

The Iraq-Kuwait Conflict and the Developmental Scenario to the Peninsula Arab Countries

M. A. HUSSEIN MULLICK

The press and news media has dealt with the recent Iraq-Kuwait conflict in an exhaustive manner. This was quite natural because the world is at present witnessing an information explosion, never known to human history before. Despite all this, there are, however, reasons to believe that most of the analysis presented in various dispatches and reports have not been able to deal with the core issues which have escaped the attention of the writers. This was perhaps quite natural because a critical assessment of a certain event can only be done if facts are known and there is in addition a continuous *engagement* of the experts with the problem under discussion. But this approach may also not be the right one to deal with a crisis which has many a dimension and can, therefore, be looked at from different angles. The crisis under discussion is one which has a global character and can therefore be interpreted in one way or another depending on the writer's own intellectual commitment or vested interests. As such, it is this confusing aspect of the exercise which does not allow a purely objective assessment of the problem. Despite this shortcoming, there, is, however, the desperate need to look at the issue in an objective manner and in conformity with the contemporary spirit governing the various political constellations and their specific thrusts.

The conflict has given birth to the emergence of a new phenomenon which hitherto remained concealed from the naked eye. Some of the features of this phenomenon are as under:

1. The ruling family in Kuwait is reported to have accumulated tens of billions (between 100 to 200 billion) and have invested them in the United States, Western Europe and the Far Eastern Countries. Last year, Kuwait's investment income was estimated at \$ 8.8 billion, against an oil income of \$ 7.7 billion;

2. The United States and other industrial countries are desperately keen to keep the price of oil low. This seems to be the main motive behind the support being extended by Western countries to Kuwait, Saudi Arabia and the United Arab Emirates; and
3. As long as Iraq fought with Iran, the Western countries were too keen to help Iraq with weapons and finance but the moment it invaded Kuwait on 2nd August, the whole Western and even a large majority of the non-Western countries began to condemn Iraq. Rubin, a top United States official is reported to have said "The 1980s were a period of tilting toward Iraq to counter Iran: the 1990s have got to be period of tilting against Iraq."¹

From the above, it appears that the goal before the Western countries has been more to keep the price of oil low and secure its unhindered supply rather than promote the welfare of the people living in the oil-rich Middle Eastern countries. The support extended to Iraq in its war efforts against Iran was also primarily motivated to stop the rise in the price of oil and to ensure its unhindered supply. There was also the covert objective to hinder any possible dominant role of Iran in the Persian Gulf area.

If the above were the main motives behind the spontaneous condemnation of Iraq's invasion and the military support extended to Saudi Arabia and the United Arab Emirates, then the tall claim of protecting the independence and sovereignty of Kuwait seems rather suspect. An extension of this argument to the situation now obtaining in Saudi Arabia, or for that matter other Gulf countries, does not look much different. It is the same motive which runs through the whole drama being played by the industrialized West.

Looking at the above scenario, one feels tempted to ask a few questions.

1. Are Kuwait and other Arab countries in the Middle East the personal fiefdoms of the emirs, kings and sheikhs or do they belong to the respective peoples?
2. If the maintenance of a low price of oil and its secured supply to the Western countries is the main motive behind the whole support scenario, may we ask, does it promote the interests of the people living in these states?

¹Morton Kondracke and W. Seth Carus, *The New Republic*, August, 20 & 27, 1990, p.15.

3. If the price of oil is wilfully kept low, who is going to benefit from it, the rulers or the ruled or perhaps countries outside this region?
- (i) Our evaluation of the use of oil revenue is that although Kuwait and other oil-producing countries have been relatively generous in raising the standard of living of their people, for instance the per capita income of Kuwait and Saudi Arabia stood at \$ 16,150 and 6,020 in 1989 as against \$ 370 in Pakistan, quite a large chunk of oil revenue has, however, been going into the hands of the ruling families. It was indeed quite shocking to observe that the members of the ruling family of Kuwait had a private investment of about \$ 50.0 billion in the industrial countries. No less distressing was also the report published in the Fortune magazine dated 10th September 1990 that Saudi Arabia's King Fahd had personal assets worth \$ 19 billion. As against this, Sheikh Jaber Al Sabah of Kuwait held cash and foreign assets etc. worth \$ 4.8 billion. The position in respect of other ruling families in the oil-rich Arab countries is not likely to be much different. *As none of these countries can claim to be following a democratic polity, it is obvious that a large chunk of national wealth of these countries has been continuously taken away by the ruling families to safer havens in the West.*
- (ii) The maintenance of a low price of oil and its unhindered supply does help the industrialized West to save its cost of energy but it surely hurts the oil-producing Arab countries. This happens through the manipulation of the price of oil by the richer industrial nations. The mode of manipulation in the regime of price distortion is undertaken by powerful nations in collusion with the politically weaker Arab nations. It is, therefore, not surprising to observe that countries like Iran and Iraq who are comparatively lesser endowed with the black gold resource (Hold 9.2 percent and 9.9 percent of total world reserves respectively as against 46.1 percent held by other Arab peninsular countries)² have been vehemently protesting against the rather suppressed price of oil. These protests are genuine because for each loss of dollar pay-

²BP Statistical Review of World Energy, London, June, 1990 p. 4.

ment per barrel, both the countries lose about \$ 2 to \$ 3 billion every year. It is estimated that if a price of \$ 30 per barrel is assumed, Egypt's export earning from oil and oil products will increase by another \$ one billion. In the same way, the USSR will earn an additional \$ 10 billion per annum. Assuming an export of 5 billion barrels per day, Saudi Arabia's oil revenue at the price of \$ 30 per barrel will increase by 20 billion³ which works out to almost high the GNP of Pakistan.

Another source has estimated that if the price of one barrel of oil were to be raised from \$ 20 to \$ 30, the industrialized West would be obliged to pay an additional \$ 90 billion. Such are the dimensions of the fixation of the oil price at a particular level. The recent invasion of Kuwait by Iraq has been partly triggered by the difference between Kuwait, on the one hand, and Iraq, on the other, in the fixation of the oil price. While Iraq was keen to fix it at \$ 25 a barrel, Kuwait agreed to a much lower price i.e. between \$ 19 to \$ 20 per barrel.

The loss arising from the reduced fixation of oil prices is surely a loss for the oil-producing Arab countries. But the tragedy here is that this loss is being gladly borne by the majority of the oil-producing Arab countries because they are being ruled by kings, sheikhs and emirs whose own welfare and wealth accumulation is not at stake. Because these countries are not run on democratic lines, the people inhabiting these 'fiefdoms' are, therefore, unable to protect against the 'throw-away' price being charged by the rulers on the sale of their 'nonrenewable' black gold.

- (iii) The more the price of oil gets suppressed, the greater is the benefit to the industrial West and the larger the loss to the people inhabiting the Arabian peninsula.
- (iv) Although a substantial part of the oil revenue has been invested in the development of both education and infrastructural facilities, it is estimated that at least half a trillion dollars have been wasted on luxuries, the building of palaces or simply taken out of the country. The recent disclosure by the media of Kuwait's large investments abroad (ca. \$ 200 billion) is an indication of the magnitude of

³Rick Atkinson and David Hoffman, Sustaining the coalition against Iraq. *The Khaleej Times*, August 28, 1990. Also c.f., *The New Republic*, a.a.o., p. 15.

capital leakages. Iraq, a country much poorer in per capita income than other oil-producing Arab countries, has not, however, been as wasteful, except during the Iraq-Iran war (1980-88). It is reported that Iraq has been doing rather well on the development front. It has successfully controlled corruption, raised the literacy rate, built schools and universities and improved agriculture, health services and electrification. Though Kuwait has been offering even better facilities to its citizens than Iraq (Human development index Kuwait 0.82 as against Iraq 0.582) but while making a comparison one must also consider the volume of oil money and the total number of people in both the countries. Exports of both the countries mostly oil, stood at \$ 11.4 billion for Iraq and \$ 11.5 billion in the case of Kuwait during 1989. This comes to a per capita export of \$ 623 and \$ 5750 for Iraq and Kuwait respectively.

Realizing the present outmoded political set-up of the peninsular states and the need to make fuller and proper use of oil and gas wealth found over there, it seems imperative that these states should earnestly start transforming their political structures into modern states and allow their population at large to take active part in the national life of their respective countries. Once this change begins to take place, not only will these start relying upon their own strength, the present exploitative price of their black gold will also become compatible with alternative sources of energy.

THRUST FOR AN ENERGETIC DEVELOPMENTS

Not Profligate Living but a Sincere Commitment to Development

Realizing the need for rapid industrialization in Saudi Arabia and other Arab countries, it therefore becomes imperative that the existing profligate attitude to state expenditure in the oil-rich Arab countries will have to be drastically changed. Not only that, these countries will also have to follow more inward-looking development policies which obviously will mean that instead of investing Arab funds in foreign countries, efforts will have to be made to use them in local development. Once this change in economic policy is followed, efforts shall also be made to ensure an equitable distribution of income. In addition, steps should be taken to materialize domestic savings side by side with increased allocation of funds for education and technological development. Further, there is also the

desperate need on the part of the richer Arab countries to share their oil wealth with the poorer Arab countries in the Arabian peninsula. Such steps will not only contribute to greater harmony between all the Arab people inhabiting the peninsula, it will also accelerate the overall process of development in all the countries. Side by side, there is also the desperate need to foster democratic institutions and modern governments in these countries. Ultimately, it is this qualitative development on the political front which show will enable the peninsular countries to feel more secure and acquire the necessary political clout to demand a genuine price for their oil which under the present conditions is being sold at a throw-away price.

Oil Price must be Made Compatible with Alternative Energy Sources

The present policy of Saudi Arabia to keep the price of their black gold at the lowest level is not in their national interest. By following such a policy, they are not only depriving themselves of the legitimate price of oil, they are also doing a great disservice to other oil-producing developing countries.

Our estimate is that once the price of oil is raised to \$ 30 the Arab countries would be able to enjoy a golden harvest. It is this policy which is desperately needed for the purpose of treating development in a more serious aid responsible manner. Oil is a nonrenewable resource, and, as such it has to be carefully used.

The Middle Eastern Arab countries hold the largest oil reserves of the world. It is estimated that proven reserves at end 1989 stood at 567, 400 million barrels which represent 56 percent of total global reserves. If the entire reserves were to be sold at \$ 30 a barrel, this will fetch an income of \$ 17 trillion which is close to the entire GDP of the world in 1988. If seen from Pakistan's economy perspective, this will mean that the oil income from reserves will come to 378 times the entire GNP i.e. \$ 45 billion of Pakistan. In addition to oil, these countries are also quite richly endowed with gas reserves, (34.7 trillion cubic metres) which account for 30.70 percent of the total world's proven reserves at the end of 1989. As against estimated oil reserves of 660.3 million barrels, gas reserves stood at 34.7 trillion cubic metres in 1989. These are the dimensions of the enormity of oil and gas reserves found in the Arab Gulf countries.

SOME THOUGHTS FOR THE FUTURE

Despite being affluently endowed with natural resources the Arabian peninsular countries have not, however, earned a respectable place in the comity of

nations. They are still condemned to be at daggers drawn with each other and worse of all instead of finding new ways and means to forge cooperation among themselves, they are looking toward foreign countries, particularly a superpower, having no cultural affinity and commonality with them, to protect their vested interests. Now as the wind of liberty and freedom has started blowing throughout the world, will it not be in the fitness of things for the rulers, monarchs, sheikhs and emirs to shed their medieval governmental structures and build instead democratic orders. It is only through the will of the people that these countries will be able to make their economies more strong, and governments powerful enough to withstand the pressures from the outside. Once the Arab peninsular countries find the right way to develop democratic development, not only will they be able to defend themselves, they will also prove a blessing in disguise for countries such as Pakistan and Afghanistan and perhaps for Iran and others whose sovereignty and economic well-being continue to be threatened by the hostile countries.

Comments on
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to the Peninsula Arab Countries”

The paper is, indeed, very interesting and provides some very useful comparative statistics for some of the Gulf countries. The paper is of a multi-disciplinary nature and touches upon issues which can be analysed within the frameworks of economics, politics, political economy and to a lesser extent, sociology. However, given my comparative advantage, I will restrict my comments to the economic aspects of the issue.

Although the paper makes a number of minor points but one major point which is pivotal to the study is regarding the locational non-optimality of investible funds generated by the huge surpluses in current accounts of some of the oil-rich countries. The paper advocates that instead of investing the oil revenues in western countries, these countries should have invested in the domestic industrial sector. This would have not only diversified their economies but also their exports and hence immunised their economies to the fluctuations of the international oil market.

Intuitively, there is hardly any room for disagreement. However, I may add that drastic economic policy reforms can only be suggested on the basis of a comprehensive economic analysis rather than on personal intuition or individual likes or dislikes.

In the present issue, the starting point of the economic analysis is the fact that for a number of years the oil-rich Gulf countries experienced huge surpluses on their current account balances. This implies that there should be equivalent deficits on the capital accounts i.e., the outflow of funds from these countries in the form of loans and/or assistance to other countries or direct foreign investment. Alternatively, these countries can reduce the current account surpluses by either exporting less and/or importing more, preferably capital goods and industrial raw materials.

The paper advocates the latter, objecting to the former strategy which was practised by the gulf countries. Lets figure out if there is an economic rationale which may have guided these Gulf countries in adopting this strategy.

One must keep in mind the limited absorption capacities of these countries. Any massive industrial investment in these countries is bound to be faced with domestic demand constraints, labour shortages and of course, the lack of technical know-how. (It may be mentioned that in 1988, Saudi Arabia and Kuwait had populations not exceeding 14 and 2 millions, respectively as compared to South

Korea which had a population of 42 million.)

One can argue that labour, capital, basic industrial raw material and technology can be imported. But this would again lead to transferring the fruits of development to foreign countries, a process which is not in line with the spirit of the paper. Labour imports are already creating enough social tensions. Further, if domestic demand limitations are to be overcome by producing for the export sector, it makes little sense if viewed from the aspect of comparative advantage.

As regards investments in agriculture, adverse ecological considerations do not justify such investments. Hence, services sector and infrastructure were the only two sectors where investments seemed economically appropriate and that is where the investment were undertaken and indeed, very impressively. The surplus that was left over had to flow out and invested abroad in a relatively less risky environment, offered by the developed west.

This economic rationale has been forwarded merely in an attempt to show that certain economic decisions which appear somewhat sub-optimal, if analysed in a more comprehensive framework, may in fact not be sub-optimal. I am certainly not dismissing the idea that there were no political factors behind these decisions.

I agree with the author that depressed oil prices are in the interest of the western countries. However, accusing the political leadership of these gulf countries of colluding with the western countries, even contrary to their national interests, however, seems a bit unfair. If one looks at the dynamics of the oil market after the second oil shock, one observes that the instability in the oil prices was, in fact, generated by the recession in the developed world, primarily due to the high oil prices. This instability was reinforced by the fact that some OPEC countries (especially Iran and Iraq as they had to finance the war) violated their quotas. In fact, Saudi Arabia and to a lesser extent Kuwait, had agreed to voluntary quota cuts to firm up the falling oil prices.

Finally, higher oil prices will not only affect the developed world but also the developing countries. A world-wide recession will also ultimately rebound and adversely affect the Gulf countries.

Eshya Mujahid-Mukhtar

Applied Economic
Research Centre,
Karachi.