange requirements of any project and 10% of the authorized fund capital. Throughout the loan period, the Fund is to receive progress reports and its representatives have the right to inspect the project. (2)

The terms of the loans range between 1.5% to 4% interest, between three and five years as grace periods and between 19 and 34 years for final maturities. (3) Generally speaking, both rates of interest and maturity period for the Fund's loans are more favourable than those given by the World Bank (7.5% interest) or any other international lending institution.

According to Article 14 of the Charter, the Fund is supposed to give economic assistance in Kuwaiti Dinars on the basis of its gold parity. In practice, however, the Fund seldom dispenses its assistance in Kuwaiti Dinars since in most cases the

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(1) R. El Mallakh, 1968, op. cit., p. 185

(2) See Demir Soliman, op. cit., pp. 12-13

(3) KFAED 16th Annual Report, 1977-78, p. 13

borrower is interested in other currencies, such as U.S. dollars, French francs or German marks. Such currencies facilitate the payment for equipment bought from these industrialized countries. This indicates a policy of not financing or encouraging local expenditure in the projects in which the Fund is involved.

Another financial factor is the guarantee assumed by the borrower that all Fund assets and income are fee from any measures of nationalization.

The Fund participates in relatively large projects which have other sources of bilateral and multilateral financing, for example World Bank loans, U.S. AID loans, as well as Arab financial contributions.

Although the Fund's operations consist mainly of giving loans to development projects, it has also been involved in <u>technical assistance</u>. This includes types of assistance associated with an investment undertaking, such as pre-investment surveys which lead later to direct investments in the form of loans and those which are not related to direct investments.

The Fund also renders important services to Arab countries to help them initiate contacts with international development agencies, and to <u>give advice</u> on technical matters such as the establishment of local development banks. In other instances, the Fund has entered into the field of negotiating reciprocal trade agreements.

According to the law which sets it up, the Fund is to be administered by a board of directors under the chairmanship of the Minister of Finance, although it enjoys a considerable degree of independence when compared with other financial state bodies. The Secretary General of the Kuwait Fund, Dr. Al Hamad, lists the advantages of this scheme as an organizational device in foreign aid administration:

- The Kuwait Fund autonomous status has relieved the aid administration from going periodically before a not always enthusiastic National Assembly for approval of loans.
- It has allowed for the participation of the private as well as the public sector through a composite board of directors, where five out of the eight members are prominent businessmen. This has led to the adoption of a businesslike style free from routine restrictions. (1)

2. Aside from the activities of the KFAED, the Kuwaiti government has followed a policy of extending more direct political aid through the state reserves.

As with KFAED loans, the state reserves credits are widely spread throughout the Arab world, though in that case, more political factors are involved.

The state reserve loans have been the most extensive and least institutionalized. The loans have been largely extended

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(1) See Al Hamad, Bilateral Development Aid: The View from the Kuwait Fund, Kuwait, KFAED, 1974, p. 10

for balance of payments requirements and are designed to meet the pressing capital needs of countries in the area.

The National Assembly, before its dissolution in Summer 1976, was to ratify all state reserves loan agreements though not KFAED commitments. Thus political considerations are prominent.

3. The third channel for Kuwaiti aid rarely gets publicised but is well known in the states where it operates. The General Authority for Arabian Gulf and South Arabian States was founded in 1962 under a different name. Originally, it was designed to assist the Trucial Gulf states; it now also covers Bahrain, Oman, North and South Yemen and the Southern region of Sudan.

The GAAGSAS has followed a dual approach to development effort for the area. One is of a short-term nature to deal with problems of health and illiteracy. The Authority has indeed financed and provided staff for, and in most cases, run about 120 schools, several teacher's training institutes, 10 hospitals, about 20 health clinics and the entire University of Sanaa in North Yemen. (1) The second programme consists of large range measures for the assessment of the economic potentials of the area, i.e. financing resource surveys, soil analysis, evaluation and development of water resources. (2)

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(1) Figures taken from Financial Times Survey on Kuwait, 26 February 1979

(2) See R. El Mallakh, 1968, op. cit., pp. 208-210

The Authority's board is composed of the under secretaries of the concerned Kuwaiti ministries as well as the Director General of the KFAED and is chaired by the Minister of Foreign Affairs. Its budget, contributed by the Kuwaiti government, amounted in 1977 to 12 million KD. (1)

(Kuwaiti aid to Red Sea Countries)

Unlike Saudi Arabia, Kuwait does not have hegemonic pretensions regarding the countries of the region. As demonstrated earlier, since its independence Kuwait has sought to win acceptance from its more powerful neighbours.

Later, after the oil boom in 1973 and having been confirmed in its role as a regional financial power, Kuwait also sought to expand its economic and financial activities throughout the Arab region. To do so, it first had to ensure that it was treating with "friendly allies". Aid flows in the form of grants from the state reserves or loans from the KFAED to contribute to the economic development of these countries were thus a prelude to profitable Kuwaiti investments in poorer Arab countries and, in particular, in Egypt, Sudan and Jordan.

Kuwait's policy of aid to the countries of the region tends to follow the Saudi model; that is, Kuwaiti aid flows either from

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(1) Financial Times Survey on Kuwait, 26 February 1979

the state reserves or through the Kuwait Fund, are likely to be concentrated in countries where Saudi Arabia has had a previous financial engagement.

Kuwaiti interests in the Red Sea/Horn of Africa region first became apparent in 1973 following the oil price rise. This made it clear how important it was to re-open the Suez Canal as an international waterway for the shipment of oil and refined products from the Gulf states to Europe. The October war and the ensuing oil price rise also marked an Arab rapprochement with Africa. Kuwaiti officials and businessmen sought to take advantage of this to consolidate their political and, more especially, their economic links with Arab-African countries such as Egypt and the Sudan. Their aim was clearly to win access to further business opportunities on the African continent. Among the countries of the region where Kuwait has been a major aid donor, Egypt, Jordan and Sudan are considered to be the most privileged recipients of economic assistance and investment.

Egypt and Jordan, as front line states, had been entitled ever since 1967 to generous pledges of financial assistance in compensation for the closure of the Suez Canal and in Jordan's case, in compensation for the loss of the West Bank. After the October war and in conformity with the resolutions adopted at the Rabat Arab summit in 1974, Kuwaiti assistance was designed to contribute to the war effort and the reconstruction programme in course in Egypt. These financial transfers came from the state's reserves following approval by the National Assembly. They were immediately channelled to the treasury of the recipient country.

Project loans from the Kuwait Fund continued to be granted on very advantageous terms despite the fact that the Fund's operations declined significantly between 1967 to 1969. This obviously did not mean that the needs of Arab development had suddenly diminished or that they were met by other means. Rather, the Kuwait government felt that both politically and financially tere was no longer a real urgent need to finance development projects through the Fund, knowing that the Kuwait government had made commitments at the Khartoum Arab summit in August 1967 to generous yearly subsidies to the front line states. (1) One may also add in this respect, in the case of Egypt in particular, and prior to the October war, the Kuwaitis were rather reluctant to invest and contribute to the economic development of countries whose political future looked uncertain and whose state-controlled economy was not particularly appealing to the liberally business minded Kuwaitis.

Most of these financial transfers from the state reserves were subject to the approval of the National Assembly which, in some instances, blocked aid flows. One such case occurred following the civil war in Jordan in 1970-71 when King Hussein's forces crushed the Palestinians. On this occasion, the Kuwaiti

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(1) See Demir Soliman, op. cit., p. 44

government came under pressure from the National Assembly to suspend its subsidy to Jordan which had been in operation ever since the Khartoum summit conference in 1967. The Kuwaiti Fund, however, not subject to the National Assembly control, continued and even increased its aid commitment to Jordan. (1)

- During the October war in 1973, and with strong support from the National Assembly, the Kuwaiti government contributed $700 million in arms to Egypt. It also gave an unspecified sum (unconfirmed reports place the amount at $175 million) for special economic assistance. Since then, another $150 million has been given towards Egypt's war effort and for the reconstruction programme. (1)

In 1976, after President Sadat's tour in the Gulf states, reports confirmed that Kuwait has agreed to give Egypt between $150 million and $200 million. (2)

In addition to this programme assistance from Kuwait's state reserves which was designed to relieve Egypt's accumulated debts and solve its balance of payments problems, Kuwait has also provided special financial facilities. The Kuwaiti Central Bank has deposited substantial sums of money with the Egyptian Central Bank at an interest rate 1% below the current rate on international markets. These bank deposits which in 1978 amounted to $1 billion, were aimed to provide much needed foreign currency and guarantee

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(1) see Ahmed, op. cit., p. 109-110

(2) ARR, n. 4, 15-29 February 1976

the commercial transactions of Kuwaiti entrepreneurs and business men.

The Kuwaiti government has, on the other hand, agreed to postpone for two years the repayment by Egypt of loans totalling more than $110 million. Repayment of loans which were contracted in 1963-65, would resume at the end of 1978. (1)

These financial operations would not have been possible had the Kuwaitis not assured themselves first that the political orientation of the Egyptian regime was in line with their own political aspirations for the region.

Kuwaiti government financial intervention in the Egyptian economy was also evident in the investment field. The Kuwaiti government, unlike other Arab donors, has not granted aid to be spend on the development of specific sectors of the economy such as industry and housing. Rather, it encouraged and sought the formation of joint ventures with the participation of the Egyptian government and Egyptian business. These joint ventures were intended to stimulate the Egyptian private sector and to bring in Western technology.

A start on planning this sort of operation was made in February 1974. A Kuwaiti delegation representing private sector firms, visited Cairo to establish a $25 million joint investment company to carry out investment projects in Egypt. The company

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(1) ARR, No. 19, 1-15 October 1976

had as its objectives the investigation of investment opportunities, participation in development projects, management of industrial establishments and the marketing of their products.

A communiqué issued at the end of the Egyptian Prime Minister's visit to Kuwait in December 1974 stated that Kuwait had agreed to finance $1,300 million worth of industrial, housing and other projects. (1) These other projects in the investment package included glass and paper factories, a urea fertilizer factory, a cement plant at Helwan, a fish development scheme on Lake Nasser and livestock development projects. (2)

One <u>joint project</u> of particular interest was the establishment of glass manufacturing. This will be financed by Kuwait at an estimated cost of $150 million and will use Western techology, namely the British Pilkington float process. The plant will produce mostly for Egyptian domestic consumption. It does, however, have potential, for expansion onto wider Arab markets. This form of tripartite cooperation is Kuwait's settled policy. (3)

The <u>Housing Programme</u> which the Kuwaiti government was keen to promote soon after the October war, consists of a $400 million project for the construction of low-cost housing in Egypt. According to the conditions of the project, in return for its investment, the Kuwaiti government will receive areas of city real estate in Cairo

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(1) see Ahmad, op. cit., p. 110

(2) see Ahmad, op. cit., p. 109-110

(3) see P. Judet, op. cit., p. 101

in need of urban renewal. These it will then develop as owners on a commercial basis. A joint company, the Kuwaiti Egyptian Real Estate Company, set up in March 1974, is to undertake projects worth up to $500 million. (1) In Cairo, the joint venture is to build a block of flats while the Kuwaiti partner is committed to put $200 million for 15,000 unit low income housing. In Alexandria the venture has undertaken to build two blocks of flats and a 250 room hotel. (2) One should also consider a further housing project in the Canal zone to which three Arab oil states, including Kuwait, have each contributed $100 million. (3) These grants were allocated for the contruction of new cities in the Canal area, which will each take the name of the ruler of the donor country.

These Kuwaiti financial operations including government investments in the private sector and the formation of joint ventures, were intended to finance development projects in order to strengthen the economy and orient it in a "liberal" direction.

Apart from this "seed money" injected into the Egyptian economy, Kuwait has generously contributed through the KFAED to three main infrastructure projects related to the enlargement of the Suez Canal and the construction of pipelines in the Canal zone.

The significance of the Suez Canal to Kuwait can be explained by the fact that Kuwait has contributed more than any other country to the traffic through the Canal primarily with shipments of crude oil and petroleum products. Before the closure of the Canal in 1967, Kuwait's share was one-third of the total traffic. This included almost all of Kuwaiti oil shipped to Europe.

During the eight years' closure of the Suez Canal, there was a constant trend towards the contruction of larger and larger "super-tankers" which, because of their size, were forced to bypass the Canal and to take the sea route round South Africa. When the Canal was reopened in 1975, it was unable to accommodate these very large super-tankers. In such circumstances, there emerged the need to enlarge and deepen the Canal in order to maintain its position as an international trade route.

Kuwait was one of the first countries to subscribe generously to the improvement of the Canal. Back in 1964, the KFAED concluded an agreement with the Suez Canal Authority for a loan of over $27 million to partially finance an overall improvement project and to enlarge the harbour at Port Said. (1) Later in 1974, the KFAED joined forces with other national and multinational regional funds as well as international financial agencies and granted $20.7 million for the first phase of the programme to widen and deepen the Canal. (2)

A third loan of six million Kuwaiti Dinars (KD) was granted in early 1978 for the second phase of the project. (3) Once the project is completed, it is expected to enhance the Canal's role in handling an increasing volume of traffic. This especially concerns the tanker fleet moving Middle East oil in which Kuwait has a

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(1) Al Mallakh, op. cit., p. 175

(2) MEED special report on Egypt, May 1978, p. 19

(3) KFAED 16th Annual Report, 1977-78, p. 17

particular interest since it has already decided to establish its own tanker fleet.

Apart from participating in the improvement programme for the Suez Canal, Kuwait has showed great interest in promoting the construction of a pipeline running from Suez to the Méditerranean (SUMED).

In 1973, Kuwait allocated $60 million to finance the $500 million pipeline from Alexandria to the Red Sea. Today, however, the SUMED pipeline is still running at only 15% of its 1.6 million barrels per day capacity and it is not expected to come into its own until the pipeline bringing Gulf oil to the Red Sea at Yenbo in Saudi Arabia is opened. (1)

In the future, the pipeline will enhance the importance of the Red Sea as an international transportation route through which oil from the Gulf states as well as refined products will be shipped to European markets. Plans for a second pipeline have already been drawn and with the help of a KFAED loan ($25 million), a $75 million 8 million tons a year pipeline is being constructed between Ras Shuquait on the Red Sea and refineries at Cairo and Suez.

Another significant contribution of the Kuwait Fund has been a loan of $48.5 million for Abu Kir gas and power station, and $11.5 million for Talkhe fertilizer plant. (2) Here again, KFAED

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(1) MEED, special report on Egypt, p. 18

(2) MEED, special report on Egypt, p. 9

did not alone undertake the total financing of these projects, but joined forces with other funds and international institutions.

- Besides annual subsidies from the state reserves as part of the aid promised to the front line states at the Khartoum and Rabat Arab summits, Kuwait has been handling its aid operations to Jordan through the Fund.

In some cases, the Kuwait Fund did not directly intervene to finance loans for specific projects in the industrial and agricultural sector. Rather it preferred to leave deposits in Jordanian banks and financial agencies. In 1964, the KFAED allocated a sum of $1.4 million to the Industrial Development Organization. This agency was supposed to relend the funds to industrial projects approved by the KFAED. A similar arrangement was reached with the same organization to promote tourist project, and electrical facilities in the West Bank and East Jerusalem. Another loan of $238,000 from the Kuwait Fund has been allocated for reconditioning and upgrading a hotel in Amman. (1)

In 1974, the KFAED has agreed to provide the Industrial Bank of Jordan with $23 million loan to help finance a number of small industrial projects. (2) In 1976, another loan of $8 million was lent by the Fund to the Industrial Bank to finance industrial and tourist projects. (3)

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(1) see Al Mallakh, op. cit., p. 196-197

(2) MEES, 22 March 1974

(3) MEES, 10 May 1976

The Kuwaitis have been favourably looking at the liberal economic policies adopted by the Jordanian monarchy. Accordingly, they sought to boost the private sector and to enter into commercial partnerships with Jordanians.

Moreover, Kuwait was eager to develop Jordan's most pressing infrastructure needs. As early as 1962, the Kuwait Fund participated with the U.S. Agency for International Development (AID) in the Yarmouk River multi-purpose project by granting a $11.2 million loan. The scheme, with a total cost estimated from $112 million to $140 million, involves the construction of a dam, the generation of hydroelectric power, and agricultural development of newly irrigated land. (1)

Years later, the Kuwait Fund has again contributed in the development of another important infrasturcture project: namely, the Hussein thermal power station. In 1977, the Kuwait Fund agreed to provide $19.5 million for the third phase of the Jussein thermal power station. The project aims at meeting the increase in demand for electrical power in the norther provinces of Jordan. The total cost of the project is estimated at $66 million. The Fund's loan will be 23% of the total cost and 30% of the foreign exchange component. Other contributors to the project include AFSED and the Saudi Development Fund. (2)

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(1) see Al Mallakh, op.cit., p. 198

(2) KFAED, 16th annual report, 1977-78, p. 19

Another loan of $24 million was granted by the Kuwait Fund for the expansion of transport and port handling facilities related to the phosphate industry. (1)

In addition to contributing to the development of Jordan's most important infrastructure projects, the Kuwaitis were also keen to boost Jordan's big <u>industrial project</u>, namely the phosphate industry. The expansion of this industry is meant to promote Jordan's export sector which will in turn contribute to an increase in the country's <u>foreign exchange</u> earnings.

As early as 1962, the Kuwait Fund allocated $8.4 million to assist in financing the newly started phosphate mines at Al Hasa. (2) Later in 1976, the KFAED agreed to lend Jordan's phosphate mines company a 15 year loan worth $24 million (3) and in 1977, another loan of $30 million was granted for the expansion of phosphate production. (4)

Furthermore and according to the latest KFAED annual report, the Fund is considering the granting of a loan to assist in financing the production of <u>phosphate fertilizers</u>. Another project under study by the Fund is the <u>Arab potash project</u> designed to produce potassium chloride through the exploitation of raw potash extracted from local mines. (5)

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(1) ARR, No. 1, January 1977

(2) see Al Mallakh, op. cit., p. 195

(3) ARR, No. 15, 1-15 August 1976

(4) Arr, No. 6, 16-31 March 1977

(5) See KFAED 16th annual report 1977-78, p. 53

- Kuwait was the first Arab oil-exporting country to show a marked interest in the economic development of Sudan. For a long time, Kuwaiti private and public funds constituted the only Arab capital invested there. Even before Kuwait's independence, Kuwaiti entrepreneurs and businessmen - often associated with Western and particularly British firms - intervened to promote the emerging cotton spinning and textiles industries. Plans for the development of agriculture and for the processing of agricultural products were also elaborated.

Because of Sudan's geographical proximity to the Arabian peninsula, it was believed that trade relations between Kuwait and Sudan would develop rapidly. These would mainly consist of the exchange of Sudanese agricultural products for Kuwaiti petroleum and fertilizers.

The Kuwaiti government, which was eager to establish a foothold for Kuwaiti firms and their western associates on the African continent and keen on guaranteeing their commercial operations, stepped in by providing substantial aid for the modernization of Sudanese infrastructures and for the development of agriculture. It is thus significant that just three months after its creation in 1962, the KFAED granted a loan of $19.6 million (the first official aid agreement from an Arab source). The loan was designed to cover foreign exchange requirements for the second phase of Sudan Railways' seven years construction and renovation plans. The first stage was completed with the participation of the World Bank. (1) The importance of Sudan's railways is that they not only link the North with the South and the Nile with Port Sudan, the principal port on the Red Sea, but also constitute the only network capable of tying rural agricultural areas to the urban markets where processing centres are to be located.

In 1965, Sudan received a second loan from the Kuwait Fund directed towards an industrial project the Khashm al Girba sugar plant. It is worth mentioning here that the Sudanese railway was able to use the earlier loan to put down a 45 mile extension from Khashm al Girba to the newly developed agricultural area. (2)

Kuwaiti economic assistance to Sudan became more substantial after 1974 when other moderate Arab oil states and particularly Saudi Arabia decided to boost their economic and political support to the Sudanese regime.

In 1975-76, Kuwait, together with Saudi Arabia and the U.A.E. gave the Sudanese government an important financial "gift" to offset the balance of payment deficit caused by accumulated excessive borrowing. (3)

Since 1976 there has been virtually no programme aid to Sudan. Nonetheless, in September 1978, the Kuwaiti finance minister put

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(1) see Al Mallakh, op. cit., p. 194

(2) see Al Mallakh, op. cit., p. 200

(3) Sudan's borrowing of all kinds rose from $252 million in 1971 to about $41.5 billion in 1978. See Financial Times Survey on Sudan, 13 July 1978

forward a draft plan for the rescheduling of Sudan's debts to Kuwait. These total $260 million; arrears amount to $56 million. (1)

The rescheduling of debts by the Kuwaiti government was followed by a concerted action with Saudi Arabia, the United Arab Emirates and the International Monetary Fund. Sudan's creditors recommended primarily that it would adhere to the IMF stabilizing programme as a pre-condition for further programme aid. Apart from these aid flows from state reserves, Kuwait has made deposits in the Sudanese central and industrial banks to promote the Sudanese development corporation and to finance the industrialization of primary products.

The most spectacular Kuwaiti financial initiative is the Kenana sugar complex aimed to make Sudan into a net sugar exporter (up until now, it has been a net importer). This complext is designed to be the world's largest and is meant to be a shining example of the sort of triangular development project in which the Kuwaitis are attempting to take a pioneer role. The project combined Western technology (provided by the British firm Lonrho and the Japanese Nissho Iwai company), Arab oil money and the natural resources of an African country. The Kuwaiti government share in the project was incorporated in the Arab Investment Company which also included Saudi, UAE and, to a minimal extent, Egyptian capital. The company's share accounted for 17% of $250 million capital cost.

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(1) ARR, No. 17, 1-15 September 1977

Kuwaiti private capital represented through Gulf Fisheries (which has recently taken a 23% stake in Lonrho) has 5% share. Lonrho directly holds 12%. The Japanese hold 5% and the remaining 61% is in Sudanese hands.

The Kuwaitis thus became the major shareholders in the project after the Sudanese. One consequence has been to bring them into open conflict with the Lonrho company which was managing the project. The Kuwaitis wanted to put their own men in charge and they insisted that the project should be managed by a Kuwaiti or by a Sudanese national. (1)

At the same time, the Kuwaiti's were particularly aware that the success of the Kenana sugar scheme - located 1,000 miles from Sudan's single harbour Port Sudan - depends in the first place on an efficient and modernized <u>transportation system</u>. Thus, in addition to a previous loan granted in the sixties for renovation of Sudan's railways, Kuwait has agreed to give loans worth $36 million for the construction of roads (2) and in 1978, the Kuwait Fund gave a $17.5 million loan to provide the Sudan Railway Authority with technical assistance, equipment, wagons and engines to develop the railway network. (3)

The Kuwait Fund has also participated with the Arab Fund for Social and Economic Development (AFSED) and the U.S.-based

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(1) For an exhaustive account on the Kenana sugar complex, see: James Buxton, "Sudan's bitter sweet sugar mill", Financial Times, 18 May 1979

(2) ARR, No. 1, 1-15 January 1977

(3) ARR, No. 13, 1-15 July 1978

of Arab technologists, the Association for Development of Arab Resources (ADAR), in preparing a feasibility study on a $1.4 billion infrastructure scheme in order to boost transport and communication services by 7.5% a year. The project consists of 72 individual projects to be implemented during the first 6 years of a 14 year programme. (1)

The Kuwait Fund, together with the AFSED, has undertaken to finance a $60 million 260 km. road from Sennar to Damazein near the big Roseires dam on the Blue Nile. (2)

Another important project where Kuwaiti capital has been involved is the Rahed irrigation scheme: a marrying of Sudanese basic resources with Arab money and Western technology. The Rahed scheme makes available 126,000 ha. of hitherto cultivated land. When conceived in 1972, it was planned that the project would cost $125 million of which Kuwaiti share provided through the Fund amounted to $11 million. But the cost of the scheme was recently revised to $346 million of which $93 million is Arab money. The Kuwait Fund has has agreed to increase its initial share from $11 million to $50 million. (3)

The role of the General Authority of Southern Arabia and the Gulf States has been significant in Sudan and particularly in the development of the Southern Province. Following the 17 year civil

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(1) MEED, Special Report on the Sudan, August 1977, p. 5

(2) MEED, Special Report on the Sudan, August 1977, p. 6

(3) Financial Times Survey on Sudan, 13 July 1978

war, Kuwaiti assistance to the region aimed to assure the South Sudanese of Kuwait and Arab states' good intentions towards non-muslims and non-Arab Africans. In 1975, the Authority financed the purchase of equipment needed for road projects in South Sudan. It has also donated $562,000 towards the construction of schools; hospitals and low income housing. (1)

Kuwait's political and economic commitments in North Yemen have been modest when compared with Saudi Arabia. Even though Kuwait pursues a regional policy similar to that of Saudi Arabia, yet in North Yemen, it choise not to intervene nor even to grant financial assistance, owing to the precarious and unstable situation created by the civil war.

When, in its early days, the Kuwait Fund was granting substantial loans to most Arab countries, its only operations in North Yemen consisted of financing a preliminary economic resource survey. The Fund has also financed a U.N. special mission to North Yemen. The mission had to study the possibilities fro agricultural developments, the launching of experimental farms and the training of Yemeni personnel. (2)

Political events in 1972-73 had an unfortunate impact on the North Yemeni economy. The fighting of the South was most unlikely to inspire the confidence of donors and investors.

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(1) ARR, No. 3, 1-15 February 1975

(2) see Al Mallakh, op. cit., p. 202

It was only in 1974, when it became clear that the Yemeni regime under Colonel Al Hamdi's rule was embarking on "solidly" liberal economic policy, that Kuwait showed its readiness to cooperate in providing both financial and practical assistance.

Most of Kuwait's operations in North Yemen consisted of project loans and technical assistance through the Fund and the Gulf for Southern Arabian and Gulf states. There was virtually no programme assistance apart from financial facilities aimed to offset the balance of payment deficit and to contribute to the internationally sponsored second 5 years plans (1976-81).

When the balance of payments problems were aggravated as a consequence of the increase in the oil bill, the Kuwaiti government agreed in 1976 to supply oil products without charge over a three year period. (1)

In 1977, Kuwait announced that it aimed to invest about $441 million in joint ventures development projects in the private and public sector to be carried out under Yemen's 5 years plans (1976-81). The projects include: an oil pipeline linking Yemen's major cities, a Kuwaiti Yemeni Bank, cement and textile plants, the Sanaa Hilton and other hotels in Hodeida and Taiz as well as a number of building projects. (2)

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(1) "North Yemen", The Middle East & North Africa Yearbook, 1978, p.806

(2) "North Yemen", op. cit., p. 808

This budgetary assistance was destined in the first place to support the regime's liberal economy, to boost and develop the private sector as well as to open the way for investors from the Arab world and the West.

Project assistance through the Kuwait Fund has been generously extended to develop the agricultural sector in particular, which have very promising potential.

The cultivable area in North Yemen, the most fertile land in the Arabian peninsula, is mainly concentrated in the Tihama plain of nearly two million hectares.

The Kuwait Fund participated with the U.N. and the I.D.A. in the $17.5 million agricultural scheme: the largest project in course in the Tihama region. The scheme involves irrigation works and the development of cultivable land. (1)

The KFAED has further contributed $1.2 million for financing a feasibility study on irrigation works in the Wadi Siham valley in the Tihama region. (2)

In 1977, KFAED has agreed to lend North Yemen a $12 million loan to help finance a livestock project whose total cost is estimated at $33 million. (3)

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(1) "North Yemen", op. cit., p. 803

(2) KFAED 16th Annual Report, 1977-78, p. 18

(3) MEES, 25 April 1977

Besides Kuwait's financial and technical assistance to enhance Yemen's agricultural sector, the KFAED granted substantial loans for the development and improvement of infrasturcture.

The KFAED is providing a 2.4 million Kuwaiti Dinars (KD) loan for improvement of port facilities in Yemen's three major ports. (1) The Fund, with the World Bank, is financing the Tar Turbah road. In 1975, the Kuwait Fund further agreed to lend $5 million to help finance the construction of a 64 km. road from Taiz to Mafraq to link up the Soviet-built road from Hodeida. (2)

Kuwait's contribution to the industrial sector has been minimal and consisted mainly of providing a 1.2 million Kuwaiti Dinars (KD) loan to exploit salt deposits near Salil and increase production. Furthermore, KFAED experts have been preparing a study on the exploitation of copper deposits near Taiz. (2)

The General Authority for Southern Arabian and Gulf States which finances Sana'a University, has given $4 million to complete schools, clinics, and mosques.

\- Kuwait has been adopting a surprisingly pragmatic policy towards South Yemen's marxist regime. When Saudi Arabia and other "conservative" Arab states were outwardly hostile to South Yemen, Kuwait was one of the few Gulf states where South Yemen had diplomatic presence although the two countries never exchanged

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(1) see KFAED 16th Annual Report, 1977-78, p. 15

(2) ARR, September 1975

(3) ARR, No. 9, 1-15 May 1975

ambassadors. In the early 1970s, presumably under pressure from its National Assembly, Kuwait was instrumental in drawing South Yemen out of its Arab isolation when it pleaded for a dialogue with the Dhofari rebels. Kuwait in fact was applying its foreign policy guiding principle which asserts that the country's interests are best served by a "balanced relationship with all Gulf neighbours regardless of ideological or ethnic considerations". (1)

In 1975, when Aden government launched a diplomatic offensive to improve relations with the rich Gulf states, the Kuwaiti government was in the main responsive to a rapprochement with South Yemen and has granted its government a $5 million gift. (2)

A year later, when Saudi Arabia established diplomatic relations with the Adeni regime, Kuwait was promptly ready to increase its economic assistance.

Quantitively speaking, Kuwaiti aid commitments to South Yemen have been almost equal to that granted to North Yemen. However, while in North Yemen, Kuwait sought to develop the private sector by encouraging the formation of joint ventures and contributing to the five year development plan, in South Yemen Kuwaiti aid operations consisted solely of <u>project loans</u> particularly to boost the <u>agricultural sector</u> and <u>infrastructure</u>.

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(1) M.S. Agwani, <u>Politics in the Gulf</u>, New Delhi: Vikas Publishing House, 1978, p. 111

(2) "<u>South Yemen</u>", The Middle East & North Africa Yearbook, 1978, p.828

The KFAED financed a pre-investment study of the Abyan Valley, east of Aden and in May 1974 agreed to lend a $14 million interest-free loan to help finance land reclamation and irrigation in the area. Bulgaria is also aiding the project. (1)

Sea fishing grounds are South Yemen's greatest potential source of wealth. Besides FAO special fund for fisheries research and U.S.S.R. fish canning plant, the KFAED is also examining the possibility of financing a fish processing industry. (2)

Kuwait's contributions for the development of South Yemen's infrastructures have been the participation of KFAED with other regional funds and international aid agencies in financing a particular project.

In 1975, the KFAED announced that it would provide a $15.5 million loan to finance half the cost of a 358 km. road linking Moukallah to Hadramant. The World Bank would provide the rest. (3) In early 1978, the KFAED and the Islamic Development Bank would jointly finance a $20 million power project in the Hadramant Valley. (4) Further, the Kuwait Fund is presently considering granting a loan for the development and expansion of Riyan airport. The estimated total cost of the project is

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(1) MEES, 24 May 1974

(2) "South Yemen", op. cit., p. 826

(3) ARR, No. 10, 16-31 May 1975

(4) ARR, No. 5, 1-15 March 1978

11 million Kuwaiti Dinars (KD). (1) The Fund is also studying the possibility of financing a 284 km. road that would "link agricultural productions centres with consumption centres". (2)

In the industrial sector, Kuwait did not intervene. However, when, in 1976, after establishing diplomatic relations, Saudi Arabia decided to finance the expansion and modernization of Aden refinery, the Kuwaiti government agreed in early 1977 to provide 300,000 tons of crude oil to be processed at the Aden refinery. (3) Soon after relations between South Yemen and Saudi Arabia deteriorated because of the Yemeni government support for Ethiopia, Arab aid was immediately witheld and Kuwait held back its agreement to supply oil. Project loans apparently continued to be channelled through the Kuwait Fund.

In December 1975, the Fund extended a technical assistance grant of 110,000 Kuwaiti Dinars (KD) to engage the services of experts in the field of planning and statistics in order to support the technical staff of the Ministry of Planning and the Central statistic office. (4)

The financial assistance from the General Authority for South Arabian and Gulf States is not to be neglected. In 1975, it consisted of $2.5 million for schools and clinics. (5) In

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(1) KFAED 16th Annual Report, 1977-78, p. 54

(2) KFAED ibid

(3) "South Yemen", op. cit., p. 826

(4) KFAED 16th Annual Report, 1977-78, p. 43

(5) ARR, No. 9, 1-15 May 1975

early 1977, the Authority granted $4 million for the construction of a 300 bed hospital. (1)

- Kuwait's relations with the countries of the Horn of Africa and particularly Somalia have been primarily conducted in a regional Arab framework.

Before Somalia's admission to the League of Arab states in 1974, Kuwaiti economic involvement in that country was minimal. In 1975, Kuwait contributed to the Arab League $100 million grant and gave financial assistance to the Somali government to overcome the effects of the drought. More recently, in March 1978, at the Arab health ministers conference, the Kuwaiti government said it would grant Somalia $50 million for the development of medical services. (2)

Kuwaiti private capital has not been channelled to Somalia despite the opportunities for triangular operations that country offers. The war in Ogaden and the socialist policies of the regime reduced the incentive for private business to invest in Somalia. Most of the Kuwait financial assistance took the form of project loans directed through the Kuwait Fund which undertook to finance infrastructure projects mainly.

In 1975, the KFAED lent Somalia $20 million to help finance a power station in Mogadiscio. (3) Another $30 million was to be

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(1) ARR, No. 1, 1-15 January 1977

(2) ARR, No. 6, 16-31 March 1978

(3) ARR, No. 13, 1-15 July 1975

provided for the expansion of the electricity network in Mogadiscio. (1)

Furthermore, the Kuwait Fund has financed a feasibility study for an agricultural project designed to irrigate 6,000 ha. at Moganio. The Fund is presently considering whether to finance that project, the total cost of which is estimated at 8.3 million Kuwait Dinars. (2)

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(1) ARR, No. 20, 16-31 October 1975

(2) KFAED 16th Annual Report, 1977-78, p. 53