CHAPTER VII

CONCLUSION
This study is a modest attempt to illustrate the significance of a strategic economic resource in the foreign policy of an important third world state in its relation with United States.

The dominance of oil in Saudi Arabia virtually makes it a monocultural economy. Oil revenues increased Saudi market power, enlarging the absorptive capacity of Saudi economy for consumption and capital goods. Expansion in oil revenues during 1973-74 were used to finance an ambitious physical programme of infrastructural development and modernization, as well as far reaching programmes for health, social and educational purposes. Substantial budgetary allocations were also made to the country's armed forces for the purchase of sophisticated weaponry abroad.

Within the oil producing Cartel OPEC, Saudi Arabia over the past two decades remained the largest producer, at a point assuming the role of a swing producer. Saudi Arabia's crude oil production expanded from 7.6 m.b.d. in 1973 to 8.2 m.b.d. (i.e 58.1%-68.8% of global production) in 1995. This expansion was not wholly due to domestic demand but more in response to external demand. Saudi Arabia's oil production continued to account for 11.56% of global output mostly fuelled by demands from industrialised economies. As a consequence Saudi Arabia became a very strategic country based on its oil resources. Escalation in oil prices, following selective embargo imposed by Arab oil producers on countries perceived insensitive to Aarb aspirations caused apprehensions in the industrialized countries about continued availability of supplies from oil producing nations including Saudi Arabia.

After lifting the embargo, Saudi Arabia changed almost overnight into a major oil power. For the US, emergence of Saudi Arabia as the major oil power in 1973 greatly increased the desirability of seeking a 'Special relationship'. During this period US dependence on the foreign oil increased to nearly fifty per cent.

In these circumstances, the continuation of a 'Special relationship' became important to the United States so that
it could influence Saudi oil and financial decisions in a manner that would serve US interests while meeting Saudi domestic aspirations, especially those of ruling dynasty.

If the US needed Saudi oil, the latter also needed revenues from its oil operations for the development of the country. The US government had a growing interest in ensuring that its business should have a substantial role in the development process for financial reasons and also for maintaining its influence.

The most ambitious co-operative programme between the US and Saudi Arabia has been the United States-Saudi Arabia Joint Commission on Economic Cooperation and Security. The Commission was established by the Secretary of State Kissinger and the then crown prince Fahd ibn Abdal-Aziz al-Saud. Four working groups were established under the Joint Commission on Economic Co-operation:

1. Industrialisation,
2. Manpower and Education,
3. Science and Technology and
4. Agriculture.

Through this commission, the governments of Saudi Arabia and the US co-operated in the fields of economics, technology, industry and in the supply of the kingdom's requirements for defensive purpose.

At the same time increased oil revenues enhanced Saudi Arabia's international status especially when it emerged as a moderate and relatively stabilizing force within OPEC during the 1973-74. Its position within OPEC enhanced its credibility as pro-west and a potential ally of the developed countries. Subsequently it continued its resources to hold down the price of oil. In the depressed market of 1975, the country's production of crude petroleum declined to 7.1 m.b.d. but in 1977 it rose to a new peak of 9.2 m.b.d. This increase in output resulted from a disagreement within OPEC over pricing. The countries charging higher prices found it difficult to sell their oil as a consequence. A compromise on OPEC pricing policy was reached in 1977. For most of 1978, the supply of oil was plentiful,
prices remained steady, and Saudi Arabia kept its production below 8.5 m.b.d.

The situation was reversed following the Iranian Revolution. The new regime adopted a radical oil policy. This resulted in a shortfall in the international oil market. Saudi Arabia boosted its pro-west credentials by increasing production to more than 10 m.b.d., and virtually compensated for the Iranian hold back. The country's total output was maintained at around 9.5 m.b.d. for most of 1979, but prices increased sharply, as intense anxiety over oil supplies prevailed in the industrialized west. Despite Saudi efforts the price of the oil rose rapidly.

During the Iran-Iraq war, the results were not the same as in 1973 or 1979. The price of oil was already inflated beyond its true market value, and worldwide recessionary trends were beginning to lower prices. After a brief spike following the outbreak of the war, prices continued to decline. The oil glut of the 1980s was setting in.

Being Swing Producer in the 1980s brought the Saudis none of the benefits of the 1970s, for the glut was not solely the result of recession. World oil production had also increased greatly. The seller's market of the 1970s had set off a worldwide search for oil, and high prices made additional oil supplies commercially viable that formerly were too expensive to extract. Thus, as demand declined due to recession, OPEC's market share declined even more. In addition, energy conservation during the years of high prices had proved far more effective than anticipated because the consuming countries had learned to be much more energy efficient. The increased supply and reduced per capita consumption further accelerated the swing to a buyer's market.

At the same time, the OPEC countries had adjusted their national budgets to match their higher revenues and when the decline in prices set in they were politically unable to reduce their expenditures as rapidly as revenues declined. Despite agreement to cut production proportionately, the overwhelming temptation was to maintain revenue levels by
pumping as much oil as possible. The Saudis as Swing Producer were forced to cut production to maintain price stability.

For the Saudis, maintaining the position of Swing Producer was untenable. Although they were confident that demand would eventually pick up, their revenues in mid-1985 were less than half of their budgetary expenditures. As a result, they again increased production, causing prices to drop briefly below ten dollars per barrel in 1986 but ultimately forcing other OPEC producers to share the burden of production cuts to stabilize prices and regain lost market share. OPEC discipline could not be maintained, however, and in 1988 Saudi Arabia again increased production and collapsed prices. The influence of OPEC was at its lowest ebb in fifteen years.

During the Gulf crisis oil prices soared again but stabilized as a coalition opposed to Iraqi occupation of Kuwait took shape. After the expulsion of Iraqi troops from Kuwait they quickly fell again. Saudi revenues soared during the brief price hike. The kingdom expanded production in part to keep prices stable but mostly to recover market share lost during the 1980s.

The Saudi goodwill gestures in the oil market extended beyond the major importer of its oil. And Saudi oil policy mutually benefited the 'special relationship' with the US whose oil companies were involved in the development of Saudi oil industry. American oil companies as joint operators of production agreements shared benefits of enhanced oil revenue resources. Just as the Saudi ruling House was a major recipient of the 'oil rent', the American treasury was buoyed through the discharge of fiscal obligations of these oil companies operating in Saudi Arabia.

As has been stated earlier, the US has to some extent been able to influence Saudi policy with respect to oil. Several demands have been placed on the Saudis by the US governments. The list of demands included high rates of production, moderate and predictable prices, development of spare capacity to help meet emergencies and additional
production to augment the US Strategic Petroleum Reserve. Needless to say, the United States has not always been clear on which of these points was most important at any given moment. Most often, security of supply took precedence over price restraint when US officials talked to their Saudi counterparts. Relatively little emphasis was placed on developing spare capacity. By not encouraging the development of spare capacity within Saudi Arabia, the US was facilitating the attrition of a non-renewable resource, to favour its own strategic reserve build up.

However, some Americans have objected to the emphasis on keeping Saudi output high and maintaining price stability. This they argue ensures that the west will remain heavily dependent on Saudi oil and therefore vulnerable to a major disruption if Saudi Arabia followed the Iranian example. It would be better, they believe, to cut demand for Saudi oil, to let prices rise to the point where alternative sources of energy could be produced on a large scale and where non Middle Eastern oil producers will have an incentive to increase production. Even for Saudi Arabia they argue, lower rates of oil production would reduce the strains of rapid development and thus would enhance stability.

On the other hand the Saudi leaders feared that a sharp increase in the price of oil would encourage the development of alternative sources of energy which would replace oil. Too rapid a replacement of oil by other sources of energy would not only handicap Saudi Arabia's development effort, it would ruin the basis of the country's influence in the Middle Eastern region and in the world. An abrupt increase in oil prices might also hold - back western economic growth, or even bring it to a standstill, thereby bringing about political upheavals that the Saudis were very anxious to avoid. During 1973-74, 1979, and 1990-91 the actual loss of oil to the world market was modest, but the price effects were enormous and debilitating in part because of uncertainty and panic among consumers.
Some analysts have asserted that Saudi Arabia must produce at the highest possible level of output to meet the demands of its domestic economic development plan as well as its international commitments. Lower revenues would force reductions in domestic spendings, leading to declines in the Saudi standard of living, which in turn would threaten the survival of the regime. Failure to meet its international obligations would threaten the kingdom's survival as a nation.

The American interest in Saudi oil appears to be to gain control over the huge strategic reserves which is about one-fourth of world's proven oil reserves. In the light of the value of Saudi oil reserves it is remarkable that there has not been any reported Western inspired conspiracy using domestic stooges (as in the case of Chile's Allende government) to overthrow the regime in order to gain more access to the resource. Neither has there been any blackmail of the regime or attempt to sabotage oil production. Saudis have been so amenable that such tactics have not been necessary. During the period, the flow of oil was not disrupted by military action or terrorist attacks. This proves Saudi Arabia is a potential ally of the west. Western interest in Saudi Arabia is to maintain a stable social and political order so that the Saudi regime could continue with favourable oil policy towards them.

Economic co-operation (official and private) between Saudi Arabia and US has been mutually beneficial, collaboration in the oil sector and the resultant oil income inflow has been utilised in accelerating the process of transformation of Saudi Arabia. The moderate Saudi Arabian policy in OPEC particularly during shortfalls in production was useful in allowing the developed countries to maintain their standard of living at no extra cost. Although Saudi-US relations initially developed around the oil sector, it expanded to other areas. Economic plans in Saudi Arabia were designed in consultation with American experts. American technology made substantial inroads into the kingdom's infrastructural base. The national airline, the desalination projects, the hospitals, the national guard and the vast petrochemical
complexes at Jubayl and Yanbu all reflect American technology. These multifaceted aspects of their collaboration has been facilitated by the trust built around the co-operative patterns from the oil sector.

A significant aspect of this 'Special' ties is that it developed around a collaborative relation between the American private sector and the Saudi Government in partnership. The building blocks of subsequent relations were based on this. The Arab-American oil company 'ARAMCO' may have itself acted as a conduit for transmitting influence by both governments. The significance of this collaborative relation lies in the fact that it may increase the understanding of the role of non state actors in 'special relationship'. From the subsequent developments and the enduring 'special' ties it appears that the base on which the Saudi-US relations have been built is capable of absorbing shocks from policy changes by both the governments.

Notwithstanding the limited period on which this study focusses (1973-91) the inferences therefrom are relevant in the context of understanding the arguments of the 'special' relationship. It also serves as a basis for understanding the subsequent development in these ties.