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A Divorce on Grounds of Irreconcilable Differences: The US-Saudi relationship

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Introduction

The Saudi-US relationship has commonly been described as an exchange of oil for security. However, since 1944 when President Roosevelt and King AbdelAziz met in Egypt, Saudi Arabia has used more American goods, management systems, technology, medical facilities, and training than from any other nation in the world. The relationship appeared much more profound than just oil and should have survived stress. However, the development of US Saudi relations held the seeds of its own destruction and vanished under the crisis of 9/11.

Today, Saudis from all walks of life, from taxi drivers to merchants, ministers or princes will provide visitors with an earful of all the negative aspects of US policy. They will talk at length about the perceived shabby treatment of Saudis in the United States, how students cannot obtain visas or that sick people are turned away from visiting hospitals. The Saudis profoundly resent the Orwellian treatment of prisoners in Guantanamo and Abu Ghraib. They explain the US invasion of Iraq as a plot by the neo-conservatives in Washington and Israel to permanently weaken the Arab Nation. They see the legal suit against senior royal family members in New York as being just

money grabbing tactics by trial lawyers. They resent the very negative press coverage of the Kingdom, especially the stories and editorials of the Wall Street Journal. Many in the Kingdom fear the Bush policy of pre-emptive strike, which they see as a prelude to the US invading the oil fields of the Eastern Province. Mostly they overwhelmingly resent the support of the Bush administration to Prime Minister Sharon's policy of developing new settlements in the West bank and his ruthless, albeit intifada-caused, military oppression of the Palestinians.

In the United States, it appears that many members of the media, the United States Congress, almost unanimously, and a number of American think tanks see Saudi Arabia as the country that caused 9-11, by providing men and money for it, as well as a systematic development of a worldwide jihad against the US and its values. They see Saudi Arabia as using its fabulous oil wealth to maintain a corrupt regime, and, through its control of OPEC, blackmailing the US into overpaying for its oil. They see the Kingdom as oppressing women, promoting religious intolerance both within Islam and between Islam and the Judeo-Christian world. The reports on the Kingdom of Christians being arrested for merely attending a service, the interdiction of owning a Bible, the arrests of Sufis, or the oppression of the Shi'a, are well reported. The numerous articles on the corruption and profligate ways of many princes add to the strong dislike of Saudi Arabia. Of course, the Saudi state was heavily criticized before 9-11 for not cooperating with the FBI in the investigation of the Al-Khobar bombing which killed

many US personnel. After 9-11, the Saudis were even more chastised for not helping tracking the flow of money to terrorists.

The Common Interest

The U.S.-Saudi relationship started with a common interest in oil. Saudi Aramco was founded by American companies who sought and found oil when British Petroleum had written off the desert kingdom. Aramco, under American leadership, trained a large number of Saudis who now comprised 92% of its work force. The American oil company's shares in Aramco were eventually purchased by the Saudi government during the mid 1980s. Nevertheless, Saudi Aramco still uses American management and engineering techniques and has become one of the world's leading and most respected oil companies. Aramco is by and large free of political interference and all of Saudi Aramco's senior managers hold advanced degrees from American universities and speak fondly of the US.

Beyond oil, however, the US has been responsible for designing the present remarkable industrial development of the Kingdom. The industrial cities of Jubail and Yanbu were designed by Bechtel. The development bank, SIDF, was organized in 1974 by Chase Manhattan Bank. The electric grid uses US standards and was in great part designed by Stone and Webster after 1975. The largest petrochemical joint ventures are between Sabic, a state owned company and ExxonMobil and also with ChevronTexaco. The University of Petroleum and Minerals, which trains oil engineers, was designed by Americans

and the most advanced hospitals were designed and managed by Americans.

The links between the financial authorities of the Kingdom and the US were also very strong. The Saudis keep most of their oil income in US dollars invested in US government treasury bills, thereby financing part of the chronic US deficit. All Aramco oil sales are in dollars and are paid in US banks in New York who then pass on the money to the accounts of the Kingdom's institutions held in the same banks. JP Morgan has been known for a number of years to have had a permanent adviser at the Saudi Arabian Monetary Agency.

Military cooperation is another area where relations have been extensive. The joint US Saudi military commission based in Riyadh designed and arranged for the purchase of huge arms systems, such as F-15s, F-16s, AWACS, tanks, missiles, etc. These arm systems are maintained by US firms, or British firms using US parts. The Saudi National Guards are trained by Vinnell Corp. After the 1990 Gulf war the US maintained a command center for the region together with large number of troops and airplanes in the Prince Sultan air base in Al-Kharj south of Riyadh.

Until recently, all these links translated into hundreds of billions of dollars in purchases in the US by the Saudis. To this day, Saudi Arabia imports more than \$4.5 billion per year from the US. Even though the number has declined substantially from the \$10.5 billion of imports from the US in 1998, it is still more than from any other

countryⁱ. The links between the US and Saudi Arabia involved tens of thousands of Saudis and Americans working together, which should have provided ample opportunity for extensive cultural exchanges and societal influence between the two countries.

For their part the Saudis helped the US with increasing oil production in times of supply stress. In 1982, when both Iran and Iraq were forced to reduce their production, the Saudis increased oil exports from 4.5MM b/d to 7MM b/d, thereby bringing the spike in price to a rapid end. In 1990, when both Kuwait and Iraq stopped exporting, the Saudi increased production to 9MM b/d. After 9-11, the Saudis increased production by 500M b/d to help the US meet its needs at reduced prices. The Saudis also like to mention that Aramco sells its oil delivered in the US and in the process subsidizes US purchases by over \$1/bⁱⁱ on the 1.5 MM b/d it sells to US firms. The oil minister repeatedly claims to want a stable price of oil between \$22 and \$28 per OPEC barrel [corresponding to about \$26 to \$34 per WTI US-based barrel]. Altogether, the Saudis have provided the US with the assurance of being the oil producer of last resort and the stabilizer of world oil prices.

During the cold war the US and Saudis found further common ground. The US could see the Saudis as a rampart against the Soviet Union and communism. The Saudis for their part felt comfortable developing their country, using high level and quality US technology. The Saudis also saw the US as a defender of last resort against the Soviet proxies in the region, mainly Egypt, Syria, and South Yemen. The US, as the main opponent of the “evil empire”, could provide

security against the spread of “god-less” anti-Saudi socialist ideology and Arab nationalism.

When the Soviets got bogged down in their support of a socialist regime in Afghanistan, the Saudis were quite happy to become the proxy of the US. The Saudis, in particular its intelligence directorate led by Prince Turki alFaysal, encouraged, armed and financed the resistance, and to a certain extent “created” the Taliban, with full US support.

The United States policy of dual containment comforted the Saudis that post-Khomeini Iran and Iraq would be kept in check. In 1982, when Iraq attacked Iran, Saudi Arabia and the United States made common front and supported Iraq extensively. The Saudis provided the Iraqis with funds, safe harbor for their Soviet made aircrafts, and “lent” oil to the Iraqis to make up for their loss of production due to Iranian attacksⁱⁱⁱ. The Saudis also allowed Iraq to build a pipeline for the Iraqi southern fields to the Saudi harbor of Yanbu on the Red Sea. This was all done with the full support of the United States. Again in 1990, the Saudis and the United States again made common front, but this time against Iraq’s invasion of Kuwait. The Saudi state provided the bases necessary for the US military, obtained a religious cover allowing the presence of US troops in the land of the holy mosques and also increased oil production to make up for the loss of Kuwaiti and Iraqi production.

Thus, for 56 years after WWII, the relationship between the two countries has been profound and should have remained resilient in

adversity. However, the relations are now at their lowest point and appear irretrievable. Indeed, the links that should have been made strong from 40 years of extensive interaction also held the seeds of their destruction.

Societal Contacts and Relations

Saudi Arabia has used a large part of the \$1.3 trillion^{iv} it earned from oil to develop its economy and infrastructure. The goal of the various Saudi five year plans has been to provide its citizens with modern infrastructure and diversify the economy away from just oil production. To this effect it has needed to import technology, protect its borders, create jobs for Saudis. In essence, the Saudi state wanted to bring a highly conservative society into the 21st century. However, the internal politics of the kingdom meant that the state could strive for these goals only by getting the assent of its most conservative supporters, the Salafis [often called the Wahhabis in the US press]^v.

The story of the first Saudi kingdom being founded as an alliance between the Islamic reformer AbdelWahab and Mohamed alSaud in 1744 is still relevant today. The Salafis do not mind seeing Saudi Arabia become a major economic power in the world. Indeed, oil wealth gives them the means to promote their view of Islam. However, the Salafis do not wish to see Saudi modernity create a morally corrupt westernized society, which could turn people away from the worship of God.

It seems that the Saudi state and the Salafis came to an arrangement. In the 1960's King Faysal was able to bring television and radio into the Kingdom and managed to gain the Salafis' approval by allowing them to broadcast their views and constantly promote piety over the airwaves. As the Saudi state pushed society to bring the Kingdom into the twentieth century, it had to embrace modern technology but sought to avoid its corollary-an inflow of foreigners and the corrupting influence of modern living.

Therefore, after King Faysal's death, King Khaled, advised by Prince, and later King, Fahad bin AbdelAziz increasingly co-opted the Salafis. This bargain with the Salafis was tipped further in their own favor after the take-over of the Holy Mosque in Mecca in 1979. King Khaled and King Fahd, gave the Salafis free rein into control of society. For instance, the state allowed the Salafis to dominate education. They developed a heavily religious curriculum inculcated from kindergarten on. They had constant access to the local mass media. They especially controlled women's rights and education. The Salafis strictly controlled the women's school curriculum. They drastically limited the role of women in public life and the type of jobs they could take. They enforced a severe segregation of men and women which did not exist under King Faysal.

The state further co-opted the Salafis by providing them with huge sums of money to build mosques, Islamic centers and universities and to promote their causes worldwide. Finally, the state allowed for an

increase the role of a Salafi self-appointed and extra-judicial police, the Mutawa'in, to enforce public morality.

As the Saudi economy grew, with shopping centers popping up all over the Kingdom and satellite television bringing the world to everyone's home, the Salafis became more strident to counter these corrupting influences. Foreigners were, by and large, ghettoized in compounds and could have only minimal social contacts with Saudis. The US was constantly criticized in the Saudi press, TV and mosques for its moral decay.

Efforts were made to limit education of Saudis, especially of women, in the US, especially. Any effort, or suggestion, by the US to improve the lot of Saudi women was presented by the Salafis as an effort to destroy Islamic society and take it away from God's purpose. The Mutawa'in became more active in maintaining puritan standards, such as enforcing store closing at prayer time, the veiling of women, and even private behavior at home. After 1970, in spite of the huge growth of American brands and technology in Saudi Arabia, and in spite of the modern additions to life such as traffic jams, cell phones, personal computers, satellite TVs, etc, Saudi society evolved in a manner that had very little in common with US culture.

Hence, the staggering Saudi industrial and commercial development based on US management and technology, did not evolve into a more open, westernized liberal society. In the opposite, US technology was actually hijacked by the Salafis. They used US tools to

establish hundreds of Salafi internet sites and used computer disks, videos and audio cassettes to promote their puritan ideology and virulent opposition to American politics and values.

Purely Business

The Salafi effort to confront US societal influences meant that government to government or business to business contacts and interests became the only points of connection in the US-Saudi relations. Unfortunately, even this limited scope of relationship was undermined especially from the US side. Indeed, the US became perceived in the Gulf as having sided entirely with Israel in its struggle with the Palestinians. One cannot underestimate the poisoning effect of the Israeli-Palestinian conflict on US relations in the Gulf. The Arab countries squarely placed the failure of the Madrid process at the feet of the United States. The first intifada and now the second one are seen by the Gulf public and governments alike as being caused and ruthlessly suppressed by the Israelis with US encouragement and military support.

The build-up to the war in Iraq soon after 9-11 became a bone of contention between the Saudis and the US governments. It appears from many conversations with Saudis that they expect the US invasion and occupation of Iraq to lead to widespread violence and upheavals in the Gulf, including destabilization of the present Saudi regime^{vi}. The rise of the neo-conservatives in Washington and the numerous anti-Saudi statements in the US press, TV and think tanks, have convinced

the Saudis that the US administration is bent on bringing down the present regime, or may even be a prelude to an invasion of the oil fields.

Therefore the commonality of interest between US and Saudi governments which existed pre-9-11 was blown away in both the US and in Saudi Arabia. The old government to government trust which had been built over 56 years has disappeared.

The business-to-business relationship still exists and is substantial. The US is still the Saudis main source of imports, but decreasingly so. Visas to the US are now harder to get than the notoriously difficult visas to Saudi Arabia. The merchant families no longer travel to the US for fear of humiliation at the border. Saudi students now prefer to go to Europe, Asia or Australia. Young Saudis, un-coached by the Salafis, started a boycott of US brands. This has resulted in a major increase of imports from China^{vii} which are increasing at the rate of over 40% per year and could catch up with the US by 2006^{viii}.

Conclusion

For many years, the US was able to rely on the Saudis to provide a long term oil supply to the world markets, and the Saudis were able to use the US shield to overcome the regional threats. The relationship grew beyond the oil for security paradigm to include and ultimately be dominated by a relationship based on the exchange of technology for cash. In the process, however, the Saudis have sacrificed any societal

US influence to the Salafis and the US sacrificed its remaining credibility by following what is viewed in the Gulf region as an anti-Arab agenda in Palestine, Iraq and worldwide.

Of course, the Saudis and the United States still need to trade and have basic exchanges. It is convenient for the Saudi to cooperate with the US to fight the Jihadis who are a threat to their own regime. Oil is still sold in dollars and the Saudis as well as the US treasury must work together to ensure smooth international commercial transactions and flow of oil. The Saudis are still the largest oil exporters and the only state with rapidly accessible reserves. However, since the societal and political links have been severely damaged, the Saudis relationship with the US is now based on maximizing the financial benefit from oil, and minimizing the risk of US intervention in its oil fields.

The Saudis need to preempt any anger by the present US administration, if only to avoid military confrontation. They will not cancel the old military contracts, but may not establishing new ones. They are claiming their commitment to plentiful and relatively cheap oil, but only increase production when it is highly profitable. However, to minimize their dependence on the US, the Saudis do like the proverbial duck- they keep the relationship as smooth as possible on the top but below paddle like mad to increase relations with the states they see as being the most necessary to them in a US-less future.

The Saudi state is no longer in need of US protection. Saudi Arabia has made an enormous effort to limit regional threats. It has

settled its border disputes with the UAE, Qatar and Yemen. It has worked diligently to improve relations with all the countries in the region, especially Iran, Syria, Yemen and even Iraq. It is also actively developing good relations with countries nearby, such as Pakistan, but also outside the region, in particular China. Saudi Arabia may not view China as an exact replacement of the US, but instead as a major piece of a puzzle which also includes France, Germany and India.

ⁱ www.census.gov/foreign-trade/balance/c5170.html

ⁱⁱ Most oil is sold FOB, free on board the tanker lifting it in Saudi Arabia. Saudi Arabia mostly sells to US firms CIF, ie with cost, insurance and freight included, and thus can play with the final price by an amount of up to \$3/b. On many liftings Aramco uses Vela, the Saudi government owned oil companies which charges Aramco rates that may be below what other shippers would charge, hence indirectly subsidizing the US purchasers. .

ⁱⁱⁱ The total oil provided and sold by the Saudis on behalf of Iraq total about XXXXX [may be 600 MM bs at \$20/b = \$12MMM], which were placed by the Saudi Ministry of Finance as a debt due to Saudi Arabia, which to this day Iraq still owes to the Kingdom. The Saudis have intimated that the debt will be renegotiated with the new Iraqi government, presumably for pennies, if any to the dollar.

^{iv} Middle East Economic Survey, Nicosia, Cyprus, Issues 43:7, 2/14/2000 and 47:35, 9/30/2004,

^v The Salafis or “the original disciples [of Mohamed]” is the term used by the Saudis themselves. They do not view Abdel Wahab as the founder of a separate sect, but just as the teacher who was trying to bring Islam back to its “true” roots.

^{vi} This in particular was argued at length by a very senior prince and government official to a small group of Columbia University academics in Riyadh in March 2004.

^{vii} One of the reasons that Chinese products are bought in Saudi Arabia is that the Chinese currency is linked to the dollar and therefore to the Saudi Riyal. The Yen and Euro have substantially appreciated relative to the dollar, thus Chinese products have become even more competitive in the kingdom.

^{viii} US imports have stagnated in the \$4.5-\$5 billion range since 2001. On the other hand Chinese imports grew 46% in 2003 to \$2.15 billion and could reach \$5billion by 2006.