

THE ARABIAN PENINSULA, IRAN AND THE GULF STATES:
NEW WEALTH, NEW POWER

A Summary Record

The 27th Annual Conference

of

The Middle East Institute

Price: \$2.00

Washington, D. C.
September 28-29, 1973

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NEW WEALTH, NEW POWER

A Summary Record

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THE ARABIAN PENINSULA, IRAN AND THE GULF STATES:
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27th Annual Conference of the Middle East Institute
in Conjunction with Georgetown University

At the Georgetown University Law Center
Washington, D. C.
September 28-29, 1973

Program

Friday, September 28

8:30 to 9:30 am Registration

9:30 am Opening Remarks Moot Courtroom

Lucius D. Battle
President, The Middle East Institute

Welcome to the Georgetown University Law Center

Adrian S. Fisher
Dean of the Georgetown University Law School

10:00 am Presiding: *Lucius D. Battle* Moot Courtroom

Keynote Address

Thomas C. Barger
Consultant, former President and Chair-
man of the Board of the Arabian American
Oil Company

10:45 am Plenary Panels Moot Courtroom

Panel I

THE GREAT POWERS AND THE AREA:
THE ECONOMIC DIMENSION

Presiding: *Sidney Sherwood, former Secretary,*
Export-Import Bank

Frederick C. Seibold, Jr., Senior Assistant
Treasurer, Mobil Oil Corporation - United
States Interests and Policy

ii.

*John F. L. Ghiardi, Director, Office of
Economic Research-Analysis, Department
of State - European Interests and Policies*

*Robert E. Hunter, Foreign Policy Adviser,
Office of Senator Edward M. Kennedy - Soviet
Interests and Policy*

*Chadwick Johnson, Chief, Japan Group, Office
of Trade Policy, United States Department of
Commerce - Japanese Interests and Policy*

12:30 pm

Adjournment for Lunch

2:30 pm

THE GREAT POWERS AND THE AREA:
THE POLITICAL-STRATEGIC DIMENSION

Moot Courtroom

Panel II

*Presiding: John C. Campbell, Senior Research
Fellow, Council on Foreign Relations*

*J. C. Hurewitz, Director, Middle East Institute,
Columbia University - United States Interests
and Policy*

*Geoffrey Kemp, Associate Professor of Inter-
national Politics, The Fletcher School of Law
and Diplomacy, Tufts University - European
Interests and Policies*

*Oles M. Smolansky, Professor, Department of Inter-
national Relations, Lehigh University - Soviet
Interests and Policy*

*Phillips Talbot, President, The Asia Society -
Interests and Policies of the Major Far Eastern
and South Asian Countries*

4:15 pm

IRAN: THE DYNAMICS OF ITS LOCAL AND REGIONAL
ROLES

Moot Courtroom

Panel III

*Presiding: T. Cuyler Young, President, American
Institute of Iranian Studies*

*Rouhollah K. Ramazani, Edward R. Stettinius, Jr.,
Professor of Government and Foreign Affairs,
Woodrow Wilson School, The University of Virginia -
The Persian Gulf as the Focal Point in Iran's
Foreign Policy*

James A. Bill, Associate Professor, Department of Government, The University of Texas at Austin - The Internal Political Process

Horst H. H. Eschenberg, Coordinator of Overseas Programs, Economic Development Institute of the International Bank for Reconstruction and Development - The Economic Dimension

7:00 pm Cocktails and Banquet
Army-Navy Town Club
Farragut Square and Eye Street, N.W.

8:00 pm Dinner

Toastmaster: Peter Krogh, Dean, School of Foreign Service, Georgetown University

*Banquet Speaker: Sir William Luce, GBE, KCMG
Political Resident, Persian Gulf, 1961-1966;
Personal Representative of the Foreign and
Commonwealth Secretary for Persian Gulf
Affairs, 1970-1972*

Saturday, September 29

9:00 am THE ARAB STATES WITH MATURE OIL ECONOMIES Moot Courtroom

Panel IV

*Presiding: Raymond A. Hare, National Chairman,
The Middle East Institute*

*R. Bayly Winder, Dean of the Faculty of Arts
and Science at Washington Square, New York
University - Saudi Arabia*

*Emile A. Nakhleh, Associate Professor of
Political Science, Mount Saint Mary's College -
Bahrain*

*Ragaei El Mallakh, Professor of Economics,
University of Colorado - Kuwait*

10:00 am Simultaneous Panels

Panel V

Moot Courtroom

THE PHENOMENON OF NEW WEALTH AND CONTINUING
POVERTY: QATAR, ABU DHABI, DUBAI, SHARJAH,
OMAN, THE POOR SHAIKHDOMS AND THE YEMEN ARAB
REPUBLIC

iv.

Presiding: *David E. Long, Political Analyst
for Israel and the Arabian Peninsula, Bureau
of Intelligence and Research, Department of
State*

*Frederic K. Lundy, Jr., Consultant - Social
and Economic Development in Qatar and the
Affluent Amirates*

*Stephen W. Buck, Country Officer for Oman,
PDRY and Yemen, Department of State - Social
and Economic Development in the Yemen Arab
Republic, Oman and the Non-Affluent Amirates*

*Robert G. Landen, Dean, College of Social and
Behavioral Sciences, University of South
Carolina - Political Conflicts in the Lower
Gulf*

*Robert A. Mertz, Research Assistant, Brookings
Institution - Human Resource Development*

Panel VI

Classroom 7

THE RADICAL PATH: IRAQ AND THE PEOPLE'S
DEMOCRATIC REPUBLIC OF YEMEN

Presiding: *Majid Khadduri, Distinguished
Research Professor and Director, Middle East
Studies Program, School of Advanced Inter-
national Studies, The Johns Hopkins University*

*Phebe A. Marr, Associate Professor, History,
California State College, Stanislaus - Iraq*

*John Duke Anthony, Assistant Professor, School
of Advanced International Studies, The Johns
Hopkins University, and Assistant Editor, The
Middle East Journal - The People's Democratic
Republic of Yemen*

12:00 noon

Moot Courtroom

Concluding Address

*Joseph J. Malone,
President, Regional Council for International
Education, University of Pittsburgh*

1:00 pm

Adjournment of Conference

Lucius D. Battle

KEYNOTE ADDRESS

Thomas C. Barger

It is exactly forty years ago this month since the first geologists of the Standard Oil Company of California went ashore at the little port of Jubail on the eastern coast of Saudi Arabia. I clambered over the rocks of the unfinished Al Khobar pier four years later after a record-setting time of only 12 days out of New York. As I expected, the cloud of gloom hanging over Jebel Dhahran could almost be seen from afar. Doc Nomland's* only promise in hiring me had been that if I were any good I would probably be transferred to the Dutch East Indies before a year was out. After umpteen million dollars expended, four years and eleven wells, they were about to give up the concession if the well then being deepened failed to find oil in commercial quantity. When I finally got to the Dutch East Indies they were called Indonesia and I was on a visit.

At this point you should understand I am not a specialist or an expert, but a mining engineer, that is, a man who is given a smattering of civil, mechanical, electrical and chemical engineering, some mathematics, geology, economics and law--and a degree. And I have never broken out of the pattern but have simply added to the helter-skelter foundation of my youth. So, as a generalist, I spent over 30 years in the region of the Arabian Peninsula, Iran and the Gulf States watching change--economic, political, social--take place at a rate that must be almost unique in the history of the world. Incidentally, from now on I shall use "region" as shorthand for the area with which this Conference is concerned.

As illustrations of the state of the region 40 years ago I give you two examples from my experience: The income of the Saudi Arab government was reported to the Middle East Supply Center in 1943 as ten million dollars for the year. This year the Saudi budget exceeds four billion dollars, a four hundredfold increase. On my first visit to Riyadh in 1938 with two other geologists, we were registered in the book of European visitors as numbers 34 - 35 - 36, or thereabouts. And in accordance with custom, we had stopped a mile outside the city and waited while one of the Arabs in our party went ahead and received per-

*Official of California Standard Oil Company.

2.

mission for us to enter. Also as was expected of us, we stayed the required three full days as the King's guests. The stopping place has long since disappeared deep within the city and the protocol went with it.

The driving force for change was oil, of course, but two other developments of near equal importance were the attainment of political independence by the whole of the region and the creation of the State of Israel. These, in my judgment, are the three phenomena in the last half century that have been of decisive importance.

As my favorite subject I shall deal with oil first. The initial discovery was made in Iran in 1908, as most of you know. Nearly 20 years passed before the next discovery, in 1927 in Iraq. Then came the discoveries on the Arab side of the Gulf in the 1930s: Bahrain, Saudi Arabia, Kuwait and Qatar; and Abu Dhabi, Dubai and Oman in the 1960s. Though oil was important to Iran's economy after the First World War, the level of production in the region was relatively insignificant until 1935. In that year it amounted to five per cent of world production with the completion of the pipeline from the great Kirkuk field in Iraq to the Mediterranean. After World War II and the development of the fields on the Arab side of the Gulf, the production from the area grew rapidly--ten per cent of the world total in 1947, 20 per cent in 1953, 30 per cent in 1966, to 40 per cent today. And this 40 per cent furnishes nearly two-thirds of the oil in world trade. Concurrently, the financial rewards to the governments of the oil producing states rose even faster than production.

Along with the money from oil came the enormous changes in schools, hospitals, cities, military establishments, roads, agriculture and communications--and their reactions on society--with which you are familiar. And the center of world oil production shifted to the Middle East. The reserves estimates of some 30 billion barrels in 1945 has increased to more than 350 billion barrels today. For comparison, world reserves are about 600 billion barrels, and some 500 billion if we exclude the United States and the Soviet Union, the former now a major importer and the latter exporting only about one million barrels per day beyond the Soviet Bloc.

An accompanying development has been the increasing proportion of world energy requirements supplied by oil. Japan's coal and hydroelectric power has long since become almost negligible in terms of its total energy requirements. In Western Europe the production of coal has actually declined as the proportion of energy supplied by oil has increased from 30 per cent to over 60 per cent in the last decade, and most of the oil has been imported from the Middle East. The United States, long the world's largest producer, is about to be overtaken by Saudi Arabia; it is now importing about one-third of its requirements,

about six million barrels per day, which is the amount the whole world produced the year I went to Arabia. I dislike having to give you these numbers in the attempt to try to show you the sheer volume of the amounts of stuff handled daily by the petroleum industry, as too many numbers tend to become meaningless. My former boss, Cy Hardy, once remarked in the course of a discussion of Saudi reserves "most of these figures we throw around have no meaning for most people. Who understands the length of a light-year even if they know the definition?" In the United States we are going to use about 100 billion barrels of oil in this decade--about as much as we have produced in total in this country since Colonel Drake drilled the first oil well in Pennsylvania in 1859. And the consumption in the rest of the world is on the same scale.

The end is not in sight. Projections by respectable and competent people--not necessarily oil companies--envision world production rising from the present 55 MMBD to 80 to 90 MMBD in the 1980s. Where will all this oil come from? Mostly from the Middle East, insofar as anyone can see now. The chances of discovering another "Middle East" are very poor. Prudhoe Bay is the largest oil field yet discovered in North America after a century of exploration. Though the reserves of all the fields in the Middle East have not been published, I would guess some ten of them are as large as Prudhoe Bay--several are much larger. After the closing of the Suez Canal in 1956 and denial to Europe of its customary sources except by the long haul around the Cape of Good Hope, the oil industry's constant search for oil intensified, especially in an effort to find new sources east of Suez. Besides the old international companies, many new companies, private and government, became very active. And the results? Despite Prudhoe Bay, Nigeria and the North Sea, of some 270 billion barrels discovered in the succeeding 15 years about 180 were in our region and 50 billion in the Arab countries of North Africa--another illustration of Issawi's Law, formulated on the spur of the moment at one of these meetings several years ago--"Where there are Arabs there is oil but the converse is not necessarily true."

So oil has not only changed the structure and character of the society of the region, it has also radically changed the economic and political significance of the region to the rest of the world.

Fifty years ago only Saudi Arabia and Yemen were free from treaties or other constraints on their internal and external affairs. The British government had special rights by treaty in Iraq, Kuwait, Bahrain, Iran, Qatar, the Trucial States, Oman and Aden. Russia claimed special status in northern Iran. All these arrangements began to crumble in the wake of World War II and vanished with the British withdrawal from the Gulf and Aden in 1971. For the first time in centuries the region was governed solely by its inhabitants. Of all the states, Iran suffered the most from foreign intervention in its affairs. I had no personal experience of Iran before 1949 but I do remember a most

interesting audience with King Abd al-Aziz in Riyadh in August 1941 on our way back from Jiddah to Dhahran. The King became aroused to a shouting pitch, saying many of his ministers were pro-German because they did not know the Germans--"Who had ever heard of them restoring anything they had once taken? The British had not yet given Iraq its full freedom but they had gone further than the Germans had ever gone with territory under their control. The situation in Iran was very bad and the British must act quickly to forestall the Germans." When we arrived in Dhahran two days later, British troops were entering Iran from the south, the Russians from the north. We never did find out if the King had been simply remarkably perspicacious or had been tipped off by the British Minister. The regaining of their sovereignty by 1947--after much difficulty with the Russians, the suppression of Russian-supported revolt in the west, and final rejection of the Russian demand for an oil concession--is a remarkable accomplishment. The memory of those years no doubt contributes much to the Shah's predilection for Phantom jets and such hardware, now that he can afford them.

I am not one who regards the withdrawal of British power from the region as an unmitigated blessing--and in this I am in the company of a good many Arabs of my acquaintance. Yet, it had to come and the results thus far have been better than expected by many of those who had been robbed of their security blanket. The disappearance of British bases of political and military influence--from the RAF installations at Lake Habbaniyah in Iraq to the Crown Colony of Aden--has not only meant greater freedom of action for the countries affected but also enormously greater responsibility--economic, political and military--both internally and in their relations with their neighbors. How they meet these new responsibilities must be one of the prime determinants of the future of the region, not the "power vacuum," the subject of so many dire pronouncements when the British government announced its intent to complete the dismantlement of its establishments in the region by 1971. The oil of the region, on which all the great industrial powers save Russia and China are so dependent, creates a common interest in all having access but none controlling and may, in a sense, provide a new security blanket. And it is worth noting that the rise in oil production and the decline in British influence proceeded hand-in-hand, both since World War II, a coincidence that may not be wholly fortuitous.

Of the states we are now considering, only Saudi Arabia comes near contiguity with Israel--at its barren northwest corner where the Straits of Tiran have been occupied on their farther shore by Israel since 1967. But the creation of Israel in lands distinctly Arab since the seventh century has had profound effects throughout the Arab world and indirectly in Iran for over 25 years. The end is not in sight. I am not about to start on a discussion of the Arab-Israeli problem, its rights and wrongs, the historical background, or how to find a solution.

But I am going to tell you what I think Arabs think about the relationships of Israel, the Arabs and the United States.

Earlier this month, on a television program having to do with energy--what else these days?--I was asked what we could do to "make the Arabs like us." I replied it would be nice if they could be made to like us but not essential. But for us to understand the Arab position on the Arab-Israeli issue was essential. On reflection, it seems to me I gave only half an answer. For more adequate understanding we ought to know not only how the Arabs view Israel but also how they view the United States relative to Israel. In describing such a view I might admit to being something of an expert, having spent an inordinate amount of time trying to explain the United States to lots of Arabs of various nationalities, religions and occupations.

At the outset, I should say there still seems to be a great reservoir of good will toward Americans remaining in much of the Arab world, even though a mob broke over a hundred windows in my house on the 7th of June, 1967. I am also aware I may have this impression because most of my Arab friends and acquaintances are what the media would call "pro-American" or "moderate." And further, I am always mindful of a very close friend, a staunch Republican, who, on hearing very positive statements based on subjective judgments, was fond of remarking, "I never understood how Truman was elected. I never knew anyone who voted for him."

Two anecdotes: In the late Spring of 1948 one of my Bedouin friends of several years standing, a "soldier" in the sense of being in the service of the government and having been issued a rifle, came to see me. After the usual amenities, he came to the point of the visit: "Who are these Jews and where is this Palestine where we're supposed to fight them?" But less than ten years later an equally illiterate Bedouin before going off to listen to his transistor radio asked me: "What do you think Mr. Dulles is now going to do for us Arabs?" In my first three years in Arabia most of the friends I made were illiterate: In the last ten most of them were college graduates. Worse yet, even most of those who had not gone to college could read, write and speak English as well as Arabic, learned in ARAMCO training centers as well as in the American University of Beirut, Oxford, Stanford and points in between. I make the point because it is important. I have the most vivid memory of listening in utter disbelief to the BBC broadcast of Anthony Eden's ultimatum to Egypt that put the British foot into the Suez gluepot in 1956. That same BBC had previously made it abundantly clear to the Egyptians, the British public and all who listened that some of Mr. Eden's own colleagues as well as the whole of the Labor Party were unalterably opposed to his way of handling the Suez crisis. So whatever Mr. Eden did would be undone as soon as he had destroyed himself by his own foolishness and all the Egyptians had to do was wait

out the storm. He apparently did not remember that the Egyptians understood English.

My interpretation, in a nutshell, of the basic grievance of the Arabs on the creation of Israel in Palestine is that it was an act of atonement by the West to relieve its conscience of the frightful consequences of the peculiarly Western sin of anti-Semitism and the Arabs were made the scapegoats, almost in the literal sense of Leviticus XVI. The gas chambers of Dachau and Belsen were not run by Arabs but by the products of Western culture. Jews and Arabs had lived together in Palestine and in all parts of the Arab world for a very long time. Among the Palestinian refugees today are many who have Jewish foster brothers, born the same day in the village. But Zionism, with its gradually but constantly expanding claims, they did not accept. And in their view it was only the Nazi persecution and monstrous attempt to exterminate the Jews that finally created the refugees needed by the Zionists to flood Palestine by playing on the conscience of the West.

And why do they think this? Because they understand English as well as Arabic, written and spoken. And they have read or heard of such items as President Roosevelt's pledge to King Abd al-Aziz Bin Sa'ud in 1945. "No decision [will] be taken with respect to the basic situation in that country [Palestine] without full consultation with both Arabs and Jews." And they have read, not at the time but later, of President Roosevelt's attempt to provide 500,000 displaced persons with world-wide political asylum, and sending Morris Ernst, a Jewish, but not a Zionist, lawyer, to London. Ernst reported back that England would take up to 150,000 if the United States took an equal number. A week later, to Ernst's astonishment, the President told him the program could not go through because of the opposition of "the dominant vocal Jewish leadership of America." And then they read and heard of President Truman's demand on the British government to modify their 1939 White Paper on Palestine "so as to allow the immigration of 100,000 displaced persons" as immigration to Palestine "was the essence of the problem," not immigration per se, that is, but "immigration to Palestine." And the following year President Truman announced the United States was prepared to finance the transfer of 100,000 Jewish refugees to Palestine. And so it has gone through the years.

My last visit to the Middle East and Arabia was in December of last year. Since I had left in 1969 there were some more items for me to explain. A 1970 press release on a letter to Secretary Rogers urging more jet aircraft for Israel signed by 73 senators stated that it represented "an unprecedented expression of support of a policy that seeks to protect vital United States strategic interests and further the cause of peace." The Arabs wonder in respect to "strategic interests," which they believe can only mean confrontation with the Russians as the only conceivable enemy in the Eastern Mediterranean, if even a

single one of these senators really believes the Israelis would risk sacrificing themselves in the jaws of a crunch between the US and the USSR. And how, they ask, do more aircraft that introduce a new dimension of power in Israeli armament in terms of range and destructive capacity "further the cause of peace?" And they hear of no senatorial reproach when the Phantoms range up and down the Nile Valley to "bring Nasser down" and finally result in an enormous increase in the Russian presence in Egypt to protect the Egyptians from their depredations. I have not been asked about the lack of congressional indignation over the use of these aircraft in shooting down an unarmed airliner and in hijacking another, as I have not been in reach of Arab acquaintances since these occurred. But there was surprise when the American government, with its well-advertised balance of payments deficit, donated \$25 million to help settle Russian Jews in Israel's 8000 square miles rather than find room for them in the 3.5 million in the US. Interspersed with such items as I have related are what the Arabs regard as diverters of attention: The use of the Jordan waters, gigantic desalination plants, assistance in developing industry and various other ploys that have no relationship to the fundamental issue: A million and a half people who can't go home again. So their general conclusion is that a large part of the elected representatives in the United States government are at best disinterested, ignorant or ill-informed; probably hypocritical; and at worst cynical, venal and concerned only with their own political fortunes. This is not a pleasant description. But it is one that I believe fairly describes how our government is viewed by at least the great majority of Arabs who are "pro-American." Most of these have so concluded with reluctance as they can conceive of no genuine American interest that warrants the policies we have seemed to pursue and no reason why they should be regarded as a sort of quasi-enemies by much of the American media. My impression--second hand, mainly from reading--is that the radical Arabs are convinced our policies toward them are based on active downright malevolence.

Now to come to a somewhat lengthy conclusion.

As far as can now be foreseen, the oil of the region is indispensable in meeting the world demand for energy in the next few years. Of the states with large oil production only Iran and Iraq would seem to have the populations and natural resources of soil, climate, water and minerals to use internally all the revenues they would obtain by producing their oil at the maximum efficient production rate, in other words to the layman, at maximum capacity. The three other large producing states, Abu Dhabi, Kuwait and Saudi Arabia, because of smaller populations and lack of other developable natural resources, are likely to receive revenues much in excess of their current requirements. We ought to be ingenious enough to help these countries utilize their surpluses to strengthen and diversify their economies in ways that will preserve their wealth for future generations. Nevertheless, even if we are able to help in this manner, given the desire of these countries to ensure the welfare of their posterity, they may feel constrained to

place limits on their production simply to preserve oil for future generations. Kuwait has already done so, rather empirically as a stop gap measure to give time for further consideration. What Saudi Arabia does with much larger reserves is probably crucial in determining the marginal adequacy of world oil supply in the next few years.

I am making no predictions but, in considering this situation, there are several points you ought to bear in mind.

1. Part of the present oil shortage is brought about by the substitution of oil for coal in both Europe and the United States. The United States, at least, has coal resources that are both abundant and minable.
2. Part, especially in the US, has been caused by governmental policies which have depleted natural gas reserves and inhibited exploration.
3. Part is due to measures to protect the environment which consume more energy than was anticipated, I believe, and which further inhibit the use of coal.
4. The energy projections make little if any allowance for the capacity of men to change under the impact of scarcity and price.
5. No allowance is made for new technologies but, because of the massive scale of the investment and construction involved, none could have much effect in less than ten years.
6. There is a limit to the fossil fuels of the world but probably enough exist to support the world for another century or two. Which means we must start now to develop viable substitutes.
7. Finally, nearly all the projections that have been made in the past have been wrong, a fact of little consolation as they have consistently underestimated demand. Hopefully the error this time will be in the other direction.

As the "short-term" (i.e. perhaps ten years) energy shortage is with us now, there is much talk--usually with indignation and muttering of blackmail--of the possibility of the Arab countries using oil as a "political weapon." I should imagine those reading and writing Arabs must look on the allegation of "blackmail" with some amusement in the light of the use of economic power for political ends in the West.

Given their willingness to arrive at a peace settlement under the UN Resolution of November 1947 provided they are able to do so with reasonable honor and self-respect, I would expect the Arabs to do no other than use oil as a weapon and not at all with the clumsiness of the usual scenarios spun out in most of the newspapers. But John Cooley's article in the Christian Science Monitor of September 4, 1973, which I shall quote in part, is different. He writes of an interview with King Faisal and his son, Sa'ud, published in an Lebanese newspaper. Aside from its interest as coming from an authoritative source, I ask you to note two points: First, the distinction between the citizen and the policy of his government, and second, the language in respect to the use of oil as a weapon would, I think, be endorsed by any competent oil man of any nationality were he an Arab and a statesman. The article gives what purports to be a direct quote of Prince Sa'ud, Deputy Minister of Petroleum and a Princeton alumnus:

Oil is not an artillery shell but an enormous weapon. All economic weapons need study and time for their effectiveness to appear. Talk of using the oil weapon makes it sound as if we were threatening the whole world, while it is understood that our purpose is to bring pressure on America... But America would be the last to get hurt because the US will not depend on Arab oil before the end of the 1970s, whereas Japan and Western Europe depend on it now. What benefits are there from arousing the fears of the Europeans and Japanese at a time when they are showing greater sympathy for us? ...Arab policy is called upon today to persuade the American and European citizen that his interests are with the rights of the Arabs and that we do not intend to harm him, but that it is the policy of his government that is creating the confrontation (with Israel). We must tell the American and European people that we want to defend ourselves not harm them.

So, I have tried to review, from my personal experience, the 40 years preceding our Conference today. The three main events I have discussed are now in such conjunction the next few years are bound to be important, exciting and, perhaps, decisive for the future of the region but I leave prophecy and solution to the succeeding speakers. Thank you.

THE GREAT POWERS AND THE AREA: THE ECONOMIC DIMENSION

The economic interest of the Great Powers in the Gulf States can be summarized in one word: oil. The industrialized nations of Western Europe, Japan and now the United States are petroleum deficit areas, and over the next decade they will require increasing supplies to meet their rising energy needs. The Gulf States, on the other hand, are an oil surplus area, possessing the largest quantity of proven oil reserves in the world. In contrast to the other powers, the Soviet Union has sufficient oil reserves to meet its immediate needs, but for political and strategic reasons, may wish to gain control of Middle Eastern supplies. All of these considerations raise several crucial questions:

1. How can the US, Western Europe and Japan assure continued access to oil resources in the Gulf?
2. How will these countries be able to pay for increased imports of oil?
3. What measures can be taken to induce the Gulf States to increase their oil production in the years ahead, when, in some cases, their opportunity to sell oil far exceeds their need to do so?
4. What is the probability that the Soviet Union will attempt to interrupt the flow of oil to the West?

The need to assure continued oil supplies is a problem which Western Europe and Japan have had to face for some time. In Japan, for example, oil meets 72 per cent of the islands' energy needs, yet she produces almost no oil of her own. Thus, of all the major oil consuming countries, Japan is the most heavily dependent on oil from the Gulf. To assure herself of continued supplies, Japan has employed two principal means: diversification of supply and control of supply at the source.

With respect to the first, Japan has been seeking access to oil supplies located outside of the Gulf region. To date, this policy has involved not only exploration off the coast of Japan and trade negotiations with the Soviet Union for Western Siberian oil, but also substantial levels of imports from Indonesia. Nevertheless, these alternative sources will not be sufficient to significantly alter Japan's present state of dependency on oil from the Gulf. Of necessity, therefore, she has recently been giving more attention to her oil arrangements in the area, with an eye toward securing greater direct participation in the production and sale of oil.

Currently, most of Japan's oil supplies are purchased from the major US-Western European international oil firms. In order to circumvent these companies, Japan has tried to purchase oil directly from the governments of the oil producing countries. This has produced only modest results so far, since the governments have committed themselves to selling "participation crude" back to the companies. But, by 1980, substantial supplies should become available. Whether the Japanese are able to gain access to this market will then depend on what the major oil companies themselves are prepared to do for the governments involved.

In the meantime, the Japanese, with extensive government support, are attempting to increase their control over supplies by acquiring oil concessions of their own, either alone or in partnership. Since 1970, they have participated in joint ventures with Western firms to purchase new concessions as they become available. The acquisition of drilling rights offshore from the Saudi Arabia-Kuwait Neutral Zone (1958) and in Abu Dhabi (1968) are other examples of this policy, and the purchase of foreign-owned oil concessions such as the recent acquisition of 45 per cent of British Petroleum's Abu Dhabi concession may be an indication of things to come.

Western Europe, in spite of some local production, is equally dependent on the Middle East for its petroleum supplies. The four largest importers (United Kingdom, West Germany, France and Italy), for example, get more than 75 per cent of their oil needs from the Arab oil producers, including Libya. Unlike Japan, these nations have direct links with the major international oil companies working in the area. Nevertheless, the fast changing relations between these companies and the oil producing countries as well as increased competition for oil resources have led to new forms of payment for oil imports in order to protect access to supplies. European technical assistance to Gulf oil producers, energy related joint venture arrangements and guaranteed markets for Gulf exports are examples of the forms that this might take. Recent German negotiations with Iran concerning the construction of a petroleum refinery there may also be an indication of future arrangements.

For the United States, the problem of assuring access to foreign supplies of oil to meet domestic needs is a relatively new one. At the present time, the US gets only 18 per cent of its imported oil from the Middle East, but this figure will rise rapidly over the next decade. Major US oil companies are, of course, prominent in the production of oil in the Gulf, but, as is true in the case of Europe, more will have to be done to meet the increasing competition for those supplies.

The second major challenge facing the major oil importers

concerns the problem of payment. In this respect, Western Europe has a slight advantage. The nine members of the European Community, led by Britain and West Germany, traditionally have been principal sources of manufactured exports to the Middle East. Over the last ten years, Western Europe's share of the Gulf market remained close to half of the area's total imports. In the future, the oil producing states will certainly increase their level of imports as their revenue grows. Nevertheless, these increases will cover only a part of the oil import needs of Western Europe.

Japan is faced with a similar problem, compounded by the fact that she has paid little attention to the Gulf as a market for exports until very recently. In spite of the late start, however, Japan has had considerable success in expanding sales and currently provides about 17 per cent of the region's non-military imports, mostly to Iran, Saudi Arabia and Kuwait. As in the case of concession purchases, the Japanese government is making credit available to help Japanese firms increase their sales. Still, given the expected growth in oil imports, it will not be enough.

By 1975 it is estimated that the United States will be importing about three billion barrels of oil a year at an annual cost of roughly \$18 billion. And this comes at a time when the US trade balance is already under severe pressure. As was true with Japan and Western Europe, this will require greater emphasis on exports than has been the case in the past. It will mean a conscious effort to increase production of the country's traditional exports such as agricultural commodities and the promotion of new exports. This reorientation will also require some structural changes and should include the formation of new entities dedicated to the promotion of trade such as trading companies along the lines of the very successful Japanese model.

The third question involves the problem of inducing the Gulf States to produce to meet the foreign demand for oil when many of them have no need for additional income. From the point of view of the oil producing countries, this may be the most important problem of all. For most of these countries, oil is their sole source of foreign exchange, and, as an irreplaceable natural resource, they are very concerned about preserving its benefits for future generations. This may mean limiting production so that revenues are available over a longer period, using oil revenues for diversifying and industrializing their economies to provide alternative sources of wealth in the future, or both.

In this regard, two categories of oil producers can be identified. One group, typified by Iran and Iraq, may be expected to utilize most, if not all, of their oil revenues for domestic development and security needs. These countries are likely, therefore, to continue to

expand production in order to create the capital they need to fulfill their ambitious economic development objectives. Other producing states such as Saudi Arabia, Kuwait and the United Arab Emirates, however, are unlikely to be able to spend all the oil revenues they receive and will accumulate monetary reserves. It is these countries which will require special inducements to increase production to meet the projected world demand.

What can be done? It should first of all be noted that, like Iran and Iraq, the smaller states of the Gulf are also embarking on industrial diversification programs which will exert some limited pressure for expanded production. The Saudis, for example, are making plans for petrochemical ventures and energy intensive industries such as aluminum smelting. Exploitation of natural gas fields and deposits of iron and copper is also being proposed. Kuwait is in the process of constructing a steel mill and several petrochemical facilities as well as encouraging the growth of its service sector, especially in the areas of trade and finance. Industrial projects in Bahrain include an aluminum smelter and ship repair facilities. British and French interests have recently entered into an agreement with a number of Japanese firms and the government of Abu Dhabi to explore for natural gas, construct liquification facilities, and export the gas in liquid form.

These and similar projects thus offer some scope for direct foreign investment, especially in the form of modern technology and know-how. Such inducements are likely to be attractive to countries like Iran and Saudi Arabia which have the potential to become the area's most prominent exporters of industrial products. At the same time, the greater need for capital in the large states like Iran may attract investments from the smaller ones and thereby serve as an outlet for part of their excess liquidity. All things considered, however, the opportunities for domestic investment in states like Saudi Arabia and Kuwait are simply too limited to employ productively all the excess oil revenues they will collect over the next decade. Faced with this fact, the world will have to offer the producing nations attractive investment opportunities outside their own region, if it is to meet its demand for oil.

This process has already begun. For example, Saudi Arabia and Kuwait, recognizing the limited domestic outlets available for their accumulating oil revenues, are investing more and more of their disposable foreign exchange reserves abroad, especially in Europe and the United States. Kuwait has been the most active with foreign holdings estimated to be in excess of \$7 billion, primarily in the form of short-term assets funneled through institutions like the Kuwait Investment Company. Saudi Arabia is less sophisticated in this respect and relies more heavily on traditional banking and financial relationships built up with American and European financial institutions. Perhaps as much

as one-third of Saudi foreign exchange reserves are invested in European money markets, primarily through London and New York. Again these investments are mostly short-term assets, but there are signs of increasing Saudi interest in longer term investments.

All of this means that there is an expanding potential for financial contacts, and Europe, with its traditional ties in the area, has been quick to recognize it. The French in particular have played a leading role. In 1969, Société Generale, along with Société de Banque Suisse and a number of Saudi Arabian, Kuwaiti and other banks, established the Banque France-Arab d'Investissements Internationaux with current assets of 50 million French francs. Perhaps the most innovative of these multipurpose banking consortia has been the Union de Banques Arabes et Françaises (UBAF) established by France's Credit Lyonnaise in 1970.

The most prominent function of these institutions has been to raise capital in the Gulf area for utilization in Europe by means of syndicated Eurocurrency loans to governments and corporations there. Some funds, however, have been channeled through these institutions to development projects in Africa and the Middle East. Iran, for example, has borrowed at least \$660 million since July 1972 and the government of Dubai and Aluminum Bahrain have also borrowed in the medium-term Eurocurrency market.

To encourage this trend, the consuming countries will have to make the climate for investment within their borders attractive and enticing so that the oil producers will be given sufficient inducement to diversify their portfolios. Political considerations will undoubtedly play a part, but the quality and safety of the investment will be basic. For the US, this will certainly mean more effective monetary and fiscal policies to control inflation.

In summary, it is safe to say that, if the consuming countries are to induce oil production sufficient to meet their expanding needs, they will need to pursue aggressively two-way trade and investment with the oil surplus countries of the Gulf, help them spend money as rapidly as possible on their economic development and, perhaps most importantly, find profitable investment opportunities for their surplus foreign exchange outside of the region.

The involvement of the Soviet Union in the Gulf area must be viewed from an entirely different perspective, primarily a strategic one. As far as the West and Japan are concerned, the principal question is the possible interruption of vital oil supplies by the USSR.

What is the outlook? Given the detente policy of the US and the Soviet Union, the answer, for the moment at least, is positive.

For one thing, detente has led to an understanding between the two superpowers not to let peripheral areas like the Middle East disturb progress toward the solution of the more central issue of Europe. For another, the Arabs themselves realize that the Soviet Union cannot supply all of their economic and military needs, if oil supplies to the West were to be cut off. The Soviet Union finds itself similarly dependent on the West for its own economic advance and so is unlikely to want to have its hand on the "tap."

Nevertheless, this possibility cannot be ruled out. Control of oil supplies would provide the USSR with important leverage in its dealings with the West and leverage is, after all, one of the elementary principles of statecraft. Still, the question of how this might be accomplished remains. None of the available methods seems promising. Direct invasion can be ruled out in the era of detente and, in any case, would require control of all the major sources of supply, all at once, which is probably beyond the capability of the Russians at the present time. Indirect subversion through support of the revolutionary movement in Oman and the radical regimes of Iraq and South Yemen is another possibility. But, as the case of Iraq indicates, the interruption of oil would probably only be temporary at best. Furthermore, the key to oil resources in the area is in the hands of the Shah of Iran and the King of Saudi Arabia, neither of whom is likely to be caught unaware.

Commercial competition for oil resources is a third possibility, but here again the Soviet Union faces many obstacles. At the present time, the USSR imports only about 100,000 barrels per day. To cause trouble, Russia's level of imports would have to be vastly expanded and would immediately raise the perennial problem of payment. Iran and Iraq have already expressed displeasure in this regard. The Russians could barter with military supplies, but arms deals create problems of their own. In the first place, such arrangements are more in the nature of one-shot deals in the sense that they are difficult to sustain at high levels over long periods of time. But even if they were, large armament shipments might be used in regional conflict not in the best interest of the Soviet Union. The Russians, for example, may have had a hand in restraining Iran and Iraq in their dispute over the Straits and Kurdish questions as well as in Iraq's withdrawal from Kuwait.

Still, the degree of commercial involvement could be higher. This is above all dependent on domestic considerations, three of which are worth mentioning here. First, the Soviets have ample reserves of their own. But with domestic demand rising at the rate of 7 per cent a year, there is some question whether these resources can be developed fast enough to meet the need. Price and investment cost considerations may also make Middle Eastern oil more attractive, especially as a source of crude for the refineries in the Caspian area where indigenous supplies are already seriously depleted.

Secondly, the Russians are concerned about keeping a tight leash on their Eastern European satellites and oil supplies to these countries from the Soviet Union is one way of doing it. Since 1967, Russian sales of oil to Eastern Europe have been greater than those to Western Europe. However, by 1980, it is estimated that the Soviet Union's share of oil shipments to Eastern Europe may be only 50 per cent. There is a question whether this will be enough to maintain Russian dominance in the area. Such a situation might lead to additional Russian purchases of oil in the Gulf to protect its position in Eastern Europe.

Finally, the Soviet Union would like to sell oil to the West in exchange for hard currency. This has led, in some cases, to Soviet requests to its satellites to start making their own oil deals directly with the Arabs. These purchases are now about one to two million barrels a day. If these purchases continue to grow, as they are likely to, they could provide some competition for the West. But here again, the re-selling of Middle Eastern oil to the West by the Russians is likely to create problems for the Arabs. They are unlikely to permit the Russians to sell oil in markets they have direct access to anyway. It would simply not be in their own best interest to do so.

On balance, therefore, the Soviet Union is not likely to become a major force in Middle East energy for the foreseeable future. Commercial ties will certainly increase, but even at that, the Soviet Union will probably not be a significant competitor, at least up to 1980. Eastern European purchases of oil will also increase as these countries seek to diminish their dependence on the Soviet Union and may provide some direct competition to the West. Nevertheless, the quantity involved will remain small in comparison to the needs of Japan and the West.

THE GREAT POWERS AND THE AREA:
THE POLITICAL-STRATEGIC DIMENSION

The British withdrawal from east of Suez in late 1971 made it possible to test what would happen when a "power vacuum" existed in the Persian Gulf. Would the United States and the Soviet Union come into the area and act in the capacity vacated by the British? In fact, the experience of the past two years has been that Gulf powers, such as Iran, have asserted a substantial security function in the area and that outside powers have been less active than might have been expected. This is not to say, however, that great powers presence has been negligible. The strategic importance of the entire Middle East, including the Gulf, as an area of potential Soviet-American rivalry remains; and it is the very willingness of outside powers to make major weapons transfers to Gulf states that has enabled certain of these states to play such a dramatically expanded local political and military role during the past two years. Furthermore, the position of the Gulf as a source of oil for Europe, the United States and Japan, discussed at length at another panel, is a factor which looms in the background of any consideration of the political-strategic dimension of the area.

As to United States policy in the area, one must not exaggerate American responsibility for the present condition of the Middle East, which is, rather, the outcome of decades of history during which the United States has been merely one of a number of participants. Nor should one focus exclusively on the Arab-Israeli dispute, despite the pervasive influence of this dispute on the politics of the area. It is frequently suggested that an American policy shift on this question in a pro-Arab direction would solve the problem of access to Arab oil. But many aspects of the oil access problem--the refinery shortage, the tanker shortage, the failure of the United States and other countries comprehensively to plan for their energy requirements--have little to do with the Arab-Israeli conflict and would still exist were that conflict to disappear.

The failure of the United States to exert pressure on Israeli policy is often decried. In fact, however, the relatively loose relationships which exist between the superpowers and their Middle East client states has made it possible for both the United States and the Soviet Union to pursue responsible policies in the area. Lack of Israeli and Arab control over their Great Power patrons has made it possible to avoid a situation in which the Middle East plays a role comparable to that played by the Balkans in August 1914.

Moving east and south of the Arab-Israeli sector to the Arabian Peninsula and the Gulf, the main outlines of American policy since the British withdrawal in late 1971 have been as follows:

1. A close American-British partnership in the Gulf has been maintained at the very time when the "special relationship" has been loosening in the Atlantic.
2. The United States has taken no major initiatives in the wake of British withdrawal, but has simply not altered existing arrangements with Iran and Saudi Arabia, while keeping offers of military assistance to the amirs and shaykhs low-key.
3. The United States has not encouraged Iran and Saudi Arabia to assume responsibility for the security of the Gulf. In a specific crisis situation--the seizure by Iraqi troops of Kuwaiti police posts in March 1973--the United States did not urge Iran or Saudi Arabia to intervene, but encouraged the Arab League in its mitigation of tensions between Iraq and Kuwait.
4. Finally, the United States has maintained its small naval force at Bahrain.* This has been, perhaps, the most daring inaction of all and has resulted neither in political controversy within the US (Congress has not interfered with the practical application of the US-Bahrain Executive Agreement of August 1971, despite its refusal to fund the agreement as part of the general congressional assertion of limitations on executive foreign policy powers), nor in an expansion of the Soviet naval role in the Gulf.

In conclusion, American policy in the Middle East in general has been less autonomous, more reactive to local circumstances, than is often imagined. Recent policy in the Gulf in particular has been the result of drift rather than plan. Nonetheless, the policy so shaped is in the short, and perhaps also the middle run, both prudent and workable.

Many of the same adjectives which describe United States policy in the Gulf area can also be applied to the policy of the USSR. Various political, economic and strategic factors make this an area of continuing interest to Soviet policy-makers: the potential naval importance of the Gulf, the persistence of Western influence in this more than any other area of the Middle East, Chinese influence over liberation movements in the area, possible Soviet demand for imported oil and gas, and vested interests built up as a result of previous relations between the USSR, Iraq and Iran. However, policies adopted by the Soviets

*See note, page 42.

in pursuit of these interests have been both opportunistic, in the sense of reactive to changes in local circumstances, and prudent. In Iraq after 1958 and Iran in the 1960s the desire of the local regimes to expand their diplomatic horizons by normalizing the relations with the communist bloc made it possible for the Soviet Union to establish its own position and contribute to the erosion of Western influence. Soviet influence in these countries was built, however, mainly by traditional means: diplomacy, economic ties, cultural relations and economic aid. Elsewhere in the Gulf area, local circumstances have placed strict limitations on the Soviet activity. The most obvious of these circumstances is the persistence in the Gulf of highly conservative regimes, which, so far, have shown no interest in extensive dealings with the USSR. While these regimes may eventually be replaced as a result of internal pressures, such as the presence in many Gulf countries of large numbers of aliens as a source of political discontent and the attraction of the military and educated classes to "subversive" ideas, political revolutions in the Gulf will bring about a highly volatile situation in which the risks for Soviet involvement outweigh the possible gains.

Less obvious as a constraint on Soviet policy in the Gulf, but nonetheless real, is the existence of an extremely complex network of potential intra-regional conflicts. These include rivalries between Iraq and Iran, Iran and the United Arab Emirates, Saudi Arabia and the UAA, Iraq and Saudi Arabia, and Iraq and Kuwait. Tensions between the two states in which the USSR presently enjoys some degree of influence--Iraq and Iran--have already resulted in conflicting pressures for Soviet support. Soviet statements on the contentious issues between Iraq and Iran reveal a high degree of sensitivity to the dilemmas of becoming involved in local conflicts.

The continuing role of the Great Powers in the Gulf area, as well as the constraints on Great Power action there, are particularly well illustrated in the case of arms transfers to Gulf States. These transfers involve not only the United States and the Soviet Union, but also various Western European states which continue to serve as arms suppliers to the Middle East.

The contemporary arms build-up in the Gulf area is, in fact, as dramatic in its magnitude as the current energy situation which has given Persian Gulf oil such unprecedented importance in the international economy. To cite only a few figures, Iran's projected defense budget for 1973 is two billion dollars--an eight-fold increase since the year 1966-1967--placing Iran thirteenth in the world defense expenditure league and ahead of both Israel and Egypt (as their budgets were calculated before the October 1973 hostilities). Saudi Arabia's 1973 military budget of \$1090 million represents nearly a 1000 per cent increase over the year 1966, is second only to Egypt's among the Arab states, and is nearly three-quarters the size of Israel's. Iran's tank force will, in several years' time, be much larger than Britain's, while its

fleet of hovercraft is already the largest in the world.

The primary motive for this very large military investment appears to be the vulnerability of the area to interference with the flow of oil as a result of low level violence which may erupt in the context of the various intra-regional disputes mentioned above.

An additional motive for, in particular, Iran's military program, is the possibility of a major war between Iran and Iraq. The Shah has always justified his heavy investments in sophisticated aircraft and tanks on the grounds that the Soviet Union has provided Iraq with similar equipment. There are few indications, however, that the USSR is prepared to provide Iraq with equipment on a par to that which is currently being purchased by Iran.

The relationship of the current arms build-up in the Gulf to the interests and motives of the external arms suppliers--primarily the US, the USSR, Britain and France--is complex. In the first place, the desire to retain the friendship of client states by acceding to demands for arms must be balanced against the reactions of other states whose security is affected by such arms transfers. The Soviet Union's difficulty in balancing its relations with Iraq and Iran has already been mentioned. In the case of the US, arms transfers to Saudi Arabia have implications for Israeli military planning, while the military build-up of Iran is bound to be considered seriously by India, since Iran has in the past served as a source of military hardware for Pakistan. The same logic applies to the European suppliers, especially Britain and France, vis-à-vis their respective clients.

Furthermore, those external suppliers whose primary interest in the Gulf lies in continued access to oil must consider seriously the implications of the current arms race for the stability of the area. Will an arms race in the Gulf increase the prospect for war, or will it provide for some measure of mutual deterrence among the local states? It is easy but irresponsible to make a direct correlation between arms build-ups and the likelihood of hostilities. All that can be said is that, as the scope of the arms race broadens, the calculus of costs and benefits becomes increasingly plagued with uncertainties.

The Gulf in the contemporary period is a focal point for the attentions, not only of the US, the USSR and the Western European powers, but also of several Asian states. For these states, even more than for the United States and the Soviet Union, policies toward the Gulf are shaped by circumstances emanating from the Gulf itself.

In the case of Japan, an overwhelming dependence on Persian Gulf oil for her energy requirements has led to a violation of the general Japanese foreign policy principle of separating political from economic considerations. Japan's political posture in the Gulf is to lie

as low as possible in order to avoid arousing Arab sensitivities. Japanese relations with Israel are extremely limited, and, in her stand on various colonial issues, Japan has resisted pressures from the United States to take positions which might antagonize the Arab states.

China's main interest in the Gulf is to act as a spoiler of previously existing Soviet interests and ambitions. While the Chinese have a long standing concern for Middle Eastern guerrilla movements which dates back to the Algerian war and has continued through contemporary Palestinian resistance efforts and the civil war in the Dhofar province of Oman, the major thrust of Chinese policy since 1971 has been to counter Soviet influence in Iran through the development of relations of the state-to-state level. China and Iran established diplomatic relations in 1971 and a Chinese official recently made, in Tehran, a statement supporting Iran's program of expanding influence in the Gulf. The Chinese are, thus, willing to risk antagonizing the Arab states for the sake of seizing an opportunity to out-bid the Soviets in a major regional state.

India and Pakistan's interest in the Gulf, as mentioned above, reflects a concern for the implications of the military resources, and the policies, of Gulf States for their own military security. India is clearly worried about the degree of concern exhibited by the Shah over the outcome of the 1971 Indo-Pakistani War. The Shah, for his part, is aware that India fears the threat of a Pakistan-Iran axis and has indicated his intention not to become a pawn in the Indo-Pakistani struggle.

In addition, India and Pakistan face the Gulf as poor countries, whose energy requirements are as important as those of the rich, industrialized states, but who lack the financial resources to pay ever-increasing prices for oil. It will be interesting to see if the Gulf States are willing to make a contribution to lessening the gap between the rich and poor nations either through using some of their excess financial resources for development aid or through establishing some sort of two-tier pricing system for oil.

IRAN: THE DYNAMICS OF ITS LOCAL AND REGIONAL ROLES

Much attention is now being focused on Iran, not only for its immense petroleum resources and rapid economic development, but for its strategic role as the strongest regional power in the Persian Gulf. This session took a look at the internal forces at work in Iran, from three perspectives: foreign policy, economic development and socio-economic conditions.

Prior to 1968, Iran's Middle Eastern and Gulf policy was largely an extension of its alliance policy. Iran had countered the Syrian-Egyptian power bloc through membership in the Baghdad pact and friendship with Saudi Arabia, Lebanon and the Gulf shaykhdoms. The British announcement of intended withdrawal of forces from the Gulf region, and the possibility of a "power vacuum" there in 1971, necessitated a reappraisal of Iranian policy. Of the two trends in Iranian foreign policy in the past, pragmatic and idealistic, Iran's Gulf policy has exhibited the former, i.e. it has not ignored pertinent circumstances, either internal or external.

There emerged three primary objectives of Iran in the Gulf. First, the protection of the regime's safety from internal subversion directly or indirectly sponsored by hostile Arab states or groups or by Soviet proxy. Second, preservation of free transit through the Straits of Hormuz, the Gulf and the Shatt al-Arab. Third, the protection of Iranian oil resources and facilities on- and offshore against any deliberate or accidental disruptions.

Iran's policy makers recognized that existing alignment patterns were not adequate to accomplish these objectives. Turkey and Pakistan, its partners in CENTO, had less interest in the area than the littoral states. Formation of a functioning alignment among the Gulf States themselves seemed improbably, due to the prevalence of old and new conflicts. This situation called for a new strategy: Iran should waste no time and effort in securing its own position by 1971, so that it would be able to maintain Gulf security either in cooperation with other Gulf States, or on its own.

This strategy called for both a rapid military build-up to create a "credible deterrent" and the wise use of diplomatic channels. Keeping the target of 1971 for British withdrawal in mind, Iran began an intensive program of military acquisition, especially from the US. Iran's military capabilities have increased accordingly, particularly in the mobility of its forces on the Gulf.

Iran's military build-up was facilitated by a change in US policy after the British announcement. Iran had been receiving con-

siderable economic and military aid from the US, but now traditional reluctance to sell Iran modern, sophisticated weapons began to break down. Iran immediately took advantage of the opportunity, and requested some \$600 million worth of arms over a six-year period. President Johnson promised the Shah to help build up Iran's defense. As an indication of this favorable American attitude, the US delivered the long-sought Phantom II to Iran. Deliveries continued after Nixon's election, in part due to the President's friendship with the Shah going back to 1953. British tanks and naval units were also acquired. Iran's continued commitment to defense is demonstrated by this year's budget rise of 47 per cent in defense expenditures.

Simultaneously, Iran launched a two-pronged diplomatic campaign of bargaining with the British and winning regional friends. Its most important target, diplomatically as well as militarily, was the Straits of Hormuz, the strategic international artery of the Persian Gulf. When the British showed their intention of sponsoring an Arab federation in the lower part of the Gulf, Iran linked its future recognition and cooperation with such a federation with the settlement of its ancient claim to Bahrain and the islands of Abu Musa and the two Tunbs. Bahrain provided an expedient bargaining point: Iran's claim to it could be relinquished in exchange for the three islands, which were the real objective.

When Iran did relinquish its claim, the New Delhi announcement, timed shortly after important visits to Saudi Arabia and Kuwait, pleased the Arab states, and helped get India's endorsement of Iran's Persian Gulf policies. The invocation of the principle of self-determination for the Bahraini people and the use of United Nations machinery helped bestow a moral and legal legitimacy on the relinquishment. This in turn helped Iran to establish friendly ties in the region. Though Iran had once claimed incontestable sovereign rights to Bahrain, now it was the first to recognize it as an independent state.

Relations were also improved with Lebanon and Egypt. In the light of British withdrawal from the area, diplomatic relations were reestablished with both countries. After Egypt endorsed Iran's Persian Gulf policy (as far as opposition to British presence was concerned) Iran made known its intentions to occupy the three islands. Egypt then reacted with restraint compared to other Arab nations when Iran landed its forces on the islands; it called for an evacuation of forces and cooperation with other Arab states to preserve the Arab character of the islands, but did not lodge a complaint with the UN along with Iraq, South Yemen, Algeria and Libya.

Since British departure, Iran has continued to cultivate the friendship of neighboring powers with an eye to the Persian Gulf situation. For example, an ancient dispute with Afghanistan over the Helmand River was settled, and the new Afghan regime was recognized at the same

time. Further afield, diplomatic relations were established with the People's Republic of China, also with an eye to the Persian Gulf-Indian Ocean situation.

Iran has emerged strongly as the chief power in the Persian Gulf as a whole, in spite of continued British presence in the Lower Gulf. From Kharg Island at the head of the Gulf to Bandar Abbas at the Straits of Hormuz, Iranian forces control the key sites along vital routes of communication and oil transportation. As for the Great Powers, Iran has repeatedly declared its "hands off" policy along with other Gulf States, and is opposed to the establishment of foreign bases in the area. Vessels of all flags, however, are free to visit Gulf ports.

Though a direct Soviet challenge in the Gulf may not be a threat, Soviet naval build-up in the Indian Ocean has been cause for alarm. The Soviet Union could extend its influence and power in the Gulf area indirectly through regimes and groups hostile to Iran, particularly through Iraq.

Iranian hopes for settlement of traditional disputes with Iraq (such as the Kurdish problem and the Shatt al-Arab) were disappointed by the rise of the Baghdad regime in 1968. The British decision the same year sharpened Irano-Iraqi rivalry over supremacy in the Gulf. The landing of Iranian forces on the islands intensified the conflict and led to the rupture of Iraq's diplomatic relations with Iran, and to Iraq's alignment treaty with the Soviet Union. This in turn transformed the Irano-Iraqi rivalry into an indirect Soviet-American rivalry and arms race in the Persian Gulf, in spite of the super powers' rhetoric of non-involvement. Iran's response to the Soviet-Iraqi treaty was to declare an extension of its security perimeter beyond the Gulf to the Indian Ocean.

So far, demonstrations of Iranian power have been directed against subversive activities in two neighboring states. Iran's commitment of forces to Oman against the South Yemeni-supported Dhofari rebellion, and pledge of support to Pakistan against separatist struggles (the Iraqi-supported Baluchi liberation movement) confirmed its commitment to protect the security of the area.

Iran is also committed to socio-economic development and has taken tremendous strides in this respect. GNP has recently increased about 12 per cent per annum in real terms, while per capital income is now \$500 p.a., as contrasted to \$150 twelve years ago. The oil sector contributed directly to this performance, and also indirectly by generating the resources to fuel the investment program. Industry's contribution has also been substantial: it has recently grown by the remarkable rate of 16 per cent p.a., while non-oil exports are rising. Public sector investment figures have increased by leaps in each successive

plan period. \$1.5 billion was successfully invested in the fourth plan ending in 1973. The fifth plan calls for public sector expenditures of \$4.5 billion, an immense figure and more than twice that currently planned for defense.

There are three main reasons for this success. First, Iran consciously made economic development a priority goal of national policy in the early 1950s. Second, in 1953 the plan organization was given the responsibility for the development program and authority over use of resources, mostly from the oil sector. Third, it has exhibited since then increasing adaptability to changing conditions, and might be termed a "reactive project-focused development administration."

Once the development administration had the necessary responsibility, it began setting up machinery to plan an investment program. Ministries and agencies such as the High Plan Council were created for planning and implementation purposes. The end of the plan period showed the beginnings of an infrastructure plus a growing administrative capacity in the ministries.

The third five-year plan was marked by efforts to develop strategies for a more balanced growth process, i.e. social growth was made as much a target as production, as the following objectives of "The White Revolution" illustrate. Land reform was the most important change for the economic life of the country, and its execution was successful. Other objectives included the Literacy Corps, political rights for women, nationalization of forests and water resources, sale of state-owned factories, profit sharing for workers, the Health Corps, Development Corps, reconstruction and renovation of rural and urban areas, administrative and education revolution.

The implementation of the White Revolution repaired, to a degree, some social ills, yet created new problems. For example, land reform upset old relationships such as those pertaining to obtaining credit, and thus disrupted agricultural production.

The overall growth rate for the period was still five per cent, however, thanks to the oil and industrial sectors and new developmental strategies and policies. One objective of the third plan was to focus growth attention on the modern sector, first at Tehran and then elsewhere. The creation of a middle class would provide demand for industry and stimulus for the rest of the economy. Another objective was to promote industrialization through encouraging import substitution. The third plan also aimed at expanding the existing infrastructure (e.g. power, telecommunications) in order to encourage production.

The fourth five-year plan, started in 1968, saw further refinement of developmental policies. Industrial policy was changed from import substitution to export promotion. New policies encouraged a

deepening of the industrial process. The development administration reacted to growing congestion in Tehran by prohibiting the establishment of new industries within a radius of 75 miles and by providing incentives for industrial development in other growth poles, such as Tabriz and Isfahan.

Certainly, rapid growth creates its own problems. Imbalances are inevitable and cannot always be dealt with in the context of ongoing programs. Especially noteworthy in Iran is the imbalance between the modern and traditional sectors. In spite of the brilliantly conceived Literacy Corps, 40 per cent of school age children still have no access to schooling. There is a Health Corps, yet a large part of the rural population has no access to medical facilities. The income gap is tremendous. Middle class incomes are approaching European standards while those of the rural population have remained almost unchanged.

The investment program too has imbalances. New power generating facilities are not accompanied by appropriate expansion in transmission and distribution. Dams have been completed without secondary irrigation networks.

The fifth plan, beginning this year, does suggest that substantial efforts will be made to deal with existing imbalances. Thirty-five per cent of the total annual investment of \$4.5 billion is focused in the agricultural and social sectors, including education. However, to invest effectively such an amount in areas dealing with human problems is a monumental task. Better investment opportunities have to be found, and new projects created. Some new projects are already under way, such as new forms of production in agriculture and use of the commercial banking system and credit institutions to alleviate the problem of shortness of credit for small farmers. Bold plans are also being made to meet housing, health and education needs.

The imbalances resulting from rapid modernization are also a potential problem to the socio-economic structure in Iran. The 1970s have witnessed considerable evidence of social and political malaise, such as incidents of violence and plots against the regime, yet so far the political system has proved to be remarkably stable and resilient and has remained basically unchanged.

The key to system continuity resides in the person of the Shah. He is the center of a strong socio-political structure made up of personalistic ties and connections. He is well acquainted with all the strands of this inter-personal web. Moreover, Muhammad Riza Pahlavi is a man of uncommon political ability. Among the principles he has sharpened to a fine art are: the ability to divide and rule; the ability to coopt the opposition (such as placing middle class professionals, from which group opposition could emanate, into ruling class positions);

the ability to stand as a repository of all the personal and political information he can gather; the ability to reward the faithful and punish the skeptical; the ability to maintain complete and unquestioned control of the military; the ability to be always active in the international arena.

The Shah is aided by vast pools of wealth provided by the oil reserves. He can buy time and support, while oil revenues (estimated at more than \$3.5 billion this year) provide a financial buffer capable of absorbing much discontent. External support and intervention also contribute to monarchical longevity. A now widely known example is the 1953 episode when US intelligence helped overthrow Prime Minister Musaddiq, who had challenged the central role and power of the Shah. He has also been aided by "luck and good fortune," having escaped assassination attempts and survived numerous accidents.

The most dramatic reason for the Shah's success is his reform program, the White Revolution. Land reform and the Literacy Corps, key objectives of this program, involve an important strategy. They are based on the principle of "fighting fire with fire;" here, fighting change with change. The ability of the central government to implement reforms to deal with problems resulting from change is, perhaps, a guarantee of its future success and stability.

In spite of real reform activities, Iran still has a long way to go in social and political reform. Many children still do not go to school, despite the Literacy Corps. Higher expenditures for education are included in the fifth plan, but this is not yet a performance: there is the problem of implementation. From an economic standpoint, a complex of administrative machinery has been developed with a growing cadre of trained, capable people to plan and implement the development programs. From another viewpoint, however, the administrative systems of justice, health and education are extremely resistant to reform. Even the Shah and the Prime Minister have mentioned their difficulties in implementing any educational or administrative reform.

One positive signal is the central role which has been assumed by the Empress. She is sensitive to existing problems, genuinely interested in the masses of Iranian people, especially the children, and concerned about true social reform; she is also quite influential.

Iran is in the same situation as other rapidly developing countries in that it faces the problem of modernization and its political cost. The elite, or ruling class, openly recognize the need for genuine political participation. They might say that there has been participation through the White Revolution, such as workers' participation in the factories and peasants' in cooperatives. In spite of this attitude, real political participation is one of the regime's objectives. It may be, though, that the priority accorded military build-up in the Persian Gulf means postponing the realization of this goal.

Prospects for continued economic growth are good, since growth appears to have become self-sustaining. Availability of resources is not likely to be a problem, though the emphasis on Iran's defense may draw human and financial resources away from socio-economic development. However, as long as Iran continues to offer sound investment opportunities, the world is ready to finance them, since the country is considered quite creditworthy. Thus defense expenditures need not prove a constraint on Iran's economic programs.

Iran so far has been extremely successful in establishing its weighty position in the Gulf region while pursuing a rapid course of modernization domestically. The question remains whether the political system in its present form can continue to contain internal problems by "fighting change with change." Since this depends in large part on the Shah, another question arises: What of his successor? Will he be as capable and astute a monarch, able to marshal external and internal support in times of crisis? Iran's future stability and international role depend as much on him as on the much talked about oil resources which have made the Persian Gulf--and Iran--the focus of world attention in the 1970s.

BANQUET ADDRESS*Sir William Luce*

May I say first of all how greatly honored I feel at being invited to address this banquet. When your President wrote to me he mentioned some very distinguished figures who had spoken at previous banquets, which did nothing to strengthen my self-confidence. I can only say that I think it is remarkably broadminded of the Middle East Institute to invite an Englishman to speak on this occasion, and specially one who has been a practicing imperialist for most of his career.

As one grows older the urge to reminisce becomes increasingly strong, particularly to reminisce about events in which one has played some part. But I will do my best to resist this temptation tonight because I believe that you are more concerned with the current problems of the Middle East and with likely future developments than with the course of history which has led up to the present situation. I am going to talk mainly about the Gulf for the very good reason that that is an area of which I have some knowledge and experience, and also because it is an area of great current interest which you are studying in your present Conference.

I think perhaps the right point at which to start is the ending in December 1971 of the special British position in the Gulf, which marked not only the conclusion of nearly a century of British protection of the small Gulf States, but also some 450 years of European domination of the Gulf waters, starting with the Portugese early in the 16th century. I am not going to discuss the merits or otherwise of the British decision to withdraw, much as I would enjoy doing so. This was a matter of considerable controversy in our country and I think of some interest in yours; it was obviously an important event in the history of the Gulf, but in my view it never had even the makings of the cataclysm which some people feared. Perhaps I should however say that I personally strongly disapproved of the decision to announce in January 1968 our intention of withdrawing by the end of 1971, particularly for its timing and method; but equally I was convinced that to reverse that decision three or more years later would be more hazardous than to go through with withdrawal. In any case the transition from British protection to full independence for the Gulf States had to come sooner or later and what mattered now that it should be peaceful, that there should continue to be a reason-

able degree of stability within the area and that generally speaking the countries of the region should remain orientated towards the West; these were the basic requirements both for our friends in that area and for the vital Western interest in the vast oil resources they possess. Let us then consider briefly how far the outcome of the transition has measured up to these requirements over the past nearly two years.

The January, 1968 announcement had two main effects. First, it inevitably unfroze certain problems which had lain more or less dormant under British protection; secondly, it caused the leaders of the countries in the area to take up new attitudes and to move in new directions in preparation for the ending of Britain's peace-keeping role. To some extent the latter reacted beneficially on the former. The problems arose from territorial disputes and from political fragmentation, particularly in the lower part of the Gulf. There were islands disputed between Iran and Saudi Arabia, there was Iran's claim to Bahrain and the tiny islands of Abu Musa and the Tunbs at the bottom of the Gulf, there was Saudi Arabia's claim to a large part of Abu Dhabi and parts of Oman, and there was the question of the seven little states along the Trucial coast, at least five of which had no future as individual entities after British protection was withdrawn and which could only be a source of instability if they were not merged in some wider organization. On the whole I think it can be claimed that the outcome of the combined efforts of those concerned in the area and ourselves to settle these problems were reasonably successful. Admittedly the failure to reach agreement on the Tunbs islands, the least important of the disputes between Iran and her Arab neighbors, and their seizure by Iran has left an irritant for the time being between Iran and some Arab countries; and failure to settle the boundary dispute between Saudi Arabia and Abu Dhabi, combined with King Faisal's disappointment that the Union of Arab Emirates eventually failed to include Bahrain and Qatar, has left a coolness between Saudi Arabia and the UAA of which of course Shaikh Zaid of Abu Dhabi is President. On the other hand, the change of Sultan in Oman in 1970 and the subsequent restoration of good relations between Oman and Saudi Arabia has ensured that their mutual boundary problem will remain dormant. In any case these are minor blemishes in the overall Gulf picture today, and I do not believe that any of them constitute a real threat to local peace.

What then are the main features of the overall picture? Bahrain, Qatar and the UAA have established themselves as fully independent states and members of the United Nations; their internal regimes have remained stable and reasonably progressive and they have good relations between each other and with most other Arab countries, as well as with Iran. British protection has been replaced by treaties of friendship with Britain and our relationship has remained very close; they have also established friendly relations with other Western powers and, by contrast they as yet have no formal relations with any communist

country. The US has retained its small naval presence based on Bahrain without inciting any political reaction. Oman has emerged from years of isolation and has established herself both internationally and in the Arab world; she has friendly relations with her Arab neighbors, with the exception of South Yemen, and also with Iran, and this is important in the context of her chronic security problem in the province of Dhofar. Iran, one of the key countries, has emerged as the predominant military power within the Gulf region; and this was to be expected in view of the comparative size of her population, her natural resources and, above all, the dynamic leadership of the Shah, with his determination to take over the previous British role of maintaining the security of the Gulf waters--and I emphasize the word "waters." At the same time the Shah has recognized the great importance of good relations with the Arabs, particularly those on the other side of the Gulf, because he knows that the security of the whole region must depend on friendship and cooperation between them and not on any idea of Iranian domination. Some loosening of Iran's previous ties with Israel has helped in this reorientation of Iran's attitude towards the Arabs, particularly in the case of Egypt. As regards the other key country of the Gulf, Saudi Arabia, I have to record some mild personal disappointment. I have for many years believed that Saudi Arabia is the keystone of solidarity and stability in the Arabian Peninsula; everything is in her favor--geographical size, custody of the holy places of Islam, ever-growing wealth and, above all, the prestige of the Saudi monarchy, created by Ibn Sa'ud and strengthened in the first years of King Faisal's reign. The other Arab countries of the Gulf, leaving aside Iraq of course, regard King Faisal with the respect and affection of younger brothers, and they look to him for leadership and guidance in many ways. In spite of these great assets, it seems to me that during the last few formative years Saudi Arabia has not exercised that degree of influence or given the positive leadership which would have been helpful to her smaller neighbors. I do not say this as a criticism--there is something rather endearing about reluctance to play a leading role--but I do feel that Saudi Arabia cannot escape her destiny of leadership in the Arabian Peninsula without weakening the security of the whole area.

The less satisfactory features of the Gulf scene arise from the nature and policies of the present Iraqi government. There is Iraq's ill-founded claim to Kuwait, which presents the only real threat to peace among the Arabs of the Gulf; there is the chronic hostility between Iraq and Iran and there are the Iraqi regime's ambitions to extend its influence into the Gulf. As regards the first, I personally very much doubt whether Iraq will press this claim to the point of an all-out military effort to annex Kuwait as a whole, if only because of uncertainty about Iranian reactions; but I would not rule out extreme pressure to obtain control of northern Kuwait territory which covers the approach to Iraq's port of Umm Qasr.

As for relations between Iraq and Iran, I see no hope of improvement at present, but also I do not foresee any major conflagration arising from their mutual hostility except possibly in the unlikely event of Iraq attempting any serious military adventures in the Gulf. Overt efforts to extend Iraqi influence in the Gulf, mainly by propaganda against Iran, have made little headway, and have indeed been severely rebuffed by some of the Gulf States; the fact is that the Iraqis, and I do not mean just the present regime, are not popular with other Arabs in the Gulf.

At this point one must obviously consider whether the new agreement between Russia and Iraq is likely to strengthen the latter's hand in the Gulf; and this in turn leads me on to the important question of Russian policy generally in the area. I claim no special knowledge on this subject, but certainly I can say that over the past two years Russia has played her hand cautiously; there is still no communist diplomatic mission south of Kuwait and there has been no special thrust to promote Russian trade or cultural activity. It is true that Russian warships occasionally pass through the Gulf to visit Iraqi ports, but this has been going on for five and one-half years and has made no impact whatever on the internal Gulf situation. I believe that Russia's policy will continue to be cautious for various reasons. She does not want to antagonize Iran, and if the new detente between her and the US has any meaning and substance, she will not act in an openly aggressive manner in an area of rapidly growing concern to the US. Russia's influence generally in the Arab world has declined somewhat in the past two years, mainly because she has proved a disappointing ally in the Arab-Israeli context, but also because Saudi Arabia's growing wealth has enabled King Faisal to apply his extreme anti-communist views more effectively. As for Iraq, the Russians will have no illusions about the unpopularity of the Iraqis, particularly in the Gulf area, and they must know that any overt acts of aggression by Iraq, for instance against Kuwait, would be attributed rightly or wrongly by other Arabs to their encouragement and support; I think it likely therefore that Russia will exert a restraining, rather than an inciting influence on any Iraqi military adventurism. It is a safe assumption of course that Russia has been giving some support, through both Iraq and South Yemen, to leftist revolutionary elements in the Arabian Peninsula, particularly the organization known as Popular Front for the Liberation of the Occupied Arab Gulf (PFLOAG) whose main activity has been in the Dhofar province of Oman, bordering on South Yemen, where the Communist Chinese are also involved; but the armed forces of Oman have shown that they can contain this overt threat, particularly now that her rich neighbors are beginning to give her effective assistance. PFLOAG are also active covertly in other parts of Oman and within the Gulf; but they have suffered severe reverses during the past year and provided that the governments of the area maintain constant vigilance and cooperate with each other in these security matters, I believe any threat of a communist supported take over can be contained.

There is of course another, and possibly more serious threat to stability in these countries. Most Arab revolutions of recent times have been predominantly nationalist and middle class in nature, spear-headed by a group of military officers and aimed at seizing power from governments which are variously described as reactionary, oppressive or lackeys of the imperialists. Although it would be rash to suggest that the tide of Arab revolution has turned, it is, I think, true to say that the threat of this type of coup in the countries of the Gulf is now somewhat less than it was in the hey-day of Nasserism. Once again Saudi Arabia is the key. If anything of this nature should happen in Saudi Arabia, then I am sure that the small Gulf States would very quickly go the same way, and there would be nothing effective that anyone could do about it. But if there were a coup in one of the Gulf States alone then I believe that Saudi Arabia, and perhaps, if necessary, Iran, would intervene in order to remove a source of infection in the heart of the Gulf. But what matters is that the policies of the existing governments should be directed towards reducing the causes of revolution as much as possible. Oil wealth has enabled most of them to make spectacular progress in the material fields of economic development and social services, though there still remains much to be done in which the Western powers can help with technical assistance and expertise. But as more and more of their people are educated these traditionalist governments need to provide increasing outlets for the energies and aspirations of the new generations, particularly in the administration and the economic activities of their countries. The question of political reforms is more difficult, and I do not blame these governments for their cautious approach towards democratization; but there must be some progressive dilution of traditional authority if the dangers of revolution are to be reduced. Kuwait has set quite a useful example in this direction and some others are beginning to move the same way; but they cannot afford to move too slowly.

One other feature of the Gulf scene I should mention is the rapid increase of armed forces in the region, and particularly in Iran. I have already spoken of the Shah's determination to assume Britain's former role of maintaining the security of the Gulf waters, and the expansion of his naval forces is, I believe, primarily for this purpose. Oil, and its safe passage through the Gulf, is vital to the Shah's ambitious plans for the development and industrialization of his country, and he will certainly do all he possibly can to ensure its safety. But I do not think that Iran has territorial ambitions on the Arab side of the Gulf, as is sometimes suggested. It is true that I have mentioned the possibility of her intervening to help remove what she regarded as a dangerous source of revolutionary infection in one of the small Gulf States, but I believe this would be the limit of her intervention. Apart from military predominance in the Gulf, with particular attention to Iraq, it seems to me that the main motives behind the remarkable Iranian build-up are the strengthening of her national prestige, the extension of her influence into the Indian Ocean and the ever-present

fear of encirclement by the Soviet Union. As things are at present, developments in Pakistan and Afghanistan are likely to be a greater security preoccupation than the situation in the Gulf. As for the build up of forces in the Arab countries of the Gulf, I think this is virtually inevitable with the immense growth of their wealth. Kuwait and to some extent Abu Dhabi have special defensive reasons for maintaining relatively strong forces, and Oman has a particular security problem; but none of these forces are of any real significance in the overall Gulf picture. Saudi Arabia, with its much greater wealth and larger population, appears to be arming on a rather more important scale. But here again I would think the motives to be generally defensive, without any very clear idea of a particular threat, and perhaps a capability to contribute towards stability in the Arabian Peninsula as a whole. There can be no doubt, of course, that all this increase of military power, particularly in Iran, is introducing an important new strategic factor in the Gulf region, and the old talk of a power vacuum after British withdrawal is rapidly becoming irrelevant. This new factor will clearly be favorable for the Western powers so long as the present regimes in Iran and Saudi Arabia continue. Our tidy Western minds would, no doubt, like to see all these new national forces being harnessed to the general security of the area through some form of regional defense pact; but I think for various reasons this may be difficult to achieve at present--and as long as political relations between the two key countries remain reasonably good, perhaps this does not matter too much.

It would of course be absurd for me to come all this way to talk about the Gulf, without mentioning the subject of oil--that after all is what the Gulf is all about. There are many here who will know far more about oil than I do, but there are one or two thoughts on the rather more social and political aspects of the subject I would like to put forward. Although over the next ten years or so, the non-communist industrial countries of the world are going to become increasingly dependent on supplies of conventional oil from the Gulf region, we surely know that, however awkward this may be while it lasts, it will be only a brief interlude in the long history of the world's energy supplies. We know that there are many other and far more copious sources of energy in the world which the ingenuity of man and the facts of economic life will make available to future generations. The age of conventional oil will pass and our grandchildren will maybe wonder one day what all the fuss was about. But for future generations in most of the countries of the Gulf the prospect is very different. Their whole way of life has been revolutionized in the space of half a generation because the accidents of geology have given them a natural resource of great value to the industrialized world. But, leaving aside Iran and Iraq which have sizable populations and other resources, oil, and of course the natural gas associated with it, is the only natural resource of any importance that such countries as Saudi Arabia, Kuwait, Abu Dhabi and other Gulf

States possess; and the exhaustion of that resource will threaten the extinction of the prosperity, the health and education services, indeed the whole new way of life which oil wealth has brought them. For us the passing of the conventional oil age will be just an event in the history of energy; for most of the Arab oil producers it will be almost literally a matter of national survival.

With this prospect before them it is hardly reasonable to blame the governments of these countries for wanting to make the most of their one great asset. On the contrary their situation calls for our tolerance, understanding and cooperation and for every possible effort on the part of the advanced countries to help to cushion the effects of the eventual run-down of their oil resources. We should recognize too that the oil business is primarily a matter of the play of economic forces and of commercial relations, and not of politics or nationalism, however much appearances may sometimes be to the contrary. We should keep our cool and we should avoid the use of such emotive expressions as "blackmail" and "holding to ransom" to describe the efforts of the producer governments to get more for their oil. On the contrary, we have, I think, to accept that these governments will accelerate the process of taking over full ownership of their oil and will progressively increase the revenue they get from it; while this means further rises of prices for consumers, we should remember that oil has been a comparatively cheap form of energy and a commodity that many consumer governments are taxing almost uniquely heavily.

There is another way in which the economic interests of producers and consumers may conflict. As the revenues of these producing countries which have no other natural resources to develop begin to exceed substantially what they can usefully spend, the idea of limiting the expansion of oil production in order to prolong the life of their one great asset inevitably emerges. Again we should not automatically think of this as a matter of nationalistic spite; in the circumstances of these countries it must seem to be obvious good husbandry. In any case, I believe the moderate governments of the Gulf region, and especially Saudi Arabia, will approach this particular question with great caution; I do not think it is their purpose to cause serious embarrassment and economic harm to their industrialized customers.

Having said all this about the need for moderation and economic realism, it would be quite unrealistic on my part if I said nothing about one aspect of the oil business which does arise from political and emotional causes--that is, the connection between the dependence of Europe, and increasingly the US, on Arab oil with the Arab-Israeli conflict. Of course we would all like to think that these two issues could be kept separate, but I see very little hope of that now. For years the so-called oil weapon has been talked about by Arabs with no practical results; but recently a combination of circumstances has brought it much

closer to reality. First, as I have already said, the major Arab oil exporters are now in a financial position to limit increases of production; then there is King Faisal's intense feeling about the situation in the occupied territories, particularly East Jerusalem, and perhaps most important of all, there are inter-Arab politics stemming mainly from the incompatibility of King Faisal and President Qadhafi of Libya. It is undoubtedly true that King Faisal values his friendship with the US very highly indeed; but he is a Muslim and an Arab before he is anything else. It is also true that many of the Gulf States do not feel so intensely about Israel as some other Arab countries; but it would be extremely difficult for them to stand against any lead given by Saudi Arabia or against pressure from the rest of the Arab world. Nor can help from Iran be expected in this situation. She already plans to push her own oil production to the limit; and I do not believe the Shah would allow himself to be used in any way to bring pressure on his Arab neighbors with whom he wishes to remain on good terms. He would also have to think of the effect of any such action on his relations with Russia. In other words, Iran cannot be looked to to pull American or European chestnuts out of the Arab fire. So we are faced with the prospect of some cut-back of planned increases of production by the Arab oil producers of the Gulf region, unless American policy towards Israel is adjusted sufficiently to satisfy the moderate Arabs, and in particular King Faisal; although this pressure would be applied primarily to the US, it would of course affect the interests of all consumer countries.

It would be presumptuous of me to suggest what American policy should be in this situation, but there are one or two points I would like to make very briefly. However distasteful the situation may be, I would hope that it can be approached without undue emotionalism, in a spirit of dispassionate realism. It would not, I believe, take a great deal to satisfy the moderate Arabs; they certainly do not expect any drastic change in American policy towards Israel, but they do want to see some modification of what appears to them as American support for Israeli expansionism in the occupied territories, a greater impartiality towards the whole problem and an American initiative in the direction of a settlement on the basis of what has been almost universally accepted--UN Resolution 242. As a prominent Gulf Arab put it to me very recently, they want to be able to deal with oil as a commercial matter between producer and consumer, but they need some help from the US to reduce the pressure on them to use it as a political weapon. My last point is that it will be extremely difficult to persuade the Arabs, or indeed many other people, that the US government has no means of bringing some change into the present situation if it has the will to do so.

THE ARAB STATES WITH MATURE OIL ECONOMIES:
KUWAIT, SAUDI ARABIA AND BAHRAIN

"Power" is a word that has been used in the Conference to refer to Iran. It can also be used in speaking of Saudi Arabia and Kuwait, and even of Bahrain. Sir Olaf Caroe, in his Wells of Power (1951), states that the oil industry brings with it a wealth that brings power--real power. Revising Mackinder's heartland theory, it can be said that oil has moved the heartland of power to the Gulf.

Kuwait offers an excellent case study of an oil-rich country, particularly in reference to exceptionally rapid economic growth, an available blueprint for development which other Middle Eastern oil producers may generally follow in instances of capital surplus and absorptive capacity, and the regional economic and political ramifications of emerging monetary power.

Kuwait, though rich, is not among the countries with developed or advanced economies. Her economic indicators, some of which taken alone would place it in the developed category, also contain elements of underdevelopment. Among the elements which by and of themselves would point to a developed classification are: a very high per capita income (by 1973 nearing \$4,000), a high savings rate (46 per cent of GNP), healthy annual growth rates--averaging nine per cent in the last decade--and an exceptionally favorable balance of payments. Yet other indicators tell a different story. There is the heavy dependence on a single, extractive, non-renewable and export-oriented product--petroleum. Oil revenues are expected to account for 93.4 per cent of the 1973-74 budget of \$1.937 billion. Lack of indigenous labor has brought a flood of immigration to the country while the high propensity to import points to still another characteristic of the developing economy. With the staggering per capita income and high marginal propensity to import, the domestic market remains narrow because of simple size limitations of the population. The capital surplus nature of Kuwait is evidenced in the favorable balance of payments, budgetary surplus and foreign exchange reserves. The limited absorptive capacity of the economy partially explains the favorable attitude of Kuwaitis toward external ties.

Kuwait's rapid economic growth has been dramatic but not unique. Similar things are happening to a greater or lesser degree in a number of other Gulf States and even in Libya. Massive commercial oil production and the accumulation of substantial capital reserves has been proceeding in Kuwait for a longer period than for most other Gulf States. Even Saudi Arabia has not had a capital surplus of any great proportions until the early 1970s. Kuwait's significance lies primarily as a prototype to the domestic and international investment policies likely to be seen in coming years among other Gulf States.

The Kuwaiti pattern of investment will probably be repeated--the new Abu Dhabi Fund for Arab Economic Development is closely structured along Kuwait Fund for Arab Economic Development (KFAED) lines. With strong KFAED backing, the Arab Investment Guarantee Corporation has been instituted, geared to upgrading the mobility of capital and safeguarding it. There has been as well the development of mixed private-public institutions as the Kuwait Investment Company, Kuwait Foreign Trading, Contracting and Investment Company, and the Kuwait Shipping Company. The participation agreements concluded by a number of the Gulf States with producing companies hold positive potential for nourishing greater mutuality of economic interests. Kuwait initiated renegotiations of its participation accord in June 1973; it is expected that other Gulf States will follow suit.

As for oil production, each country is likely to have its own policy based primarily on economic conditions and secondarily on political considerations. The recent ceiling placed by Kuwait on production reflects the conservation aspect in regard to oil reserves and financial considerations. While these are major factors in the decision to level off production, it is naive to conclude that only economic elements have kept the ceiling in effect. The lack of progress toward implementation of UN Resolution 242 is the principal political factor which has reinforced the earlier economically-premised decision on conservation. Further evidence of almost 100 per cent correlation between the economic and political motivations can be seen in the most recent pledge to halt the flow of Kuwaiti oil in the event of renewed Middle East hostilities.

Turning to the third facet of Kuwait as a case study for regional development, one can trace the regional economic and political ramifications of emerging monetary as well as energy power. Kuwaiti policy, as indicated in the Council of governors meeting of the Arab Economic and Social Development Fund, is to urge greater Kuwaiti and other Arab capital for regional investment through this new institution. This Arab Fund may be a signal as to Arab thinking on the direction of future investment of surplus capital. The functions of the Fund include financing projects with priority to Arab joint ventures, promoting the investment of private and public funds in Arab development projects, and providing technical assistance services for Arab economic and social development.

Kuwait has been innovative in its economic assistance. No other small country can match the actual aid disbursement of Kuwait and no nation, large or small, can equal the preparation devoted to assistance. The two institutionalized aid extending agencies are the KFAED and the General Board for the South and Arabian Gulf (GBSAG), formerly the Gulf Permanent Assistance Committee. Kuwait's loans and grants have been geared to the nearby region of the Gulf and the larger Arab region. General budgetary support has emanated from the Kuwaiti

reserves, grants amounting to about \$1 billion (1962-1972) which includes the Khartoum commitments to Jordan and Egypt.

The long standing interest of Kuwait in the small Gulf States has not diminished with the economic upsurge there but rather has shifted from economic assistance to political coordination and cooperation. The economic and political consequences of size reinforces such a trend because of the shared characteristics among the smaller Gulf entities. In July 1973, two agreements were concluded for broad cooperation between Kuwait and Bahrain and Kuwait and UAA.

Kuwait's economic and political impetus seems to be first and foremost directed toward greater stability in the Gulf area, secondly to expanded ties with the rest of the Arab world, and thirdly, to continued relationships with Europe, Japan and the United States in light of the two foregoing elements which take precedence in Kuwait's national interests and policies.

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Saudi Arabia, as Kuwait, is dependent upon oil, its economy has a surplus of capital and limited absorptive capacity. However, its size and larger population present it with different problems and prospects. Human resources are of great importance to Saudi Arabia. At the highest level, i.e. cabinet ministers, undersecretaries and "top management," Saudi leadership is as qualified, knowledgeable, and sophisticated as leadership in any country in the world. It is an impressive group of very young, serious-minded and well-educated men, many with higher degrees from American universities. It should be noted that their American educations are an important asset to the United States.

The middle level exhibits the same characteristics as other developing countries--the white collar syndrome coupled with the blue collar taboo. There is need for deep-seated psychological change to erase this image. In conjunction with the problem of the middle level is that of imported labor. The lowest levels of workers are Yemenis, rather than Saudis.

The human resources picture is not too promising for development, but some progress is being made. Aramco's successful experience can point the way to others. In Dhahran in the 1940s, the average job expectancy of a Saudi was measured in months. Now, Saudi employees of Aramco regularly receive their awards for 25 years of service to the company. General Motors has recently signed an agreement with the Saudi government for the construction of an assembly plant. It is hoped that the Aramco experience can be used here to train Saudis to replace imported labor as soon as possible. Competent outsiders are helping to bridge the manpower gap, usually on a contract basis. A Stanford

Research Institute group operates within the framework of the Central Planning Organization. Other units are in the Department of Commerce. The US Geological Survey and the Bureau de recherche géologique et minérale work within the Ministry of Petroleum and Mineral Resources. United Nations technical assistance agencies are also helping.

Meanwhile, the Saudi government is making a massive effort to build an educational system and hence improve the manpower situation. Three institutions of higher learning, one in each section of the country, are being fed by a growing system of secondary institutions. Although the pattern of education is conservative and traditional, and no miracles can be produced, changes will be effected by this effort. Manpower training occupies a very high priority in the total development strategy of Saudi Arabia.

The creation of infrastructure, another of the building blocks of development, is making amazing strides. There are first class roads. Automated telephones are soon to be operational, as are satellite and Telex communications networks. Hospitals, ports, airfields and hotels are being built at a rapid pace.

Broadly speaking, the Saudi development and investment strategy is aimed primarily at internal industrialization, as stated recently by Director of the Central Planning Organization Hisham Nazr. This reflects a change of emphasis during the last year from the announced intention, by the Minister of Petroleum and Mineral Resources, to concentrate on downstream investments. Industrialization will have to contend with problems similar to the other states of the region such as a limited domestic market and lack of resources other than oil. Regional development might mitigate some of these circumstances. Other probable areas of investment for surplus capital are the placement of substantial sums in financial institutions abroad and joint ventures in third countries, such as Kuwait has been doing. These activities would be simultaneous but emphasis placed upon internal industrialization.

Saudi Arabia's oil production, as that of Kuwait, is based on its own economic interests with a corollary to its political goals. In any case, production policy will be subtle and shrewd. As King Faisal has been reported as saying, "there will be no reckless gambling."

There are special and long term ties between Saudi Arabia and the United States, ties which are being strained. But with Saudi Arabia, the United States is dealing with a regime of careful, sober people who have a 250-year old tradition of rule. They will proceed cautiously in seeking their political goals. It should be noted that Saudi friendship for the US is more than superficial--in an area where friendship is highly valued.

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Oil was first discovered in Bahrain in 1932--the first oil strike in the Lower Gulf region. In the last 40 years, oil revenues have accounted for over 80 per cent of the country's national income. Bahrain's limited oil production, as compared with other Gulf States, has been somewhat of a blessing in disguise; it has forced the government to aim for a basically non-oil economic development plan, and the long oil tradition has helped to form an industrial labor class, the first in the Gulf's Arab littoral states.

In recent years development has been across the entire economic spectrum, promoting an essentially nonplanned entrepôt economy. The economic activity and low level of planning would indicate that Bahrain's economy, as those of Saudi Arabia and Kuwait, has yet to reach maturity. It is, however, stable, and present noneconomic, environmental conditions promise more future stability. The future economy depends on five factors:

1. Population and the education system;
2. The labor force and manpower planning;
3. Oil and industrial planning;
4. The political system;
5. Foreign relations (regional and international).

Bahrain has one of the highest population densities in the world. Almost 60 per cent of the population is under 20 years of age and the annual population increase is 3.5 per cent. The educational system, despite a 50-year tradition, is unable to cope with the growing number of school age children. More importantly, it has failed to staff Bahrain's developing economy. If no serious population planning is undertaken, the country will face major problems in public services and a brain drain of the educated minority who will seek better working and living conditions in other Gulf States.

Labor is one of the constant underpinnings of politics in Bahrain. Throughout the years its basic demand has been the right to unionize; yet by now the politicization of labor has transcended the question of unionization. This politicization has been strongly apparent in the so-called Bahrainization of labor, i.e. the process of training Bahrainis to fill jobs held by expatriate employees and concurrently devising a long range manpower plan. It is one of the most talked about and least successful of government projects. Future economic stability requires commitment to manpower planning; such commitment does not exist today.

Because Bahrain's oil reserves are being played out alternative industry is a necessity. Petroleum-based industries such as the Bahrain refinery and Aluminum Bahrain, which can use resources imported

from other Gulf States, are examples of oil-related satellite industries. Foreign capital investment is also encouraged and indigenous industry proceeding at an acceptable rate.

There is no doubt that the viability, stability and openness of any political system have a direct bearing on the future of its economic planning. Bahrain is no exception. In its attempt to build a popular political base, the government initiated a constitution and the first National Assembly is to be elected in late 1973. There has been dissension within the ruling family about this experiment in democracy but it is hoped that the Ruler will be able to translate the people's goodwill and traditional loyalty into a functional system of participatory government.

Bahrain, although relatively poor in oil, has to contend with the fact that it is situated in the greatest oil-producing area in the world. Its foreign policy of dependence for economic support on Saudi Arabia and Kuwait reflect this fact. In addition, United States naval presence through the Jufair Agreement--though limited--draws Bahrain into the American policy plans for the region. The present sensitivity of Arab-American relations over oil has placed Bahrain in an extremely delicate position. It can safely be assumed that the question of the US presence is presently under review.*

To conclude, if long range orderly economic planning is to succeed in the Lower Gulf, Bahrain would be the most likely place for it to happen. Despite several shortcomings, indications are that Bahrain could reasonably expect a bright economic future. The lessons learned there can be applied to others as their one resource is depleted and the future faced.

*The Bahraini government canceled the agreement on October 20, 1973.

THE PHENOMENON OF NEW WEALTH AND CONTINUING POVERTY:
QATAR, ABU DHABI, SHARJAH, OMAN, THE POOR SHAYKHDOMS
AND THE YEMEN ARAB REPUBLIC

Because of the wealth in oil revenues coming into the Lower Gulf States, these essentially tribal societies which only recently have emerged from isolation have formed alliances to help soften the blow of modernization upon their economies and upon their people. Through a gradual recognition that their societies must somehow assimilate into the modern world in order to survive, there has been an attempt to adapt to this interdependency by self-assistance, by foreign assistance, and, in the case of the Union of Arab Emirates (UAA), by mutual assistance.

Despite similar problems of learning to deal with pressures of modernization and yet keeping a stable society, each can be considered sui generis. Each of the states is in a different stage of development, and the economic disparity that exists among them is but one manifestation of the indigeneness of their problems. As not all of the states of the Arabian Peninsula are oil producing, the same disparities that exist between Saudi Arabia and Bahrain are the same that exist among Qatar and Oman and, in the UAA, between Abu Dhabi and Fujairah. Even among the oil producers, Qatar's revenue is less than half of Abu Dhabi's, Dubai's wealth is about half of Qatar's. Seven oil producers have over 40 per cent of the population of the Peninsula and 92 per cent of its income. Oil producers have 15 times the per capita income of the non-oil states. If Oman, with its rapidly depleting oil supply, were added to the list of rich states, the per capita income of the rich states would be 22 times the per capita income of the poor. In the UAA, so hegemonic is Abu Dhabi's wealth over other states, that the Union has been facetiously termed Greater Abu Dhabi by some observers. Abu Dhabi and Dubai together account for approximately 45 per cent of the UAA's gross national product and for over 50 per cent of its population.

To lessen these great economic differences, the wealthy states of the UAA have provided most of the financial assistance for government operating expenses and for education. Abu Dhabi has formed a development fund and has, with Dubai, provided ad hoc grants to other members.

Because the oil economy has been superimposed on countries that do not have institutional arrangements or infrastructure to manage and absorb it, the wealth is highly concentrated in the upper echelons of society. Since the patriarchal type of government suggests that the interests of nationals be served first, and since these countries have not had educational institutions to train or otherwise prepare their nationals for industrialization, a prosperous economy does not mean a

prosperous society. As a consequence, it may be a long time before a great many residents see the results of living in a rich nation. Besides the development of non-oil economies, the political structure of these countries plus the lack of native human resources pose the greatest problems to rapid modernization.

Oman is one country upon whom oil depletion is a reality. Its supply decreasing, Oman is nevertheless finding its profits growing due to increased oil prices--thus it is ineligible for soft loans to develop other areas of its economy. Optimistic views are held concerning Oman's ability to continue economically if some foreign investment is made in the country. Fishing is seen as promising, and agriculture is not as unlikely in Oman as elsewhere on the peninsula due to the country's mountains, which catch rainfall. Tourism is also seen as a possibility.

A recent visitor to Oman painted a somewhat brighter picture of the country. Oman was considered to be not rich in oil, but neither was it resource poor, and it is the only state to be self sufficient. New fields will be taking up the slack of existing decline, and Sun Oil has a new concession offshore.

A problem of the future predicted was a regional imbalance caused by most of the educated population going to the coast, leaving the interior where the pay was not as good. If migration from interior doesn't stop, Oman could have just a coastal population.

The revenues pouring into the Lower Gulf States have been estimated to reach \$2 billion per year by 1975. It is questionable whether reinvestment into developing other industries and resources would be fruitful. One suggestion was that the states do what they can to provide employment and invest the remaining funds into a country with a known growth potential. The possibility that non-oil economies could be developed was viewed as negative by one, yet optimists would have investors explore every avenue to prepare for the day of oil depletion. It was pointed out that existing industries, primarily construction, are dependent upon the level of purchasing power concomitant with an oil economy, as are fishing and entrepôt trade. Only Bahrain, with its long term past receipt of oil revenues, has a reasonably well developed non-oil economy.

The Yemen Arab Republic, a non-oil producing state, is regarded as being in competition as the "World's Least Developed Country." Its economy is based on agriculture, yet it must import food. Its emigrants, and their generous remittances to families back home, provide Yemen with an economic backbone. The country has attracted investors and regional and foreign aid to promote its development.

To accommodate modernization, three varieties of governmental structure have evolved in the Lower Gulf States--the first of which is the patriarchal family-ruled shaykhdom with little administration specialization. The second type is the bureaucratized shaykhdom or amirate with or without a consultative assembly. The third is the confederation based on a constitution (UAA). The conflicts that arise among them are, then, continuations of long term disputes. Some are tribal, some are boundary and territorial disputes, and some are simply jealousies which have built up over the years between the ruling families. Other sources of conflict, particularly within the UAA, are clashes between tradition and modern practice, between foreign-born (who have emigrated to the oil countries and who now dominate the labor forces of the states) and nationals, spending priorities, economic and social dislocations, and inflation.

The prospects for short term political stability in the area were thought to be good; however, the long term view is not. It was predicted that internal security would be precarious due to palace infighting. Factors bracing the short term stability were thought to be the moderate policies of Shaykh Khalifa of Qatar and Shaykh Zaid, President of the UAA. Both shaykhs are trying to ameliorate rapid economic change with their basically tribal societies. They are thought to be concentrating upon such projects of an economic, communication, and administrative nature so as not to arouse the fear of their people. It was thought important to remember that in a patriarchal society, decisions are not likely to be made along the lines of ideology, but rather along family-oriented values. Whereas it was thought political security may be threatened by emigrants in the work force, signs are that since loyalties here are to the employer rather than to ideology or interest group--the same reasoning holds true. Yet the long term forecast is stormy, as is common in modernizing societies. Within the UAA itself, there is seen a possibility that the individual shaykhdoms may feel too strongly the presence of an increasingly stronger central government, and feel its sovereignty threatened. In seceding from the Union, a state may meet resistance.

Another great influence on political stability in the Lower Gulf States is the great disparity in the rates of development of material and human resources. Human resources develop in a much slower, cumulative process whereas material resources tend to respond to the checkbook. Predominance of foreigners in the labor force was mentioned as a source of instability but was discounted for three reasons: 1) the indigenous inhabitants are comfortable--not unhappy, with their present jobs and job benefits, 2) their economic status and social status is not threatened at the present time, 3) foreigners' loyalty to employers rather than to ideology, as mentioned above.

Most countries are interested in hiring only nationals, but because there was no need to train people before the oil booms, they

were ill-prepared for the highly technical skills needed. Many were illiterate and thus rendered untrainable. Since there were not enough nationals to fill the job openings, people from other countries which had better educational facilities filled the upper, middle and lower echelon positions. The aim of many countries is to educate as quickly as possible and fill upper positions with nationals, thus gradually pushing foreigners to lower positions and finally, out of the country. Because throughout the Gulf the areas of most dynamic economic growth are capital-intensive industries--that is oil or oil-related industries--the skills will remain beyond the capabilities of their indigenous populations for some time.

Bahrain, of all the Lower Gulf States, is considered the most highly developed and consequently is seen to be a prototype of the direction other now underdeveloped states of the Persian Gulf will take. Its educational system is over fifty years old, and, although it can fill two out of every three positions that require a secondary education with Bahrainis, a much longer time is needed before the professional need is filled.

The solution to the severe manpower constraints is to be able to provide basic literacy so that people can be trained, and to increase the number of the variety of skills of citizens as soon as possible. This can be done either through structuring a formal education system or through training programs by companies needing the skilled labor.

It was recommended that in all of these countries, such a national policy for strengthening human resources should be founded on two principles: The first is shortening and condensing basic primary school curricula and combining this with background for directly relevant occupational skills. The second principle is providing intensive on-the-job training with some remedial education by both government agencies and private companies and organizations.

THE RADICAL PATH:
IRAQ AND THE PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

Iraq and South Yemen are both being considered here as radical states, with radicalism having certain implications for their external relations. In fact, their radicalism is rather different. While both states were essentially tribal at the point when the basic revolutionary upheaval occurred, Iraq did not have, in 1958, the "medieval" social structure which Yemen still had as of 1967. Partly as a result, the predominant goal of social progress has developed gradually in Iraq; while in South Yemen social transformation has been the overwhelming aim of the regime from the outset.

In the Iraqi context, radicalism implies the following aims and goals: First, rapid and large scale transformation of the social and economic structure of the country. Second, control over the country's own resources and the direction of its economic development. And third, a reduction of foreign influence in internal affairs to a minimum.

However, having stated these basic goals, one should emphasize the constraints and limitations on policy which will increasingly affect the future actions of the Iraqi regime in the foreign policy sphere in general, and particularly in the Gulf. These constraints, essentially, are four: First, the regime's recent diplomatic isolation from almost all of its neighbors; second, Iraq's weak littoral position on the Gulf; third, uncertain internal political stability, which may distract the regime from achievement of its foreign policy goals; and, fourth, the question of the dependability of Iraq's sole Great Power ally, the Soviet Union.

Much of Iraq's isolation is of her own making. The radical rhetoric of the regime has undoubtedly worried neighboring states. On the other hand, the military build-up in the Gulf has worried Iraq and contributed to its sense of isolation.

It must be recalled that Iraq is the only Arab state to be bordered by two powerful non-Arab countries. At the moment Iraqi-Turkish relations are good. Indeed, Iraq has turned to Turkey on occasion for mediation of her disputes with Iran. More significant is the recent Iraqi-Turkish agreement to build a pipeline from the Kirkuk oil field through Turkey to the Mediterranean. Iran, on the other hand, has been a source of foreign policy problems for Iraq on a variety of fronts. Above all, Iraq fears and resents increasing Iranian hegemony over the Gulf and the dramatic Iranian arms build-up. In the north, the Kurdish problem gives the Iranians an opportunity for interference

inside Iraq. In the south, the dispute over the Shatt al-Arab remains critical. A 1937 treaty gave Iraq control over that waterway up to the Iranian shore. Iran always protested the treaty and abrogated it in 1965, touching off a confrontation which reached its height in 1969, with the concentration of troops on both sides of the border. Iran presently has naval vessels using the waterway--in fact, policing it--and Iraq fears that in a crisis Iran could blockade the port of Basra. Iran is militarily superior to Iraq in virtually all types of forces, and, while Iran has been able to avoid Iraqi interference with its shipping from Abadan by constructing another port on the Gulf, Iraq has not yet been able to take comparable action. Iraq has, instead, used radical tactics to retaliate in its struggle with Iran. It has revived, in Baghdad, the Khuzistan Liberation Front, which demands the liberation of a heavily Arabic-speaking Iranian province and has supported the Baluchi Liberation Front. In February of 1973 a large cache of arms was found in the Iraqi Embassy at Islamabad--destined, allegedly, for the Baluchis.

While Iran is the most serious foreign policy problem for Iraq, Iraq also has reasons to view with concern its Arab neighbors to the west and south.

In Syria, a rival Ba'th regime is in control. While the origin of this rivalry lies in ideological disputes, it is less ideology that worries the Iraqis than Syria's ability to damage the Iraqi economy. The Syrians have had control over the flow of oil to the Mediterranean from the now nationalized Kirkuk field, control which was demonstrated recently when, following Iraq's agreement with the IPC over the terms of nationalization, the Syrians demanded and got a higher transit fee. The Iraqi pipeline agreement with Turkey was motivated by a desire to avoid further Syrian harassment. Furthermore, Syria has another hold over Iraq with the recently built Euphrates Dam, which could, in times of drought, deprive Iraq of much needed water.

Last, but certainly not least, are Iraq's relations with Kuwait. The most recent episode was the Iraqi occupation, in March 1973, of Kuwaiti territory in what Iraq claimed was a disputed border area. Iraq's Foreign Minister went so far as to say that all Kuwait was disputed territory. The Iraqis have since apologized for their action and negotiations are taking place. The occupation was, however, no accident, but is linked to the second constraint on Iraqi policy, the question of access to the Gulf.

Iraq is on the threshold of an oil boom, based mainly on the Rumailah fields in the south. Production from these fields is scheduled to rise rapidly during the remainder of the decade. But Iraq must find ways to transport this oil through the Gulf. It must be remembered that, despite its strategic position at the head of the Gulf, Iraq has less than forty miles of coastline directly on the Gulf, with access

only through shallow waters at the end of a delta. Navigable access to the Gulf lies through waterways largely controlled by others. Furthermore, the present Iraqi port facilities south of Umm Qasr, offshore at Khor al-Amaya and at Fao cannot accommodate supertanks, even aside from the question of access. This is where Kuwait is critical. One plan suggested was for a pipeline to be built through Kuwait to a deep water port off Kuwaiti shores, and there were, apparently, negotiations to this end. They fell through, possibly because of Kuwaiti objections to Soviet participation in the construction or to proposed Soviet naval use of the port facilities. Another proposal is for Iraq to build a deep water port at a new terminal at Khor al-Khafji, 40 kms. offshore from Fao and 35 kms. west of al-Amaya. This would be offshore of the Kuwaiti island of Bubiyan. Iraq is also interested in Bubiyan and the adjacent island of Warba because the 50-mile long passage from Umm Qasr to the Gulf must pass close to these two islands. For these reasons, as well as for the sake of strengthening her claim to disputed offshore oil beds, Iraq is anxious to gain control of the islands. The failure both of the pipeline negotiations and of Iraqi attempts to persuade Kuwait to concede control of the islands were, undoubtedly, motivating factors for the recent occupation of Kuwaiti territory.

The third constraint on Iraqi policy is political instability at home, which has been the chronic internal problem of all regimes since the Revolution. The present Ba'th regime has just celebrated its fifth anniversary, and has lasted longer than any other post-1958 regime. But internal security problems still exist.

One is the Kurds, who thus far have refused to enter the projected National Front. There is a March 1974 deadline for the establishment of Kurdish autonomy, but no census has yet been taken in the north, and the Kurds are demanding a greater share of real power in the central government, through seats in the Revolutionary Command Council. This the Ba'this have so far refused to grant.

Another problem is the narrow base of political power in the regime. The regime was, apparently, given a rude shock by the attempted coup of Nadhim al-Qazzar in the summer of 1973, during which the Minister of Defense was killed and the Minister of Interior wounded. In the wake of the coup have come proposals for modifications in the structure of party rule.

Previously all authority rested in the Ba'th Party and was exercised through the Revolutionary Command Council, a group of fifteen men, all Ba'this and most of them related to each other through common origins in the village of Takrit. Nominally above the RCC were the Regional and National Commands of the Ba'th Party, but these largely existed for purposes of party recruitment.

The proposed changes include both new elections to the party apparatus and the establishment of a 100 member National Council which will include political figures other than Ba'this. Agreement on the National Council, however, hinges on the formation of the long-delayed National Front, whose Executive Committee is to consist of eight Ba'this, three communists, three members of the Kurdish Democratic Party and two independents, presumably including a Nasserite. One suspects, in any case, that the Ba'th is attempting to broaden its base of support, but not to share the real decision-making power.

The fourth constraint on Iraqi policy arises from the dependability, or lack of dependability, of relations with Russia. There is no doubt that the Soviet Union played an important role in Iraq's dispute with IPC, not only backing her position publicly, but also arranging the purchases of oil which tided Iraq over the rough period. The USSR is also helping to develop the North Rumailah field. In return, the Soviets would like some kind of naval facilities at the head of the Gulf, though not necessarily a base.

The Russians, however, are caught in a situation in which they have interests in both Iraq and Iran. The Iraqis realize that in any crisis situation they cannot count on outright Soviet support against Iran. In fact, despite the Iraqi-Soviet Friendship Treaty, relations between Iraq and Russia are a marriage of convenience. A recent cooling of relations is indicated by the Iraqi refusal to allow the Soviets, East Germans and Czechs to open cultural missions in Baghdad.

The Russians also have a problem with the Iraqi Communist Party. There is hostility of long standing between the Ba'th Party and the communists and the communists themselves are not entirely amenable to Russian control. They agreed to enter the National Front only after considerable arm twisting in Moscow and would prefer to bid for complete control of the government by themselves.

Given these constraints, how radical is Iraq's policy likely to be in the future? Iraq does practice subversion on occasion. Iraqi contacts with the Khuzistan Liberation Front and the Baluchi Liberation Front have already been mentioned. It may also be assumed that Iraq has contacts with the Popular Front for the Liberation of the Occupied Arab Gulf (PFLOAG). In 1970 Iraqis were said to be involved in attacking army posts in north Oman, and in September 1971 Iraqis were accused of helping to foment labor unrest in Oman's oil fields. So far, however, these efforts have fizzled out. Indeed, they have backfired by raising suspicions in the Gulf area of Iraqi intentions. Nor have aggressiveness and radical tactics paid off in Iraq's relations with Kuwait.

There is evidence that Iraq is now, quietly, turning to traditional diplomatic means to achieve its foreign policy goals. Iraqis

have made moderate statements about the United States, Britain and West Germany and have indicated that they would welcome commercial relations with the US. Iraq is negotiating its differences with Kuwait, and, according to reports, has even begun quiet talks with the Iranians. The settlement with IPC should free Iraq from much of its economic dependence on the Eastern bloc. Iraqis have stated that they will not renew the oil barter agreements with these powers, but prefer to sell oil on Western markets for hard currency. Oil can give Iraq what it wants in terms of independence and economic development, but to benefit from oil revenues Iraq must have good relations with neighboring states. These facts are likely to have a moderating influence on Iraqi policy.

However, if Iraq is not taken into Gulf councils, if continued purposeful isolation of Iraq, especially sabre rattling by Iran and the West, is present, Iraq may conclude that it has no alternative except to return to subversion, and to the use of oil as a political weapon.

Radicalism is, perhaps, a more profound factor in the policies of South Yemen than in those of Iraq. Of all the countries in the Arabian Peninsula, none can claim to have undergone so profound a transformation of its society in the past few years as Democratic Yemen. Indeed in this state to which Great Britain transferred national sovereignty in November 1967 the absence of a continuum in the political realm from the preceding era could hardly be more striking. Gone from the scene in the span of those six intervening years are not only all of the various governing bodies associated with the South Arabian Federation but also the entire network of governments ruled by shaykhs, amirs, sultans and sharifs which for decades had dominated the politics of the hinterland.

Since independence the National Front regime, in breaking almost completely with the types of political and governmental institutions with which its predecessors identified, has set about instead to establish the peninsula's first socialist state. Although much of the government's energy thus far has been spent in erecting a viable system of national defense and internal security, and in instilling a new set of political attitudes and values into the country's cadres, its leaders have simultaneously launched successfully a number of major programs in the field of social and economic development and at the present time appear to be more firmly entrenched than at any point since they came to power in June 1969.

Given the ambitious nature of some of the National Front leaders' basic objectives--as symbolized by such slogans and concepts as national unity, socialism and anti-imperialism--it is not surprising that some of their achievements to date have been only partially successful. The reasons for this have to do in large measure with a number of problems that have plagued the regime since the first day of independence and will most likely be around for some time to come. Some of these problems are similar to those which plagued the British in their

efforts from the 1930s onward to create a more rational system of administration and government for the country: namely, the types of difficulties inherent in a centuries-old civilization rooted in traditionalism and tribalism and subsistence level and service-oriented economies, as well as those that arise from the ongoing impact of poor health conditions and illiteracy, problems which continue to characterize the majority of the population that lives in the rural areas.

In addition, numerous other problems, some unforeseeable, have intervened. For example, the regime has continued to suffer from the enormous financial difficulties caused by the withdrawal of the British military presence at independence and the closure of the Suez Canal since the Arab-Israeli War in 1967. Most people tend to forget or overlook the fact that the economic blow dealt to Aden by the June War was proportionately much greater than that dealt to Egypt, Jordan or Syria; in the process they tend to be unaware of the fact that Democratic Yemen did not in 1967 nor has it subsequently ever become a beneficiary of the Khartoum Agreement whereby Libya, Saudi Arabia and Kuwait agreed to provide the aforementioned states with substantial financial assistance in the form of annual payments.

Moreover, since its founding, Democratic Yemen has been in an unsettling on-again-off-again relationship with the neighboring Yemen Arab Republic to the north, with talks of unity between the two states unable to obscure some major political differences between them. In addition, the regime remains ideologically and diplomatically isolated from its two other neighbors: the Sultanate of Oman and Saudi Arabia, with the latter state allegedly continuing to contribute substantial financial and material support to various groups of dissident exiles from Democratic Yemen seeking to overthrow the Aden government.

While serious economic problems and tense relations with its neighbors have troubled the country since independence, both the present regime and its predecessor have also had to contend with periodic industrial strife and unemployment in Aden as well as with resurgencies of regionalism in the interior. The latter problem, in particular, has repeatedly frustrated the government's attempts to establish viable relationships with some of the more remote areas of the countryside, including areas near the Yemen Arab Republic and Saudi Arabia up around Beihan in the northern part of the country and in the vast Hadramawt in the eastern sector, where a quarter of the country's population lives.

In short, the National Front government remains confronted by a number of formidable internal and external obstacles but is continuing in its efforts to weld together a unitary state and a system of regional integration--an experiment that, of necessity, is difficult and radical, for it is taking place in a society that is largely devoid of a tradition of regional cooperation. In this process, the country's

leaders face many of the normal difficulties of an emergent state in which a deep-rooted sense of national identity and unity, though growing, is still distant and most likely will remain so for some time yet to come.

Despite the numerous and far-reaching problems mentioned above, the regime has registered some important achievements in the past few years in several areas of national development. For example, of particular importance in helping the government to broaden the base of its popular support have been a wide range of socio-economic benefits extended to the rural areas where the majority of the people reside. Many of these benefits of course would not have been possible had it not been for the assistance of several UN agencies, the Soviet Union, China, Iraq, Kuwait and various East European states. Aid officials from these institutions and countries, working alongside the Aden government's own cadres, have undertaken road building projects, helped to modernize and expand the country's fishing industry, conducted mineral surveys, dug wells, built dams, irrigation works, bridges and a number of small factories, erected schools, clinics and hospitals, and to help administer and implement all of these programs have supplied close to a thousand technicians, teachers, doctors, engineers and other professional personnel. The results have not all been as successful as the planners would have liked, but, on balance, the programs launched in these fields have made significant contributions to the country's social and economic infrastructure.

In addition, arms supplies and military advisors from the Soviet Union, assistance from East German specialists in modernizing the police forces, and, more recently, help from Cuba in establishing popular militias have also been of enormous importance in increasing the country's defense and internal security capabilities and, indirectly, in contributing to the increased political stability of the regime. With regard to the national defense forces, most observers seem to agree that the small but respectable army the country inherited from the British is superior in terms of organization, equipment and efficiency to the armed forces of Northern Yemen and that it not only could hold its own against the Sultan's Armed Forces in Oman but also could probably successfully defend the country against a sustained invasion emanating from Saudi Arabia.

The proliferation of social and economic programs such as those described above--together with a three-fold increase in the number of school children in the past six years, the implementation of an agrarian reform program and the recent launching of the country's first Three-Year Plan--has not only helped to broaden the base of popular support for the regime; it has also brought new interest groups and classes to prominence within the political system. Such groups, comprised typically of many of the beneficiaries of these programs, include student associations, labor unions, women's organizations, the militias and a

variety of state farms, public corporations and production, distribution and consumer cooperatives established among the urban working class, peasant and fishing communities since independence. Like the leaders of the country themselves, the members of these groups are mainly of humble and rural origins.

With the ascendancy of these groups as additional and in some cases new pillars of support for the regime, other groups and classes, many of which only six years ago comprised a substantial and quite influential segment of the population, have passed into almost total political eclipse. Comprised essentially of all those civil servants, army officers, merchants, landlords and shaykhs who formerly identified with the ruling elites of the colonial era, these groups, together with the heads of most of the political parties that flourished before independence, constitute the principal opposition to the regime. The vast majority of these individuals, however, are nowadays located outside the country, many of them just across the border. As such they are near enough and active enough to give the regime genuine cause for serious concern, but, thus far, apart from occasional cross-border forays into some of the outlying regions from their camps in the Yemen Arab Republic and Saudi Arabia, they have not been able to pose a credible threat to the government.

CONFERENCE SUMMARY

Joseph J. Malone

I can conclude by paraphrasing Dean Fisher, and saying that we are not sorry we have been here. This has been a most comprehensive and instructive Conference. The durability, indeed, the staying power of the audience has been impressive. This suggests (to me at least) that any energy crunch over the decade to come will hold no terrors for audiences of this kind. They can surmount almost any kind of problem.

One of the themes which came through so clearly in the Conference was the pace of change, how rapidly the situation has changed in the Arabian Peninsula and in the Gulf in the years since World War II. I recall Edward Henderson* telling me of an incident on the Jabal Akhdar many years ago when he was attempting to win the support of a particular shaykh. Edward thought it would be a good thing to take him up in a small aircraft that was at Edward's disposal. The shaykh was driven to an improvised airstrip and loaded aboard the aircraft. After a trip around the district, they returned to earth and to the shaykh's hospitality. He was highly enthusiastic, saying that the machina was outstanding and that he really wanted to have one. Edward was somewhat concerned about all of this, and asked the pilot to explain the maintenance problems and that sort of thing. Finally, the shaykh said, "Oh no, no--not that machina; that doesn't interest me. It's the other one in which we went to the field to go on this flight." He wanted the Land-rover. Only then did Edward realize that this gentleman had been exposed to the entire transportation revolution in one day. He had never been on wheels going over land before, much less on anything that went into the air. And yet as early as 1971 Sultan Qabus of Oman was using a helicopter to win the hearts and minds of his people; and talking also about strengthening the roof of the palace in Muscat so that he could land there and not be subjected to delay in getting through town, which involved receiving the plaudits of all the tribesmen.

*Now British Ambassador to Qatar.

At a recent conference I renewed an old friendship with a British financial wizard--I say "wizard" because he was the man who convinced Shaykh Shakhbut of Abu Dhabi that he should put his money in a bank. My friend, having gotten the money out from under the Shaykh's bed and into the bank, thought he had done rather well. Some time later he was having a post-prandial stroll along the beach in Abu Dhabi when he ran into Shaykh Shakhbut. Shakhbut said, "Oh hello--very good that I should run into you just now. I'm coming to the bank tomorrow; I want to see my money." The beleaguered banker had to go to great lengths to have money flown from Bahrain and elsewhere so that Shakhbut could be shown his money. More recently, Shaykh Zaid, for all of Abu Dhabi's oil production, had little money to show because of exuberance for one kind of "rapid development" project after another. Not for long has he been in the position to say, "I would like to see my money." Of course, Zaid is much more sophisticated than his half-brother who, as Sir William Luce remarked the other day, was an ideal man to be a traditional Gulf ruler--the only problem that beset him was that very vexed problem of oil.

We have learned a great deal at this Conference. I have even learned the name of the commander of the Middle East Force, if not the raison d'etre of the Middle East Force. The keynote address was superb. Tom Barger gave us an excellent presentation, and put the energy crisis in its Arabian perspective for us. But as he was talking in his modest and self-effacing way, I was struck by the thought that what he said was very important, but what he represents is even more important. It is forty years of deep American involvement in the Middle East, interaction with Arab people from every walk of life, generosity given, generosity received. That is one of the most important assets we have, and it is not necessarily a wasting asset. If we develop these ties through American institutions of higher education and in other ways, we have much to hope for in years to come in the Middle East.

For many years, I had the privilege of being associated with that remarkable institution, the American University of Beirut, and during that time became fully aware of the legacy of the Syrian Protestant College. The AUB is important for many things: it is a transmission belt, a means by which American technology becomes broadcast over the Middle East through the training of people from all Arab countries. But it is also important as indeed is the College of Petroleum and Minerals or the American University at Cairo for the human relationships that develop there. Were I to be an historian for a moment and to look back over the years to the period between World War I and World War II, how could I answer the question, "Who was the single most important American in terms of our Middle Eastern involvement?" Would it be Woodrow Wilson because of fine principles, not too thoroughly invoked in the Middle East? Or Franklin Roosevelt for his remarkable if controversial role in terms of American involvement there? Well, good arguments could be made for both and for many others. But the man I would single out would be

Bayard Dodge. The kind of Arab-American relationship he developed over the years at AUB could make it possible for America to maintain its position as a country with important and viable Middle Eastern interests, with all the interaction which that suggests.

Implicit in the proceedings of this Conference was the fact or assumption that there will be an energy crunch, that our hedonistic consumers' mentality will provide that crunch, and that to admit this at least helps us identify the dimensions of the problem. More explicit was that we need the Middle East; and that we need it for its oil. Not so clear is the fact that we have needed it for a very long time and that the Atlantic Community's reliance on Middle Eastern oil, which has been described at this Conference as if it was more or less a recent development, has been a continuing factor. One may recall that gasoline rationing began in Great Britain within 24 hours of the outbreak of the 1956 Suez War. I think that is something we need to keep in mind. We heard a statement (which was not sufficiently underscored) about the growing energy requirements of COMECON, the East European nations. We will have to study what that portends in terms of the Middle Eastern oil production as well.

I was extremely interested and pleased that Phillips Talbot should emphasize the growing energy needs of the Third World--the political, economic and social ramifications of that aspect of the energy crisis. As he and some of the other conferees spoke about the Indian subcontinent, about Iran's developing special relationship with Pakistan, and of approving remarks of a Chinese diplomat in Tehran concerning Iran's forceful Gulf policy, my mind was boggled indeed by the vision of a Peking-Islamabad-Tehran triangle. The situation in Baluchistan took on a new dimension with thoughts of what Baluchistan could mean in terms of a pipeline from the Gulf to China's interior. That, of course, is looking far into the future. However, it is something we should think about from time to time.

Also implicit in the Conference was this: in the decade ahead, in developing a rational relationship with the Arab oil-producing countries, and the extent to which we achieve agreement on sharing a wasting asset, will greatly influence our relationship with all Third World countries. These countries possess other raw materials--tin, copper, and other minerals and commodities which American and all Western industry will require. The availability of these materials will in some measure be determined by "the Middle Eastern precedent."

There have been so many conferences recently and so many columns of newsprint on the energy crisis (and on the Middle Eastern dimensions thereof) that I had some reservations about the success of this Conference. I cannot conclude without stating that nowhere have I seen a more constructive or responsible consideration of so vital a sub-

ject than that which we have had yesterday and today. It is in rather startling contrast, for example, to something that happened in another part of this city recently when the ghost of Musaddiq was raised as a precedent upon which future oil policy might be based. It was reminiscent of the era of "...we are eyeball to eyeball and I think that he blinked." I am therefore especially pleased that this Conference has embraced in its numbers many people who will be making recommendations on policy now that the State Department is back in the business. I am sure that it can secure its place as the best foreign policy-making organization in Washington if it takes the recommendations of this Conference seriously.

In this Conference we have affirmed that there are compelling reasons for maintaining and furthering the circumstance in which the citizen--the American citizen--and the policy of his government are viewed as separate entities by our Arab friends, for there will be in years ahead great strains because of our relationship with Israel. One may wonder how much that relationship will change. It is often difficult to determine which nation is the client of which nation. I often recall Russell Baker's remark that there were only two great powers in the world--South Vietnam and Israel--and now that South Vietnam has been dealt with, it is worrisome that there may be only one great power left in the world.

Certainly one of the recommendations of this Conference is that we must be resourceful enough to help the oil-producing countries of the Middle East develop their infrastructures. This applies as much to Iraq and Iran as it does to countries with large resources and rather small populations. I am unhappy when I see Iraq being cast irrevocably in the role of a Soviet client, which I do not think it is. We must, however, moderate or orchestrate our assistance in the development of infrastructures in such a way so as to not create that kind of social disorganization which Dean Landen and others mentioned this morning. I recall meeting young Kuwaitis with superb training--degrees in economics from topflight institutions in the United Kingdom--who returned to Kuwait to play important roles in the Ministry of Finance. They went to the ministry in the morning and ran their corporations in the afternoon as so many Kuwaitis do. Success came quickly and as quickly palled on them. They took their money, went off to Beirut, bought a couple of apartment houses and in effect, retired at the age of 24. While most people would like to do that--and some of my colleagues have done it without telling anybody--the operative fact is the wastage of persons who have had training up to the doctoral level but have, however, denied their country and region the availability of their talents.

Much was said about education this morning. I had hoped to ask Robert Mertz how many of those Omanis who left their country because of the lack of educational facilities and opportunities to attend schools such as Patrice Lumumba University in Moscow or institutions in Prague

are now back home applying revolutionary doctrine and techniques. That may account for the 77 rebel chaps mentioned this morning as having been rounded up in Oman, and outside of Dhofar. Of course, the need for education--American style--can be overstated. I shudder to think of having to deal with a Mehdi Tajir who had a PhD. Mehdi is a remarkable Bahraini who has rendered all sorts of services to the UAA, and particularly to Dubai, with little or no formal education. His accomplishments are nonetheless staggering. "Mehdi al-Mudir" (as he was known when he was in the Bahraini customs service years ago) once invited me to a party to say goodbye to somebody. He said, "I've got a little beach hut down here. I hope you'll come along to say goodbye to Julian." So I went along to say goodbye to Julian, having been warned that it was a black tie affair. I arrived to find 400 people in his little beach cottage which had about 40 rooms and the only underwater bar south of the Phoenecia Hotel in Beirut. There is a great deal of shrewdness and ability in the Gulf and in the Peninsula which may not be represented in statistical tables. We must not lead our Arab friends toward the situation referred to some years ago by Henry Steele Commager when he said, "It's just too bad that every American wasn't born with a PhD--it would save so much trouble."

When we discussed assisting in the development of the infrastructures of Arab countries we were reminded of how much progress Bahrain has made because of British tutelage, a lot of good sense, and a very full awareness of what would be in store for the country on the day the oil stopped. Bahrain is a country of high population density and certainly will not be so much of a test for us as Oman. This point was very adequately covered this morning, but I would like to underline it once again. Will Oman achieve diversification? Will it turn the Batinah Coast into what it could be? I can imagine Howard Hughes hiding out in a resort hotel in Sohar and all sorts of other possibilities. Will that be Oman's future or will it be determined by destabilizing activities such as those of the Popular Front for the Liberation of the Occupied Arabian Gulf or some people wearing the old school tie of the Oman Revolutionary Movement--former supporters of Imam Talib ibn Ali? Will Oman be made into the soft underbelly through which the Southern Gulf and beyond could be subverted? Such questions were also prompted by our discussion of the Yemens this morning. I was delighted at the thought that for all of its difficulties, the Yemeni Arab Republic is now making praiseworthy and great efforts to develop its water resources.

We must place in perspective, and very soon, the whole question of currency. There are all sorts of statistics on the millions of dollars and pounds, and the billions of yen, drachma, and deutschmarks involved in Middle Eastern oil. When we look down the line ten years and realize that Saudi Arabia will have "x" billion dollars in reserve foreign currency, it is imperative that we place this fact in the perspective of capital formation in the West in the years ahead. How much will all the money mean in terms of all that other money--the trillions

of dollars which will be derived from capital formation in Europe and in the US. When one hears alarmist talk about some Saudi chap dropping into Detroit one day and buying General Motors, it is important to know the whole story.

I was especially gratified to see the idea of a petroleum consumer cartel shot down in flames in the course of the Conference. The more constructive side of that kind of cooperation got the emphasis it deserved--that is to say cooperation on research and development. Japan does not want to join an OPIC to combat OPEC. Neither does Japan want this form of guilt by association with America's special relationship to Israel. In turning to that subject I am convinced that I must say in as direct a manner as possible (for as an American I can be less diplomatic than was Sir William Luce in his superb speech last evening) we must surmount the crisis of national purpose which has come about as the result of long involvement in Southeast Asia in order to play a dynamic role in the Middle East. This applies specifically to UN Resolution 242 of November 1967, because we must remember that the timetable with which we have to work is not set by our growing reliance on Middle Eastern oil. It has been established by other considerations such as the Israeli elections later this year, and the Galili proposals for the permanent alienation of certain parts of the occupied territories. I would even ask Secretary of State Kissinger to postpone the "year of Europe" which, since it did not begin this year, might start next year, perhaps pushing it back still another year or so in order that we can have at least one "year of the Middle East."

In considering the remarks made by some panelists yesterday on the Soviet Union's activities in the Middle East and her interest in the oil-producing potential of that region, I would like to recall that the only immutable law of history is that people seldom remember any. We had a long and largely cordial relationship with Russia before 1900 or 1905--or perhaps 1917. Now we are in the era of Pepsi Cola, and are so involved in detente in terms of national policy that we tend to dismiss the Soviet potential for troublemaking in the Persian Gulf or at least some greater rivalry for petroleum supplies from that quarter. The Russians may ask, "Will it be cheaper to purchase Middle Eastern oil than to rush the development of Western Siberia?" There are all sorts of political as well as technological obstacles to the latter and cost may not be as important a consideration as the time factor or the desirability of decreasing the reserves of other nations. Detente politics in recent years has had us regarding the Middle East in terms of the relationship we wanted to establish with Moscow, rather than on the relationship we should have with the Middle Eastern states themselves. I am again reminded of contemporary Iraq. Every Sunday in recent issues of the New York Times the Iraqi government has advertised for American engineers, surveyors and technicians of various kinds. When I was last in Baghdad, just after the June War of 1967, the atmosphere was, as might

be expected, rather strange. At that time there was no Interests Section in the Belgian Embassy and Iraqi-American contacts were minimal. Now I learned that we have 3 American foreign service officers there; three are better than none. American policy must develop on the basis that Iraq is not irretrievably bound to a special relationship with the Soviets. Also, there were comments yesterday about constraints on the Soviet Union. The Russians are well aware of a little trouble with Egypt because of the USSR's resale of Egyptian cotton a number of years ago. They have had difficulty with Algeria since they began competing with Algeria in the natural gas market in Europe, so there are constraints on the USSR, and in developing our relationships with the Middle East in the years ahead we need to assess them carefully. Dean Landen has lent eloquent support to my plea that you do not forget the lessons of history. He talked about tribal strife, enshrined in the oral tradition of the tribes of the Southern Gulf, as it is elsewhere. Along this line, let us recall that Sultan Qabus of Oman is an Al Bu Said and the current representative of a dynasty which won its credibility, as it were, and its base in Oman from its success in ridding Oman of a Persian occupation in the 18th century. There are lessons for us in this. Landen spoke of the organization of power in the Southern Gulf, involving the juxtaposition of a territorial chieftain, Shaykh Zaid bin Sultan of Abu Dhabi, and a merchant prince, Shaykh Rashid bin Maktum of Dubai, and recalled the fairly recent period when their tribesmen were engaged in combat with each other. It is worth keeping in mind.

Let me return to Iran's role. Professor Bill and Professor Ramazani yesterday provided an excellent overview of Iran's internal situation and foreign policy. As they spoke, I thought of the dangers inherent in regarding the Shah as the policeman of the Gulf. After all, policemen are sometimes dismissed from the force. When Professor Ramazani discussed the increased flow of American armaments to Tehran since 1968, it crossed my mind that if Richard Nixon through some miracle beyond my comprehension had not been elected, it would have been necessary for the Shah to invent him. Related to Iran's role is the question of boundaries, which was brought up this morning. A minor boundary dispute may bring about a small conflict; a small conflict creates a tendency on the part of the policeman to intervene. Prior to 1971--when it was suspected that Martin Buckmaster and Julian Walker* would sneak out in the middle of the night to move rocks around on the frontier between Sharjah and Dubai--such intervention was pretty much in the gift of the British mission. Now the boundaries are the responsibility of the Arabs themselves, but any forceable rectification invites intervention from across the Gulf. Hence we are left with the same old

*Officials of the British Political Agency in the then Trucial States.

dilemmas, except that they become much more important to us in terms of our own national interests. They extend to our dealings with the Shah, whose "White Revolution" is not all that we hoped that it would be and is some things which we hoped it would not be.

Finally, this Conference has underscored the need for broad and profound studies of culture, cultural divisions, religious factors and all of the subjects that will help us understand developments in the Peninsula and the Gulf. Contingency planning is a very archane science as you all know, and we all need more information and many more interpersonal relationships than we have heretofore developed. It is good to know that we are past the era of the "no objection certificate"--that it is relatively easy to get into the Gulf States and to learn more about the aspirations of Gulf peoples, because our future is bound up with theirs.

This Conference was told that American policy has been creative rather than reactive. I failed to understand that--especially when we were then informed that one of the most brilliant things we did about the Iraqi threat to Kuwait earlier this year was nothing. I rather feel that (if I could use a double negative) "we didn't do nothing." Much happens that does not get into the columns of the New York Times. We have a gifted ambassador in Kuwait--and I cannot imagine that he spent his time doing the New York Times crossword during that period. He had other things to do, other things to say, and much was said in Arabic.

This opens to me the opportunity to urge the necessity of Arabic language study. Long ago it was said that it is all right to speak English in a foreign country as long as one is buying, but it is hell when one is trying to sell. There's a great deal to that, and it relates not only to the language of the country but to the language of trade as well. We must learn to speak the languages of trade and develop interpersonal relationships in the years ahead.

If we are going to be creative, then a creative accomplishment which will rank with the artistry on the ceiling of the Sistine Chapel will be to strike a delicate balance between security assistance (in all its military forms from Phantom jets to electronic surveillance), the import and export of capital, technical assistance, the procurement of petroleum supplies, and an evenhanded approach to the Arabs and Israelis.

This has been a fine Conference, at least until a half-hour ago, and I am glad you came.