

Cheap Sheikh: Hard Times in the Persian Gulf

by [Patrick Clawson \(/experts/patrick-clawson\)](/experts/patrick-clawson)

Oct 26, 1998

ABOUT THE AUTHORS



[Patrick Clawson \(/experts/patrick-clawson\)](/experts/patrick-clawson)

Patrick Clawson is Morningstar senior fellow and director of research at the Washington Institute for Near East Policy.



Articles & Testimony

Renowned for their secrecy and bland public pronouncements, Saudi Arabia's leaders almost never make news. But, when the kingdom's number-two man, Crown Prince Abdullah bin Abdul Aziz, visited Washington last month, he dropped a bombshell. Meeting with executives from seven major U.S. oil companies, Abdullah shocked them by asking for help developing the kingdom's energy resources. Here was Abdullah, who has a reputation for nationalism and ambivalence toward the West, inviting back the same oil companies whose operations the Saudis so triumphantly nationalized 25 years ago. What the crown prince did not say -- but what the companies knew -- is why the Saudis have had a sudden change of heart: they're broke.

Two decades ago, the oil sheikhs of the Persian Gulf could make the world tremble when they gathered to adjust the world price of crude. Since then, an oil glut has driven the cost per barrel to one-fifth what it was at the 1980 peak. And, while the resulting low oil prices have fueled a boom here in America, they have been catastrophic for the Arab monarchies -- Saudi Arabia, Kuwait, the United Arab Emirates, Bahrain, Oman, and Qatar -- that make up the Gulf Cooperation Council (GCC).

Having neither saved nor invested for the lean years, the GCC countries have become nouveaux pauvres. Since 1973, they have frittered away a staggering \$3 trillion (at 1997 prices) in oil and gas revenue. Since 1982, Saudi Arabia has managed not only to spend every cent of its \$140 billion in reserves but to run up a national debt of nearly \$130 billion -- almost the size of its national income. Seventeen years ago, the GCC residents had an average per capita income of \$28,000 at 1997 prices; today, it is just \$12,000 (and even less if we use the Saudis' exaggerated estimate of their country's population). Then, they earned 125 percent as much as Americans and twice as much as Israelis. Today, their average income is only half that of Americans and three-fourths that of Israelis. Unemployment among Saudi men in their twenties is estimated at 25 percent. A shocked U.S. businessman told me young Saudis now apply for menial jobs in his factory, and some even stay a few weeks before quitting. High school graduates remain dependent on their fathers, with lots of time to sit around mosques discussing who is responsible for this sad state of affairs.

The obvious targets of that discontent are their rulers, who, in addition to being greedy and corrupt, have not trained

their people for life after the oil bonanza. Nearly all Gulf Arab men work for their governments, leaving productive labor almost entirely to foreign laborers from East Asia, the Indian subcontinent, and poorer Arab countries. Seeking to convince me that his countrymen were more competitive than others in the region, one Gulf labor minister assured me people there worked a full four hours a day! (He was wrong.) And this situation will likely get worse. Fifteen years ago, 200,000 Saudis studied in U.S. and European universities. Today, due to tight money, fewer than 20,000 Saudis study abroad. As for the 140,000 studying at Saudi universities, 30 percent are in Islamic studies, and religion constitutes one-third of the course work for the other 70 percent. As one despondent Western-trained Saudi professor put it to me, Islam is the only area where unemployed young Saudis are more expert than their fathers -- and, naturally, these young men think the world should be reordered to put a higher value on their knowledge.

Meanwhile, the GCC countries face daunting bills to renovate the infrastructure built during the oil boom. Due to the population explosion and aging facilities, Saudi Arabia's capital Riyadh has to deliver drinking water to poor neighborhoods with trucks, while the government scrambles to finance a new pipeline and multibillion-dollar desalination plants. The phone system is so hopelessly backlogged that, two years ago, 100,000 Saudis rushed to put down \$3,000 deposits on mobile-phone service from a network that did not yet exist. Last month, a Japanese businessman complained to me that, more than a year after his factory started production, the Saudis were still refusing to connect it to the power grid -- he has to use generators -- and could provide only two phone lines.

Cutting back on monarchical privileges would free up money for infrastructure and debt payments. But the Gulf leaders continue to insist that a revived oil market will save them -- and in this they are almost certainly mistaken. If anything, depressed Asian economies will soon be demanding less oil, while Iraq, thanks to eased United Nations sanctions, will be pumping out more. Concern over global warming is likely to depress demand in the long run, while new technology makes production cheaper in competing countries.

The irony is that the GCC economies could prosper if the right policies were in place. After all, the post-oil-boom generation has produced some world-class businessmen. Take, for example, Prince Alwaleed bin Talal. Despite his royal lineage, this remarkable entrepreneur has no inside track in Saudi Arabia. (His father, the most famous 1960s reformist "Young Prince," still causes waves -- in a recent interview, he shocked the family by advocating democracy and warning that "political reforms will impose themselves through globalization.") Instead, Prince Alwaleed's net worth of \$13 billion has come from his business acumen. He first attracted attention with his far-sighted \$590 million investment in a rebounding Citicorp in 1991. He also has large stakes in EuroDisney, Apple Computer, and Four Seasons and Mvenpick hotels, and a joint venture with Bill Gates and Craig McCaw. But, because of the medieval financial systems in the GCC countries, almost none of his wealth -- or that of the \$800 billion in assets held by GCC nationals abroad -- will come home soon.

To be sure, the Gulf's economic downturn probably does not presage an Iranian-style revolution, as many in Washington now fear. The Gulf monarchs, unlike the Shah, know what they're up against and could use tribal and extended family connections to discipline revolutionary hotheads. The bad news, though, is that the economics of the Persian Gulf are likely to complicate the politics of the Persian Gulf. Nervous monarchies will be eager to appease the Islamists -- after all, they'd rather not have a revolution to put down -- and that, in turn, will often run counter to U.S. interests.

First, expect Gulf countries to reduce cooperation with the U.S. military. If that means a full return to a 1970s-style, standoffish military relationship -- no resident U.S. forces, no joint exercises, and certainly no burden-sharing payments -- the United States will be left with the responsibility for repelling aggression but with fewer means for doing so effectively. With less military presence, the United States would be less able to deter rogues from starting trouble in the first place.

Second, the Gulf monarchies will likely go back to being part of the Arab-Israeli problem, rather than part of the

solution. Whereas Qatar and Oman once hosted multilateral peace talks and permitted Israeli "trade" offices, GCC governments are now returning to their old practice of underwriting opposition to Arab-Israeli peace. During his recent triumphal tour of the Gulf, Hamas leader Sheikh Ahmed Yassin received a pledge of as much money from GCC governments as they have provided Yasir Arafat's Palestinian Authority in the last four years.

And, finally, forget obtaining GCC financial support for U.S. policy initiatives elsewhere. Simply put, the money won't be there. In the past, the United States has asked the Saudis to help finance U.S. foreign policy efforts, ranging from reconstructing Bosnia to providing fuel to North Korea. Now the Saudis may be rattling the tin cup. In August, there was a serious run on the Saudi currency, and the kingdom will be lucky to get through the next decade without needing an IMF-orchestrated bailout. In short, the first years of the new century may look more like the Gulf's radical 1950s than the region's fun-loving '70s: countries convulsed by economic unrest; rulers preoccupied with domestic problems while unsure how close to be to the West; masses simultaneously loathing America and yearning to emulate it. Of course, with the rest of the world reeling from economic hard times, why should the Gulf's petroleum moguls be spared the pain? ❖

New Republic

RECOMMENDED



BRIEF ANALYSIS

[The UAE Formally Ceases to be a Tax-Free Haven](#)

Feb 14, 2022

◆
Sana Quadri,
Hamdullah Baycar

(/policy-analysis/uae-formally-ceases-be-tax-free-haven)



BRIEF ANALYSIS

[Iran Takes Next Steps on Rocket Technology](#)

Feb 11, 2022

◆
Farzin Nadimi

(/policy-analysis/iran-takes-next-steps-rocket-technology)



BRIEF ANALYSIS

[Saudi Arabia Adjusts Its History, Diminishing the Role of Wahhabism](#)

Feb 11, 2022



Simon Henderson

[\(/policy-analysis/saudi-arabia-adjusts-its-history-diminishing-role-wahhabism\)](#)

TOPICS

[Energy & Economics \(/policy-analysis/energy-economics\)](#)

[Gulf & Energy Policy \(/policy-analysis/gulf-energy-policy\)](#)

REGIONS & COUNTRIES

[Gulf States \(/policy-analysis/gulf-states\)](#)