

OPEC Policies and the Economic Development of Member States *the Saudi Arabian Experience and what is needed in the 21st century*

Farhan Al-Farhan*
April 2003

ABSTRACT	2
INTRODUCTION.....	5
THE CREATION OF OPEC.....	6
OPEC STRATEGIES.....	8
SHORT- TERM POLICIES.....	9
LONG-TERM POLICIES.....	11
OPEC AID AND DEVELOPMENT	12
HOW CAN WE DEFINE THE RELATIONSHIP BETWEEN OPEC AND MEMBER STATES DEVELOPMENT?	20
SAUDI ARABIA AND THE DEVELOPMENT STRATEGIES.....	24
SAUDI ARABIA AND THE NATIONAL LABOUR	28
DIVERSIFICATION STRATEGY.....	32
THE FUTURE OF OPEC AND SAUDI ARABIA.....	36
CONCLUSION.....	41
BIBLIOGRAPHY	43

List of Graphs

Page:

Graph (1): The Political, Economic Events and Oil Prices. 7

Graph (2): North America Oil Production.

38

Graph (3): World Oil Forecast.

39

List of Tables

Table (1): U.S.A. Assistance to OPEC Members, 1996-2001.

10/11/12

Table (2): U.S.A. Foreign Military Sales and Construction Sales Agreements with Major Oil Producers, 1996-2001. 12/13

Table (3): U.S.A. Merchandise Trade with Major Oil Producing Nations, 1996-2001.

13/14

Table (4): World Economic Growth Rates 1996-1997. 17

Table (5): OPEC Member Countries Real GDP Growth Rates 1996-1997. 24

Table (6): World Oil Demand. 25

Table (7): Growth of The Civilian Labour Force, 1975-1980 (Saudi Arabia). 26

Table (8): Statistical Information OPEC and Non-OPEC Developing Countries. 29

Table (9): World Oil Demand in 2000. 34

Table (10): World Oil Forecast. 38

Abstract

Oil is the top ranking commodity of our modern world. Some would say that the discovery of vast reserves of oil in the Middle East is one of the great ironies of history because, since the 1960s, oil has played a major role in the international economy. So much of the world's production and infrastructure is dependent on affordable supplies of oil. Countries blessed with large reserves, logically then should have a strong bargaining tool with which to influence their own political and economic status in the world economy. Indeed it is commonly believed that the Organisation of Petroleum Exporter Countries (OPEC) and its member states are able to monopolise the world economy through its policies and prices.

Oil has been and remains the focal mean of Middle Eastern economic development; it is their main exportable resource and main source of income. Although OPEC, and in particular the Gulf member states have stressed the idea of world peace and progress being dependent on the mutual respect of the international community, this may conflict with their own targets of protecting their national interests and long-term development plans. This issue has been and continues to be debated in the fields of economics, politics, and developmental and religious studies. It is only logical to think that when a state or nation dominates 60% of the current international oil reserves and 22% of daily international oil production, that it will have to work hard to keep oil at a price which can maintain profitable global prices able to compete with other materials and goods.

The aim of the following analysis is to discuss the impact of OPEC price policies as a core point to the development of member states with particular reference to the Saudi Arabian experience.

*BA Law King Saud University (Riyadh) LLM-International Commercial Law Kent University (Canterbury).
Legal Advisor & Political Economy Analyst Royal Embassy of Saudi Arabia London, PhD Student at Kent Law School (Canterbury) Diplomas: Political Economy Development, Foreign Policy Analysis, Organization and Strategic Management at L.S.E. (London) & Media Law Advocates Training Programme (MLAP) Oxford University (Oxford). The author can be contacted at FMSA3@UKC.AC.UK. The author wishes to thank DR. AFM. Maniruzzaman for his support and encouragements also, special thanks to Professor. Peter Muchlinski, for his inspiration character and support.

Introduction

Oil, due to its specific nature, is a key product and a strategic commodity in today's international society. Industry worldwide is dependent on it for survival and its cost will always affect the price of the finished product, thereby its control is a powerful tool in today's international market. OPEC member states had an early understanding of this new international economic system, and its potential to shift the balance of power from the West. It can be argued that they demonstrated this understanding in the early 1970s, as evidenced by the drive of its members towards fast economic growth and development.

Over the last three decades some experts have highlighted the vital importance that OPEC has played in the socio-economic development and the huge growth of the member states. Moreover, because OPEC has control of vast petroleum deposits it has been perceived more as a potential political organisation than as an economic one. Some have said that OPEC should not control oil in the same way as other products in the global market. There appears to be opposing morals for the West, where it is perceived to be fair to control and dominate many products, in the interest of their own countries economic security but unfair for others, especially in developing countries, to do the same with their resources, namely oil. This argument will be highlighted later on through the specifically studied Saudi Arabian development experience.

During the immediate post cold war period of history, international attention was focused on the tense situation between the Eastern Block and the Western powers. At the same time oil-rich countries such as the Kingdom of Saudi Arabia, Iraq, Kuwait, Iran and Venezuela founded a new international cartel, namely OPEC. Among all international trade organisations, OPEC has proved to be a good example of an alternative international political economy with an undisputed amount of bargaining power and one of the few powerful organisations not controlled by the West.

I have chosen to concentrate on the Kingdom of Saudi Arabia in this paper because I believe it can be considered as a model state amongst the OPEC members in that it has taken advantage of this period to achieve massive development in the petroleum industries and has diversified into other areas of production. At present, it is not possible to measure what the continual increasing demand for oil will be, but it is enough to say that it impacts on many countries political and economic policies. It is also safe to say that new technologies and production methods worldwide are largely affected by the availability and price of oil in the international market.

In this study I will first highlight OPEC policies on prices and production control and how these policies are affecting the development of the member states. Secondly, I shall go onto give some examples of OPEC policies that have directly led to enormous developments of the whole member state. Thirdly, I will focus on the two issues of development and aid as the targets of OPEC policies in the long-term development of other Less Developed Countries (LDC). The Saudi Arabian experience in this context is then highlighted. I will conclude with an explanation of the role OPEC plays in the international economy of the twenty-first century and will propose scenarios of future possibilities based on the information discussed in this analysis.

The Creation of OPEC

On September 14, 1960, OPEC was formed. The founding members were Saudi Arabia, Iraq, Iran, Kuwait and Venezuela. Since then the membership has expanded to include Algeria, Indonesia, Libya, Qatar, United Arab Emirates and Nigeria, making for a total of eleven country members.

Since its formation OPEC quickly began to dominate the oil industry market. Prior to this date these oil rich countries had little to no control over the decision making within this industry. Particularly, in the most important areas of the oil business, such as in the marketing, development, pricing and production of the resource, On the other hand, the member states were, at the time, far away from having any long-term national development plans. Indeed, the experience showed that without OPEC policies and support member states were unlikely to have achieved their goals individually. The task can be regarded as even more difficult if we regard oil as the most important budgetary revenue to OPEC members.

Oil producing countries concentrated on oil production efficiency in the 1960s, ploughing a lot of their profits back into the business, and then in the 1970s these countries were able to leap forward in terms of economic growth. Revenue from oil has increased more than fourfold, compared to the doubling of the world economy as a whole. Over the same period, oil demand in the Asia-Pacific region has also risen fourfold, while total international oil demand has increased by 40%.

This continual growing demand for oil and its corresponding growth in bargaining power for OPEC gave rise to a conflict between the oil producers and the western multi-national companies who were, and remain, concerned about control of future world energy. This conflict

lasted 13 years and came to a head in the 1970s. The member states motive was simply their interest in continuing their own economic growth and development, but the same can be said of the western company's motives. During 1960s and early 1970s, OPEC members were suffering from the hegemony of the giant western oil companies but their actions during the 1970s resulted in them gaining more control and this result signified a shifting point in the success of OPEC. There are understood to be four elements that contributed to the success of OPEC's 1970s policies:

1. Unstable currency prices and the large increase in inflation rates due to the instability of the international economy and cash liquidity.
2. Increasing demand for OPEC oil, in particular, due to economic recovery and increase between "1971-1973" and the difficulty to find any alternative sources of power.
3. The encouragement and possibility of OPEC members to control most of the oil producing operations. Bear in mind that at that time most of the OPEC members were not industrialised countries, nor were they big consumers of oil products.
4. The sense of disappointment in the Arab countries regarding the Israeli drawback to their 1967 territory.

Graph 1 below demonstrates how worldwide political events have shaped oil prices over the last three decades.

Graph (1): Political Events and Oil Prices.

- 1-Arab-Israeli war and OPEC policies during the war (1973)
- 2-Resignation of President Nixon (1974)
- 3-The attack of OPEC conference in wine (1975)
- 4-The Islamic revolution in Iran (1979)
- 5-The invasion of Soviet Union to Afghanistan (1979)
- 6-The international economy stagnation (1980)
- 7-The increase of oil production affecting prices (1984)
- 8-The failure of OPEC to control oil production due to absence of interest by some OPEC members (1986)
- 9-Black Monday and the failure of the international money market (1987)
- 10-The invasion of Kuwait by Iraq, which led to the Saudi and Kuwait governments contributing billions of dollars to

- the gulf war (1990)
- 11-Early 90s, stagnation of western economy (1990s)
 - 12-Black Wednesday, Britain leaves the European currency mechanism (1992)
 - 13-Asian economy suffers stagnation (1998)
 - 14-OPEC, Mexico and Norway decrease oil production, which leads to an 300% increase in the oil prices (1999)
 - 15-The conflict between Palestine and Israel lead to an increase of crude oil prices up to 35 USD a barrel (2000)

OPEC Strategies

"These developments and others made it imperative for producer as well as consumer countries to follow rational oil policies within the frame work of the vital interests of their respective nation." (AL-Otaiba p, 4)

AL-Otaiba's argument can be interpreted to mean that OPEC countries had the opportunity to be considered as a serious power within the new international society/system and should use that rationally in order to achieve their own countries goals. The classical definition of power is "... the ability to get people to do what you want them to do" (Krasner p.3). The power of OPEC can be viewed in relation to the rational aspect and absolute role when it used the right strategies and policies to achieve its goals. In this case the goal is how OPEC members can make developmental progress through the policies OPEC employs. For OPEC members, the power they hold is in the way they manage the demand of oil. On the other hand it has been argued, that although members have the production experience, they lacked empirical knowledge in oil marketing, possibly because they never considered it as a powerful tool.

Currently, most of OPEC's strategies are focused on guaranteeing a broader political security for its members and those they sympathise with. Experience has taught the member states that this security can be achieved through maintaining a constant supply of oil and OPEC's early experiences have been translated into policies as it has learnt to understand that it can have a marked affect on its consumer's policies. As Sheik **Yamani** argues, "Let us capitalize on the fact that the Arabs need America as much as America needs them." He goes onto say "America has an interest in creating stability in the Gulf and bringing about a peaceful settlement to the Arab-Israeli conflict, not only because of oil but also because it is the leader of the Free World, a role which

dictates that it pursue its time-honoured policy of striving to uphold right, justice and peace."(Yamani, Nov 20th 1990)

Yamani delivered the same message, albeit in different words, twenty years earlier during the 1970s, when he was Saudi Minister of Petroleum. At that time the US ignored the pledge, and the 1973 Middle East war and oil embargo soon followed.

Moreover, oil producers have a wider economic interest in protecting the stability of oil prices within the international market. For this reason alone Saudi Arabia can be said to have been sacrificing its own national interest for the last fifteen years in order to protect OPEC pricing and the production quotas of fellow members. However this approach has led to lower overall petroleum prices, a diminishing OPEC market share, and gains by non-OPEC oil producers at an alarming rate. Thus, from the Saudi point of view, OPEC has shifted from being a primary tool for Saudi affluence and prosperity, to fast becoming a burden on its economy.

Short-term Policies

We can measure the power that oil has had by the range of policies that can be adopted by oil producers. These policies have a unique flexibility in that they can be used as a cure or as a weapon, but commonly their purpose is to promote or protect economic interests. In this section I will demonstrate the effect that these policies have had on Saudi Arabia.

Saudi Arabia and its immediate allies in OPEC could adopt the policy of dramatically increasing their production rates whilst decreasing their prices. In an imagined scenario, Saudi Arabia's oil production plans could realistically be to increase current production capacity of 10,500,000 Barrel Per Day (BPD) to 16,000,000 BPD within a few months and 20,000,000 BPD within three years. Bearing this in mind, Saudi Arabia started an oil-price war in 1986 in an attempt to counter cheating on quotas by other OPEC and non-OPEC members. This kind of action has the ability to maintain stability in the international oil market and thereby contributes towards the long-term future of the Saudi economy. Long-term policies of this type have the advantage of achieving two, usually conflicting goals: they can protect the national interests at the same time as promoting global economic growth.

So oil has proved to be a powerful economic tool and then in 1973-1974 it was also proved to be a capable political weapon. OPEC implemented sanctions on the industrial nations as a short-term policy to force them to change their foreign policy in the Arab-Israeli conflict. In following this

policy

OPEC is said to have gained success in three ways:

1. It allowed for a sharp increase in oil prices in a very short time.
2. It resulted in achieving a change in the foreign policies of some industrialised nations.
3. It provided a lesson that economic interests are sometimes more important than political interests to some countries.

It is widely understood that this historic period provided, for the first time, a clear understanding of how the control of oil gave a power that could have an effect on the industrial countries economies, and how OPECs short-term policies could affect international affairs (Licklider 1988, p 272). However, this does not mean that all policies are going to be successful; they need to be well managed within a sustainable balance of power.

Saudi Arabia has played an important role in OPEC that cannot be duplicated by any other country. However it has not always been successful and has made the occasional miscalculation. This can be demonstrated in a recent event when President Clinton of the United States announced that 30 million barrels of oil would be released from the US Strategic Petroleum Reserve (SPR) on a swap basis. Rather than selling the oil, as it had in 1990, the Department of Energy (DOE) invited offers for the oil based on the volume of replacement oil to be put back into the SPR between August and November 2001. This American effort to control short-term oil policy backfired for four reasons;

- The release has been handled in a clumsy fashion.
- It did not provide the best value for the DOE and the taxpayer, and by offering a large hidden discount it actually offered oil traders the possibility of locking in large profits.
- It did not, in any way, seem an appropriate way to achieve the objective, at least not the publicly stated objective.
- It confused the issue of what the SPR was actually for, and it has, at least temporarily, blunted the effectiveness of SPR release for the purpose for which it was intended (Horsnell, Oct 2000).

Therefore, we can see how some short-term policies, and in this case a USA policy, can have the long-term negative affect of increasing the cost of crude oil when the objective was to reduce the price. The outcome of this policy became clear through the analyses from the International Energy Agency (IEA) and the DOE: The US economy ended up paying \$87 PB instead of the wholesale market price of \$40.50 PB, meaning that the US taxpayer was having to pay for an extra \$46 PB.

We can argue that in the 21st century oil remains the dominant energy supply and that countries with vast reserves of it can use that fact to yield strong influence over countries dependent on a steady and affordable supply of oil. The US blunder policy described above is evidence that even the mighty US SPR is far away from achieving its aims. However, this case has been said to have encouraged the current President Bush to adopt new policies of strong-arm diplomacy. This was demonstrated by the new US Energy Secretary stating on the 7th March 2001 that: "the United States, as the largest consumer of oil in the world, will choose quiet diplomacy with OPEC (The Middle East 9/3/2001 P.11).

Long-term Policies

The long-term policies employed by OPEC have provided them with the ability to control the oil market since the 1970s. These policies have remained much the same since 1986 at the time when US crude oil prices, as adjusted for inflation averaged at around \$18.63 PB.

It is recognised now that the long-term policies of OPEC can be used as a guide by the upstream segment of the crude oil industry in structuring their business. The main lesson of this is to be able to operate, with a profit, at below \$15.00 PB for half of the time. Without this ability, the business could be at risk of collapsing should world events take a dramatic turn. During the long history of the oil price war it is understood to be the price of the oil that has been responsible for shaping the long-term policies of OPEC. For example the US attempt to control oil prices in the 1970s, following the Arab Embargo, turned out to be a bad policy that cost them dearly.

As described above the US made the mistake of imposing price controls on domestically produced oil in an attempt to lessen the impact of the 1973-74 OPEC price increases. The result of this was that US consumers of crude oil ending up paying 48% more for their imports than necessary.

One of the long-term Saudi Arabian policies with other OPEC member states is based on mutually acceptable prices for oil. This is because they recognise that high oil prices would lead to a reduction in demand. Therefore, from 1982 to 1985 OPEC attempted to set production quotas at a low enough level to stabilise the price. The trade exchange between OPEC members and the consumer countries led to the ability to identify the real situation facing oil demand. **Yamani's** forecast joined a growing chorus of voices in Washington warning of a mid-1990s petroleum supply crisis that would force up the price of oil and increase the import amounts from the Arab countries to above 50% of US imports. Yamani expressed his own belief that the Gulf oil producers, with almost seven-tenths of the world's total oil reserves, are locked into a mutual relationship with the US. They are the lowest cost producers of oil, but the US is likely to continue to consume one-third of the non-Communist world's oil, thereby making them somewhat economically dependent on those Gulf countries. However, over time and in exchange for providing a relatively low cost source for oil, the Gulf countries have developed a dependence on American imports and technology.

OPEC Aid and Development

OPECs aid organisations were noted as good examples to the developing countries in the early 1970s. OPEC member states, acting in partnership, decided in the 1970s to join forces to achieve greater effectiveness and relevance in the field of development assistance delivery. The idea was to aim for greater impact and to better manage official aid resources, which were increasing in both volume and significance. So began OPEC's joint move into the world of multilateral development financing.

Several OPEC and other oil producing nations receive assistance and/or purchase military equipment from the United States. As shown in Table 1, Indonesia, Nigeria, Russia, and Mexico are the current largest foreign aid recipients among this group. Most other OPEC members receive no U.S. foreign aid assistance but Saudi Arabia, Kuwait, the United Arab Emirates, Norway, and Oman do buy significant amounts of arms from the US, as illustrated in Table 2. Table 3, provides additional data regarding trade flows between the US and the oil producing nations. Pending legislation would not impose trade-related sanctions.

Table (1): U.S. Assistance to OPEC Members, FY1996 - FY2001 (\$ millions).

	FY1996	FY1997	FY1998	FY1999	FY2000 Estimate	FY2001 Request
OPEC Members						
Algeria						
Food aid	0.0	0.0	0.7	0.0	0.0	0.0
Military aid	0.1	0.1	0.1	0.1	0.1	0.1
Total U.S. aid	0.1	0.1	0.8	0.1	0.1	0.1
Indonesia						
Development aid	33.5	34.8	51.8	52.1	72.0	80.0
Economic Support Fund	0.0	0.0	0.0	0.0	23.0	50.0
Food aid	0.0	0.0	76.8	126.6	20.0	5.0
Military aid	0.6	0.1	0.5	0.5	0.0	0.4
Total U.S. aid	34.1	34.9	129.1	179.2	115.0	135.4
Iran						
Total U.S. aid	0.0	0.0	0.0	0.0	0.0	0.0
Iraq						
Total U.S. aid	0.0	0.0	0.0	0.0	0.0	0.0
Kuwait						
Total U.S. aid	0.0	0.0	0.0	0.0	0.0	0.0
Libya						
Total U.S. aid	0.0	0.0	0.0	0.0	0.0	0.0
Nigeria						
Development aid	1.8	1.3	9.6	16.8	27.5	55.0
Economic Support Fund	0.0	0.0	0.0	1.0	20.0	25.0
Military aid	0.0	0.0	0.0	0.1	0.6	0.7
Total U.S. aid	1.8	1.3	9.6	17.9	48.1	80.7

Qatar						
Total U.S. aid	0.0	0.0	0.0	0.0	0.0	0.0
Saudi Arabia						
Total U.S. aid	0.0	0.0	0.0	0.0	0.0	0.0
United Arab Emirates						
Total U.S. aid	0.0	0.0	0.0	0.0	0.0	0.0
Venezuela						
Economic Support Fund	0.0	0.0	0.0	0.0	0.5	1.0
Narcotics aid	0.5	0.6	0.6	0.7	0.7	1.2
Military aid	0.4	0.4	0.4	0.0	0.0	0.0
Total U.S. aid	0.9	1.0	1.0	0.7	1.2	2.2
Other Major Oil Producers:						
Mexico						
Development aid	20.8	3.2	15.3	8.9	14.2	13.9
Economic Support Fund	0.0	1.2	1.5	1.5	2.0	2.7
Narcotics aid	2.2	5.0	5.0	8.0	10.0	10.0
Military aid	1.0	1.0	0.9	0.9	1.0	1.0
Total U.S. aid	24.0	10.4	22.7	19.3	27.2	27.6
Norway						
Total U.S. aid	0.0	0.0	0.0	0.0	0.0	0.0
Oman						
Military aid	0.1	0.1	0.2	0.2	0.2	0.3
Total U.S. aid	0.1	0.1	0.2	0.2	0.2	0.3
Russia						
Development aid	174.7	60.8	132.1	161.2	178.5	161.9
Food aid	0.0	0.0	0.0	760.7	0.0	0.0
Peace Corps	3.4	4.2	3.1	3.5	4.0	0.0

Military aid	0.8	0.8	3.0	0.2	1.3	1.8
Total U.S. aid	178.9	65.8	138.2	925.6	183.8	163.7

Sources: USAID, USDA, and Department of State. Food aid includes PL 480, titles I and II (bilateral and World Food Programme), and Section 416(b) donations. Food aid figures for FY2000 and FY2001 are very tentative and subject to change.

Table (2): U.S. Foreign Military Sales and Foreign Military Construction Sales Agreements with Major Oil Producers, FY1996 - FY2000 (\$s - millions)

	FY1996	FY1997	FY1998	FY1999	FY2000 est
OPEC Members:					
Algeria	0.0	0.0	0.0	0.3	0.5
Indonesia	27.8	0.8	0.3	1.6	0.0
Iran	0.0	0.0	0.0	0.0	0.0
Iraq	0.0	0.0	0.0	0.0	0.0
Kuwait	235.7	48.1	92.4	478.1	360.0
Libya	0.0	0.0	0.0	0.0	0.0
Nigeria	0.0	0.0	0.0	0.2	2.3
Qatar	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	1,289.4	742.4	2,340.5	1,388.8	1,277.0
United Arab Emirates	2.8	5.6	69.8	48.0	167.0
Venezuela	24.5	59.4	6.0	9.6	10.0
Other Major Oil Producers:					
Mexico	4.9	27.7	1.3	5.7	20.0
Norway	477.1	64.5	79.9	52.9	62.5
Oman	2.9	11.5	2.0	4.2	167.0
Russia	0.0	0.0	0.0	0.0	4.5

Sources: Departments of Defense and State.

Table (3): U.S. Merchandise Trade with Major Oil Producing Nations, 1996-1999 (\$s millions).

	1996	1997	1998	1999
OPEC Members:				
Algeria				
U.S. Exports to	631.7	694.9	650.2	456.3
U.S. Imports from	2,270.4	2,645.6	1,798.7	1,951.5
Indonesia				
U.S. Exports to	3,965.0	4,531.7	2,290.9	1,938.9
U.S. Imports from	8,742.6	9,754.0	9,973.0	10,272.2
Iran				
U.S. Exports to	0.3	1.1	*	48.1
U.S. Imports from	*	0.1	*	2.4
Iraq				
U.S. Exports to	2.8	81.9	106.5	9.5
U.S. Imports from	0.0	317.1	1,360.7	4,516.1
Kuwait				
U.S. Exports to	1,979.1	1,394.0	1,479.4	909.0
U.S. Imports from	1,782.1	1,998.0	1,470.7	1,578.2
Libya				
U.S. Exports to	0.0	0.0	0.0	0.0
U.S. Imports from	0.0	0.0	0.0	0.0
Nigeria				
U.S. Exports to	816.2	814.3	819.6	628.3

U.S. Imports from	6,171.4	6,717.7	4,548.5	4,631.9
Qatar				
U.S. Exports to	207.1	359.9	354.1	145.9
U.S. Imports from	163.2	167.9	237.5	298.9
Saudi Arabia				
U.S. Exports to	7,295.3	8,450.8	10,524.9	7,901.7
U.S. Imports from	9,442.7	10,353.0	7,168.7	8,903.1
United Arab Emirates				
U.S. Exports to	2,526.9	2,605.6	2,369.6	2,713.0
U.S. Imports from	537.9	964.9	708.5	756.5
Venezuela				
U.S. Exports to	4,740.8	6,607.5	6,519.8	5,372.9
U.S. Imports from	13,719.0	14,389.4	10,072.8	11,950.0
Other Oil Producing Nations:				
Mexico				
U.S. Exports to	56,760.8	71,378.3	79,010.1	86,865.8
U.S. Imports from	74,111.0	87,167.2	96,196.1	111,089.3
Norway				
U.S. Exports to	1,557.2	1,720.0	1,709.2	1,439.7
U.S. Imports from	4,057.4	3,924.6	3,037.2	4,239.8
Oman				
U.S. Exports to	215.3	341.9	302.7	187.9
U.S. Imports from	447.4	260.9	230.4	230.5

Russia				
U.S. Exports to	3,340.2	3,288.7	3,584.7	1,844.7
U.S. Imports from	3,745.2	4,523.8	6,008.5	6,017.5

* = Less than \$50,000. **Sources:** U.S. Census Bureau Foreign Trade Statistics and U. S. International Trade Center.

Since 1971 OPEC member states, acting individually and concerned by the difficult economic circumstances of neighbouring countries, had provided assistance to their neighbours. At the multilateral level, the objective has been to cooperate and coordinate to make the total aid effort more effective. OPEC has successfully managed, over the years, to establish a set of international aid bodies. These are:

The Arab Authority for Agricultural Investment and Development (AAAID)

AAAID is an investment organisation consisting of 15 Arab states aimed at improving food security in Arab countries. Its objective is to develop agricultural resources in the member states by investing in all forms of agricultural production and related activities. Particular areas of involvement include: land reclamation; plant, animal and fish production; pastures and forestry creation; the transportation, storage, marketing, processing and exporting of agricultural produce; and, all inputs necessary for agricultural production.

Arab Gulf Program for United Nations Development Organizations (AGFund)

Seven Arab Gulf countries (Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) contribute to the resources of the AGFund, an organisation that provides grant assistance to UN agencies and Arab NGOs in support of humanitarian projects. The type of projects supported by the AGFund is in the fields of health, nutrition, water and sanitation, education, the disabled and the environment. The main beneficiaries of this fund are mothers and children.

Arab Monetary Fund (AMF)

The AMF was established by Arab countries with the objectives of laying the monetary foundations of Arab economic integration, accelerating the process of economic development in all Arab nations, and promoting trade amongst them. The main activity of the AMF is the provision of loans in support of economic adjustment programs.

Arab Fund for Economic and Social Development (Arab Fund)

The Arab Fund finances projects for economic and social development in Arab countries. With a membership comprising all 22 members of the League of Arab States, it extends concessional loans to governments as well as to public and private organisations. Preference is given to projects that are of vital importance to the Arab world and to joint ventures involving Arab cooperation

Arab Trade Financing Program (ATFP)

The ATFP is a specialised financial institution launched by the Arab Monetary Fund in 1989. Its objective is to develop and promote trade between Arab countries and enhance the competitive ability of Arab exporters. The ATFP functions as an autonomous body and operates through designated national agencies.

Arab Bank for Economic Development in Africa (BADEA)

BADEA seeks to promote economic, financial, and technical cooperation between African and Arab countries. Funded by Arab governments, it finances economic development in African countries, stimulates the contribution of Arab capital to African development, and provides technical assistance.

Islamic Development Bank (IsDB)

The objective of IsDB is to foster economic development and social progress in member countries and in Muslim communities in accordance with the principles of Islamic Shariah. Its membership consists of 52 countries, which are also members of the Organization of the Islamic Conference. IsDB has the authority to extend financing and raise funds in many ways and to establish special funds for specific purposes.

How can we define the relationship between OPEC and member states development?

The capital provided from oil revenues represent the primary determinant of each of the OPECs countries' economic structure and development potential (Peterson 1983, p147). Therefore, the former Saudi Minister of Petroleum, Ahmed Yamani, diagnosed the problem from a different angle which points to issues such as, lack of industry, agriculture, lack of water, and manpower. Here we can understand what development means for Saudi Arabia.

Beforehand, let us have a look at the economic growth of OPEC member states. (Table 4)

Table (4): World Economic Growth Rates 1996-1997.

It is a important to understand that the majority of gulf countries depend on their oil revenues for survival. Early development in the Middle East and other oil producing countries concentrated on supporting that product through production methods and price mechanisms. But recently several OPEC Members have introduced measures to improve their general business environment. For instance, in the first quarter of 2001, Algeria issued a series of tenders for contracts, including investment in fixed-line and mobile phones, infrastructure projects and a consultancy on the privatisation of state-owned monopolies in the energy and financial sectors. The Islamic Republic of Iran has stepped up efforts to improve scientific research and R&D. Spending in this area is now 0.44% of GDP, compared with 0.29% three years ago, and is planned to reach 1.5% within the present five-year plan (2000-04). In Saudi Arabia, a series of improvements in the state-owned Internet regulator, and the King Abdul-Aziz City for Science and Technology (KACST), are planned. In Venezuela, flood-related reconstruction and rural development programmes are providing a major boost to infrastructure investment. Incentives offered to foreign investors in the non-oil sector, and clear policies to privatise telecommunications, power projects, and regional electric utilities and transport, will contribute greatly to enhancing the business environment. In Indonesia, the cumulative effects of liberalisation and trade deregulation, associated with financial adjustments, have recently increased the private sector's access to credit and spurred export-led growth; manufacturing now constitutes a larger

proportion of GDP than either agriculture or petroleum. Kuwait plans to push ahead with a \$7bn plan to allow world oil majors to operate the country's northern oil fields. The declaration signed for this plan underlined the importance of managing petroleum prices in a way that produced stable prices that are competitive with the prices of alternative sources of energy. It called for the development of the skills of OPEC to make it capable of exploiting the latest developments including the phenomenon of globalisation and technological development. It also underlined the importance of cooperation among the national petroleum companies in OPEC member states as well as between these companies and the international petroleum industry.

This declaration called for a dialogue towards finding effective channels of cooperation between the oil producers and the oil consumers in order to stabilise the oil market. It is also called for contributions to international economic growth and environment protection from OPEC members. It underlined the importance of OPEC's contribution to world efforts in ensuring the safety of the environment through reducing the use of petroleum and gas in circumstances known to have an adverse impact on the international environment. However, the declaration reiterated that OPEC would go ahead in its efforts to accelerate economic development in the developing countries through its aid programs; The International OPEC Development Fund and the International Fund for Agricultural Development. It urged the industrial countries to contribute positively to these efforts and to work towards the reduction of debts of the developing countries.

The declaration noted that the taxes imposed on petroleum products are, to a great extent, responsible for the high price that is paid by the consumer in the consuming countries. It called on the consumer countries to revise their policy in this respect so as to ease the burden on consumers. The declaration underscored the importance of enhancing the efforts of OPEC member states and their programs that aim at the diversification of their economies. The industrial countries and the relevant international organisations were requested to cooperate in the realisation of this goal. The declaration said.

The declaration recommends enhancing ties among the Research Centres in the OPEC member states so as to boost research, and it recommended also considering the possibility of establishing a research institute or a university. The Declaration called on Finance Ministers in the OPEC member states to explore the means for cementing financial cooperation among the member states.

The declaration also called for boosting cultural cooperation among OPEC member states. It called for the organisation of a summit conference for the heads of states and governments from OPEC member states to be held at regular times after consultation with the member states so as to enhance the capability of the oil cartel to continue along the path of its achievements, which were based on oil price and production. We will focus our attention on Saudi Arabia and its' development, presenting it as a case study.

One of the paradoxes in the development of the Gulf Corporation Council (GCC) and Saudi Arabia is the strong economic dependency on foreign labour. It was felt that this problem could be solved through long term plans and internal policies with the main idea of reaching an average economic level of development (UN development report, 1999).

The lack of a local labour force is the result of an imperfect educational system, which is the quintessence for responding to the needs of developments plans. The development in Saudi Arabia is based on the oil industry, so that the real need is to work on human development to replace the huge amount of foreign skilled labour. The following points will clarify this statement:

1. GCC countries are facing profound changes and transformations in different areas, such as politics, economics, social status and culture.
2. GCC productivity systems are observing a massive restructuring; these operations are based on four elements:
 - Generating a specific capitalist productivity system, transferring the existing system of employing high technology equipments and reinvesting the funds.
 - The continuation of 1980s economic reformation which is based on the reacquaintance and rethinking of the role of oil as the core of equilibrium in both the economic and social sides, and as a generator of development.
 - The financial restoration will not be focused on the industrial sector only; it will cover the whole governmental system. However, the new idea of development will give the private sector the chance to participate in the

national economy; besides, the state will no longer be the fundamental actor in the national economy focusing its attention to the economic restoration in GCC because of:

A: The subordination of GCC in the oil sector, which represents the 95% of total exports.

B: The high dependence on foreign labour and foreign consumer goods, which represent 45% of the total income.

C: The profound liability on the oil market, being deeply affected by price changes.

D: The inconsistency of the educational system and the re-adaptation of the national labour force for the goal of participating in the international market and to cope with the requirements of new technologies; therefore the underlined restoration will have its centre in the following:

- The restructure of economic development plans by adopting efficient policies and procedures.
- Joining as a whole the GCC economic market.
- Revising the economic and political style of the GCC, which will lead to a better usage of oil policies to achieve an economic development?

The mentioned points will encourage the GCC governments to establish new stages and societies not based upon or affected by the oil prices.

The stated new directions of development are experiencing the transformation of the current unprofitable economy (e.g. Saudi Arabia) and trying to adjust the economic system towards a capitalistic direction, by the reinvestment and continuance of capital. Therefore, attention will be focused on a new stage of developmental strategies in Saudi Arabia. The main two problematic issues with development are the educational system and its position on the development strategies, and the lack of a national labour force (Khadejah, The Human Resources Development, 1998)

Saudi Arabia and the Development Strategies

"The rights of people and nations to permanent sovereignty over their natural wealth and resources must be exercised in the interest of their national development and of the well-being of the people of the state concerned."

"The exploration, development and disposition of such resources, as well as the import of the foreign capital required for these purposes, should be in conformity with the rules and conditions which the peoples and nations freely consider to be necessary or desirable with regard to the authorization, restriction or prohibition of such activities." (United Nations General Assembly, Resolution 1803 - XVII of 14 December 1962-

" The united states proposes to organize the developed countries first, as a prerequisite to other contacts and negotiations involving either the developing countries or the oil-producing countries" (Henry Kissinger).

If we look at these two statements their intentions are clearly contradictory. *King Faisal* realised this and adopted the most successful strategy in order to achieve four goals:

First, the military goal during that period the political position was not clear for the Arab side. This is especially true for the Egyptians. President Al Sadat believed that the United States had the solution but were actually unable to do anything because of its support for the Israeli government. This was especially true following the drawback of the Soviet Union troops in July 1972. During this period Al Sadat tried to communicate with the newly elected President Nixon, but unfortunately the United States refused to understand the Egyptian proposal. Al Sadat went on to reason that if he used military power first then he could get into a good position to negotiate with the Israelis. However, he acknowledged that the success of any military action depended on the support of the Arab oil countries. Military action was not endorsed but in August 1973 King Faisal of Saudi Arabia confirmed to Al Sadat that the time was right to use oil as a weapon, which up until then King Faisal had refused to do. Yamani, the Saudi Oil Minister, then proposed an oil treaty with the United States which had it been accepted would have increased Saudi oil production to 20m BPD. The treaty would

have given the United States priority over and a long-term guarantee of Saudi oil in exchange for allowing Saudi Arabia to invest in United State markets. All this was within the target to remove heavy tariffs and to increase the Saudi oil production. However, the Americans rejected the idea.

Secondly, in 1973 the Saudi King was sure that it was the right time, to pursue two targets at the same time, namely economic growth and the expansion of the military sector.

Thirdly, he decided to avoid being pursued by other Arab leaders.

And lastly, King Faisal gave the United States and the Western countries a clear signal that OPEC member states would work together to maintain the existence of the organisation. Therefore Kissingers US policies to split the OPEC countries failed to achieve any goal and then Nixon sent warnings and messages in an attempt to change the rolling systems, such as that of Iran and Libya and Egypt. In conclusion of this argument it has been suggested that Kissinger and his advisors were not yet aware of how dependent the future was going to be on oil. They could also be said to have believed in the main idea of the time “that not if the oil will find the market but the truth is the market will find the oil” (Ian Seymour, 1983).

Saudi Arabia is a young state, less than a century old, and so is its population. The true reason for the international significance of Saudi Arabia lies in the fact that it possesses more than a quarter of the world's oil reserves. This has created a lot of interest in the development of the international and regional role of the country.

Saudi Arabia's power is based solely on its possession of oil reserves. The Saudis are haunted by the prospect that one day; there will be no more oil below the sands. When that day comes, the oil companies will leave, the migrant workers will probably follow and Saudi companies staffed by Saudi workers will have to take their place. This is a prospect that has instilled an acute sense of pragmatism in the Saudis and their developmental policies.

Bearing this in mind as the primary driving force for change, many other factors have contributed to the changes in the overall position of Saudi Arabia with respect to its power and ability to influence events around it. The changes themselves can be categorised under three main processes:

- 1- The development of Saudi's population into a workforce of adequate quality to satisfy the needs of the ambitious development plans that the Kingdom began to set itself after the decision was taken to divert most of the rising oil revenues into the development of a non-oil economy.
- 2- The industrial development of the country and the attempts, that began in the 1970s, to create a modern sector from scratch and transform the country from a less-developed state where most of the production was employed in traditional industries, into one with a growing modern industrial sector. There were also attempts to diversify the economic base away from total dependence on fossil fuels in a country where oil is the only source of external political influence.
- 3- The development of the political relations of Saudi Arabia with other nations, especially those of the Gulf and the Middle East.

Each of these processes contributed to the transformation of Saudi Arabia into a well-developed and effective power on the world stage.

Since 1973 Saudi Arabia has successfully created a development revolution in order to diminish its dependence on oil as the primary source of national income. It has done this by encouraging investment in alternative industries that will create employment, increase GDP figures, maximise revenue derived from oil wealth and diminish the Saudi dependence on oil. Direct government investment was made in strategic industries such as power generation, water desalination, and petrochemicals. For development processes to work, they need to have strong strategies in dealing with all eventualities from war to effective diplomacy.

"Of the many strategic interests that the USA and its allies have in the Middle East, surely one of the most crucial is securing energy supplies from that region" (Kanovsky).

Kanovsky articulated this point of view by adding: "since 1970s much attention has focused on OPEC: indeed, much of the influence that Arab, and practically all Gulf states (GCC) have wielded in world affairs derives from their asserted cohesiveness and presumed ability to bring the industrialized world to its knees with a turn of the spigot. This widely-held belief rests upon two assumptions: that oil is and will continue to present a sellers market in the foreseeable future and that the countries comprising OPEC will pursue common policies toward common objectives."

Kanovsky later argued that both of these hypotheses were false and said that for a variety of reasons, the price of oil was likely to drop in the nearest future (Kanovsky 1992). The contradictions between Kanovsky's arguments and the reality of facts can be analysed from an ideological perspective, which can be seen as just an outcome of hegemonic imperialistic thinking. His argument rejects OPEC, merely because it does not represent the decolonisation of Arab countries, whereas imperialistic ideology profoundly views the whole scenario as an inferior complex compared to the post imperialist powers of England, France and Germany etc.

Nonetheless OPEC, as an international organisation has proved to have a very strong economic character. It has shown this by targeting the development of its member states as a goal to achieving the highest GDP growth possible. In 1996-1997, when the total world economic growth rate was 3.8%, (slightly increased from 1996, when it reached just 3.7%), non-OPEC developing countries reached 4.3% growth in 1997, when in previous years the highest rate reached 5.4%; whereas OPEC reached a 4.9% growth rate of (GDP) in 1997 against a 4.6% rise in 1996. See (Table 5)

Table (5): OPEC Member Countries Real GDP Growth Rates 1996-1997.

(OPEC Annual report, 1997) The above rates show that the major economic expansion occurred in the developing countries, where the average economic growth was of 4.6%. This was also reflected by a high demand for oil, particularly from Asia. We were then able to disprove Kavovsky's argument.

One of the crucial developments was the growing economic, political, and military and diplomatic relations between China and the Middle East. These led to dramatic improvements in the development of OPECs member states. For example **China** committed to purchasing at least 3.5million tons of oil from Saudi Arabia over a three year period (OPEC Bulletin, 1994 Table 6).

Table (6): World Oil Demand.

The Saudi Arabian economy is unique in that it adheres to what has come to be known as the Islamic Growth Model. Saudi Arabia is an example of a country where religion governs all aspects of everyday life and the running of the state, its institutions, and its people. It is therefore important to state that the foremost consideration given by the Kingdom, in its attempts to industrialise and modernise itself, has been to whether such a process of development would be in conformity with its religious ideals. In a traditional and deeply religious state such as Saudi Arabia, any industrial development planning or modernity planning that did not give credence to religious concerns or that could be perceived as a threat to the Kingdom's traditions, would have been both politically dislocating and thereby doomed to failure.

The commencement of Saudi Arabia's rapid modernisation programme, which has been running since the early 1970s, is attributed to the efforts of King Faisal. Although he was a deeply religious man, he had the foresight to realise that if the country did not modernise and industrialise itself in a rapidly changing and competitive world, it would be in danger of becoming a backward state that was internally vulnerable and had little external political and economic influence.

The historical base for modernisation was founded in the ten-point reform programme as announced in November 1962. This programme endorsed the decision to divert much of the state's oil revenues into the economic and industrial development of the Kingdom. There were essentially two schools of thought, within the country. On the one hand, there were the group that were suspicious of modernisation, seeing it as a threat to the stability of society. On the other hand, the newly and more widely educated Saudi groups who were pro-modernisation, managed to gain the support of the ruler by emerging with a compromise. This compromise appeased those suspicious of change by ensuring that the development of the country had to be in conformity with the nation's uniquely deeply entrenched religious beliefs. This has been an extremely important aspect of Saudi industrial development for the successive development plans have not generated any of the social and political reaction that could easily have arisen. For that reason it is very important to put the process of development in Saudi Arabia within its Islamic context.

Saudi Arabia and the National Labour force

The development transformation covers a wider scope than factories and

plants, for industrialisation remains an input of the development process rather than a goal in itself. The industrialisation process involves increasing possession of capital equipment and working towards increasing the productivity of the workers. Saudi Arabia's economic and developmental strategies are designed specifically for the particular country in question and should enable the industrial sector to be entrepreneurial and to innovate. It aims not to just increase output or national income, but also to introduce modern technology and to work towards changing the nationals' attitudes towards development. However, Saudi Arabia's development plans have been and will continue to be, effected by:

- (1) The availability of capital.
- (2) The availability of cheap energy.
- (3) Diversification as a means of offsetting a wasting asset.
- (4) Industrial ramifications of the participation agreements.
- (5) The Saudis desire to achieve the maximum economic and social benefits for Saudi nationals from industrial development, i.e., a willingness to succeed.

As stated earlier, Saudi Arabia is a young state. And as pointed out in the first development plan of the 1970-75:

“About 46% of the population are below 15 years of age and therefore not included in the group from which the (*current*) labour force is recruited”

Saudi Arabia's efforts to create its own educated and flexible labour force were hampered by the oil boom, which attracted a considerable number of foreign workers into the country. This influx of quality workers caused the proportion of Saudis in the working population to decline from 72% in 1975 to 57 % in 1980, as shown in (Table 7).

**Table (7): Growth of the Civilian Labour Force,
1975-1980 (Saudi Arabia)**

The plan to replace the non-Saudi labour force by a national labour force had to be pushed from two directions, those of encouragement and enforcement. This was because it had been recognised that the goal would not be achieved if it were left to develop under natural market forces. What was needed was the cooperation of both the state and the private sector to work together towards the same goal. Towards this end the following procedures were adopted:

- Aid and subsidised loans were no longer approved unless the recipient had reached seatrain levels of Saudi-sation and had adopted replacement policies.
- The rules of contracting with non-Saudi labour forces were respected.
- Adoption of hierarchy policies to stop importing foreign labour because of their experience but to 'home-grow' that required experience.
- To encourage women to work especially in the fields of education, health and administration.
- To replace the foreign labour force with a national labour force in many of the employment sectors, for example, in the public sector.

In a strong economy such as that of Saudi Arabia the long-term effect of the lack of a national labour force can affect the economic growth. Because the oil industry is the major industry in Saudi Arabia the non-national labour force reflects an error in the long-term developmental plans of the country.

A larger, stronger, capable and more experienced Saudi workforce would be more prominent and more deeply felt than if the knowledge and know-how remains concentrated in the hands of a temporary foreign workforce. During the 1980s and through much of the 1990s, Saudi Arabia undertook a rapid process of modernisation based solely on the purchasing power that oil revenues could provide. But, if that process were to be broken down into its constituent components, then it would be found to be more a process of advancement than of actual development. That was only to be expected, perhaps as the involvement of Saudi nationals in the professional and technical groups may have naturally been impeded by the delay factor due to the time it takes for people to filter through the various levels of education provided by the schools, universities and colleges that proliferated during the 1970s and 1980s.

By making a conscious effort to limit the number of foreign workers in the country and slowly but steadily educating and training its own

nationals to replace them, Saudi Arabia is providing the way to a future where its people will be stronger and more secure in the knowledge that they are increasingly contributing to their own economy. This is seen as the means of strengthening the foundations for its own development. This new drive became noticeable with the end a recent phase of national development, when the main cause for importing and maintaining such a large foreign workforce, namely the creation of an infrastructure, was more or less eliminated. For that reason, the prediction is that the number of non-Saudis in the labour force is expected to decline to less than 30% by the year 2005.

The main reason for Saudi Arabia's new Saudi-sation drive has been explained, but here follows additional considerations that the Saudi decision makers had to consider:

Firstly, the global recession of the early 1980s led to a slump in oil prices and this curtailed some of Saudi Arabia's more ambitious projects and forced it to try and obtain the maximum return on its investment. One of the clearest ways of doing so was for it to invest more in its own people rather than just spend its income on projects run by a transient workforce, who on the whole, took their earnings with them back to their own countries instead of ploughing it back into the Saudi economy.

Secondly, since most Saudi nationals prefer managerial jobs, then employing Saudi Managers could cost a lot less than employing foreign nationals.

Thirdly, Saudi Arabia's increasing influence and prestige following the 1973 oil embargo compelled some Saudi decision-makers to believe that, although foreign labour will always play a role in Saudi life, it could not be allowed to be essential to development. There was an increasing need for Saudi Arabia's expanding international role to be firmly backed by an active, experienced, and diversified native workforce.

It is due to these and other already mentioned reasons that the Kingdom felt that decisive action was needed to train and employ more Saudi nationals and to replace the majority of the foreign workforce.. It has not been an easy or fast aim to achieve but their efforts to improve the quality of its

workforce, further strengthened by the policies of Saudi-isation are beginning to pay dividends.

Saudi Arabia has taken the initiative in providing trained Saudi nationals for its modern sector of the economy by providing vocational colleges to cater for the non-academically inclined Saudi males. The college's second intention was to train those Saudis that had left agriculture, which became one of the main sources of the industrial workforce.

Diversification Strategy

Saudi Arabia had to work hard within the OPEC policies to achieve its own goals and to ensure the stability of oil prices at a certain level. It needed a long-term guarantee of income with which to maintain the continuity of its development plans. Although she was working towards adopting new policies to change the old task of constructing a model budget based purely on the price of oil. The figures in Table 8 show a high dependency on oil therefore Saudi Arabia, as a member of OPEC, understood that the role of her development was to reduce her dependency on oil by adopting a capitalistic economic system.

Table (8): Statistical Information OPEC and Non-OPEC Developing Countries.

Saudi Arabia has pursued an industrial policy at home that is aimed at diversifying the economic base of the nation and to tap into its natural resources of oil and gas. Compared with other Arab oil producers it has made comparatively little investment abroad. The industrial area that has received the most attention in Saudi Arabia is without doubt the petrochemical industry. Moreover, no other Arab country has planned its industrial development in such a detailed fashion. Its petrochemical plants have successfully been developed to be export-oriented, protected, subsidised, extremely capital intensive and unburdened by labour costs.

It can be argued that Saudi Arabia has been able to pursue such an industrial policy more readily than its Arab neighbours because of the country's unique attributes. These include its ability to earn more simply because it was allowed to sell more. Its annual export earnings potential reached a peak of 120million barrels which allowed it to build up huge reserves of money in the 1970s and 1980s. Secondly, it invested in providing the skilled management to carry out its intended policies of Saudi-isation. She has also proved to be a low absorber of funds and is therefore in a strong position to diversify its funds into development plans unlike high absorbers such as Iraq or Iran. She also has close and

cooperative contact with a number of western companies, which helped her through the technology transfer processes, and its strategic relationship with the USA also assisted in this regard.

Although the 1970s were marked by capital accumulation on the one hand, even Saudi Arabia was not immune to the inflationary effects of the 1980s global recession. As a result of this, in the 1980s development was carried out with more caution, and the reserves were drawn down to stem the effects of the economic recession.

During the period of the two first five-years plans (1970-1980), the emphasis was placed on developing the infrastructure, on social welfare projects and in the non-oil industries. The share of non-oil manufacturing in the GDP remained low during the 1980s and 1990s, and was further impeded by the impact of the Gulf War. This area was heavily concentrated on the production of building materials and other intermediate goods but the constraint here were the lack of skilled Saudi personnel, and the reliance on foreign labour. But there was a high growth rate in the non-productive sectors, such as trade and services during the 1970s which some would argue reflected rising spending on imports.

During the 1980s the Saudi government's industrialisation programme ascribed the responsibility for major projects to state enterprises in partnership with foreign companies. The Saudi private sector was encouraged to lead the way in creating small industries. At the same time, the state enterprises concentrated mainly on the development of capital-intensive hydrocarbon-based industries aimed at reducing heavy dependence on crude oil exports. Two industrial cities were built, namely **Jubail** and **Yanbu**, completely from scratch. These housed new oil refineries and gas-based petrochemical plants.

The importance that diversification played in the Kingdom's industrial and economic base, can be appreciated by considering two of the basic broad objectives contained in the last five-year development plan of 1990 to 1995:

- To reduce the dependence on the production and export of crude oil as the main source of national income,
- To continue with the real structural changes in the Kingdom's economy so as to establish a diversified economic base, with due emphasis on industry and agriculture.

The industrialisation of Saudi Arabia is the responsibility of both the public and the private sectors. But it is in the private sector where the Islamic lines have made their mark, because it is in these industries that

the most positive impact is made. The government's policy is to only intervene when it is absolutely necessary, such as funding the building of new heavy industries which require a level of investment that only public spending can provide.

Saudi Arabia's drive for industrialisation has been motivated by the fundamental objective of building and maintaining a viable industrial base. In the long-term, assuming success, this industrial base is hoped to reduce the Kingdom's economic dependence on oil. Currently, the levels of such reduction are difficult to assess.

Yet, despite the acute awareness of the Saudi planners and decision-makers to ensure that the development process was compatible with the fabric of the society, there developed areas of friction. As has already been mentioned, Saudi Arabia was and still is a very traditional society, with deeply entrenched beliefs. It was therefore not surprising that the prospect of industrialisation and modernisation was met with some suspicion.

The suspicions raised included a worry that industrialisation was unlikely to run smoothly when spearheaded by foreign workers who have no commitment or obligation to the welfare of the country. Another suspicion was that industrialisation would not be helpful if industry formed a symbolically modern sector of the economy without developing ever-expanding linkages with the native economy and culture.

The industrialisation drive in Saudi Arabia has been fuelled by the wish to diversify away from a dependence on oil. Up until the early 1980s, oil revenues had consistently had a share of GNP of no less than 90%. Saudi seemed to have realised that whatever influence oil gave it; it also gave influence to others over itself. An economy so vulnerable to the fluctuations in oil prices could easily be weakened or placed in danger. So the government acted wisely and diversified its income into other industries. This included investing heavily in agriculture, with the aim of achieving self-sufficiency in food production and slowing the migration of its population from the country into the big towns.

To summarise, the importance of the creation of a viable non-oil industrial base, to the political and economic future, and hence regional standing of Saudi Arabia, is essential. The diversification of the economic base of the Kingdom away from oil and its derivatives is the most essential aspect of that industrial base. It would be unrealistic to expect diversification to be a short-term goal for it is in fact a very long one, especially in view of the problems that have been discussed. However there are positive signs that this industrial base is in sight, and the success of the petrochemical industries attest to that, but serious and

yielding decisions must soon be taken about how to take diversification even further. It can't be denied that both agriculture and the export of wheat have had limited success, but this can be attributed to heavy subsidisation and the country's lack of adequate water does not bode well for its future expansion.

In the end it seems that it will be the heavy industries that will form the backbone of the industrial diversification base. This being conditional on whether the national workforce can catch up with the pace of industrial development, If one is moving in the direction of modernisation and the other is stuck with traditional ideas and methods then the two will have difficulty marrying up and working together effectively. This is the most important difficulty that has faced the development of Saudi's human resource. The reason being that little attention has been paid to the coordination of the two, processes with the result, so far, being the unbalanced development of the Kingdom.

The idea of Saudi-sation is to bridge some of the gaps between the needs of the modern sector, and the existing human resource skills. But it will be an uphill struggle due to attitude issues towards the modern sector in areas such as work production and efficiency. And if the only jobs that most Saudi's are willing to take are in management then graduates are bound to outnumber the posts available. The can only result in serious unemployment levels.

It is likely then that unemployed, young, and educated graduates will be forced to accept a lower status range of jobs. Otherwise, in the long-term, they may vent their frustration through social problems. Another problem that could face the development of the Kingdom's alternative economy is that Saudi-sation has been shown to have its limits. The Asians are proving to be the largest sector of the working population because they are cheaper to employ than the Saudi's and many industries are taking advantage of that fact.

One way for Saudi Arabia to reduce the large number of migrant workers in the Kingdom while maintaining the economic viability of its industries could be to follow the example of Japan. Like Japan, Saudi Arabia could start by creating export-oriented industries aimed at its immediate neighbours or even finance the setting-up of Saudi industries abroad where the raw materials are cheaper and more available, as Japan has done in South East Asia. In this manner productivity and profit could be maintained without the competitive aspect of importing more workers.

Industrial development has been shown to have both strengths and weaknesses. The Saudi petrochemicals industries are continuing to enjoy an unassailable advantage. With proven oil reserves of more than 200

billion barrels amounting to more than a century of oil left, Saudi Arabia will be providing, expanding and processing oil long after most, if not all, current oil reserves have lost their exploratory viability. Saudi policy rests on the hope that it is only a matter of time before organisations such as the European Community reduces or drops altogether the import tariffs against such petrochemicals. This is a persuasive possibility because the GCC petrochemical industries are reaching such a level of competition that it makes more financial sense to buy the processed, rather than just the crude oil of Saudi Arabia. By developing these industries Saudi Arabia is consolidating its position as the main oil producer and exporter to the world.. Another aspect of the Kingdom's future security is through its relationships with the West. The more important Saudi oil is to the West, the more Saudi Arabia's security will be assured, and the stronger its position will be with respect to its neighbours. Yet, such industries continue to require coordination and cooperation amongst the GCC countries, given the proliferation of petrochemicals plants in the Gulf. Otherwise, the new power of the petrochemicals industries will be much curtailed.

The Future of OPEC and Saudi Arabia

The victory of the Gulf War over Iraq signalled the dawn of a new era in international relations. No longer is the world divided into two distinctly antagonistic polar spheres. International co-operation and consultation have become more commonplace particularly under the auspices of the United Nations.

OPEC's most recent meetings point to this greater sense of co-operation between the consuming and the oil producing countries where an exchange of information and ideas is on the agenda to promote more harmonious relations. All the OPEC meetings during the 1990s had two major themes: the future pricing and production policies and the future of the Russian petroleum industry. As the Middle East oil producer's share of the world oil output is set to increase rapidly over the next two decades (by 12% to nearly 40%), oil demand by the consuming OECD nations is expected to rise slowly from 75m BPD to 85m BPD over the same period in which OECD oil output is set to fall.

The oil forecasting method is a completely new approach in predicting the oil production needed for nations, geographic regions, special categories, and the World. It evolved over a period of seven years with the purpose of:

- (1) Superseding obsolete pencil-and-paper sketches and outmoded

- curve-fitting techniques, and
- (2) To meet a set of rigorous design specifications. The method breaks world oil production into the top 42 oil-producing nations, accounting for more than 98% of world production in 1998. Then the user separately forecasts the oil production for each of the 42 nations. Next the Expected Ultimate Recovery (EUR) and the Oil Reserves (OR) are calculated by integrating each nation's oil production curve (i.e. its complete life cycle of oil production from start to end). The national forecasts are then summed, as needed, to get the forecasts for the regions and categories, and the world.

It would therefore seem that OPEC's future is related to issues out of its control such as:

WORLD OIL DEMAND: According to the latest revisions, world oil demand growth for 1999 has been adjusted up from the previous 1.20mb/d to 1.29mb/d. The adjustments are most noticeable in the developing country growth rate, which has been revised up by 0.3% from the previous 1.4%. OECD oil consumption is also up, by 0.01mb/d, mainly to account for higher growth in North America. The figure for apparent consumption in the former CPEs has also been increased to stand at 0.18mb/d.

World oil demand growth has once again been revised down for the year 2000. The revision arises from the latest available data, which include 11 months (January–November) and the best estimate for December. According to this, demand grew on average by 75.81mb/d for the year 2000. The quarterly data shows that, compared with year-earlier figures, consumption declined by 0.4%, during the first quarter; for the remaining three quarters, demand growth recovered, rising by 1.4%, 2.0% and 1.5% respectively. On a regional basis, OECD consumption registered a marginal increment of 0.1%, to average 47.67mb/d. DC consumption is expected to show a rise of 2.7%; however, due to the limited reliability and availability of the data, no definite conclusion can be drawn yet. Finally, "Other regions" apparent consumption growth, derived from production and trade statistics, seems to have increased by 3.1 % (Table 9).

Table (9): World Oil Demand.

A recognised expert of the oil industry, Odell, predicted that oil demand

would increase five times the amount demanded in 1979. European sources said that the oil cartel would propose a document setting a reference price of \$20-23 a barrel for the period 2000 to 2010. As one of the new ideas to control oil prices and the production levels the Saudi government hinted that OPEC should be replaced. This called for the US Energy Secretary to be contacted so that he could call for oil at \$20-25 a barrel, warning that at \$30 it was damaging developing countries. "Thirty dollars is too high," he told a press conference on the second day of the International Energy Forum in Riyadh. "It hurts consuming countries, especially developing ones," Richardson said. "We should not accept \$30 a barrel." However he added that \$10 a barrel was too low and that the United States favoured a range of between \$20 and \$25 a barrel.

The long-term plan is to continue the ongoing series of annual forecasts that will inevitably reveal all of the critical events in the life cycle of world oil production. Figure 23 shows two of these events.

- (1) The peak in world oil production is forecast to occur in 2005, and by 2040 production is predicted to fall by 53% - an average decline of 2.1% per year over those 35 years.
- (2) The OPEC/non-OPEC crossover event is predicted to happen in 2007, and by 2040 the OPEC nations will produce 75% of the world's oil. NB: Both OPEC and non-OPEC nations will be in steep decline after the OPEC peak in 2011. Two more critical events are also predicted.
- (3) The Middle East/non-Middle East crossover event is forecast to occur in 2023, and by 2040 the Middle East nations will produce 64.1% of the world's oil.
- (4) The Muslim/non-Muslim oil production crossover event is forecast to occur in [sic] 2001, and by 2040 these Muslim nations will produce 73.0% of the world's oil. President Clinton was advised of this situation (Duncan, 2000).
- (5) It is believed that around 2050 Saudi Arabia will still be left with enough oil in the ground for domestic consumption and for a respectable petrochemical industry, so that while most observers of the petroleum scene focused their attention on the price of oil, the Saudis were thinking about long-term marketing structures.

Crude oil prices are expected to remain at around \$35 PB until the year 2005. The share of oil in the total world energy demand is expected to decline as well: from 38% in 1989 to 34% in 2005. In addition, there will be a shift towards alternative sources of power such as natural gases and hydroelectricity.

Since the Gulf War, Saudi Arabia is clearly seen to be in the dominant position at recent OPEC meetings. It has refused to relinquish its hold on pricing and output decision-making. Therefore, an OPEC dominated by Saudi Arabia, with its emphasis on long-term strategy can moderate prices, which it hopes will increase consumption and satisfy Western policy-makers and consumers.

Saudi Arabia has a strong influence over the Gulf Co-operation Council (GCC) members and other Arab countries. It also has an ever increasing influence in the Islamic world and moreover, as a key member of OPEC. All these elements will add more power to its position as the biggest oil producer in the world. This option has been shaped by the power of the decision-makers to guarantee the stability of the price and the production of oil to cope with world demand. However, as an Islamic state, Saudi believes that the oil wealth was granted by God, and is therefore conscious of its responsibility and is working with other producers and consumers to ensure a level of stability on the international oil markets," *as my lord said Crown H.R.H. Prince. Abdullah bin Abdul Aziz*.¹ On the other hand the state system has helped to process this development of Islam in a comprehensive system, within the flexibility suited to developmental and economic growth locally and globally.

Here we can see how Allah "God" distinguishes between heavenly benefits and secular benefits. For Muslims, this argument is more than logical because it comes from their religious faith. But for the non-Muslims it is difficult to comprehend, because it is not based on theory or science. However, we will conclude this part of the essay with this verse from the Holy Koran:

"And seek by means of what Allah has given
you the future abode, and do not neglect your
portion of this world."

In other words, Muslims should not become deeply involved in a materialistic way of life. They should look at all the materialistic opportunities as permissible, but not profoundly justified. Moreover,

¹ His speech about oil prices and the future of OPEC 2000

Islamic beliefs radically conflict with the materialistic approach of gaining in economic growth and development. The materialistic theory represents the core idea of western progress, such as in the fields of economics, and technology. Nonetheless this is not recognised in an Islamic system. As an example of an Islamic state we shall focus on Saudi Arabia, because of the significance that oil has had on its development. Their faith in Islamic principles can be said to be the prop to their political, economic and developmental progress. Worship is a simple structure in Islam, and is based on the right to a basic standard of life. It is one of the economic rights of the individual in the Islamic system.

The Holy Koran states:

“And in their wealth there is acknowledge right for the needy and destitute”.

The order here comes from God, and it doesn't include unfair justice or the sacrificing of other people's rights without reason or legitimacy. Yet God shapes it as (Ebadh, ~~GO?~~) worship. Therefore, we can see the clear meaning of these verses. In Islam no one should suffer from poverty or deprivation, regardless of origin, race or religion. This (Islam) would "guarantee the interests of both the producers and the consumers," the Crown Prince said in an opening address to the 7th International Energy Forum. As the world's biggest oil exporter, he renewed the Kingdom's commitment to "continue supplying the oil necessary for world economic growth and its readiness to increase production if such a measure were needed." But, urging cooperation with consumers, he added, "it is worrying to us when we are blamed for the rise of oil prices to the final consumers."

The Crown Prince called for a permanent meeting secretariat to be set up to promote cooperation, which some observers considered as a first hint by Saudi Arabia to reform OPEC. Relations between consumers and producers need not be one where one benefits and the other loses. This occurs when oil is priced at only \$10 a barrel under the current highs and below the cartel's \$22-28 price band mechanism. The main conclusions of the Worlds Oil Forecast (shown in Table 10) is summarised as follows. North America's oil production peaked in 1985 and from 1985 to 1998 it fell by 7.4% — an average decline of 0.59% a year. Moreover, North American production is forecast to fall a further 84% from 1998 to 2040 — an average decline of 3.3% a year.

The peak of world oil production is forecast to occur in 2005, and by 2040 production is set to fall by 53% — an average decline of 2.1% a

year. OPEC oil production is forecast to exceed non-OPEC production in 2007, and by 2040 the OPEC nations will produce 75% of the world's oil. The Muslim nations' oil production is forecast to exceed the non-Muslim nations' oil production in 2001, and by 2040 these Muslim nations will produce 73% of the world's oil. The likelihood of a "World Petroleum War" ("Jihad") appears to be growing. President Clinton was advised of this situation in a letter dated May 13, 1997. See (Table 10).

Table (10): World Oil forecast

The Saudi's have had a desire to boost its production capacity by 2million BPD to give the country a sustained rate of output of 10million BPD. Saudi Arabia is very keen to link production quotas with capacity because excess capacity has enabled them to boost output in the past and maintain lower prices. Indeed, excess capacity has enabled them to boost their revenues by \$30billion for few years since 1990.

The forecast method disaggregates world oil production into the top 42 oil-producing nations of the world (together producing over 98% of the world's oil). Each nation is modelled separately and independently. The time span that is of major interest is the 80-year period from 1960 to 2040. The *graphs* show oil production data from 1960 to 1998 and oil forecasts from 1999 to 2040. The 42 national forecasts are then aggregated into 7 geographic regions (e.g. North America) and 6 categories (e.g. OPEC and non-OPEC nations) to generate their respective forecasts. Finally, the oil forecasts for all 42 nations are summed to get the world oil forecast. This method is both user-intensive and time consuming. (Duncan R. 2001) (Graph 2)

Graph (2): North America Oil Production.

Graph (3): World Oil Forecast.

Conclusion

OPEC oil has been a critical source of petroleum during the last century, and will continue to be throughout the 21st century. According to oil industry analysts, the collapse of the Soviet oil industry, the world's largest producer, resulted in a complete disintegration of the previous system. This led to OPEC returning to the spotlight as the leading and largest source of petroleum in the world.

If the price of OPEC oil soared with respect to its share of world production, consumers would be provided with an incentive to conserve supplies and simultaneously look for alternative sources of energy. However some potential alternative sources such as nuclear power and coal do not have the support of public opinion. Yet, efforts are mounting around the world to curtail the combustion of all fossil fuels (oil, coal, and natural gases), because of the resultant air pollution, acid rain and the emerging evidence of climatic change.

When we try to project the future of OPEC within a Saudi Arabian context, the picture is positive. Yet, it needs to be understood in its wider perspective because what has emerged from my understanding is a picture of a country tied between the demands of its fellow Arabs who seek political concessions and the demands of its consumers, the Western countries who seek economic concessions and favours. And all the while, it has sought to pursue its own national interests.

Saudi Arabia has attempted to optimise the benefits and minimise the drawbacks of its contacts with its Arab and Western friends, an endeavour which has necessitated concessions to both its friends and foes at different times. The 1973 oil crisis was an instance in which Saudi Arabia submitted to the demands of its Arab neighbours to impose an embargo on the USA, but it also managed to display a sufficient degree of restraint to indicate the reluctance with which an action was taken and to minimise the impact on the West.

Indeed, Saudi Arabia has proved very adept at considering all the allies with the right sentiments and policies. Whilst on the other hand procuring leadership of the Arab community, espousing moves towards Arab economic independence and vociferously attacking Western hegemony.

In general terms, Saudi Arabia has not tied herself down to a restrictive

model of development. She has managed to maintain a degree of flexibility and compromise in an effort to reach a long-term goal. She offered the Western companies based there the choice to be taken over slowly and willingly, or forcefully when the oil business was nationalised. But when all the other countries severely curtailed oil activities in the land, Saudi Arabia retained the Western companies as partners and the result are successful petrochemical industries. She raised the price of oil whenever it saw fit and necessary, but always took care to sugar the bill with favourable terms.

In the framework of OPEC, Saudi Arabia can be said to have never hesitated to take advantage, i.e. by raising prices when it appeared that it was acting within a general OPEC consensus or when it felt it had legitimate reason for doing so. She was also keen to increase its production at the time of the shortfall caused by the Iranian revolution. On the other hand, Saudi Arabia's general moderating position on prices is well known and often stated by its representatives. In its relationship with the West, it has sought to strengthen bilateral ties, but these too have not been inflexible.

When it comes to investments, Saudi Arabia has invested in such a way as to build up its own infrastructure and viable export-orientated industries. Its petrochemicals and associated plastic industries are a case in point. It did not follow many other countries that invested significantly in overseas equities and property, both of which can be at the mercy of stock markets. Indeed, this was a very clever position to take because Saudi Arabia is well aware that these are prone to seizure and other vagaries of international politics and changes of mood. The seizure of Kuwaiti, Libyan and Iranian investments and assets are cases in point. OPEC must be considered a continuously strengthening force in the oil industry, resisting political and inter-state differences, reconciling at the same time the member states interests with worldwide stability and progress.

However, world stability is not based on a simple supply of lower cost crude oil to consumer countries, but on a favourable price that allows global economics to function and a common understanding between producers and consumers. In fact, in an oil war, the danger is that political matters usually come before economic or industrial issues.

Moreover, the latest event in the international arena which evolves around Iraq during the last month can give a clear indication that to some extent we can argue that a country like Saudi Arabia may not need

to focus on military expenditure in the future² since the case of the war in Iraq shows clear evidence that the international society and the weak system of the united nations is useless in such events; when it comes to international law or united nations resolutions, western powers can divert or achieve their goals without any considerations to others even by special linguistic terminology to what is so called united nations resolutions. Therefore the international society system needs a reform or a new global institute at least to govern either the western hegemony or the global trade.

To conclude, the western governments are willing to pay billions of dollars to its own experts and organisations, in order to pursue strategic “futuralistic studies”.³ This is done in order to help countries such as the US and the EU in finding new energy supplies or renewable energy so that their dependence on the Middle East oil is diminished. If this becomes the case, countries like Saudi Arabia have to work harder to support its own scholars and students to secure the new generation’s economic stability through diversification. In the same way that the West is looking forward to finding a replacement for oil, we Saudi’s have a great chance of achieving our goals. I believe that this can work, that it is not just a dream and I wish that our wise government and leaders will take this into consideration.

Bibliography

Ahram Ephraim, (1988) The Impact of The Decline in Oil Prices on The Confrontation States, The Hebrew University, Jerusalem
Al-Otaiba M.S (1975) OPEC and Petroleum Industry, Croon Helm LTD, London

² See, Table 2, The Saudi government has to invest more in the alternative sources of power and energy as futuralistic strategy.

³ See, Anthony H. Codesman: The US and the Middle East: Energy Dependence, Demographics, and the Myth of Oil Wealth. www.csis.org. We can argue that the Iraqi crisis is not a matter of weapons of mass destructions or democracy. In fact it can be seen as a new attempt to demolish OPEC, in order to secure a long term cheap oil supply. On the other hand some will say no this is a conspiracy theory, but each party will observe the fact from his perspective and interest.

Bermez, A. J. (1963) The Mexican National Petroleum Industry Stanford University Press, Palo Alto p 269

Campbell, C. J. (1999) The Golden Century of Oil: 1950-2050. Kluwer Academic Publishers, Dordrecht, p345

Chaudhary K.A, The Price of Wealth, Cornell University Press, London 1997

Cunningham, R. (2000) The Frontier in Exploration Runs Deep, Way Deep. The Lamp, ExxonMobil Spring P. 1-6

Doran C.F, Buck S.W (1991) Political and Economic Issues, Lynne Rienner Publishers London

Duncan, R. C and Youngquist, W (1999) Encircling the Peak of World Oil Production. Natural Resources Research 8, 219-232

Duncan, R. C and Youngquist, W. (2001) The World Petroleum Life Cycle. In K. E. F. Watt (ed.), Human Ecology: Civilization in the 21st Century, Vol. 1 (in press). Transactions Publishers, Piscataway, NJ

Ferguson P.R. (1988) Industrial Economics :Issues and Perspectives, Macmillan Education LTD London

Heisel, D (1998) The Middle East and Development in a Changing World, The American University Press, Cairo

Kanovsky, E (1992) The Economic Consequences of the Persian Gulf War: Accelerating OPEC's Demise, Washington Institute for Near East Policy, Washington D.C.

Khadegah, .O.N (1998) The Human Recourses Development In kingdom of Saudi Arabia and GCC States, Centre D'etudes Euro-Arab Paris

Le Min, L., and Wisenthal, S. (2000) OPEC Unlikely to Boost Oil Output. Houston Chronicle, May 30, p. 1C & 5C.

Leeman, W.A (1962) The Price of Middle East Oil, Cornell University Press, New York

Licklider, R (1988) Political Power and the Arab Oil Weapon, University of California Press. London

OPEC Press Release, OPEC Annual Report 1997 OPEC. VINE

Peterson, J.E (1983). The Politics of Middle Eastern Oil Middle East Institute, Washington D.C.

Roncaglia Alessandro (1987) The International Oil Market A case of Trilateral Oligopoly, Laterza, Milano

Yamani A, Z. (1990) Full circle: Saudi Arabia's Yamani in Accord with Emerging US Energy Policy. <http://www.washington-report.org>