Political Economy of the Arab Gulf Aid : A Comparative Study of Saudi Arabia and Kuwait

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DECLARATION

Certified that the dissertation entitled "Political Economy of the Arab Gulf Aid: A Comparative Study of Saudi Arabia and Kuwait," submitted by Md. Azher is for the award of the degree of Master of Philosophy of this University. This dissertation has not been previously submitted for any other degree of this or any other University and is his own work. We recommend that this dissertation may be placed before the examiners for evaluation.

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C O N T E N T S

		Page(s)
LIST OF TABLES		
PREFACE		
CHAPTERS		
I	POLITICAL ECONOMY OF AID: AN OVERVIEW OF GLOBAL TREND	1-27
II	GLOBAL FINANCIAL REGIME, OIL SURPLUSES AND ARAB GULF AID	28-73
III	AID FROM SAUDI ARABIA AND KUWAIT - A COMPARATIVE PROFILE	74-117
IV	ARAB GULF AID AND POLITICAL ECONOMY OF SOUTH SOUTH COOPERATION	118-124
BIBLIOGRAPHY		125-131

LIST OF TABLES

Table No.	Title	Page No.
1.1	Developing Countries External Debt: Influx of Capital and External Debt Service Ratio	12
1.2	Debt Indicators for Developing Countries in Selected Years, 1970-84	14
1.3	Return on Investment in Emerging Market 1976-83	17
1.4	Concessional Flows of Receipts to Developing Countries by Category 1970-83	23
2.1	Oil Revenues of Arab OPEC Member Countries 1970-84	30
2.2	Basic Indicators of Arab Gulf States	31
2.3	Distribution of GDP of Arab Gulf States	32
2.4	Arab Gulf States: Oil and Gas Resources	33
2.5	Identified Oil Exporter's Funds	35
2.6	Funds' Accounts: Position to Date	40
2.7	Direction of Arab Gulf Trade	46-47
2.8	OPEC Import Price Index and Arab OPEC Nominal and Real Oil Revenues	48
2.9	Foreign Military Sales Agreement, Fiscal Years (1977-81)	50
2.10	OPEC Oil Revenues: Different Components (1973-84)	53
2.11	Oil Exporters Surplus Deployment Level at December 1984	54
2.12	Nominal and Real Arab OPEC Surpluses	57
2.13	Interest Rate Movements in the Main Developed Market Economy Countries	59

Table No.	Tital	Page
2.14	Current Account Balances of Developing Countries 1970-84	60
2.15	GDP of High Income Oil Exporters and Industrial Market Economies	63
2.16	Net ODA Disbursements from Arab Gulf Countries to Developing Countries and Multilateral Institutions as a Ratio of Their Oil Revenues	65
2.17	Net ODA Disbursement as Percentage of Government Expenditure 1978-83	65
2.18	OPEC Countries Official Development Assistance in Relation to Their Identified Investible Surplus 1974-81	66
2.19	Concessional Assistance by Arab Gulf Donors 1970-84	67
2.20	Concessional Assistance by Arab Gulf Donors and by Development Assistance Committee (DAC) Donors as Percentage of GNP 1970-84	68
2.21	Financial Terms of ODA Commitments by Arab Gulf Donors 1977-83	71
3.1	The Highest Ranking ODA Donors and Corresponding Net ODA Flows	75
3.2	Saudi Arabia: Development Assistance to Developing Countries Commitments and Disbursements, 1973-81	79
3.3	Saudi Arabia: Composition and Terms of Net ODA Disbursements 1973-81	79
3.4	Saudi Arabia: Development Assistance to Selected Categories of Developing Countries and Multilateral Institutions, Commitments 1973-81	82-83

Table No.	Title	Page
3.5	Saudi Fund for Development: Concessional Financial Outflows to Developing Countries Disbursements 1976-81	85
3.6	Distribution of total Concessional Commitments to Developing Counctires by Income Group by Saudi Fund for Development	87
3.7	Weighted Average Grant Elements of the Concessional Commitments of Saudi Fund for Development	87
3.8	Sectoral Distribution of Concessional Project Loans: Commitments of the Saudi Fund for Development	88
3.9	Saudi Fund for Development: Weighted Average of Sectoral Grant Elements of Concessional Loans	89
3.10	Saudi Arabia Composition of Aid to Front Line States 1973-81	91
3.11	Saudi Arabian Aid Composition by Country Groups 1973-81	92
3.12	Total Developments Assistance to Developing Countries, 1973-81	97
3.13	Kuwait: Composition and Terms of Net ODA Disbursements 1973-81	97
3.14	Kuwait: Development Assistance to Selected Categories of Developing Countries and Multilateral Institutions	99-100
3.15	Kuwait Fund for Arab Economic Development, Concessional Financial Outflows to Developing Countries, Disbursements, 1973-81	103
3.16	Distribution of Total Concessional Commitments to Developing Countries by Income Group 1977-83	105

Table No.	Title	Page No.
3.17	Weighted Average Grant Elements of the Concessional Commitments by KFAED, 1977-83	105
3.18	KFAED: Sectoral Distribution of Concessional Loan Disbursements, 1973-81	108
3.19	Weighted Average of Sectoral Grant Elements of Concessional Loans 1973-81	108
3.20	Kuwait: Composition of aid to Frontline Countries (1973-81)	109
3.21	Kuwait Aid: Composition by Country Groups 1973-81	111
3.22	Oil Imports and Debt Service Ratio of Selected Subsaharan African Countries	115

PREFACE

The emergence of Arab Gulf as an alternative source of finance, after 1973 oil price boom, was very significant to the developing countries. For they expected a qualitative change in the global financial regime. It was thought that it would result in greater bargaining space for them vis-a-vis the North controlled global financial regime in spite that they (developing countries) had also suffered on account of severe price rise.

This study probes into the above contention and interprets the data available in the framework of the political economy.

The whole study has been divided into four chapters. Chapter I deals with the global aid phenomenon in the framework of the political economy. It deals with economics and politics of aid and its experience by developing countries during a few past decades.

The Second Chapter deals with the phenomenon of 'petrodollar' surpluses and its placement strategy, integration of Gulf economies with Northern economies and its consequences. It discusses in this perspective the rationale of Arab Gulf aid. It also reviews the performance of Arab Gulf aid in recent years.

The Third Chapter enquires into the comparative profile of Saudi and Kuwaiti aid while the fourth chapter deals with the political economy of an alternative framework of South South Cooperation between oil exporting capital surplus Gulf countries and oil importing capital deficit developing countries. It envisages that the only way open for developing countries for attaining self reliance development is to delink its structural linkages with dependency prone developed countries and to cooperate among themselves at the basic structural level.

To complete this work I am indebted to Dr.Girijesh Pant, my Supervisor, without whose regular, timely and affectionate guidance, this work would not have been possible. I am grateful to Dr.D.N.Rao, Associate Professor Centre for Economic Studies and Planning, who also took pains from time to time. I must also be grateful to Professor K.R. Singh, Chairman and all the other teachers of Centre for West Asian and African Studies for their encouragement. I have also sincere regards for all my friends and well wishers for their time to time help.

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CHAPTER I

POLITICAL ECONOMY OF AID: AN OVERVIEW OF GLOBAL TREND

In the development experience of the developing countries during the last four decades after the Second World War, the role of foreign aid has been very critical and controversial. While the resource gap has forced the developing countries to look for external financing of their development, they have found that the process has led them to the 'debt trap'. The literature on the subject provides with ample evidence in support of it. However, it would be unfair to infer that external financing or foreign aid per se has caused the debt trap. To understand the fallacy of aid, it would be relevant to look at the political economy of aid rather than viewing it in a partial manner. A survey of the literature suggests that the subject has not been studied in a holistic frame. Either it is understood in technical way looking purely in terms of economic parameters or has been the victim of platitude. Similarly, in alternative frame it is studied as North versus South issue. Accepting that all the four or may be many other dimensions are relevant but these alone fail to project the issue in totality. It is only by putting all the dimensions together that a holistic frame can be developed to understand the phenomenon called aid.

In this chapter it has been studied in the above context by looking at its economics, both for the donor and recipient perspective, its politics, the instruments and the experience.

The Economics of Aid

The Logic of the Recipient

The poor countries which want to achieve rapid development, need an adequate[1] sustained growth rate. This requires an improvement in the skills of a country's labour force, a growth in its capital stock, and substantial changes in the composition of output and changes in attitudes and institutions. Now if domestic resources are inadequate to fulfil these limitations, then the foreign resources be utilised, so that targetted growth's continuity is undisturbed. The above constraints facing the poor countries in their developmental path could be summarised as:

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1. Adequate growth rate might be one which permits the minimum growth in output per capita consistent with the growth of population and aspirations of people.

(a) The savings limitation

(b) The foreign exchange limitation

(c) The skill limitation. It could also alternatively be called Absorptive Capacity limitations.

The savings investment gap approach employs a variation of the Harrod Domar model of growth. For any targetted rate of growth depends upon the rate of investment and incremental capital output ratio. Now the incremental capital output ratio given the rate of growth varies directly

$$\Delta Y = I/v$$

with the investment. The investment by a country depends upon its domestic savings but the poor countries are characterised by lower savings. This leads to investment-savings gap. As this gap becomes more and more wider, targetted growth becomes more and more difficult to achieve.

The protagonists of foreign aid argue that this gap should be filled up by foreign borrowing. For it will fill the investment-savings gap and thus growth could be maintained to the desired level.

Therefore, the foreign aid required in the initial year (F_o) will be

$$F_o = I_o - S_o.$$

where I_o is the required initial investment and S_o the initial domestic savings.

Similarly in second year foreign investment (F_1) required will be

$$F_1 = I_1 - S_1$$

where I_1 is investment required in the second year and S_1 the domestic savings.

And in year t

$$F_t = I_t - S_t, \text{ suffixes stand as usual.}$$
$$= Y_o\, k r\, (1+r)^t - S_o - S'Y_o\, (1+r)^t + S'Y_o^{2}$$

where Y_o - GNP in the initial year

S_o - savings in the initial year

S' - the marginal savings ratio in the initial year

k - the initial capital output ratio

r = the targetted growth rate.

Now suppose a country with initial GNP of 1,000 an initial marginal savings ratio of .2, an initial average savings rate of .1 and with incremental capital output ratio of 3. If the economy has to grow at 5 per cent per annum, an investment capital of 150 is required (again by the identity $I = \vartheta \times \Delta Y$, where I is required investment, ϑ the incremental capital output ratio and ΔY, the additional capacity generated). Therefore, the initial

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2. For details see D.Aramovic and Associates, <u>Economic Growth and External Debt</u>, Baltimore, John Hopkins Press, 1964, pp.188-89.

domestic savings of 100 must be supplemented by the capital imports of 50. Similarly the coming years will require varying but lesser amounts of the capital imports. By the fourteenth year, savings will rise to approximately 15 per cent of the GNP and thereafter no further external capital flow is required to sustain the 5 per cent of growth rate and in addition there will be surplus available for debt servicing. In the twenty-first year the net borrowing will vanish and the country will be in a position to lend while in the thirty-fourth year, the net debt will become zero and in the meantime the economy would have grown by more than five fold in real terms. And thus, not only that a sustained growth rate could be maintained but the capital deficit economy would become a capital surplus economy and would be in a position to lend to other borrowers.[3]

The foreign exchange earning expenditure gap approach focuses on imports capacity as the principal constraint on domestic investment and growth. It is argued that in the initial stages, an economy does not have exports, as much that by their foreign exchange earnings they could be able to import capital goods needed for higher growth. Now if

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3. See Raymond F. Mikesell, The Economics of Foreign Aid, London, Wiedenfield and Nicholson, 1968.

this gap could be filled by external borrowing, then economy could be able to achieve the targetted rate of growth.

Usually the rate of growth in exports is assumed to be higher than the rate of growth in imports requirements. So that the net capital imports needed to fulfil the foreign exchange gap gradually decline.

Thus during the initial year foreign aid requirement (F_o) to cover the exchange gap will be

$$F_o = M_o - E_o = Y_o u - Y_o e = Y_o (u-e)$$

Where M_o and E_o are the imports and exports respectively during the initial year while u and e are the average import and export ratios respectively in the initial year. Y_o represents GNP in the initial year. In the second year the aid requirement will be given by

$$F_1 = M_1 - E_1$$

where M_1 and E_1 are imports and exports respectively during second year

$$F_1 = M_o - E_o = Y_o u + Y_o r u' - Y_o r e' - Y_o e$$

where u' and e' are the marginal import ratio and the marginal export ratios respectively and r is the target rate of growth

$$F_1 = Y_o(u-e) + Y_o r\, u' - Y_o\, re'$$
$$= Y_o(u-e) + Y_o r\, (u'-e').$$

And, of course, for aid to decline in the second year $(u'-e') < 0$ or $u' < e'$ which means that marginal export ratio should be higher than marginal imports ratio.

In other words the savings investment gap and the foreign exchange gap approaches to the determination of capital import requirement for achieving a target rate of growth are identical.

The borrowing and debt servicing schedule will be similar as discussed earlier.

The capital absorptive capacity approach regards capital requirements as being determined by the ability of an economy to employ both domestic and foreign capital productivity in the sense that aid yields maximum rate of return. It regards foreign capital as a means of overcoming internal obstacles to growth and as a catalyst for mobilizing domestic resources for increasing output and productivity.

Thus all three approaches justify the borrowing by capital deficit countries to finance their developmental programme.

The foremost comprehensive external assistance model, has been developed by Chenery and Strout known as Chenery Strout model.[4] The objective of foreign aid as set forth by Chenery and Strout is to help a country achieve self sustaining growth. They regard the foreign assistance as being able not only to accelerate the rate of investment during the "take off" but also to supply or to facilitate the creation of the basic requisites for the transition to "self sustained growth", such as skills, the adoption of modern technology a change in the composition of output and employment the development of new institutions etc.

Therefore, the essence of their model is that, aid promotes development by adding to domestic savings as well as to foreign exchange availability, thus helping to close either the savings investment gap or the export import gap.

It is clear that both the savings investment gap models and exchange deficit models suffer from inherent problems. Firstly in all these models the emphasis has been upon the growth rate, while distribution aspect has not been taken into consideration. For it is necessary that development should perculate downwards and inequality should decrease.

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4. H.B.Chenery and A.Strout, "Foreign Assistance and Economic Development," American Economic Review, Vol.56, No.4, September 1966, pp.679-733.

Also these approaches have been criticized for the dominant role, they have given to capital in the growth process but have failed to analyse the basic elements of development strategy and the role of domestic policy in development. The capital oriented models such as Chenery-Strout model show that the volume of external capital flow required to achieve a target growth rate provided that domestic policies assured the attainment of certain key parameters e.g. savings rate, the capital output ratio and the export growth rate. But it is necessary to link these parameters to the required policy instruments for achieving them.

Again the assumption that marginal export ratio must be higher than marginal import ratio so that foreign exchange gap contracts is worth contesting, for developing countries have been suffering larger current account deficits despite heavy inflow of external borrowings.

There have been several studies challenging the above orthodox position that aid helps development. Griffin in his study[5] concludes that it is wrong to infer that

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5. K.B.Griffin, "Foreign Capital, Domestic Savings and Economic Development," Bulletin of the Oxford University Institute of Economics and Statistics, Vol.32, No.2, May 1970, pp.90-112.

capital inflows supplement domestic investment. In fact domestic savings and foreign inflows are negatively correlated. The same position has been taken by Weiskopf[6]. This stand has been confirmed by Voivodas[7] who finds no significant relationship between growth rate and foreign capital inflow.

The implicit message from these studies is that the developing countries should refuse aid and other inflows, and concentrate on raising domestic investment.

While another study claims that the foreign investment may initially have favourable effects on a host economy, but soon become unfavourable and have done so for Latin America.[8]

Another study[9] finds that the strong positive association is found between domestic savings and growth and between

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6. T.E.Weiskopf, "An Econometric Test of Alternative Constraints on the Growth of Underdeveloped Countries," Review of Economics and Statistics, Vol.54, No.1, Pt.II February 1972, pp.67-78.

7. C.S.Voivodas, "Exports, Foreign Capital Inflow and Economic Growth," Journal of International Economics, Vol.3, No.4, November 1973, pp.337-49.

8. A.O.Hirschman, "How to Divert in Latin America and Why," Essays in International Finance, No.76, 1969.

9. Colin Stoneman, "Foreign Capital and Economic Growth," World Development, Vol.3, No.1, January 1975, pp.11-26.

aid and growth. On the other hand it finds no significant association between net flows on direct investment account and growth. But it also finds clear negative correlation between the stock of foreign direct investment and growth. It concludes that it cannot be claimed that the negative association that we have demonstrated is proof that foreign investment harms growth prospect. On the other hand the evidence weights rather more heavily against the orthodox view that it promotes growth.[10]

Experience of the Developing Countries

The experience of third world countries has not been encouraging. From Table 1.1 it is found that at the end of 1985, the developing countries aggregate debt including short term liabilities totalled 970 billion dollars. It has increased over the past four years by more than 350 billion dollars. While their medium and long term debt to all the western creditors has increased by more than five times over the twelve years. The scale of the developing countries debt service payments has grown a pace with the debt itself.

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10. Ibid., p.18.

Table 1.1

DEVELOPING COUNTRIES EXTERNAL DEBT: INFLUX OF CAPITAL AND
EXTERNAL DEBT SERVICE PAYMENTS
(in $000 million)

	1973	1980	1981	1982	1983	1984	1985
Total debt at year end	-	610	702	775	843	895	970
Medium and Long term debt	140.9	471	528	582	658	717	774
Including - Government Sources	115.4	177	192	240	229	245	266
Private Sources	25.5	294	336	372	429	472	808
Short term debt	-	130	160	171	154	142	196
Use of IMF Credits	-	9	14	22	31	36	
Payments on credits including	16.0	71.1	86.4	97.6	115.2	126.6	-
Debt Amertization	11.2	40.5	45.6	53.9	58.2	63.7	-
Interest payments	4.8	30.5	40.8	43.7	57.0	62.9	-
Transfer profits	-	-	14.8	14.0	14.0	14.5	-
Ratio of debt service payments to exports (Percentage)	-	-	99.1	122.8	129.8	127.6	-

Source: World Debt Tables, The World Bank, Washington, D.C., 1984-85.

In 1984 they were to have transferred to the western countries the vast amount of 141.1 billion dollars on their medium term and long term debts which amounted to $774 billion at the end of 1985. Again private sources do exceed very much the government sources. The medium and long term debt by private sources amount to 508 billion dollars which is 66 per cent of the total medium and long term debt which amounted to $774 billion at the end of 1985.

Short term debts including use of IMF credits amounted to 196 billion dollars at the end of 1985. Again it is very difficult to estimate the short term service payments but rough estimates show that it amounted to $19 billion.[11]

Table 1.2 gives the various other debt indicators for developing countries. As concerns ratio of debt to GNP, it has rose continuously and tremendously. In 1984 this amounted to 33.8 which implies that the developing countries are indebted so complicatedly that it amounts to one third of their total GNP. Debt service ratio for developing countries amounted to 19.7. Ratio of interest service to GNP for developing countries has again been continuously rising. This amounted to as high as 2.8 per cent of the GNP which implies 2.8 per cent of GNP of

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11. G.Markov A.Zhitnikov, "The Wests' 'Debt Trap' for Developing Countries," International Affairs, August 1985, pp.35-43.

Table 1.2

DEBT INDICATORS FOR DEVELOPING COUNTRIES IN SELECTED YEARS, 1970-84, PERCENTAGE

All Developing Countries	1970	1974	1976	1978	1980	1981	1982	1983	1984
Ratio of debt to GNP	14.1	15.4	18.1	21.0	20.9	22.4	26.3	31.3	33.8
Ratio of debt to exports	108.9	80.0	100.2	113.1	89.8	96.8	115.0	130.8	135.4
Debt Service to ratio	14.7	11.8	13.6	18.4	16.0	17.6	20.5	19.0	19.7
Ratio of interest service to GNP	0.5	0.8	0.8	1.1	1.6	1.9	2.3	2.3	2.8
Total debt outstanding and disbursed	68	141	204	313	430	488	546	620	686
Private debt as percentage of total	50.9	56.5	59.0	61.5	62.9	64.1	64.6	65.8	65.0

Source: World Development Report, The World Bank, 1985.

developing countries alone goes as interest service. Now coming to another very important indicator that is ratio of debt to exports, it is found that throughout the period given in Table 2.1 it has been more than 100 per cent except 1980 and 1981, when it was 90 per cent and 97 per cent respectively. During 1984 it amounted to 135.4 per cent.

In 1984 the debt service ratio amounted to 19.7 which implies that about 20 per cent of the export earnings of the developing countries is to be spent on debt servicing. Again the Wests' mounting protectionism has blocked access of their goods to western markets and the prices of their traditional exports have dropped to the lowest, and rising interest rates and rising dollar's exchange rate have resulted in credits being costlier.[12]

Thus, it has resulted in steady growth of developing countries' losses in external economic exchange and an outflow of a sizable part of their national income to western countries. And they have been facing continuous large scale current account deficits.[13] Therefore, developing countries have been forced to borrow more and more funds abroad, mainly on the commercial basis.

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12. Ibid.

13. World Development Report, World Bank, 1985, pp.18-19.

Gain of the Donor

It has already been described that how aid has been deterimental for the developing economies. And it has been a one way benefit, Northern countries have been able to invest their funds at more profitable rates of return in the developing countries and drain substantial portion of the Third World GNP. And Third World economies have become a good market for government and private investments from the Northern countries.

Table 1.3 gives the return on investments in emerging markets and industrial countries. From the table it is clear that return on investment in industrial countries, namely US and Japan has been very low compared to developing emerging markets during 1976-83.

A study[14] on the motivations of the Northern aid during 1978-80, estimates that in case of French bilateral aid 98.4 per cent of explained variances are for donar interest while recipient needs accounts for 1.6 per cent of the explained variances. In case of United States' bilateral aid 99.9 per cent explained variance are for donor interest while 0.1 per cent explained variance accounts for the

14. Alfred Maizels and Machiko K.Nissanke, "Motivations for Aid to Developing Countries," World Development, Vol.12, No.9, 1984, pp.879-900.

Table 1.3

RETURN ON INVESTMENT IN EMERGING MARKET 1976-83

Country Group	1976	1977	1978	1979	1980	1981	1982	1983
Emerging Markets								
1. Argentina	147.0	-43.6	79.9	233.6	-72.2	-54.5	66.2	124.5
2. Brazil	11.3	11.9	-6.0	-12.5	4.1	9.0	-19.9	97.4
3. Chile	103.4	146.3	56.3	131.6	92.7	-48.3	-52.1	-18.4
4. Hong Kong	40.0	-11.0	18.0	80.0	71.0	-16.0	-42.0	-8.6
5. India	34.1	13.7	51.2	21.1	42.3	23.8	-5.9	6.0
6. Korea	72.4	114.2	23.7	-13.0	-26.0	40.2	7.9	7.4
7. Mexico	19.1	22.3	127.8	96.3	17.7	-46.8	-79.8	170.2
8. Singapore	14.0	6.0	52.0	-12.0	29.0	15.0	-1.0	29.2
9. Thailand	0.4	187.7	43.0	-40.7	-12.9	-19.2	21.1	9.7
10. Zimbabwe	13.2	3.1	-6.9	178.7	30.4	-56.7	-32.4	-7.9
Industrial Countries								
1. United States	23.0	-8.0	6.0	14.0	29.0	-4.0	21.0	20.0
2. Japan	25.0	15.0	52.0	-12.0	29.0	15.0	-1.0	23.0

Source: World Development Report 1985, p.135.

recipient interests. Similar is the case for other major donors viz. UK, Japan and Federal Republic of Germany. His model considers political and security interests, investments interests and trade interests to constitute donor's interests.

Another important commercial interest in providing aid has been to create market for the industrial products of the donor countries. It has been utilized for adopting favourable measures towards the donors and detrimental to the recipient, steps like liberalization of import restrictions. Tying of aid with certain conditions or projects is most usual method of achieving their objectives and harming the nationalist economic policies. Aid has also been provided to finance the debt servicing for those suffering from acute debt problem and to stop them from taking any radical posture and thus to perpetuate their dependence on the developed countries as well as their integration in the existing market based system open to West's trade and investment. Aid has been used to preserve the market based system in the Third World countries, so that developing countries always remain vulnerable to the North's interest.

The Politics of Aid

Aid as Instrument of Foreign Policy of the Donor

Without evaluating the political motives of aid it would be an incomplete analysis. The political motives have varied from era to era. It has been the concentration of Western strategy upon the military containment of communism and upon strengthening military, economic and political influence in the cold war between West and East[15] The cold war strategy has been determining the aid programmes and which inherently link economic assistance with military assistance. A report in US recognised that the foreign programmes serve United States interest.[16]

It is to be observed that the major recipients of the American aid continued to be those developing countries whose loyalty is most important in the cold war strategy and are strongly influenced by an economic relationship which itself grows out of a new military alignment.[17] It has been used to underwrite regimes and systems having political and strategic affiliation. In fact aid has been advanced not to

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15. See Judith Hart, Aid and Liberation, Victor Gollancz, London, 1973.

16. Goran Ohlin, "The Evolution of United States Doctorine," in Benjamin J.Cohen (ed.), American Foreign Economic Policy, Harper and Row, New York, 1968, pp.347-62.

17. The US aid to Pakistan may be a pointer to the argument.

the nations but to the regimes. Another important interest has been strengthening the global system based on market ideology. The same report cited earlier opines that aid should not be given to establish "government owned industrial and commercial enterprises which compete with existing private endeavours".[18] Thus it strengthens the claim that aid has been used to preserve the market based system in the Third World. It has been used to help bolster up such developing countries regimes which are strategic ally of the West, by providing them with a few short term solutions to their economic problems, to continue their survival.

Use of Aid by Receipient - A Soft Option

It is not only donors who are politically motivated in providing aid. On the other hand due to domestic political compulsion, recipients also resort to aid taking. For the option of generating resources from domestic sources risks political interest. If the recipient regime decides to generate more from domestic sources and depend less on foreign aid, then it will have to take harsh decisions. It may have to resort to increasing taxation or to tax certain sectors of the economy which had been until then untouched. In India non-taxing of agriculture could be an example. And if the regime in power opts for this hard option, it may antagonise

18. Ohlin, n.16, p.356.

those interest groups, which in turn the 'soft states'[19] of the developing countries could not afford. Thus they resort to the soft option of foreign borrowing.

Also the regimes in recipient countries have been squandering the precious funds for private expenditures and on the import of luxurious goods rather to spend on the rehabilitation of the national economy. For example the US investment firms have "estimated that from 1978 to 1983 the developing countries aggregate external debt went up by $381,500 million while over $103,000 million "flowed out" of the developing countries to western banks in the same period in the form of various illegal transfers, mainly from countries with the largest external debt.[20]

It has also been spent on the purchase of arms and to suppress the domestic opposition to the regime in power. Not only this but it has led to the creation of a parasitic class inside the country, dependent on the continued existence of aid and foreign private investment. And they

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19. By 'soft states' it is meant that the national governments require extra-ordinarily little of their citizens. There are few obligations either to do things in the interest of the community or to avoid actions opposed to that interest. Even these interest that do exist are enforced inadequately if at all. See Gunnar Myrdal, Asian Drama, Vol.II, Allen Lane, The Penguin Press, London 1968, p.895.

20. Time, November 10, 1984, Supplement 10.

act as the domestic agent of the foreign capital and ally against the nationalist policies which harm them.

Agencies of Aid

Aid transfer takes place either bilaterally or multilaterally. Bilateral aid flows directly from creditor to the debtor, thus making debtor vulnerable to the policies and influences of the creditor.

In multilaterism, aid from creditor is channelled to the respective multilateral agency, which agency provides to the needy. Thus if multilateral agency is not influenced by creditor, it can remove the element of vulnerability of debtors while providing guarantee for capital insecurity to the creditors.

From Table 1.4 it is found that throughout 1970-84 the bilateral flows have been constituting most of the pacts of official development assistance. During 1983, 77.67 per cent of the total ODA was through bilateral arrangements. Flows through multilateral arrangements constituted 22.3 per cent of the total ODA. From the table it is found that multilateral proportion has been increasing, although slowly. In 1973, multilateral flows constituted 13.6 per cent of the

Table 1.4

CONCESSIONAL FLOWS OF RECEIPTS TO DEVELOPING COUNTRIES
BY CATEGORY DURING THE YEARS 1970-83

(in billion dollars)

Types of Receipt	1970	1975	1980	1981	1982	1983
Official Development Assistance	8.1	20.1	37.5	37.3	34.7	33.6
Bilateral Percentage	7.0	16.2	29.7	29.4	27.2	26.1
Bilateral Total ODA	86.4	80.6	79.2	78.8	78.4	77.67
Multilateral Percentage	1.1	3.9	7.8	7.9	7.5	7.5
Multilateral Total ODA	13.6	19.4	20.8	21.2	21.6	22.3

Source: World Development Report 1985, p.21.

total ODA and it increased to 22.3 per cent of the total ODA in 1983. Now role of the multilateral financial regimes in this context is worth exploring.

The World Bank one of the most important multilateral agencies considers growth as its criteria of economic performance and economic performance as the criterion for investment, irrespective of those who are benefitted from growth. Its and role of IMF and other important multilateral financial organisations results in strengthening the market based system.

IMF and World Bank (IBRD) both were founded at the 1944 Britton Woods Conference and membership of IMF is a pre-requisite to membership in the World Bank and eligibility for its loans. The fund makes short term loans to meet balance of payments crisis and the bank serves as a loan broker and guarantor for specific projects. The funds ideology of development is in harmony with its philosophy of economic liberalism, which reflects the free trade ideology of the industrialised countries. It calls for the widest possible freedom of play for market forces and discourages government intervention. The basic components of the IMF's standard of a desirable economic policy veers around[21] (i) the abolition or liberalization

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21. See Cheryl Payer, The Debt Trap, Penguin, Harmondsworth, 1974.

of foreign exchange and import controls, (ii) Devaluation of exchange rate, (iii) Domestic anti-inflationary programme and (iv) Greater hospitality to foreign investment.

IMF dictates internal policies, in the case of most drawings made beyond the first credit tranche. The anti-inflationary policies which it insists upon touches the very heart of national sovereignty by affecting government spendings, taxation and credit policy. Because of its anti-inflation emphasis the entire fund package is usually called a stabilization programme. The funds hostility to inflation is strongly influenced by the possible impact of inflation on foreign investors. Thus entire stabilization policies are designed to ensure that the country can manage its foreign exchange policies with the minimum restrictions on payments, which would damage the interests of the foreign investors and supplier of that country's imports. Thus multilateral agencies do complement the bilateral operation.

Aid, Debt and Underdevelopment: Political Economy of Aid

Despite the fact that the aid has not been able to provide the developing countries with that critical push which was needed to overcome the vicious circle yet there is a strong demand for greater flow of it from the developing world. This might appear paradoxical. However, if the political economy of aid is taken into account it became quite obvious. Aid by itself cannot produce qualitative change. It is the development parameters which define the role of aid, its nature and size. That there has been convergence of interest between the donor countries and the recipient at one level, explains the persistent demand from the latter. The difference have been by and large regarding the size, quantum and term. No doubt all these are important perhaps more critical issue is the utilization of their external resource - whether it is being used to those sectors which increase the surplus generating capacity or to create new consumption pattern. This depends upon the nature of regime. The political economy of aid clearly suggests that foreign concessional flows have been used by the ruling regimes to bolster their constituency - the urban, middle class and elite section of the society. The urge for legitimacy forced the investment decision to be biased in favour of these sections.

Consequently aid became a mechanism to obtain a purchasing power which was used largely for the expenditure on consumer goods or consumer industries. It contributed in creating distance between the demand and domestic supplies by increasing disparity between them. Thus a built in relation can be seen between aid, debt and underdevelopment emerging out of the nexuses between the character of the regime of the donor and recipient countries.

CHAPTER II

GLOBAL FINANCIAL REGIME, OIL SURPLUSES AND ARAB GULF AID

In the world economy dominated by the Western economies, rise of oil surplus in the mid-seventies as a sequel to the oil price hike was the unprecedented phenomenon. It was unprecedented because for the first time since the Second World War, the financial base appeared to be shifting away from the 'North'. By implication this meant a shift in the global power structure. For understandable reason, it created panic in the traditional centre of financial power, it was projected that the global financial order was going to collapse. Hence a call was given to save this collapse by recycling this shift back to the Western banking system. Today, after a decade, the oil surplus despite its declining volume, is locked in the Western banking system. Ironically the owners of this financial wealth do not enjoy the freedom to retrieve it at their will. This obviously meant that these surplus countries did not plan an effective strategy and were in some sense outmaneuvered by the Western world. Though apparently such conclusion seems to be inevitable perhaps it would be not correct to look at this rise and financial strength of the OPEC countries in very simplistic framework. To appreciate the logic, constraint behind their choice, it would be relevant to look at the problem at the structural level.

The revenue at the disposal of OPEC and in particular Arab Gulf was so enormous that substantial proportion of it remained unspent, resulting in large surpluses getting enlarged every year. The size of this surplus depends basically on two factors viz., the magnitude of oil revenues received by the government and domestic absorption capacity of the said economy.[1] The absorption capacity, in turn, is effected by narrow resource base, inadequate infrastructure; manpower shortages, specially in skilled and highly trained manpower. OPEC amounts for both high absorbing economies like Indonesia, Nigeria, Venezuela, Algeria, Iran, Iraq and low absorbing economies like Saudi Arabia, Kuwait, UAE, Qatar and Libya. Primarily it is this group of low absorbing countries, which being unable to uitlize its enormous revenues domestically on account of their low absorption capacity have to look beyond their geographical limits, for placement of their financial surplus.

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1. Elmallakh, Ragaei and Kadhim Mihssen, "Capital Surplus and Deficits in the Arab Middle East: A Regional Perspective," International Journal of Middle East Studies (1977), Vol.8, pp.183-93.

<u>Table 2.1</u>

OIL REVENUES OF ARAB OPEC MEMBER COUNTRIES (1970-84) MILLION U.S. DOLLARS

Country	1970	1973	1976	1979	1980	1981	1982	1983	1984
Algeria	272	988	3,700	7,513	12,500	10,700	8,500	7,400	n.a
Iraq	521	1,843	8,500	21,291	26,100	10,400	9,700	8,360	n.a
Kuwait	821	1,735	6,869	16,863	17,900	13,800	7,500	8,700	n.a.
Libya	1,351	2,223	7,500	15,223	22,600	15,300	13,900	10,900	n.a.
Qatar	122	463	2,092	3,471	4,914	4,591	3,882	2,361	n.a.
Saudi Arabia	1,214	4,340	30,755	57,522	1,02,212	1,13,200	76,000	47,600	n.a.
U.A.E.	233	900	7,000	12,862	19,500	18,700	15,500	11,700	n.a.
TOTAL	4,534	12,492	66,416	1,34,746	2,05,726	1,86,691	1,34,982	97,021	97,500

Source :- OPEC Annual Statistical Bulletin, Reprinted in Middle East Economic Survey, Vol. XXVIII, No.31, 13 May, 1985, p. D5.

Table 2.2

BASIC INDICATORS OF ARAB GULF STATES

Country	Population (millions) Mid 1983	Area('000 sq. kms.)	G.N.P. (Per Capita dollars 1983)	Percentage Population of Working Age (15-64 years) 1983
Saudi Arabia	10.4	2,450	12,230	54
Kuwait	1.7	18	17,880	57
U.A.E.	1.2	84	22,870	68
Qatar	0.281	11	21,210	63*
Bahrain	0.391	1	10,510	67*
Oman	1.1	300	6,250	53

* Here data has been taken for 1981 while age group 15 years and above.

Source :- World Development Report, 1985. Also The Resource Base for Industrialization in Gulf Co-operation Council Countries : A Frame Work for Co-operation, UNIDO, 1983.

Table 2.3

DISTRIBUTION OF G.D.P. OF ARAB GULF STATES (1981)

(Percentage)

Country	G.D.P. (millions of U.S. dollars)	Mining and Oil Extraction	Agriculture	Manufacturing	Construction	Services
Saudi Arabia	1,37,554	62.7	1.2	4.3	11.0	20.7
Kuwait	25,212	67.6	0.2	6.1	2.7	23.1
U.A.E.	31,621	63.5	0.7	3.8	8.8	22.0
Qatar	6,294	63.5	0.8	3.8	8.8	22.0
Oman	6,577	69.2	2.0	1.0	5.5	21.6
Bahrain	4,113	32.8	2.1	9.5	13.2	41.6

Source :- The Resource Base for Industrialization in the Gulf Co-operation Council Countries : A Frame Work for Co-operation, United Nations Industrial Development Organization (UNIDO), 1983.

Table 2.4

ARAB GULF STATES : OIL AND GAS RESOURCES (1983)

	Crude Oil Reserves (billion barrels)	Crude Gas Reserves (trillion cu.m.)	Crude oil Production (1,000 barrels per day)
Saudi Arabia	168.8	3.5	4,539.4
Kuwait	67.0	1.0	1,054.1
Qatar	3.3	1.8	0,269.0
UAE	32.3	3.2	1,149.0
Oman	2.34	0.07	281.0
Bahrain	0.226	0.257	48.0
Total Arab Gulf	273.966	9.827	7,011.829
Total OPEC	470.5	32.5	16,988.7
Total World	693.3	96.2	52,777.0
Total Arab Gulf/ OPEC (%)	58.22	30.23	41.27
OPEC/World (%)	67.86	33.78	32.18
Arab Gulf/World (%)	39.50	10.22	13.29

Source :- OPEC Annual Report 1983,OPEC Annual Statistical Bulletin 1982.

From the Tables 2.2, 2.3 and 2.4, which describe some of the basic indicators and production structure of the Gulf countries, we come to about the low population, underdeveloped infrastructure and lower level of population under the working age group, all of whom characterise for the low absorption capacity of these economies. Also in the financial world, the bank for International Settlements for its middle-Eastern study identifies Saudi Arabia, Kuwait and UAE as the low absorbing OPEC members.[2] Another study identifies Saudi Arabia, Kuwait and UAE as the low absorbing OPEC members.[3] Therefore, with the high rise in OPEC revenues though both the high and low absorbers started ambitious programmes to build up their economies, they could not spend all the revenues and thus started the emergence of oil exporters suplus funds with low absorbing countries having lions share of it.

Although, apprehension has been cast about the real magnitude of oil exporters surpluses, because they have been for their own reasons, shy about providing informations. In fact Saudi Arabian Monetary Authority's foreign advisers have to pledge that they will have no contact with the press.[4]

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2. Middle East Economic Survey, Vol.28, No.21, 4 March 1985.
3. Middle East Economic Survey, Vol.28, No.39, 8 July 1985, pp.B2.
4. Peter Field, "Could Saudi Arabia have $48 Billion in Cash," Euromoney, June 1977, p.116.

Table 2.5

IDENTIFIED OIL EXPORTER'S FUNDS
($ Billion)

	December 1983 level	1984 Q_1	Q_2	Q_3	Q_4	December 1984 levels	% of total dev-lopment
United Kingdom							
Sterling Bank Deposits	4.9	0.1	0.5	0.2	0.1	4.6	
Euro Currency Bank Deposits	43.9	-0.2	0.4	0.8	-2.9	41.3	
British Govt. Stocks	3.4	-0.1	-0.3	0.1	-0.2	2.2	
Equities, Loans, etc.	5.7	-0.1	-0.2	-0.2	-	5.0	
	57.9	-0.3	0.4	0.9	-3.0	53.1	
United States							
Bank Deposits	17.7	-1.1	2.5	0.5	1.6	21.2	
Treasury bonds, notes and bills	34.7	-1.1	-2.0	-0.9	0.5	31.2	
Equities, loans etc.	33.5	-0.4	-	-2.1	-0.2	30.8	
	85.9	-2.6	0.5	-2.5	1.9	83.2	
Other Industrial Countries							
Bank deposits	56.6	-1.3	0.2	2.0	0.3	56.0	
Equities, loans etc.	71.8	-0.4	0.9	1.1	1.2	74.4	
Offshore Centres							
Bank deposits	36.0	0.4	-1.2	-0.2	0.5	35.5	
OEC credit to non-banks	7.7	0.3	-	0.3	-	8.3	
IMF and IBRD	35.9	1.0	0.2	-0.5	-1.1	32.3	
Placement with LDCs	58.3	-	0.9	-0.1	0.3	59.5	
Total Identified Additions (+)/ Reductions (-) in Deployed Assets	410.1	-2.9	1.9	1.0	0.1	402.3	

Source :- Bank of England, "Quarterly Bulletin" June 1985, Reprinted in MEES, Vol. XXVIII, No.47, 2nd September, 1985, p. B7.

And presence of unpublicised surplus of certain oil exporters has been pointed out.[5] Some even feel it is virtually impossible to arrive at accurate figures[6] as it involves too many unknowns, both economic and non-economic even for short run. Table 2.5 provides information about the oil exporters surplus, whose level stood at 402.3 billion US dollars in December 1984.

The oil bonanza due to which the oil providing countries enjoyed massive economic boom was resultant of the sample redistribution of the world finance. With the rise in oil prices, oil exporting countries were able to cut into the financial hegemony, which industrialised countries enjoyed in post-Second World War era.

Post Second World War Global Financial Regime

The post-World War global financial regime was conceived at the International Monetary and Financial Conference of the United and Associated Nations, which was held at Brettonwoods, New Hampshire, United States from 1 July 1944 to 2 July 1944, with the purpose of formulating definite proposals for an International Monetary Fund and possibly a bank for reconstruction and development.[7] The conference ended

5. Wilfried Guth, "International Money and the Oil Crisis," The Banker, Vol. 124, No. 585, November 1974, pp. 1447-49.

6. Abd Latif Y. Al Hamad, Arab Capital and International Finance, The Banker, Vol. 124, No. 575, January 1974, pp. 25-28.

7. Mason, Edward S and Asher, Robert E., The World Bank Since Brettonwoods, The Brroking Institution, Washington D.C., 1973, p. 12.

with the establishment of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) or the World Bank. The post-Second World War International Economic Order envisaged the following:

- Fixed Exchange Rates.[8]
- A procedure adopted for the alterations of exchange rates that might become necessary
- All currencies were to be freely convertible loans to be granted only to finance temporary deficits.
- Each country were allotted a given quota in the fund, determined by the size of the GNP foreign trade and currency reserves which determines voting rights and borrowing facilities
- The quota also determined the amount each country had to pay into the fund
- Members had to pay one quarter of their quota in gold and remainder in their own currency.[9]

If a member nation wanted to purchase foreign exchange from the fund with its own currency, automatic permission is

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8. The currency of each country was given a par value which was indicated in gold or in dollars, at the gold value of the dollar in 1944; the currency rate was allowed to vary from the par value by almost 1 per cent.

9. Gold subscription is also called 'gold tranche'.

granted to the magnitude equivalent to its 'gold tranche'.

Drawings up to the next quarter of its quota[10] is conditional on the members making reasonable attempts to solve its problems in the fund's view. Drawing beyond this proportion of quota are likely to be favourably received where the drawings in question are intended to support a sound programme aimed at establishing or maintaining the exchange stability of the member's currency at a realistic rate of exchange.[11] The condition of approval becomes more and more stringent as a country applies to go beyond its first credit tranche. If a currency became scarce, the fund could allow member countries to limit the imports from the country of issue of that currency.[12]

For the IBRD, the task at hand was to supply credits for reconstruction of Europe. The Bank was to serve as a loan broker and guaranteer for the specific projects, to the IMF which was to make short term loans for balance of payments support. But later when these institutions increased

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10. It is also called 'First Credit tranche' because it corresponds to the country's subscription in gold. The next four are called first, second, third and four credit tranches. Thus drawing right is divided into five parts.

11. J.Marcus Fleming, <u>The International Monetary Fund: Its Form and Function</u>, Washington D.C., International Monetary Fund, 1964, p.13.

12. Solomon Robert, <u>The International Monetary System 1945-76: An Insiders View</u>, Harper and Row Publishers, New York, 1977, pp.12-13.

their sphere of network and bank also started providing loans[13] and enforcing financial discipline, their roles were redefined in 1966.[14]

Since respective quotas of different countries determine the quantum of voting rights, this in turn determines their degree of hold over it.

Also another important regulation of IMF is that certain important decisions including that of quota adjustment should be backed by 85 per cent voting majority.[15] By the virtue of above two rules, both United States and EEC are conferred with veto power authority over IMF. The era of post war years was totally dominated by United States which controlled the world's monetary and financial system. Compared to the loans granted by US, World Bank loans were quite insignificant. Also fund lacked rules on how and to what extent international liquidity should be increased, which left central banking task to be primarily handled by US.[16] This priviledged position gave

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13. In 1958, the World Bank organised formation of the aid consortium for India, the first of the country aid consultative groups.

14. For details see, The International Monetary Fund 1945-65: Twenty Years of International Cooperation, Vol.I, Chronicle by J.Keith Horsefield, International Monetary Fund, Washington, D.C., 1969, pp.603-04, reprinted in Payer, Cheryl, The Debt Trap, Penguin Books, Harmondsworth, 1974, pp.217.

15. Ibid.

16. Anell, Lars and Nygren Birgitta, The Developing Countries, and the World Economic Order, Frances Printers, London (1980), p.40.

Table 2.6

FUNDS ACCOUNTS : POSITION TO DATE

(As of Nov. 30, 1985, Amounts Expressed in Millions of S.D.R.)

Country	Quota	Percentage of All Countries
All Countries	89,305.1	100.00
Industrial Countries	56,089.0	62.81
United States	17,918.3	20.1
United Kingdom	6,194.0	
Germany	5,403.7	
France	4,482.8	
Italy	2,909.1	
Netherlands	2,264.8	
Belgium	2,080.4	
Sub-Total-(U.K.to Belgium)	23,334.8	26.13
Spain	1,286.0	
Sweden	1,064.3	
Austria	775.6	
Denmark	711.0	
Norway	699.0	
Finland	574.9	
Luxem Burg	77.0	
Iceland	59.6	
Ireland	343.4	
Switzerland	-	
New Zealand	461.6	
Canada	2,941.0	
Japan	4,223.3	
Developing Countries	33,216.1	37.19
Africa	5,778.1	
Asia	9,220.3	
Europe	2,987.5	
Middle East	7,269.1	
Western Hamisphere	7,961.1	
Memoranda Items Oil Exporting Countries	9,751.8	10.92
Non-Oil Developing Countries	23,464.3	26.27

Source :- International Financial Statistics, Vol. XXXIX, No.1, January 1986, Published monthly by IMF, Washington D.C.

the US, the authority to raise cheap loans from rest of the world by printing dollar bills, and the dollars in circulation represented a claim on the American economy and the holder could have utilised it in purchasing commodities, to covert them into gold or to invest them in so called treasury bills.[17] Thus United States acquired the status of the Banker of the world and also benefit of Seigniorage,[18] on account of dollar being used as reserve currency. This position continued till August 1971, when non-convertibility of dollar into gold was formally declared.

Emergence of Eurodollar

Eurodollar phenomenon has been described as "the markets in currencies traded outside their respective domestic economies."[19] During the early post-war years the Soviet Union and various Eastern European countries used to hold their dollar balance in US banks. But later due to cold war between USA and USSR, these countries shifted their deposits to European banks that were willing to accept deposits and grant loans denominated in US

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17. Ibid.

18. Seigniorage results from the difference between the cost of a mass of bullion and the value as money of the prices coined from it.

19. World Development Report, The World Bank, 1985, p.114.

dollars. Other factors also contributed. Due to BOP pressures upon UK,the government had limited British banks external use of sterling so they had strong incentive to develop business in foreign currencies.

Again in United States and some countries of Western Europe, banks were subjected to restrictive practices which were either self imposed or sponsored by the government which restricted them by paying interest rates above a certain level on time deposits giving advantage to unregulated banks. Also by the end of 1958 the main industrial countries had restored full convertibility of their currencies, the new freedom produced a surge of international banking business.[20] Finally the Eurodollar deposits have increased enormously.

Creation of Special Drawing Rights

The International Monetary Fund could emerge as the potential supplier of the international liquidity, when special drawing rights were introduced at the Rio de Janeirio meeting of the fund in 1967. SDRs were a new unit of account and originally equal to the gold content of 0.888671 gms equivalent to the same as US dollar

20. Ibid.

prevailed that time. But it is not backed by gold or any other national currency but because the members of the IMF are willing to accept it and use it as a means of payment between central banks in exchange for existing currencies. On 1 July 1974 S.D.R. was redefined as a basket comprising different weights of currencies of sixteen countries.[21] Now from 1981 SDR basket consists of only five currencies. The US dollar weighted at 42 per cent, German mark at 19 per cent, French Franc, Japanese yen and British pound each with a weight of 13 per cent.[22] SDRs are allocated to the IMF members in proportion to their quota. Since 1969 the IMF has allocated SDR 21.4 billion in SDRs.[23]

North's Reaction to the Problem

The rise in oil prices led to the redistribution of world finance. The Northern Industrial countries perceived it as a serious threat to the stability of their economies and financial regime dominated by them. It was felt that the increased wealth of oil producing countries could create "havoc on an 'unprecedented scale' in the international money markets."[24] And that higher oil prices had done huge

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21. For details see Polak, J.J., "The SDR as a Basket of Currencies," IMF Staff Papers, December 1979, pp.627-53.

22. Shaf Mohammad, "Strong Dollar, Low Inflation and OPEC's Terms of Trade," The Journal of Energy and Development Autumn 1984, Vol.X, No.1, pp.121-28.

23. World Development Report 1985, pp.106.

24. Ray Dafter, "Oil 'Havoc' Warning for Money Markets" Financial Times (London), Friday, March 8,1974, p.8.

damage to their B.O.P and they had to face soaring inflation on this account.[25] On the other hand, it was viewed that cut in oil production were more worrying for it would have pushed the world economy into the worst recession it had known since 1930s.[26] Also it was felt that oil exporters unguaranteed investment behaviour may hamper the functioning and equilibrium of the worlds finance.[27] And 'recycling' of financial resources accumulating in oil producing countries appeared to be the sole hope.[28] The increase in the middle Eastern oil revenue surplus spurred the rush by different Western Banks for getting foothold in the area.[29] Also the governments of developed countries stepped in to secure direct access to surplus funds of oil producing countries by inducing them to invest in government debt instruments such as treasury bills and the like.[30]

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25. Christopher Tugendhat, "Oil - How to Avoid a Catastrophe," The Banker, Vol.124, No.576, February 1974.

26. Euromoney, Editorial, December 1973, p.3.

27. Wilfried Guth, "International Money and the Oil Crisis," The Banker, Vol.124, No.585, November 1974, pp.1447-49.

28. James McDonald, "Oil Countries 'Key to Future of Shipping," Financial Times, March 12, 1974, p.10.

29. "The Mideast Circle," The Banker, Vol.124, No.582, August 1974, pp.909-10.

30. Minos Zambanakis, "Arab Funds and the Markets," The Banker, Vol.124, No.581, July 1974, pp.751-52.

But all these apprehensions were unreasonably exaggerated. For large portion of petro-dollar surpluses were automatically recycled back into the world economic system dominated by OECD countries through their monetary and fiscal channels.[31] And in fact the price of oil was only a minor factor compared with the monetary and fiscal policies which had induced high inflation rates well before 1973.[32] The same policies were resorted to by the industrial countries to offset the transfer of resources to oil exporting countries. However, all efforts were made to recycle petrodollars back to the fold of conventional financial structure. The strategy was to integrate the oil exporting economies with the industrial world. A look at the direction of trade of these economies show the extent to which they are interdependent which in real sense means the dependency of the former upon the latter.

From Table 2.7 it is clear that developed countries dominate both the exports and imports of these countries countries while developing countries have marginal access to the oil economies markets. This makes these economies vulnerable not only to the economic and political fortunes of the developed countries but subject to the financial and monetary fluctuations brought about by the industrial

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31. OAPEC Bulletin, Editorial, Vol.12, No.3, March 1986.

32. Yusuf A.Sayigh, "Arab European Cooperation: Its pre-Requisites and Framework," Middle East Economic Survey, Supplement Vol.XVIII, No.12, 10 January 1975, p.1.

Table 2.7

DIRECTION OF ARAB GOLF TRADE

	Exports						
	1978	1979	1980	1981	1982	1983	1984
	1	2	3	4	5	6	7
Kuwait				(millions of US $)			
DOTS World Total	10,466	18,449	20,402	16,300	10,863	9,786	10,569
				(Percentage Distribution)			
Industrial Countries	62.2	60.0	50.3	43.7	36.4	42.3	46.5
Developing Countries	28.0	30.7	38.6	39.9	44.3	39.9	38.7
Saudi Arabia				(Millions of U.S. $)			
DOTS World Total	37,816	58,652	102,012	113,230	75,839	49,989	42,654
				(Percentage of distribution)			
Industrial Countries	75.4	75.8	75.4	72.2	65.6	60.1	59.3
Developing Countries	21.1	21.4	21.9	25.2	31.4	35.8	36.4
Qatar				(Millions of U.S. $)			
DOTS World Total	2,318.0	3,598.0	5,310.9	5,389.1	4,544.0	3,616.1	4,579.5
				(Percentage Distribution)			
Industrial Countries	77.4	70.5	71.8	78.4	69.7	67.5	79.7
Developing Countries	21.6	27.8	28.0	19.4	27.3	27.8	16.4
United Arab Emirates				(Million of U.S. $)			
DOTS World Total	9,125	13,652	21,618	21,238	16,837	18,765	17,636
				(Percentage of Distribution)			
Industrial Countries	75.8	76.8	77.6	74.1	54.3	60.0	62.8
Developing Countries	20.9	23.0	22.2	25.5	19.7	20.0	18.1

Source :- Direction of Trade Statistics, Year Book 1985, International Monetary Fund, Washington.

Table 2.7 (contd...)

	Imports						
	1978	1979	1980	1981	1982	1983	1984
	8	9	10	11	12	13	14
Kuwait			(Millions of U.S. $)				
DOTS World Total	4,604	5,198	6,533	7,038	8,285	8,126	7,641
			(Percentage Distribution)				
Industrial Countries	74.1	72.5	74,1	77.5	79.3	73.5	72.8
Developing Countries	21.2	23.0	21.3	18.7	17.5	22.9	23.7
Saudi Arabia			(Millions of US $)				
DOTS World Total	20,349	24.257	30,166	35,268	40,653	38,181	33,368
			(Percentage Distribution)				
Industrial Countries	80.0	79.1	79.6	80.6	82.5	82.0	79.4
Developing Countries	13.8	15.2	15.6	15.7	14.7	15.0	17.4
Qatar			(Millions of U.S. $)				
DOTS World Total	1,183.9	1,425.2	1,439.8	1,517.8	1,947.1	1,455.7	1,144.8
			(Percentage Distribution)				
Industrial Countries	85.5	84.6	77.7	77.5	79.2	78.6	74.8
Developing Countries	14.0	14.6	20.5	18.4	17.4	17.1	20.4
United Arab Emirates			(Millions of U.S. $)				
DOTS World Total	5,385	6,971	8,597	9,651	10,177	8,356	7,030
			(Percentage Distributions)				
Industrial Countries	75.8	71.9	71.1	69.8	69.9	72.1	72.1
Developing Countries	20.1	25.6	24.2	27.7	20.7	25.3	26.3

countries policies. Figures in Table 2.7 showsthat most of the commodity imports are from the industrial countries. Also bulk of the service imports and defense purchases came from the West. Near total dependence for food, agricultural and manufactured commodities as well as technical knowhow on developed countries, give immense power at the disposal of them, to alter the terms of trade of these commodities in their favour and against the oil based economies. The developed countries increased sharply, the export prices of their commodities and services.. The above point could be more illustrative if we go through the OPEC Import price index.

Table 2.8

OPEC IMPORT PRICE INDEX AND AOPEC NOMINAL AND REAL OIL REVENUES

($ million)

Year	OIPI	Nominal oil revenue	Real oil revenues
1972	100.00	7,706	7,706
1973	127.3	12,474	9,799
1974	151.5	51,254	33,831
1975	168.2	55,658	33,090
1976	171.2	70,719	41,308
1977	187.9	86,044	45,792
1978	218.2	79,138	36,269
1979	249.7	129,300	51,782
1980	277.3	208,300	75,117
1981	301.2	188,900	62,750
1982	322.8	138,200	42,810

Source: Ali Tawfik Sadik, "Managing the Petrodollar Bonanza," Arab Studies Quarterly, Vol.6, Nos.1 & 2, Winter/Spring 1984, p.33.

This resulted in severe erosion of oil exporters purchasing power and since bulk of oil exporters commodity service imports come from the industrial countries, they have been the main beneficiaries. Another important item eating into the Arab oil producer's revenues have been the purchase of military hardwares, again from the developed countries.

In fact there has been a positive correlation between the rise of oil revenues and magnitude of the military expenditures.[33] It has been an important instrument for draining oil exporters' revenues. The oil exporters have also suffered on account of the dollar fluctuations. Since OPEC oil prices are denominated in terms of the US dollar, the purchasing power of the oil exporters' viz-a-viz another country depends among other things upon the strength of dollar.[34] Thus due to weakening of dollar, purchasing power will decrease and vice-versa. For example, a weak dollar relative to the country X's currency results in worsening the terms of trade[35] for those oil exporters' who are

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33. Oweiss M. Ibrahim, "Petrodollar Surpluses: Trends and Economic Impact," Journal of Energy and Development, Vol.IX, No.2, Spring 1984, pp.177-202.

34. Mohammad, n.22, p.121.

35. Changes in terms of trade among countries reflect the impact of changes in price and exchange rates on import and export revenues.

Table 2.9

FOREIGN MILITARY SALES AGREEMENT, FISCAL YEARS (1977-81)
(In thousands of U.S. dollars)

Country	1977	1978	1979	1980	1981	1950-81
Bahrain	76	26	28	6,072	62	6,307
Kuwait	27,915	83,818	10,897	127,136	45,867	868,502
Oman	764	-	59	22,907	48,951	74,513
Qatar	-	-	-	305	42	347
Saudi Arabia	1315871	2792774	4348341	3451872	798583	17308491
U.A.E.	268	36	2,842	142	18,802	24267

Source :- Adopted from Oweiss M. Ibrahim, "Petrodollars Surplus, Trends and Economic Impact" - *Journal of Energy & Development*, Vol. IX, No.2, Spring 1984.

countrys X's trading partners, because imports from country X will become costlier to the price of oil. An estimate for 1985 observes that as a result of the decline in the value of the dollar, the purchasing power of the oil exporters' revenues - already eroded by downward price pressures and falling volumes - is likely to decline by upwards of 15 per cent in 1985.[36]

In addition to this the fluctuation of dollar has also tended to destabilize the oil market by reducing the price of oil when demand was rising and raising the price as demand fell off.[37]

Moreover the pricing of oil in dollars has a negative impact on demand of oil and also on the oil market as a whole since the increased market importance of Western Europe and Japan in relation to the USA regarding oil imports and it has led to a partial split between prices and other market forces.[38] And thus there has been naturally, increasing emphasis to do away with the dollar denominated pricing system and opt pricing in the basket of currencies, consisting of

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36. Philip K. Vergler, "CRA Petroleum Economics Monthly, June 1985," reprinted in Middle East Economic Survey, 22 July 1985.

37. OAPEC Bulletin, November 1985, Editorial, "Oil Prices: Why not a Basket of Currencies?"

38. Ibid.

proportional weights of the currencies of different major exporters to oil exporting countries.[39]

Another important setback to the oil exporters and particularly to the Gulf states has come from the protectionist measures of the developed countries. The most important task, which Gulf countries are facing is to prepare their economies for post oil era. Therefore, all out emphasis is given to develop and build the economy to end the dependency upon oil soon. The strategy was to develop the petrochemical industries for which resources are not only domestically available in plenty but very cheap.[40] Also the cost of petro-chemical production is very lower than in developed countries, thus providing them greater market advantage.[41] But this has been frustrated by high tariffs imposed by EEC, on the Gulf petro-chemicals.[42]

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39. Mansor Dailami, "Inflation, Dollar Appreciation and OPEC's Purchasing Power," Journal of Energy and Development, Vol. IV, No.2, Spring 1979, pp.336-43.

40. Nasif J.Dabdab and Badr I. Mohyuddin, "Industrialization in the Arab Gulf," in M.S.Elazhary (ed.), The Impact of Oil Revenues on Arab Gulf Development, Groom Helm, London, 1984, pp.99-106.

41. Ibid., p.95.

42. "SABIC Warns European Protectionism," Middle-East Economic Survey, Vol.XXVIII, No.15, 21 January 1985, p.A8.

Placements of Surplus

The above discussion was all about that component of the oil exporters' revenues, which could be spent by the oil exporters, and which amounted to about 77 per cent of the total OPEC revenues during the period 1973-84.

Table 2.10

OPEC OIL REVENUES: DIFFERENT COMPONENTS 1973-84

	$ billion	Percentage
Total Oil Exporter Revenue	1775.372	100
Expenditure	1373.072	77
Surplus revenue	402.3	23
Surplus place in LDCs	59.5	3.4
Surplus place in Developed countries	342.8	19.3

Source: Middle East Economic Survey, Various Issues.

Now what about that component of the revenues which could not be spent and which are called surplus revenues which is equal to total revenues minus revenues spent. There are various estimates of oil exporters' surplus. One of the reliable estimates by Bank of England identified 402.3 billion US dollars in December 1984.[43]

43. Bank of England, Quarterly Bulletin, June 1985, reprinted in MEES Vol.28, No.47, 2 September 1985.

In the same source, information about deployment pattern of oil exporters' surplus has been provided. Estimates are that most of this surplus belongs to the low absorbing oil exporting economies. Now with the limited immediate investment prospects and no real money market at home, the governments of oil producing states have tended to hold their surplus abroad - primarily in the United States, Europe and other industrial countries and institutions like IMF and IBRD in the form of safe relatively liquid securities such as certificates of deposit and short term government obligations.[44]

Table 2.11

OIL EXPORTERS SURPLUS DEPLOYMENT LEVEL AT DECEMBER 1984

	$ billion	Percentage
Total surplus	402.3	100.0
United Kingdom	53.1	13.2
United States	83.2	20.68
Other Industrial countries	130.4	32.41
Offshore centres	43.8	10.9
IMF and IBRD	32.3	8.0
Sub Total		
Developed countries and Institutions	342.8	85.2
Less Developed countries	59.5	14.8

Source: Middle East Economic Survey, Vol.28, No.42, 2 September 1985, p.B7.

44. Salacuse, Jeswald W., "Arab Capital and Middle Eastern Developmental Finance: The Emerging Institutional Frame-Work," Journal of World Trade Law, Vol.14, No.4, July-August 1980, pp.283-309.

A look at the Table 2.11 reveals the position in December 1984. Out of 402.3 billion dollars only 89.5 billion dollars i.e. 14.8 per cent has been placed with the developing countries while the rest of it, 342.8 billion dollar i.e. 85.2 per cent is located to be deployed in developed countries. Out of this 53.1 billion dollars i.e. 13.2 per cent is located to be deployed in developed countries out of this 53.1 billion dollars i.e. 13.2 per cent is in United Kingdom. United States accounts for maximum 83.2 billion dollars i.e. 20.5 per cent. Offshore centres account for 43.8 billion dollars i.e. 10.9 per cent, IMF and IBRD hold 32.3 billion dollars i.e. 8 per cent, while rest of surplus, 130.4 billion dollars i.e. 32.4 per cent is deployed in other industrial countries. Also from Table 2.5 it is clear that Arab petrodollar surplus is held primarily in liquid wealth instruments for instance bank deposits, treasury bills or bonds and holdings at the International Monetary fund and the World Bank. The rest of the surplus is held in quasi-liquid portfolio investments. Therefore, it would not be wrong to refer to this surplus as total net cash surplus.

The initial pattern of deployment was determined by the apprehension of security and adequate returns to their capital. Also the financial institutions available to them were from the developed countries. It has already been described how Northern financial institutions trooped in the area, with full support and backing from their respective governments. While there was lack of financial institutions which could have attracted some surplus in the Third World countries. As these societies were traditional socieites which tend to rank low in terms of risk taking or achievement oriented behaviour,[45] and also they were without any past experience of modern entrepreneurship. It was natural that they adopt a strategy of placements in which risk is minimum, participation is low and returns attractive.

Consequences of the Surplus Deployment in West

The basic premises of security and adequate returns for which the surplus had been placed in developed countries have belied. The Arab capital has been in real terms getting depleted fastly on the account of high inflation[46] persisting

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45. Monte Palmer and others, "The Behavioural Correlates of Rentier Economies: A Case Study of Saudi Arabia," in Stookey Robert W. (ed.) The Arabian Peninsula, Hoover Institution Press, Stanford, 1984.

46. Ali Tanfik Sadik, "Managing the Petrodollar Bonanza," Arab Studies Quarterly, Vol.6, Nos.1 & 2, Winter/ Spring 1984, pp. 13-38.

in developed countries as well as on the account of monetary devaluation.[47]

Table 2.12

NOMINAL AND REAL ARAB OPEC SURPLUSES

($ million)

Year	Nominal surplus	Surplus in terms of IIPI (1972=100)
1972	3,785	3,785
1973	5,932	4,660
1974	39,192	25,869
1975	27,635	16,430
1976	30,810	17,996
1977	27,492	14,631
1978	14,191	6,504
1979	51,000	20,425
1980	101,187	33,595
1981	53,523	16,851
Total	354,747	160,476

Source: Ali Taufik Saidk, "Managing the Petrodollar Bonanza", Arab Studies Quarterly, Vol.6, Nos.1&2, Winter/ Spring 1984, p.34.

47. Ragaei, El Mallakh and Mihssen Kadhim, "Arab Institutionalized Aid: An Evaluation," The Middle East Journal (1976), pp.471-84. Also Soliman Demir, The Political Economy of Effectiveness: The Kuwait Fund for Arab Economic Development, according to him the KFAED alone lost $13 million between 1971 and 1973 due to devaluation of US dollars.

Also there has been wide discrepancies in the nominal and real interest rates prevailing in developed market economy countries.

It is clear from Table 2.13 that during most of the years real interest rates after being adjusted for inflation and exchange rate has been either negative or very low.

Also the confidence of security of their investments, due to lack of which in the Third World, the Arab capital flowed to industrial world has proved false. Not only that they have become hostage to the economic and political fortunes of the West but also vulnerable to the threats of the West of economic embargoes and freezing of their assets. The case of Iran and Libya are pointer to this. The immediate political fall out is that now they cannot play their oil card so freely even if the market forces favour it. Hence the strategy of exchanging non-renewable source of oil for financial claims upon the developed world appears to be faulty economically as well as politically.

Impact of Oil Price Burden on Developing Countries

In contrast to the developed countries, the non-oil developing countries had to suffer on two fronts. Firstly from sharp rise in oil prices and secondly from rise in prices of their imports from industrial countries. Also

Table 2.13

INTEREST RATE MOVEMENTS IN THE MAIN DEVELOPED MARKET ECONOMY COUNTRIES

(Per cent)

Year	Nominal		Adjusted for Inflation		Adjusted for Exchange Rate Change		Adjusted for Inflation and Exchange Rate	
	U.S.A.	Others	U.S.A.	Others	U.S.A.	Others	U.S.A.	Others
1971	6.12	7.98	1.80	1.52	5.80	10.59	- 0.54	6.08
1972	6.01	7.73	2.46	1.78	- 2.07	8.34	- 7.48	4.72
1973	7.12	8.92	0.96	0.31	- 2.44	10.53	-10.19	4.17
1974	8.06	11.14	- 2.60	- 2.47	7.12	6.67	- 6.29	- 3.85
1975	8.19	10.20	-0.92	-1.98	7.16	12.20	- 4.89	2.75
1976	7.87	9.80	1.94	0.41	13.44	6.92	3.67	1.04
1977	7.67	8.68	1.09	0.14	6.47	11.46	-1.96	4.65
1978	8.49	8.07	0.82	2.32	1.17	16.29	-4.21	8.07
1979	9.33	9.18	-1.71	1.55	5.95	12.15	-1.53	0.82
1980	11.39	10.85	-1.87	0.29	10.57	12.15	-0.06	-1.19
1981	13.72	12.16	3.01	3.08	25.52	6.54	15.35	-3.50
1982	12.92	11.13	6.46	3.98	20.61	4.79	12.84	-1.20
1983	11.34	9.72	7.84	4.84	14.99	5.70	9.87	2.38
1984	12.48	9.24	7.84	4.98	17.31	3.61	12.74	-0.66

Source: United Nations Conference on Trade and Development, 'Trade and Development Report' United Nations, New York, 1985, p.174.

the markets for their export contracted. All these have led to the massive deficits on their current trade Account.

Table 2.14

CURRENT ACCOUNT BALANCES OF DEVELOPING COUNTRIES 1970-84

Yr	$ billion
1970-72[a]	-12.8
1973	- 9.1
1974	-21.0
1975-78[a]	-39.5
1979	-51.7
1980	-68.0
1981	-105.1
1982	-99.2
1983	-56.7
1984	-35.7

Source :- World Development Report 1985, p.33

a) Annual Average.

This has forced the developing countries to search for more and more external finance. In the revision of Arab Gulf's financial placement strategy i.e. Investing their funds in Third World Countries and Integrating their economies with the third world will not only result in benefit to developing countries but also serve the interest of Arab Gulf countries. Therefore, it is a two way need. Because on the one hand it would serve Arab Gulf from the failures of present Arab Gulf-North tie up and on the other hand the emergence of non-traditional source of finance in Arab Gulf as financial backers to the developing countries would help them in attaining more freedom and autonomy over the traditional hegemonists of the world finance.

Gulf Aid, Size, Direction and Policy

The accumulation of surplus assets in the hands of the exporting countries and precisely with Gulf countries opened for them new vistas of socio-political and economic opportunities. Enhanced world status and newly acquired clout brought with them new regional and international responsibilities. The wealth owned by the Arab countries are quite different in nature. These are only in the form of liquid financial assets. While industrial countries have already developed a complete social and physical infrastructure, and established the foundations of a productive system. In contrast the Arab Gulf is yet to acquire its own physical capital and infrastructure. And despite the oil wealth the four important Gulf countries viz. Saudi Arabia, Kuwait, Qatar, United Arab Emirates had their combined total GDP equal to 190.620 million dollars in 1983,[48] which is very meagre as compared to the GDP of industrial market economies. Countries like Spain and Netherlands have more GDP than Saudi Arabia, the biggest of Gulf countries.

While the more richer Northern countries are too giants to be compared with Gulf as should be evident from Table 2.15. Despite these factors the Arab Gulf countries have recognised their responsibility towards developing countries and have accepted the case for aid to them. And their record on Aid has been very impressive. Arab Gulf entered the aid arena long before 'petrodollar bonanza'. And Kuwait became the pioneer Arab Aid donor when it launched a modest programme of assistance to its neighbouring countries in the Gulf and Southern Arabia. This initiative was continued in 1961 by the organisation of the first development assistance fund: the Kuwait fund for Arab economic development. Similarly United Arab Emirates started Abu Dhabi Fund for Arab economic development in July 1971. Also Saudi Arabia started Saudi Development Fund in September 1974.

Arab Gulf Aid to Third World is channelled not only through these national funds but also through bilateral

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48. World Development Tables, World Development Report, 1985.

Table 2.15

GDP OF HIGH INCOME OIL EXPORTERS AND INDUSTRIAL MARKET ECONOMIES - 1983

Country	G.D.P. (Millions of dollars)
Industrial Market Economics	
United States	3,275,701
Japan	1,062,870
Germany, Federal Republic	653,080
France	519,200
United Kingdom	455,100
Canada	324,000
Italy	352,840
Australia	167,110
Spain	157,880
Netherlands	136,520
Arab Gulf Countries	
Saudi Arabia	120,560
U.A.E.	27,520
Kuwait	21,330
Qatar	21,210

Source :- World Development Report 1985, p.179.

arrangements and through multilateral development or lending institutions. As Arab wealth emanated from the oil revenues, it will be better if proportion of Arab Gulf Aid to its oil revenues should be analysed.

It is clear from Tables 2.16 and 2.17 that substantial part of oil revenues were transferred back to developing countries in the form of aid. Also ODA disbursements as percentage of government expenditures were very high. This shows the importance given by Gulf countries to the needs of developing countries coming to the surplus. Although individual datas are not available for this but information is available for all OPEC Oil Exporter shows that share of ODA to developing countries to identified investible surplus has been substantial. It was highest of the order of 12.7 billion dollars in 1980. Whereas, in 1981, they contributed to the tune of 23.1 per cent of the investible surplus. The ratio if separated for Arab Gulf may remain roughly at the same level for, if most of the surplus is owned by Arab Gulf, most of the ODA also is provided by them.

Now a survey of the performance of Arab Gulf donars has been provided in Tables 2.19 and 2.20. From the tables many inferences emerge. The Gulf countries are now the very

Table 2.16

NET ODA DISBURSEMENTS FROM ARAB GULF COUNTRIES TO DEVELOPING COUNTRIES AND MULTILATERAL INSTITUTIONS AS A RATIO OF THEIR OIL REVENUES 1977, 1980, 1983

	1977	1980	1983
Kuwait	17.2	6.5	12.0
Saudi Arabia	8.4	5.7	9.1
United Arab Emirates	12.1	5.3	3.6
Qatar	7.9	6.4	1.9

Source :- Financial Solidarity for Development 1985 Review, p. 12

Table 2.17

NET ODA DISBURSEMENT AS A PERCENTAGE OF GOVERNMENT EXPENDITURE 1978-1983

	1978	1979	1980	1981	1982	1983
Kuwait	17.5	15.8	13.4	12.6	11.6	9.6
Qatar	20.8	13.7	10.4	8.5	4.8	1.2
Saudi Arabia	16.0	10.9	11.7	8.9	5.8	5.6
United Arab Emirates	14.6	15.5	10.5	7.5	7.9	6.3

Source :- Financial Solidarity for Development 1985 Review, p.13

Table 2.18

OPEC COUNTRIES' OFFICIAL DEVELOPMENT ASSISTANCE IN RELATION TO THEIR IDENTIFIED INVESTIBLE SURPLUS (1974-1981)

(Net disbursement in billion dollars)

	1974	1975	1976	1977	1978	1979	1980	1981	1974-81
A. Identified investible surplus	53.2	35.2	35.7	33.4	53.4	61.3	87.0	43.2	402.5
B. ODA to Developing countries	5.1	7.5	7.0	7.4	9.6	9.6	12.7	10.0	68.9
C. Percentage Bilateral aid	9.6	21.3	19.6	22.1	18.0	15.7	14.6	23.1	17.1

Source: Bank of England Quarterly Bulletin, Various issues.

Table 2.19

CONCESSIONAL ASSISTANCE BY ARAB GULF DONORS - 1970-84

	Net Disbursements ($ Million) At Current Prices and Exchange Rates														
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Saudi Arabia	173	214	366	1103	2066	2665	2916	2909	5215	3971	5775	5575	3910	3661	3315
Kuwait	148	106	171	335	631	956	731	1302	993	970	1140	1154	1168	1006	1018
United Arab Emirates	0	50	77	285	510	1046	1028	1076	887	968	1052	800	395	364	43
Qatar	-	-	1	93	185	317	180	17.0	95	282	286	248	139	11	13
Total	320	370	614	1816	3392	4983	4856	5457	7191	6192	8252	7777	5612	5042	4389
Total (at 1983 prices and exchange rates)	838	898	1338	3420	5832	7409	7003	7221	8152	6346	7740	7567	5588	5042	4487

Source :- Development Co-operation, OECD, Paris Various Issues

Table 2.20

CONCESSIONAL ASSISTANCE BY ARAB GULF DONORS AND BY DEVELOPMENT ASSISTANCE COMMITTEE (DAC) DONORS 1970-84

Gulf Donors	Net Disbursements as Percentage of GNP														
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Kuwait	6.19	3.38	5.10	8.13	5.33	7.26	5.00	8.19	5.48	3.52	3.52	3.63	4.60	3.86	3.81
Qatar	-	-	0.13	15.51	9.26	14.59	7.35	6.79	3.29	6.07	4.28	3.74	1.66	0.13	0.16
Saudi Arabia	5.59	5.04	6.57	14.60	8.94	7.50	6.22	4.94	8.00	5.20	4.95	3.49	2.54	3.29	3.29
United Arab Emirates	0.00	5.36	5.10	12.53	7.03	11.69	8.95	7.39	6.36	5.08	3.82	2.60	1.34	1.44	0.17
Total	5.16	4.27	5.64	12.78	7.67	8.33	6.43	5.94	7.18	4.85	4.50	3.40	2.58	2.95	2.73
Total DAC Countries	0.34			0.32	0.38	0.40	0.36	0.33	0.37	0.45	0.44	0.47	0.48	0.48	0.45

Source :- Development Co-operation Various Issues.

important and significantly major source of aid. During 1970-84 they provided more than 66 billion as concessional assistance[49] to the developing countries at current prices and exchange rates. The same amount inflates to 79 billion dollars, if counted at 1983 level of prices and exchange rates.

Another important point that emerges is that Arab Gulf aid has been positively correlated with the oil revenues. The Gulf emerged as important donor source only after the severe oil price hike during 1973, when heavy oil revenues poured in. After reaching its climax, when they provided more than 8 billions in assistance to developing countries. Gulf aid started declining substantially from 1982, which is directly caused by the falling oil prices which results in falling oil revenues. Now it is more revealing, if Gulf assistance is measured in terms of GNP. This is again a very impressive perfomance. Gulf donors combinedly reached maximum when in 1973 they contributed 12.48 per cent of their GNP as concessional assistance to developing countries and thereafter also, though reduced, but significant proportions of GNP has been allocated for

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49. Loans are concessional if they have a grant element of 25 per cent or more.

the same. It is more revealing when compared to the 0.7 per cent of GNP that the United Nations suggested for developed countries. And still DAC countries could never fulfil this target. The best performance by DAC was during 1982 and 1983, when they contributed 0.48 per cent of their GNP. Although, there has been a fundamental difference between the GNP of Gulf states, which is essentially an asset accruing from the depletion of oil wealth and GNP of developed countries, which is a flow deriving from a sustainable productive base. Besides another fundamental difference between OECD and Arab Guld Aid is that OECD aid is mainly directed to higher middle income countries whereas the Gulf aid is essentially channelled to the poorer countries.

Apart from the quantitative aspect of the Guld aid, its qualitative aspect has been more brighter. The grant element[50] of the loans has been significantly higher. Although Qatar topped in providing highest grant element in

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50. The grant element is defined in its first stage as the present value of all future receipts on a loan discounted on the basis of 10 per cent discount rate; the second stage as the deduction of this value from the face value of the loan and in its third stage the percentage this difference bears to the face value. The grant equivalent of a loan is equal to the product of the grant element of the loan times its face value. Non-interest bearing subscriptions to multilateral institutions are treated as grants i.e. as having a grant element of 100 per cent.

Table 2.21

FINANCIAL TERMS OF ODA COMMITMENTS BY ARAB GULF DONORS 1977-1983

A. GRANT ELEMENT OF TOTAL ODA COMMITMENTS

Bileteral and Multilateral Institutions	1977	1978	1979	1980	1981	1982	1983
Kuwait	81.1	91.8	72.3	88.7	80.7	84.6	84.0
Qatar	99.2	99.0	100.0	100.0	100.0	100.0	100.0
Saudi Arabia	76.6	62.2	59.2	67.0	71.9	74.2	71.1
United Arab Emirates	88.8	96.7	97.0	89.6	94.8	86.6	96.2

B. GRANTS AS A PROPORTION OF ODA COMMITMENTS

Bilateral and Multilateral Institutions	1977	1978	1979	1980	1981	1982	1983
Kuwait	64.9	85.0	47.6	79.3	62.6	66.7	71.9
Qatar	98.7	98.2	100.0	100.0	100.0	100.0	100.0
Saudi Araba	53.8	24.7	15.5	36.0	43.6	46.9	42.2
United Arab Emirates							

C. GRANT ELEMENT OF TOTAL ODA LOANS

Bilateral and Multilateral Institutions	1977	1978	1979	1980	1981	1982	1983
Kuwait	44.0	45.6	47.2	45.4	48.4	53.9	43.4
Qatar	51.5	44.5	-	-	-	-	-
Saudi Arabia	49.4	49.8	50.0	48.5	50.1	51.3	50.0
United Arab Emirates	39.6	39.3	37.8	46.7	43.6	48.9	34.2

Source: Financial Solidarity for Development, 1985, Review UNCTAD, Geneva.

in commitments among all the four Gulf donars, yet others also followed closely. Coming to the grant element of ODA loans, it has been around fifty throughout these years. Therefore, a sizeable grant element characterized the concessional loans by Gulf donars. This bears significance for poor countries, for a loan with higher grant element is more soft and debt servicing is easier while a loan with lower grant element is more hard, and implies that debt servicing will be difficult.

Another importance for Gulf Aid has been that unlike, Northern Aid, it has not been tied.[51] And the recipients have freedom to purchase their needs from any market including industrialised countries. The aid of industrialized countries, even when it is not explicitly tied to procurement from these countries, is still used in most cases to pay for goods and services from the industrialised countries. And each dollar of tied aid from major industrialised countries results in a $2 to $3 increase in the GNP of these countries.[52] Unlike the industrialized countries, the Arab oil countries do not use aid as mechanism for export promotion. In fact uptil now they have nothing to tie. Therefore, Gulf donors have no chance of gaining financially from

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51. Tied aid includes all aid transactions for which procurement is limited to the donor country.

52. Mohammed Imady, "Patterns of Arab Economic Aid to Third World Countries," Arab Studies Quarterly, Vol. VI, Nos. 1&2, Winter/Spring 1984, pp. 71-113.

their assistance programme. Also, by and large Gulf assistance has not been subject to restrictions and limitations such as the financing of only the foreign exchange component of the projects.

Aid flows from Gulf has taken various forms ranging from very specific project financing, technical assistance, aid relief and emergency assistance, to very broad budget support and balance of payments financing.

Also Gulf ODA has been characterised by a fairly high disbursement/commitment ratio.

Initially Arab Gulf Aid were restricted to neighbouring Arab countries. But gradually, specially after 1973, oil price hike, they have broad based their area of operation.. And now it covers broadly all the developing countries of Africa, Asia, Latin America and the Caribbean.

CHAPTER III

AID FROM SAUDI ARABIA AND KUWAIT - A COMPARATIVE PROFILE

Among the Arab Gulf countries, Saudi Arabia and Kuwait are the major aid giving countries. Together they accounted for 92 per cent of the Arab Gulf aid. The obvious reason for their predominant share has been size of their surplus. In terms of rate to the GNP, Saudi Arabia provided 3.29 per cent and Kuwait, 3.81 per cent. This has been the highest, compared to the global standard of the USA which provided 0.24 per cent of the GNP.[1] In fact for many years Saudi Arabia occupied the highest position in providing aid relegating United States to second position.

Otherwise also Saudi Arabia closely follows the United States aid in terms of magnitude. Kuwait also always ranked among the ten high ranking donors in the world.

As pointed out in the preceding chapters, for a better appreciation of the aid policy of the donor country, it is necessary to look at its political economy. In case

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1. These figures relate to 1984. See Twenty Five Years of Development Cooperation, OECD, Paris, 1985, p.316.

Table 3.1

TEN HIGHEST RANKING ODA DONORS AND CORRESPONDING NET ODA FLOWS

Rank	1973	$ billion	1975	$ billion
1.	United States	2.97	Saudi Arabia	3.97
2.	France	1.46	United States	3.64
3.	Germany, Fed.Rep.	1.40	France	2.09
4.	Saudi Arabia	1.29	Germany, Fed. Rep.	1.69
5.	Japan	1.01	Japan	1.15
6.	Canada	0.51	United Arab Countries	1.07
7.	Kuwait	0.37	Kuwait	0.92
8.	Netherland	0.32	United Kingdom	0.90
9.	Libya, AJ	0.22	Canada	0.88
10.			Iran, I.R.	0.73
	1978		1980	
1.	Saudi Arabia	5.47	United States	6.30
2.	United States	4.76	Saudi Arabia	5.86
3.	France	2.71	France	4.05
4.	Germany, Fed. Rep.	2.35	German, Fed.Rep.	3.52
5.	Japan	2.22	Japan	3.30
6.	United Kingdom	1.47	Iraq	2.74
7.	Kuwait	1.12	United Kingdom	1.78
8.	Netherlands	1.07	Netherlands	1.58
9.	United Arab Emirates	0.94	Kuwait	1.50
10.	Sweden	0.78	United Arab Emirates	1.03
	1982		1983	
1.	United States	7.412	United States	6.699
2.	Saudi Arabia	4.445	Saudi Arabia	4.361
3.	Japan	3.033	Japan	3.761
4.	Germany, Fed. Rep.	3.023	Germany, Fed. Rep.	3.101
5.	France	2.616	France	2.498
6.	United Kingdom	1.805	United Kingdom	1.609
7.	Netherlands	1.470	Canada	1.429
8.	Kuwait	1.230	Netherlands	1.194
9.	Canada	1.197	Kuwait	1.052
10.	Sweden	0.986	Italy	0.826

Source :- Financial Solidarity for Development, UNCTAD, New York, Various Issues.

of the Arab Gulf countries, the political economy of aid has drawn its content from domestic, regional and global considerations. Broadly speaking the ruling regime of the Arab Gulf region are conservative in nature and they have yet to graduate from the feudal-tribal stage of evolution. Therefore, in making of their aid policy, considerations like religion and ethinity have played quite significant role, not to mention the loyalty factor which could be found even in the case of aid coming from the socalled developed world. All the Arab Gulf states are committed at least at the declaratory level to the Arab solidarity and Islamic fraternity. Their legitimacy in the domestic system is determined by the religious identity. By financing Islamic regimes in other countries, they draw legitimacy in the domestic system. Similarly, regional consideration like the desire to influence the regional affairs have contributed in great way. Specially Saudi Arabia perceives a regional role for itself.

Kuwait on the contrary has used aid to promote its stature in the region. At global level, the aid factor to some extent has been influenced by the demand of New International Economic Order, though most of the developing countries have not been satisfied with the aid policy of the Arab Gulf countries. In this chapter aid policy of Saudi Arabia and Kuwait has been studied in the above defined parameters.

Saudi Arabia 'Aid': Pattern and Policy

Saudi Arabia has been the biggest Gulf donor. During 1973 it committed 1557.0 million dollars to developing countries while during the same year it distributed 1293.0 million dollars. Discrepenancy in commitments and disbursements arise because of the involvements of time lag. Often disbursement are on the instalment basis which also helps in discrepenancy. The quantum of aid went on increasing and during the year 1981, Saudi Arabia committed 7416 million dollars. The disbursement in the corresponding year rose to 5655.0 million dollars. During the period of 1973-81, the period in which donor aid motivations will be analysed, Saudi Arabia committed a total of 44.5 billion dollars. Whereas, the disbursements in the same year amounted to 37.25 billion dollars. Thus, in the given period disbursement/commitment ratio amounted to 84 per cent which is fairly high.

Basically the Gulf states including Saudi Arabia distribute aid in these ways: (i) Bilateral agreements;

(ii) Multilateral agreements; (iii) Grants; (iv) Substantial contributions to development or lending institutions. Bilateral agreements are the direct transaction arrangements between the two governments. Multilateral arrangements consist of groups of nations joining together to extend aid.

Saudi Arabia, during the period 1973-81 distributed 40182.0 million dollars bilaterally and remaining 4305.0 million dollar militerally which means more than 90 per cent of the Saudi aid commitment has been through bilateral arrangement while the rest was through multilateral arrangement. The same ratio has been found to prevail in net disbursements. The concentration on Bilateral Aid explains the desire by the donar to have control over it. For Bilateral provides them more leverage to pursue their national interests or to utilise it as an instrument of foreign policy. While in multilateral arrangements this possibility diminishes for the decision making power for distribution of aid lies with the institution concerned, which in turn denies the usual leverage which donors enjoy through the bilateral arrangements.

Now coming to the composition and terms of net ODA disbursements by Saudi Arabia it is found that grants composed a very high per cent of the total ODA official

Table 3.2

SAUDI ARABIA : DEVELOPMENT ASSISTANCE TO DEVELOPING COUNTRIES, COMMITMENTS AND DISBURSEMENT, 1973-81

(Millions of dollars)

Year	Commitments		Disbursement	
	Total Flows	Of which S.F.D.	Total Flows	Of which S.F.D.
1973	1557.0	-	1293.0	-
1974	3010.0	-	2682.0	-
1975	4825.0	343.6	3972.0	-
1976	4196.0	589.2	3810.0	60.8
1977	5044.0	1076.5	3902.0	186.9
1978	6522.0	759.8	5467.0	241.0
1979	5422.0	735.8	4598.0	316.7
1980	6494.0	634.1	5858.0	287.8
1981	7416.0	378.8	5655.0	294.5

Source :- Financial Solidarity for Development, UNGTAD, 1983 Review.

Table 3.3

SAUDI ARABIA : COMPOSITION AND TERMS OF NET ODA DISBURSEMENTS - 1973-81 (Millions of $)

Year	Grants ($ million)	ODA Loans Disbursements	Grant Elements of Loans (%)	Total grant equivalent ($ million)
1973	554	739	76.30	1118
1974	1213	1469	51.88	1975
1975	1400	2572	40.17	2835
1976	1396	2414	50.41	2613
1977	2087	1815	47.81	2955
1978	2924	2543	54.76	4317
1979	2426	2172	50.67	3527
1980	2479	3109	48.42	4254
1981	2964	2691	52.62	4380

Sc ce:- Financial Solidarity for Development, 1983 Review.

development assistance. For example during the year 1973, 554 million dollars were provided as grants only. The remaining ODA loan which was disbursed also contained a very high grant element which was 76.3 per cent which meant that total grant equivalent in the year 1973 amounted to 1118 million dollars which in other words implied that grant element of total aid disbursement in 1973 amounted to 85 per cent. During the period 1973-81, Saudi Arabia gave outright grants equivalent to 17443 million dollars, while it disbursed during the same period, official developments assistance worth 19524 million dollars which contained very high grant element. The total grant equivalent during 1973-81 amounted to 27974 billion dollars, which implies that the grant element of the total ODA by Saudi Arabia has been 76 per cent in this period, which is indeed very high. The concentration of high grant element in Saudi Arabia Aid implies how soft and easy has been the terms and conditions for the recipient developing countries. Another important quality of the Saudi Aid has been that, it has been totally untied. Also recipient countries have freedom to utilise these funds in any market. Non-restriction for market gives them more freedom to spend the fund according to their own choice and needs. Which makes Saudi Aid qualitatively superior to the Western aid. Another important aspect of Saudi Aid has been that it has been mostly given to the developing countries while in contrast the Western aid has mostly gone to middle income countries. From Table 3.4 it is clear that Developing Africa received 22.4 per cent of the total Saudi commitments while it received a share of 16.4 per cent out of the total Saudi disbursements, during the years 1973-81. During the years after 1973 its share was higher than this but later it started coming down. The share of developing Asia, although lesser in the beginning, went up in the later years. During 1973-81 its share in total Saudi commitment was the tune of 35.0 per cent of the total commitments and 33 per cent of the total disbursements. The share of American developing countries was very marginal both in terms of commitments as well as disbursements.

Again the share of least developed countries during the period 1973-81 was 11.6 per cent of the total commitments and 8.2 per cent of the total disbursements. Again from the figures, it is clear that the most seriously affected countries had a fair share in the Saudi aid. Their share during the period 1973-81 was 29.8 per cent of the total commitments and 19.5 per cent of the total aid disbursements.

Before going into the other aspects of the Saudi aid, the role of Saudi Development Fund should be analysed.

Table 3.4

SAUDI ARABIA : DEVELOPMENT ASSISTANCE TO SELECTED CATEGORIES OF DEVELOPING COUNTRIES AND MULTI-LATERAL INSTITUTIONS, COMMITMENTS 1973-81

Category	Millions of dollars				Percentage			
	1973-75	1976-78	1979-81	1973-81	1973-75	76-78	79-81	1973-81
Bilateral Total	8761.0	14329.0	17092.0	40182.0	93.3	90.9	88.4	90.3
By Region:								
Developing Africa	2520.0	3224.0	3260.0	9004.0	28.8	22.5	19.1	22.4
Developing Asia	1722.0	6627.0	5724.0	14073.0	19.7	46.2	33.5	35.0
Developing America and others	-	55.0	36.0	91.0	-	0.4	0.2	0.2
Unallocated	4519.0	4423.0	8072.0	17014.0	51.6	30.9	47.2	42.3
Least Developed Countries	563.0	2460.0	1474.0	4677.0	6.4	18.4	8.6	11.6
Most seriously affected countries	2827.0	5340.0	3803.0	11970.0	32.3	37.3	22.3	29.8
Multilateral Total	631.0	1434.0	2240.0	4305.0	6.7	9.1	11.6	9.7
Grand Total	9392.0	15763.0	19332.0	44487.0	100.0	100.0	100.0	100.0
Disbursements								
Bilateral Total	7602.0	11387.0	14666.0	33655.0	95.7	86.4	91.0	90.4
By Region :								
Developing Africa	1908.0	2037.0	1559.0	5504.0	25.1	17.9	10.6	16.4
Developing Asia	1184.0	4921.0	5015.0	11120.0	15.6	43.2	34.2	33.0
Developing America and others	-	6.0	20.0	26.0	-	0.1	0.1	0.1
Unallocated	4510.0	4423.0	8072.0	17005.0	59.3	38.8	55.0	50.5

Table 3.4 (Contd...)

Category	Millions of dollars				Percentage			
	1973-75	1976-78	1979-81	1973-81	1973-75	76-78	79-81	1973-81
<u>By Selected Categories</u> :-								
Least developed countries	404.0	1304.0	10.53	2761.0	5.3	11.5	7.0	8.2
Most seriously affected countries	1740.0	3351.0	1475.0	6566.0	22.9	29.4	10.0	19.5
Multilateral Total	345.0	1792.0	1445.0	3582.0	4.3	13.6	9.0	9.6
Grand Total	7947.0	13179.0	16111.0	37237.0	100.0	100.0	100.0	100.0

Source :- Financial Solidarity for Development, 1983 Review.

For,this Saudi National institution plays important role in Saudi aid programme. Saudi Fund for development was established in 1974, primarily to channelise the Saudi development assistance to the developing countries. Its authorised capital amounts to 25,000 million Saudi Riyals which is equivalent to 7,256.9 million dollars.[2] In fact all these national development funds in the Gulf, with the exception of Kuwait, were established after the 1973 price hike.

During the period 1975-81, Saudi Fund for Development committed 4517.5 million dollars out of the total Saudi commitments of total 39919 million dollars Saudi commitment which implies that of the total Saudi commitment during the period mentioned S.F.D.'s share was 11 per cent. But during the period 1976-81 SFD disbursed only 1387 million dollars out of total Saudi disbursement of 29290 million dollars, which amounted to less than 5 per cent of the total.

Now coming to the geographical distribution of the concessional financial flows to developing countries by Saudi Fund for Development it is found that developing

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2. Abdul Razek Hassan, "The Arab Assistance Organs and Their Role in Economic Development," in Michele Achilli and Mohamed Khaldi (eds.), The Role of the Arab Development Funds in the World Economy, Groom Helm, London, 1984, p.216.

Table 3.5

SAUDI FUND FOR DEVELOPMENT : CONCESSIONAL FINANCIAL OUTFLOWS TO DEVELOPING COUNTRIES DISBURSEMENTS 1976-81

Category	Millions of Dollars			Percentages		
	1976-78	1979-81	1976-81	1976-78	1979-81	1976-81
Developing Africa	273.0	420.3	693.3	55.9	46.8	50.0
Developing Asia	209.6	459.9	669.5	42.9	51.2	48.2
Developing America	6.1	18.8	24.9	1.2	2.1	1.8
Total of which	488.7	899.0	1387.7	100.0	100.0	100.0
Least Developed Countries	130.8	239.0	369.8	26.8	26.6	26.6
Most Seriously Affected Countries	335.0	444.4	779.4	68.5	49.4	56.2

Source :- Financial Solidarity for Development, 1983 Review.

Africa received 693.3 million dollars, which amounted to 50 per cent of the total during the period 1976-81. Developing countries of Asia during the same period received 669.5 millions of dollars which amounted to 48.2 per cent of the total. Similarly, the least developed countries received 369.8 million dollars, 26.6 per cent of the total during the period 1976-81. While the most seriously affected countries got 779.4 million dollars or 56.2 per cent of the total.

As concerns the distribution of commitments by the SFD by income group, the countries with per capital GDP less than $500 dominated, for they received 49.7 per cent of the total commitment which was 3373.3 million dollars, thus covering half of it. Nextcame the countries with per capita GDP from $500 to $1500 with 38.3 per cent countries with per capita GDP alone $1500 received only 12.0 per cent of the total commitments. Share of least developed countries amounted to only 28.1 per cent of the total commitments of SFD. Again the grant element content of the SFD commitment to both categories of countries, with per capita income less than $500 and with per capita income $500 to $1500, amounted to 51.6 per cent each. While countries with per capita GDP above $1500 had grant element of 42.6 per cent in their commitment by SFD. The least developed countries had a slightly higher, 54.5 per cent grant element in SFD ODA commitment for them.

Table 3.6

DISTRIBUTION OF TOTAL CONCESSIONAL COMMITMENTS TO DEVELOPING COUNTRIES BY INCOME GROUP BY SAUDI FUND FOR DEVELOPMENT

Income Groups	1977-83 (Percentages)
Per capita GDP less than $ 500	49.7
Per capita GDP from $ 500 to $ 1500	38.3
Per capita GDP above $ 1500	12.0
Commitments (millions of dollars)	3373.3
Least developed countries	28.1

Source :- Financial Solidarity for Development 1985 Review.

Table 3.7

WEIGHTED AVERAGE GRANT ELEMENTS OF THE CONCESSIONAL COMMITMENTS OF SAUDI FUND FOR DEVELOPMENT

Income Groups	1977-83 (Percentages)
Per capita GDP less than $ 500	51.6
Per capita GDP from $ 500 to $ 1500	51.6
Per capita GDP above $ 1500	42.6
Least developed countries	54.5

Source :- Financial Solidarity for Development 1985 Review.

Table 3.8

SECTORAL DISTRIBUTION OF CONCESSIONAL PROJECT LOANS : COMMITMENTS OF THE SAUDI FUND FOR DEVELOPMENT

Sectors	1978-83 (Percentages)
Agriculture	4.6
Mining and Quarrying	9.2
Manufacturing	6.1
Electricity, Gas and Water	37.6
Transportation and Storage	34.9
Services	4.5
Multipurpose	9.3
Commitments (millions of $) of which	3374.2
Infrastructure	85.6
Energy-Related	28.6

Source :- Financial Solidarity for Development 1985 Review.

It is clear from Table 3.8 that SFD has been giving more emphasis on the infrastructure sector in its aid commitment, 85.6 per cent of its total commitment during 1977-83 while 28.6 per cent was allotted for Energy related projects.

Table 3.9

SAUDI FUND FOR DEVELOPMENT : WEIGHTED AVERAGE OF SECTORAL GRANT ELEMENTS OF CONCESSIONAL LOANS

Sector	1973-81 (Percentages)
Agriculture	47.4
Mining and Quarrying	54.1
Manufacturing	59.3
Electricity, Gas and Water	51.1
Housing and Services	50.7
Education	44.3
Health	-
Multipurpose	52.3
Balance of payments support	54.8
Distress relief	47.2
All sectors	49.6
Primary energy	49.7
Infrastructure	49.9

Source :- Financial Solidarity for Development, 1983 Review.

All the sectors had high grant elements in the concessional loans allotted to the respective sector by Saudi Fund for Development (Table 3.9). Sectoral loans for infrastructure contained 49.9 per cent grant element while primary energy contained 49.7 per cent grant element in its share of concessional loans. Balance of payments support had a grant element of 54.8 per cent in its share of loan committed by SFD. The highest grant element for BOP support explains the donars commitment to help the needy recipient countries in urgency.

Direction and Motivation of Saudi Aid

The motivations behind the aid programme of Saudi Arabia, and for that of all Gulf donors, differs from that of industrialized countries. In the industrialized countries aid has generally been tied to politico-economic interests and to the extension of political, strategic and cultural influence. On the other hand the Gulf Aid has moral dimension and ethical content. There sense of belonging to the community of developing countries is fundamental element of Arab Aid policies. Inspite of this the Arab Aid, or Saudi Aid has not been provided purely on the basis of need. And other uneconomic factor have, though partially, influenced their Aid programme. Although it is very difficult to synchronise each and every factor, which influence Arab Gulf of Saudi Aid only a few can be captured.

Table 3.10

SAUDI ARABIA COMPOSITION OF AID TO FRONT LINE STATES - 1973-81

(Millions of dollars)

Front Line States	Commitments	Disbursements
[a]Egypt	2,964	2,596 (1973-78)
Jordan	2,233	2,136
Syria	3,844	3,501
Sub Total	9,023	8,233
Total Saudi Bilateral Aid	40,173	33,655
Percentage Front line/ Total	22.5	24.5

[a] Aid to Egypt was stopped in 1979 because Egypt signed Camp David Agreement with Israel.

Source :- Financial Solidarity for Development, 1983 Review.

From the information in Table 3.10 it is known that major share of the Saudi Aid has gone to the three frontline countries namely Egypt, Jordan and Syria. Although aid to Egypt was stopped in 1977, due to its signing of the Camp David agreement, the three frontline countries received commitment worth 9,023 million dollars during 1973-81. That is out of total Saudi Aid commitment of 40,173 million dollars, 22.5 per cent was shared by the frontline states.

Table 3.11

SAUDI ARABIAN AID COMPOSITION BY COUNTRY GROUPS - 1973-81

Country Group	Commitments (dollars million)	Percentage Total Saudi Bilateral Commitment	Disbursement ($ of million)	Percentage of Total Saudi Bilateral Disbursement
Arab African Countries	4,772	12	2,461	7.3
Arab Asian countries	3,409	9	3,088	9.2
Non-Arab African Islamic countries	593	1.5	214	0.6
Non-Arab Islamic Asian countries	3,018	7.5	1,556	4.6
Non-Arab Non-Islamic developing Asia	691	1.7	443	1.3
Non-Arab Non-Islamic developing Africa	688	1.7	233	0.7
Other developing countries	91	0.23	26	0.08

Source :- Financial Solidarity for Development, 1983 Review.

These are the three frontlines which are in the front to fight Arab Israeli War. And they receive bigger share of aid in lieu of their war efforts. Again the disbursement commitment ratio in the case of front line states has been 85 per cent which is quite higher. Out of total disbursement of 33,655 million dollars, the frontline countries received 8,233 million dollars, which amounted to 24.5 per cent of the total disbursements during 1973-1981.

Table 3.11 provides information regarding the various country groups receiving Saudi Arabian Aid. It is clear from the table that the African Arab countries received commitment of 4,772 million dollars i.e. 12 per cent of the total Saudi Commitment during 1973-81. Similarly they had received 2461 million dollars out of the total Saudi disbursement which implied that 7.3 per cent of the Saudi disbursement during 1973-81 went to Arab African countries.

Arab Asian countries received a total commitment of 3,409 million dollars out of total Saudi commitment during 1973-81. It amounted to 9 per cent of the Saudi commitment. Similarly this group received 3088 million dollars, which amounted to 9.2 per cent of the total Saudi disbursement during 1973-81. Although the Arab African countries received maximum of both Saudi commitment and disbursement, considering that it includes many poor African countries and that there are very few Asian Arab countries in addition to Gulf donars and Frontline countries, the latter have been the biggest beneficiaries of Saudi Aid. These are in fact the immediate neighbours of Saudi Arabia.

Next comes the group of non-Arab Islamic Asian states, which includes mostly the Islamic countries of South and South-East Asia. This group of countries shared 3018 million dollars, which 7.5 per cent of the total Saudi commitments during the period 1973-81. This group received 1556 million dollar of the Saudi disbursements which amounted to 4.6 per cent of the total Saudi disbursement during the above mentioned period. Non-Arab African Islamic countries got 593 million of dollar commitment, i.e. 1.5 per cent of total Saudi commitment during 1973-81, and 214 billions out of total Saudi disbursement.

Non-Arab Non-Islamic developing Asian countries received 691 million dollars in commitment which amounted to 1.7 per cent of the total Saudi commitment during 1973-81. This group received 443 million dollars out of the total Saudi disbursement, which amounted to 1.3 per cent of the total. Non-Arab Non-Islamic Africa received 1.7 per cent of Saudi commitment and 7 per cent of the disbursement during the same period.

Therefore, it is obvious that Saudi Aid has been concentrated in Arab and Islamic countries. The small neighbouring Arab countries were the most beneficial and their disbursement/commitment ratio was also very higher. Non-Muslim and Non-Arab countries have of course been beneficiaries. But the data suggests that the overriding factor in Saudi Aid, in addition to the politico-military aid to Frontline countries has been ethnicity and religion.

From the above analysis of Saudi aid profile it becomes quite obvious that the aid policy has been significantly influenced by the search of legitimacy of the ruling regime. It has been used to bolster the Islamic and Arab profile of the leadership. With the decline in oil revenue, the high profile of aid policy is likely to be subdued. It has reduced to 3315 million dollars in 1984 from the peak 5775 million dollars in 1980. This implies that during last four years, Saudi aid has declined by 42.6 per cent.

Kuwait Aid: Pattern and Policy

Kuwait has been, after Saudi Arabia, the biggest donor among the Gulf donors. It has ranked always among the ten highest donors of the world. Also Kuwait is the oldest donor in the Gulf. In 1973 Kuwait committed total flow worth 720.9 million dollars, whereas it disbursed 367.6 billion dollars in the same year. The disbursement/commitment ratio being 51 per cent. Usually disbursements are lower because of the time lag involved in the disbursal of the flow. Also, whereas commitments are announced with fanfare, the disbursal takes place quietly, making it difficult for assessment. After 1973 it has been always increasing.

During 1973-81 Kuwait committed total flow worth Rs.10,941.2 million dollars to the developing countries, while during the same period, Kuwait disbursed 9014.4 million dollars. Therefore, the disbursement commitment ratio was as high as 83 per cent.

Now coming to the financial terms of the ODA loans disbursements by Kuwait during 1973-81,it is known that Kuwait loans also like Saudi Arabia contain very level of grant element.

During 1973 Kuwait disbursed outright grants worth 338.09 million dollars, while the ODA loans worth 29.53 million dollars, which were disbursed in that year contained grant element of 49.34 per cent. Thus the total grant equivalent in that year amounted to 352.66 million dollars which implied that the total ODA of Kuwait in that year contained 96 per cent grant element. Similarly during 1981 outright grants by Kuwait amounted to 1192.0 billion dollars while ODA loans were 239.0 million dollars with grant element of 47.73 per cent. Thus grant equivalent that year amounted to 1306.10 million dollars. Therefore, the grant element on total ODA flows by Kuwait amounted to 91 per cent. Aggregating, during the period 1973-81, Kuwait granted outright grants worth 5771.71 million dollars, while ODA loans disbursed amounted to 3242.69 million

Table 3.12

KUWAIT: TOTAL DEVELOPMENT ASSISTANCE TO DEVELOPING COUNTRIES (1973-81)

(millions of dollars)

Year	Commitments		Disbursements	
	Total flows	of which KFAED	Total flows	of which KFAED
1973	720.9	58.4	367.6	19.4
1974	1031.8	141.5	622.8	8.7
1975	1165.5	333.2	917.0	62.2
1976	702.0	301.6	709.0	151.6
1977	1446.0	354.8	1298.0	167.0
1978	835.0	196.5	1116.0	188.5
1979	1049.0	347.5	1049.0	192.9
1980	1434.0	241.8	1504.0	279.8
1981	2557.0	751.4	1431.0	199.3
TOTAL	10941.2	2726.7	9014.4	1269.4

Source: Financial Solidarity for Development 1983, Review.

Table 3.13

KUWAIT: COMPOSITION AND TERMS OF NET ODA DISBURSEMENTS (1973-1981)

(millions of dollars)

Year	Grants \$ million	ODA loans disbursements \$ million	Grant element of loans %	Total grant equivalent \$ million
1973	338.09	29.53	49.34	352.66
1974	550.79	72.09	43.53	582.17
1975	793.00	124.40	50.76	856.10
1976	268.07	440.83	48.43	481.60
1977	448.95	849.35	42.53	810.20
1978	608.71	507.09	44.14	832.50
1979	655.10	393.90	45.48	834.20
1980	917.00	586.50	47.35	1194.70
1981	1192.00	239.00	47.73	1306.10
TOTAL	5771.71	3242.69	45,60	7250.23

dollars and which contained grant element of 45.60 per cent. Thus grant equivalent, during the period 1973-81, of the total flows by Kuwait amounted to 7250.23 million dollars whereas total flows amounted to 9014.4 million dollars. Therefore, the total ODA outflows from Kuwait during 1973-81 contained 80.50 per cent grant element.

Such high grant elements represent the softness of the ODA provided by Kuwait to the developing countries. Now coming to the channelling of aid commitments and disbursements, of the total commitment during 1973-81 made by Kuwait, 80.5 per cent were through bilateral arrangements, while rest 19.5 per cent were through multilateral arrangement. Again out of the total disbursements worth 9014.1 million dollars during the period, 7104.1 million dollars were disbursed through bilateral arrangements and the rest 1910.0 million dollars were through multilateral arrangements, which implied that 78.8 per cent disbursement took place through bilateral arrangements whereas 21.2 per cent took place through multilateral arrangements. Although in Kuwait also emphasis has been upon bilateral arrangements, still it is lesser than in case of Saudi Arabia, where 90 per cent of ODA is channelled through the bilateral arrangements. Higher multilateral arrangements represents, lesser emphasis, on the part of donors to

Table 3.14

KUWAIT : DEVELOPMENT ASSISTANCE TO SELECTED CATEGORIES OF DEVELOPING COUNTRIES AND MULTILATERAL INSTITUTIONS, COMMITMENTS

Category	Millions of dollars				Percentage			
	1973-75	1976-78	1979-81	1973-81	1973-75	76-78	79-81	1973-81
Bilateral Total	2480.5	2236.6	4084.9	8801.8	85.0	75.0	81.1	80.5
<u>By Region</u> :-								
Developing Africa	1496.4	775.3	649.9	2921.6	60.3	34.7	15.9	33.1
Developing Asia	960.7	1431.3	3362.1	5754.1	38.7	64.0	82.3	65.4
Developing America and others	-	3.6	2.0	5.6	-	0.2	-	0.1
Unallocated	23.1	26.4	70.8	120.3	0.9	1.2	1.7	1.4
<u>By Selected Categories</u> :								
Least Developed countries	323.4	371.2	515.3	1209.9	13.0	16.6	12.6	13.7
Most seriously affected countries	1458.0	926.3	793.4	3177.7	59.0	41.4	19.4	36.1
Multilateral Total	438.4	746.3	954.1	2138.8	15.0	25.0	18.9	19.5
Grand Total	2918.7	2982.9	5039.0	10940.6	100.0	100.0	100.0	100.0

Table 3.14 (Contd...)

Category	Millions of Dollars				Percentage			
	1973-75	1976-78	1979-81	1973-81	1973-75	76-78	79-81	1973-81
				Disbursements				
Bilateral Total	1734.0	1951.2	3418.9	7104.1	90.9	62.5	85.8	78.8
By Region :								
Developing Africa	988.7	692.3	395.2	2076.2	57.0	35.5	11.6	29.2
Developing Asia	696.1	1129.8	2948.0	4773.9	40.1	57.9	86.3	67.2
Developing America and others	-	-	4.8	4.8	-	-	0.1	0.1
Unallocated	49.1	129.1	70.8	249.0	2.8	6.6	2.1	3.5
By Selected Categories :								
Least Developed countries	93.5	249.2	370.2	712.9	5.4	12.8	10.8	10.0
Most seriously affected countries	1010.6	757.4	547.2	2315.2	58.3	38.8	16.0	32.6
Multilateral Total	173.8	1171.6	564.6	1910.0	9.1	37.5	14.2	21.2
Grand Total	1907.8	3122.8	3983.5	9014.1	100.0	100.0	100.0	100.0

Source :- Financial Solidarity for Development 1983 Review.

control over the aid and in turn there are less chances of aid being utilised as an instrument of foreign policy of the donor.

Coming to the distribution of Kuwait's development assistance to selected categories of developing countries, it is known that during the year 1973-81, developing Africa received 2921.6 million dollars of commitments out of total Kuwaiti commitment of 10,940.6 million dollars which amounted to 33.1 per cent of the total. While developing Africa received 2076.2 million dollars of Kuwaiti disbursements out of the total disbursements of 9014.1 million dollars during 1973-81. It meant that developing Africa shared 29.2 per cent of the total Kuwaiti disbursements during the period.

During the same period developing Asia received 65.4 per cent of the total Kuwaiti commitment and 67.2 per cent of the total Saudi disbursements during the given period.

Not only this but also developing Africa's share was more during the years following 1973 but it had a gradual decline. During 1973-75 it received 60.3 per cent of the total Kuwaiti commitment and 57.0 per cent of the total Saudi disbursement. But it declined to 15.9 per cent during 1979-81 in terms of commitments and 11.6 per cent in terms of disbursement.

In contrast to this the share of developing Asia, in 1973-75, was 38.7 per cent of the total commitments and 90.10 of the total disbursement. Their shares rose phenomenally. And during 1979-81, they shared 82.3 per cent of the total Kuwaiti commitments and 86.3 per cent of the total Kuwaiti disbursements. Share of developing countries of America in the Kuwait's commitment and disbursements were minimal.

Again the share of least developed countries, during 1973-81 amounted to 1209.9 million dollars of total Kuwaiti commitments which meant 13.7 per cent of the total Kuwaiti commitments. Whereas, out of total Kuwaiti disbursement of 9014.1 million dollars during 1973-81, least developed countries' share was to the tune of 712.9 million dollars, 10 per cent of the total.

During the same period, the share of most seriously affected countries was 3177.7 million dollars out of total Kuwaiti commitments which amounted to 36.1 per cent of the total while during the same period, their share in total Kuwaiti disbursements amounted to 2315.2 million dollars, 32.6 per cent of the total.

Again before going to the other aspects of Kuwaiti aid, the role of Kuwait Fund for Arab Economic development should be analysed. Kuwait Fund for Arab Economic Development is oldest among all the Arab National Funds. It was

Table 3.15

KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT CONCESSIONAL FINANCIAL OUTFLOWS TO DEVELOPING COUNTRIES, DISBURSEMENTS, 1973-81

Category	Millions of dollars				Percentage			
	1973-75	1976-78	1979-81	1973-81	1973-75	76-78	79-81	1973-81
Developing Africa	58.1	296.5	308.5	663.1	64.3	58.5	45.9	52.2
Developing Asia	32.3	210.6	363.7	606.6	35.7	41.5	54.1	47.8
TOTAL of which	90.4	507.1	672.2	1269.7	100.0	100.0	100.0	100.0
Least developed countries	26.3	138.8	275.7	440.8	29.1	27.4	41.0	34.7
Most seriously affected countries	49.5	325.4	413.7	788.6	54.8	64.2	61.5	62.1

Source :- Financial Solidarity for Development 1983 Review.

constituted in 1962. It has authorised capital of 27,000 Kuwaiti dinars, which is equivalent to 6,872.9 million dollars.[3]

During 1973-81 the Kuwaiti fund for Arab Economic development distributed 2726.7 million dollars out of total Kuwaiti commitment of 10,941.2 million dollars, which is 25 per cent of the total Kuwaiti commitment. Again out of the total Kuwaiti disbursements worth 9014.4 million dollars during 1973-81, 1269.4 million dollars which is 14 per cent of the total, were disbursed through Kuwait Fund. Thus substantial proposition of Kuwait's commitments and disbursements were channelled through Kuwait Fund for Arab economic development. Now as it seems by the name of it, Kuwait Fund for Arab economic development was initially formed for channelling resources to fellow Arab countries but later on its gambit was extended to whole of the developing countries. And as the data suggests, the developing countries of Africa, during 1973-81, received 663.1 million dollars, 52.2 per cent of the total KFAED's concessional financial outflows. Developing countries of Asia received a share of 606.6 million dollars, which means 47.8 per cent of the

3. Mahmoud El Helw, "Cooperation Among Arab Development Financing Agencies," in Michele Achilli and Mohamed Khaldi (eds.), The Role of the Arab Development Funds in the World Economy, Groom Helm, London, 1984, p.91.

Table 3.16

DISTRIBUTION OF TOTAL CONCESSIONAL COMMITMENTS TO DEVELOPING COUNTRIES BY INCOME GROUP 1977-83

Income groups	Percentages
Per capita GDP less than $500	53.1
Per capita SDP from $500 to $1500	40.0
Per capita GDP above $1500	6.9
Commitments (millions of dollars)	2930.3
Least developed countries	30.5

Source: Financial Solidarity for Development 1985 Review.

Table 3.17

WEIGHTED AVERAGE GRANT ELEMENTS OF THE CONCESSIONAL COMMITMENTS BY KFAED 1977-83

Income groups	Percentages
Per capita GDP under $500	51.8
Per capita GDP from $500 to $1500	45.7
Per capita GDP over $1500	35.9
Least developed countries	56.0

Source: Financial Solidarity for Development 1985, Review.

total KFAEDs net concessional outflows during 1973-81. Least developed countries received 440.8 million dollars which is 34.7 per cent of the total disbursements by KFAED during 1973-81. Similarly most seriously affected countries accounted for 788.6 million dollars which is 62.1 per cent of the total concessional disbursement by KFAED during 1973-81.

As concerns the distribution of concessional loans by KFAED by income group, the countries with per capita GDP less than $500 received 53.1 per cent of the total commitments, countries with per capita GDP between $500 and $1500 received, 40.0 per cent of the total KFAED commitments, during 1977-83. The share of countries with per capita GDP above $1500 was a meagre 6.9 per cent. Whereas, the least developed countries shared 30.5 per cent of the total concessional commitments to developing countries during 1977-83.

The weighted average grant element to different categories of income groups by KFAED is as follows. The concessional commitments to the countries with per capita GDP under $500 carried a grant element of 51.8 per cent, while countries with per capita GDP from $500 to $1500 carried grant element of 45.7 per cent. And those countries with per capita GDP over $1500 carried grant element of 85.9 per cent whereas commitments to least developed countries carried grant element of 56.0 per cent.

In the sectoral distribution of concessional loans disbursements, it is found that during 1973-81, KFAED has given preference to the infrastructure sector. The maximum sectoralwise disbursement went to electricity, gas and water with 32.5 per cent of total KFAED disbursements. Next to benefit was the transportation and storage sector which shared 25.2 per cent of the total KFAED's total disbursements throughout 1973-81.

In the sectoral grant element, we find that agriculture sector had the highest, with 58.2 per cent grant element of the concessional loan provided to this sector by KFAED. While grant element on infrastructure loans were to the tune of 46.0 per cent.

Direction and Motivation of the Kuwaiti Aid

Analysing the direction of Kuwaiti's aid, recipient countries have been divided into seven groups based on religion and ethnicity, which may help to explain to some extent the motivation of Kuwait aid. As it is known Gulf donor's motivation differ from those of the industrial countries. For Kuwait also, the sense of belonging to

Table 3.18

KFAED: SECTORAL DISTRIBUTION OF CONCESSIONAL LOAN DISBURSEMENTS, 1973-81

Sector	Millions of dollars	Percentages
Agriculture	170.5	13.4
Mining and quarrying	168.0	13.2
Manufacturing	117.0	9.2
Electricity, Gas and water	413.2	32.5
Transportation and storage	320.3	25.2
Housing and Services	7.8	-0.6
Education	-	-
Health	-	-
Multipurpose	49.7	3.9
Balance of Payment support	24.0	1.9
Distress Relief	-	-

Source: Financial Solidarity for Development, 1983, Review.

Table 3.19

WEIGHTED AVERAGE OF SECTORAL GRANT ELEMENTS OF CONCESSIONAL LOANS (1973-81)

Sector	Percentages
Agriculture	58.2
Mining and quarrying	38.6
Manufacturing	40.3
Electricity, gas and water	44.4
Transportation and storage	47.1
Housing and services	35.0
Education	-
Health	-
Multipurpose	51.0
B.O.P. Support	39.6
Distress relief	-
All sectors	46.3
of which Infrastructure	46.0

Source: Financial Solidarity for Development 1983, Review.

developing countries is fundamental element. Inspite of this Kuwait aid has not been provided purely on the basis of need of the recipient. Non-economic factors have, though partially, influenced their Aid programme. In fact Kuwait started providing aid very early. It should be remembered that Kuwait is very small state and right after its independence from Britain, Iraqis laid their claim upon Kuwait. Kuwait aid programmes, gave them stature and helped them in consolidating their legitimacy to exist as an independent state. Although it is very difficult to pick up each and every factor, which influence Kuwait's aid programme, only a few could be traced.

Table 3.20

KUWAIT: COMPOSITION OF AID TO FRONTLINE COUNTRIES (1973-1981)

Frontline countries	Commitments	Disbursements
Egypt[a]	1369.6	1313.1 (1973-78)
Jordan	1106.9	1063.1
Syria	1816.7	1742.6
SUB TOTAL	4293.2	4118.8
TOTAL SAUDI BILATERAL AID	8801.8	7105.9
Percentage Frontline/Total	48.8	58.0

(a) Aid from Kuwait was stopped in 1979 because Egypt signed Camp David agreement with Israel.

Source: Financial Solidarity for Development 1983, Review.

From the information provided in the table (Table 3.20) it is known that in case of Kuwait also, major chunk of their aid has gone to the Frontline countries namely Egypt, Syria and Jordan, who are in the forefront of carrying Arab Israeli war.

During the year 1973-81 Kuwait committed to these three countries 4293.2 million dollars out of its total commitment of 8801.8 million dollars, which amounted to 48.8 per cent of the total commitments. Similarly in case of disbursements, these countries shared 58.0 per cent of the total Kuwaiti disbursement during 1973-81, which amounted to 4118.8 million dollars. The disbursement/commitment ratio, in case of frontline countries was also very higher. If amounted to 96 per cent.

Table 3.21 provides information about various country groups, which has been made on the basis of ethnicity and religion.

The group of Arab African courtries during 1973-81 received 893 million dollars, 10.2 per cent of the total Kuwaiti commitments. Similarly they received 465.8, 6.6 per cent of the total disbursements. Arab Asian countries, the immediate neighbours of Kuwait again had the largest share. They received 1445 million dollars, 16.4 per cent of the Kuwaiti commitments during 1973-81 and 1247 million dollars in disbursements which was 17.5 per cent of the total. The

Table 3.21

KUWAIT AID : COMPOSITION BY COUNTRY GROUPS 1973-81

Country Group	Commitments million of dollars	Percentage of Total Saudi Bilateral Commitment	Disbursement millions of dollars	Percentage of Total Kuwait Bilateral Disbursement
Arab African Countries	893.0	10.2	465.8	6.6
Arab Asian Countries	1445.0	16.4	1247.0	17.5
Non-Arab African Islamic Countries	301.3	3.4	155.26	2.18
Non-Arab Asian Islamic Countries	670.8	7.6	250.8	3.5
Non-Arab Non-Islamic Developing Asia	367.5	4.2	177.1	2.5
Non-Arab Non-Islamic Developing Africa	319.9	3.2	134.9	1.9
Other Developing Countries	5.6	0.06	4.8	0.07

Source :- Financial Solidarity for Development 1983 Review.

disbursement/commitment ratio for Arab Asian countries was 86.3 per cent, while for Arab African countries 52 per cent. Non-Arab Asian Islamic states received 670.8 million dollars which was 7.6 per cent of the total Kuwaiti. Commitment during 1973-81, whereas the disbursements amounted to 250.8 million dollars which meant 3.5 per cent of the total Kuwaiti disbursement, the disbursement/commitment ratio in their case amounted to 37.8 per cent.

Non Arab African Islamic countries received 301.3 million dollars, which meant 3.4 per cent of the total Kuwaiti commitments, whereas they received 155.26 million dollars in commitment, 18 per cent of the total disbursements. The disbursement/commitment ratio for them was 51.53 per cent.

Non Arab non-Islamic developing Asian countries received 367.5 million dollars, out of which India only received 192.8 million dollars. while this group received 177.1 per cent of disbursements. Thus they received 4.2 per cent of Kuwaiti commitments and 2.5 per cent of Kuwaiti disbursement. Their disbursement/commitment ratio being 48 per cent. Non-Arab non-Islamic Africa received 319.9 million dollars or 3.2 per cent of the total Kuwaiti commitments and 134.9 million dollars or 1.9 per cent of the total Kuwaiti disbursements. Share of other developing countries remained marginal.

Therefore, in the case of Kuwait also it is observed that in addition to politico military aid to frontline countries, emphasis has been laid upon Arab and Islamic countries. Though Kuwait had comparatively more diversification of aid to non-Islamic and non-Arab countries, than Saudi Arabia.

Conclusion

By the comparative assessment of the profile of the two biggest surplus holders and biggest aid donors of the Arab Gulf, it has been found that both the donors have given emphasis in providing to Arab and then to Islamic countries, in addition to frontline states. For Saudi Arabia it is understandable, for it considers itself more responsible to Muslim countries because of the importance of the holy cities of Mecca and Medina. In case of Uganda, after Idi Amin was deposed, aid was stopped. Again Saudi Arabia has not been very enthusiastic in giving aid to Third World Communist regions.

In case of Kuwait, although they had preference for Arab and then Islamic countries, in addition to frontline states, still they have diversed more of their flows to other non-Arab and non-Islamic countries. For their share in Kuwaiti aid is of higher proportion than in Saudi Arabia.

Also Kuwait has not been averse in advancing aid to Communist countries. Thus there has been a pattern of greater diversification of Kuwait aid than Saudi Aid.

It appears while Saudi aid policy has been motivated by the desire of regional leadership, for Kuwait it has been largely an instrument to assert its existential presence in the region. "It was realized by the Kuwait rulers that the newly acquired independence must be bolstered by the oil wealth in order to be sustained. There are many ways in which wealth can be used to sustain independence. One of these ways is to establish a vehicle for disbursing economic aid."[4] In otherwords Kuwait conceived aid to project its political image. Being a small size state that too facing the threat of intervention from its neighbours Iraq and Iran, aid was seen as an instrument to obtain clout in the regional affairs.

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4. Soliman Demir, The Kuwait Fund and the Political Economy of Arab Regional Development, Praeger Publishers, New York, 1976, p.5. Also see, F.Shehab, "Kuwait: A Super Affluent Society," Foreign Affairs, Vol.42 (April 1964), pp.461-74.

Table 3.22

OIL IMPORTS AND DEBT SERVICE RATIO OF SELECTED SUB-SAHARAN AFRICAN COUNTRIES

Country	Oil Imports Million Dollars		Oil Imports as Percentage of Total Imports		External Debt Service Ratio	
	1973	1978	1973	1978	1973	1978
Burundi	1.63	6.67	5	7	2.2	2.6
Ivory Coast	25.27	171.15	4	8	7.2	16.0
Kenya	46.71	238.96	n.a.	16	5.6	9.5
Malawi	8.95	30.18	6	9	7.6	8.0
Mauritania	6.49	73.13	5	7	5.5	6.0
Senegal	21.15	102.00	6	11	8.0	21.9
Sierra Leone	9.23	33.33	6	12	8.6	15.3
Sudan	24.57	133.10	10	11	11.4	31.0
Upper Volta	-	21.30	n.a.	8	5.6	8.0

Source :- Michael Lyall - "Arab Aid to Black Africa : Myth Versus Reality" in Dunstan M. Wai (ed.) Interdependence in a World of Unequals, Westview Press, Boulder, 1982, pp.181-96.

Summing up in the context of global aid regime it can be stated that while oil price rise about a dramatic change by transferring financial resources from traditional source to the oil producers specially the Arab Gulf countries, but from the recipient perspective there has not been a very significant change in their favour. While they had to pay increased amount of revenues for oil imports, aid flows from Gulf countries were not so much in magnitude that it would have eased their problem. Rather it has contributed to the problem. From the study[5] of a few sub-Saharan African countries, it became clear that their oil import bill has shoot up manifold, in some cases even seven times during the period 1973-78. Their oil imports as percentage of total imports has also increased about two-fold. During the same period the external debt service ratio grew. In case of Sudan and Ivory coast, it increased by more than 200 per cent. Of course, all the rise in debt servicing could not be attributed to the oil prices only. But it cannot be denied that it has contributed to the problem and the corresponding aid flow by oil exporting gulf countries to the oil importing developing countries has

5. Michael Lyall, "Arab Aid to Black Africa: Myth Versus Reality," in Dunstan M.Wai (ed.) Interdependence in a World of Unequals, Westview Press, Boulder, 1982.

not been able to offset it. Even from the point of view of the oil surplus countries the deployment of their surplus has not been to their advantage. This point has been elaborated in the earlier pages. This obviously demands a review of the aid policy of the Arab Gulf countries including Saudi Arabia and Kuwait. It will be desirable if instead of aid channelling programme, a surplus deployment strategy in the developing countries could be visualised as an alternative. In other words, aid flows has to be conceived within the larger framework of economic inter-dependence among the developing countries, popularly called as South-South Cooperation.

CHAPTER IV

ARAB GULD AID AND POLITICAL ECONOMY OF SOUTH SOUTH CO-OPERATION

The study of the nature of the global financial regime and the trends of Arab Gulf aid suggests a few important inferences relevant for defining the framework of South South cooperation. From the recipient perspective it suggests that neither of them have been able to contribute in resolving the structural basis of under-development. In case of Arab Gulf aid even from donors perspective, the returns have not been favourable. In addition the Arab Gulf aid has not been able to make any dent in changing the orientation of the global financial regime. Though for some time it did create illusion when heavy transfer of financial resources took place from traditional financial centres. This process, however, got reversed as a consequence of recycling of the petro-dollars. No doubt the aid did flow from the new source. Saudi Arabia and Kuwait did fairly well as far as the record of aid is concerned but the global aid regime did not see any qualitative change. In fact to some extent it got strengthened by making the oil importing developing world more dependent on external sources. If the Arab

Gulf aid could not make any qualitative change then was it because of its quantum or its nature. Or is it by isolating aid as independent factor, unreasonable hopes were placed on the Arab aid: it appears that if Arab Gulf aid has not been able to meet the challenge, it was not because of its size, but its very conception. It is the contention here that unless the Arab Gulf aid is not visualised within the framework of political economy of South South co-operation, no major break through could be achieved.

Political Economy of South South Cooperation

The political economy of South South cooperation can be understood at two levels - national and international. The ruling regimes which took over the levers of power in most of the developing countries have been either moderate or conservative at least in their development strategy. So most of them maintained the economic linkages with their metropoles after political independence. In many cases even the nature of linkage remained the same for very long period. Thus the economic interaction remain confined with the northern economies. This could be seen in their external economic interaction be trade, aid or investment. The high interaction with northern economies and low profile with South was explained in terms of complementary/competitive framework.

In the 1950s and sixties when the northern economies were experiencing the expansionary phase, the ruling elite from developing countries could get concessions in return of some strategic or political consideration. Thus a few developing countries became more favourable than others and even graduated to the higher level in global hierarchy as newly industrialised countries. With the onset of the seventies, however, the problems of northern economies started affecting their relations with the southern economies. The latter in turn started feeling greater stress of underdevelopment causing sharp decline of legitimacy. The leadership of South found it convenient to shift the burden of their non-performance to the global factor. Thus emerged a concensus for a New International Economic Order. The rigid attitude of the developed countries towards NIEO and the rise of OPEC created a new sense of identity among the developing countries which got evolved later into South South cooperation.

During the seventies and till date, the strategy of South South co-operation has been governed by the strategy of exit and voice. The exit option is defined as measures to pull oneself out of dependency.[1] It is unilateral action by South, challenging the basic structure of distribution of wealth between the North and South. It includes, restoring control over one's economic resources, nationalizing and indegenizing foreign firms, and seeking regional integration.

While the purpose of the exit option is to destroy dependency by means of the South's unilateral initiative, the voice option implies dissatisfaction with the conventional dependency centred North-South order in search of northern consent for changes in major elements of dependency in favour of developing countries. Thus, the voice option means North-South "dialogue" through which northern countries would be persuaded to respond co-operatively to southern requests for larger economic benefits such as preferential trade agreements, higher export prices of commodities, and improvement in the quantity and quality of aid.

The South South co-operation was conceived primarily to raise the voice in north-south relationship. In other words the south-south cooperation was perceived as

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1. Kuniko Y. Inoguchi, "Exit and Voice: The Third World response to Dependency Since OPEC's Initiative," in Charles W. Kegley, Jr. and Pat McGowan (eds.), The Political Economy of Foreign Policy Behaviour, Sage Publications, London, 1981, p.258.

inversely dependent on north south relations. Perhaps it lies there as the limitations of South-South co-operation, which made the Arab Gulf aid ineffective in playing its critical role.

To make South-South co-operation as a meaningful concept, it is essential that it is viewed as a parallel and autonomous process to north south relations. Once the primacy of the autonomy of these relations are recognised, the oil surplus loses its relevance as concessional finance and becomes an investment proposition. In other words the oil surplus is not channelized to the developing countries for any unilateral concessions, on the contrary it is conceived as a factor to facilitate the process of economic interdependence. This would require a new institutional support, where the state will have to play a very critical role by intervening into the process of confidence building.

For if Arab Gulf investors are pursuaded to divert their investments from the international capital market to developing countries, directly or through the new institution then they will have to be assured that such investments were not only commercially viable but secure against default whether for political or commercial reasons.

Therefore, it is necessary that the new institution say south bank, should guarantee developing countries' bond issues within Arab Gulf capital markets and Arab Gulf investments within particular developing countries. This could be extended either through a collective guarantee of its members or through a special guarantee facility fund set up within the South Bank.[2] Here members may be invited to provide some resources and a special underwriting commitment. The principle of the guarantee facility would be to distribute the risks over a large number of subscribers. This multilaterism of risk to cover both the activities of South Bank and investments of other Arab Gulf individuals and institutions would transform radically the evaluation of risk and the perceptions of investment opportunities for Arab Gulf investors.

It should also be noted that an important element in evaluating risk perception arises from ignorance and communication gap between the capital deficit oil importing developing countries and capital surplus oil exporting Arab Gulf countries. It could be neutralized through a programme of informing both investors and potential recipients as to the opportunities available and the willingness of the bank to involve in the venture. It could provide a forum for direct contacts

2. See Rehman Sobhan, "Institutional Mechanisms for Channelling OPEC Surpluses within the Third World," Third World Quarterly, Vol.II, No.4, October 1980, pp.721-45.

among the prospective investors and recipients.

The immediate sources of finance for the South Bank would come from a transfer Arab Gulf's liquid portfolio of assets currently held in treasury papers in US and UK. Other developing countries holding external currency reserves and other assets in the international capital market could also be made to finance. Since the rationale for South Bank rests on the overall scope for providing an institutional base to bring developing courtries together to mobilise their vast under utilised resources. It is necessary that a wide spectrum of developing countries should be fully involved not just in the operation of the South Bank but in its viability and which should become a vested interest for each participant. This could be realised by providing developing countries some weightage beyond their immediate contribution to the fund.

Finally there is a growing need of a financial institution like South Bank among the developing countries. And it may help to contribute some relief to the developing countries from the vicious circle of debt, dependency and underdevelopment.

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