Saudis Split On Whether Or Not To Bail Out IMF

The Arab-African summit meeting that took place last week in Cairo poses the question: Will Saudi Arabia agree to use its vast wealth to bail out the International Monetary Fund, or will it instead move to finance development projects in the Third World and in the advanced sector as well?

On March 6, the *New York Times* issued an editorial call for Saudi Arabia to extend $15 billion to the IMF, which is now virtually bankrupt as a result of the Third World's inability to service its debt to the Fund. Other OPEC countries, most notably Kuwait, as well as West Germany, the Netherlands, and Switzerland, are also being pressed to "contribute toward a substantial and rapid increase" in the flow of funds to the IMF. H. Johannes Witteveen, director of the IMF, traveled to Saudi Arabia last week to personally pressure the Saudis into propping up the Fund. Chase Manhattan Bank president David Rockefeller also went to Saudi Arabia in an effort to convince the Saudis to convert their short-term deposits at Chase into long-term accounts, for reasons of "stability." According to the *New York Times*, the Carter Administration is squarely behind the IMF's drive to maintain the current debt structure and to prevent the emergence of a new world monetary system. The IMF, said U.S. officials, is "an integral part of the Administration's economic strategy" and is necessary for "world stability."

But the Saudis — in particular the pro-development factions close to Oil Minister Zaki Yamani — are strongly resisting the bailout scheme. Leading Middle East analysts are skeptical that Saudi Arabia will have anything to do with the $15 billion debt rollover plan (see excerpts below). Spokesmen for both New York's Chemical Bank and a Philadelphia think tank discounted reports that the Saudis will bail out the IMF, and a member of the Senate Foreign Relations Committee anxiously said, "If the Saudis don't come through, I'm not sure the IMF will survive." According to the London financial monthly *The Banker*, the Saudis are resisting pressure to have their aid to Egypt be funneled into debt servicing and instead prefer real economic development.

Yamani is leading the resistance, and has come into direct conflict with Prince Fahd, who reportedly favors removing Yamani from his powerful post and sending him out of the country as an ambassador. According to a former State Department official, Yamani is currently winning hegemony over the pro-IMF forces in Saudi Arabia, who insist that Saudi Arabia refrain from investing in development projects and instead deposit its money in banks or use it for treasury bonds. Yamani, on the other hand, is pushing for long-term Saudi investments in Western Europe and North America as well as for increased oil production. In an interview in the *Sunday Times* of London, Yamani reaffirmed his policy of keeping oil prices down, saying emphatically, "We're sticking to our guns," and stressing his intention to fight "through 1978" if necessary.

Yamani also linked the question of oil prices and Saudi plans for increased oil production to Saudi investment overseas: "We want you to help us invest out reserves abroad at a fair rate of return." Yamani tied this entire package to the speedy resolution of the North-South talks and the rapid settlement of the Arab-Israeli crisis, stressing that the alternatives are a growing war threat and possible coups in Egypt, Syria, and Jordan. A spokesman for the Washington-based American Enterprise Institute has noted that if there is no substantial motion toward an overall settlement soon in the Middle East, the Saudis will be forced to consider the war option.

"You Have No Idea What Promises Carter Is Giving The Saudis"

A leading Midwestern banker who recently returned from a tour of the Gulf States had this assessment:

From what I know, April will be the month when the Saudis make up their minds whether to stick with Carter. Now there are enormous pressures coming from the IMF and from David Rockefeller. Yamani, it seems, has no power over the Saudi Arabian Monetary Agency — Fahd has the real power there. It appears that everything will depend on the political steps taken by the Carter Administration.

You have no idea what promises Carter has given the Saudis, and is still giving them. The Saudis are depending politically on the U.S. to consolidate Saudi power in the Persian Gulf. So if the Saudis get assurances from Carter and the U.S. that the U.S. will help them consolidate their Gulf power and if, secondly, they get a Geneva conference this year — the Saudis, you know, are terrified over the possible radicalization of the Mideast — then the Saudis will go with the IMF. If not...

But, you know, incredible secret promises have been made to the Saudis by Vance, I can't tell you the details but this is undoubtely true. And, with these promises being given, it is not unlikely that Fahd will push Yamani into the post of ambassador to either London or Washington.

Opposition inside Saudi Arabia is described by the *Baltimore Sun* as "tougher than expected," but Yamani is reportedly gaining the upper hand. According to the British press, the Saudis have launched a "new policy" of offering "major industrial contracts" to the Third World, with subcontracts extended to European — mainly British — firms. An Indian consortium is currently negotiating several development contracts worth hundreds of millions of dollars, in what promises to be a model of triangular cooperation among the underdeveloped and developed sectors with Saudi petrodollar financing.

Yamani: "We Are Sticking To Our Guns"

These excerpts are drawn from Saudi Oil Minister Zaki Yamani's interview in the London Sunday Times *of March 6:*

On the possibilities of an OPEC pricing compromise:
So far I do not see any possibility of an agreement. We are sticking to our guns... The difference between us is still huge."

On Saudi production aims:
"We aim at an average of 10 million barrels a day for the first quarter of this year, and we will achieve that. Some days now we are lifting over 13 million barrels." Further production increases are an "open question... We wait and see. Nothing in our policy has changed."

On the relation of increases in production to deployment of Saudi monetary reserves:
"Either we reduce our production so as not to accumulate reserves, or you help us to invest our reserves abroad at a fair rate of return and with fair security and access to the markets. Your problem (in the industrial countries) is not the financial surplus, it's the availability of oil. If we produce more, it's a sacrifice on our part to help. But we are not going to deplete our oil reserves for you unless we have enough appreciation and incentive to do so."

On the necessity of reaching a compromise at the Paris North-South talks:
Saudi Arabia wants a "package, including trade, energy, and raw materials for the industrial countries, and transfer of technology, more financial aid to the developing countries... I will be unhappy if we can't reach such a package deal this year."

On the Arab-Israeli situation:
"If peace is not reached, the region will explode." Asked if the region faces the danger of "war or coups and revolution in the area or both": "Nobody can tell. But you can't keep the Arab-Israeli dispute in being. It must be solved."

"Yamani Swings Saudi Arabia Toward Industrial Policy"

The following analysis of the situation inside Saudi Arabia comes from a former State Department official with extensive experience in the Middle East.

The situation is Saudi Arabia is not 50-50; in fact it's quite complex. There are several different tendencies, and each has substantial influence on the decision-making by the regime, especially in regard to the investment policy of the country.

The first group is led by the Planning Minister, Hisham Nazer. His view is that there is no way that Saudi funds can be invested either domestically or abroad. He feels that if Saudi Arabia keeps up production, and thus continues to earn huge revenues, it will lead to waste and corruption unavoidably. Thus his view is that Saudi oil production should be reduced to 3 to 5 million barrels a day (from the current 9 million —ed.). He is exceptionally capable, and has got a lot of people around him.

There is a second group that believes production should be increased, that it is a god-given obligation to humanity. There are several divisions inside this group as to what to do with the income earned — whether to invest it in Saudi development, in the region, outside the region, leave it in the bank, or whatever. I'd say that Prince Fahd is the leader of this group.

And there is a third group, very backward and narrow-minded. This is now probably the prevailing faction, the dominant one. There are extremely cautious and afraid to take any chances. They play safe. You know, until now there have been no — absolutely no — foreign investments by Saudi Arabia. All their money is left lying in banks, or in certificates of deposit, or in U.S. Treasury bills.

But I've been told that in the last week this is changing. Oil minister Zaki Yamani is a strong believer in increasing production, but he wants to use the money for investments, especially in Western Europe and North America, but also in the Arab world, Africa, and so forth. He is opposed by the Finance Minister and the head of the central bank — but the logic of Yamani's argument is winning out.

"Rockefeller Will Come Back Disappointed"

An interview this week with a university-based Middle East specialist focused on Chase Manhattan Bank president David Rockefeller's recent visit to Saudi Arabia:

Q: What do you think Rockefeller will ask from the Saudis?
A: The major issue which all the U.S. banks are faced with is the short-term deposits by the Arabs. Since 1975 the banks have been trying to convince the Arabs to convert their deposits into long-term deposits.

Q: Do you think Rockefeller will be able to get the Saudis to bail out the International Monetary Fund?
A: I think Rockefeller will come back disappointed; the Saudis will probably refuse to bail out the Fund. They have enough problems with Sadat and don't want to get involved in any deep crisis, especially involving their funds. You have to understand that Sadat is a real problem for King Khaled. Now the Saudis see that even the IMF can't do the job. The question is whether the Saudis will let Sadat go, or bail him out.

"I Doubt The Saudis Will Give The IMF $15 Billion"

A Philadelphia-based Mideast analyst commented in an interview this week:

I doubt that the Saudis will fork out $15 billion to the IMF. The only conceivable way that the Saudis would give that kind of money is if the IMF were to convince them that the large private banks that hold huge Saudi portfolios were in serious jeopardy as a result of being overextended in handling Third World debt. If these most seriously affected Third World countries were unable to pay their debts to those banks, and the Saudis were made to realize the needs of refinancing the debt through the IMF, then they might come through with funds. But even then I would be surprised. I would say that if Saudi Arabia were to make that kind of contribution to the IMF, it would, more than anything else, indicate just how unstable the banks are.

Basically, the Saudis are very reluctant to internationalize their funds. There's so much risk involved. The recent riots in Cairo shook both Saudi Arabia and Kuwait hard enough to get them to hand over $1 billion, but if they keep getting pressured to recycle more and more of their petrodollars for debt servicing, then the Saudis will have to let Sadat go.

N.Y. Banks Press For Commodity Price Hikes To Aid 3rd World Debt Repayment

The U.S. State Department and the Chase Manhattan group of international banks are engaged in a two-front operation to jack up international primary commodity prices to augment Third World nations' revenue for debt repayment. While the State Department is pressing for adoption of a $6 billion "common fund" to finance raw materials buffer stocks at the current Geneva meetings of the United Nations Conference on Trade and Development (UNCTAD), the New York banks have financed a wave of speculative activity on the commodity markets, fueling a 6 percent increase during the first six months of 1977 in the U.S. index of sensitive raw materials (an annual inflation rate of 50 percent).

The Callaghan government of Great Britain has intervened to prick the speculative price bubble. On March 10, British officials raised the margin requirement for big speculators on the cocoa exchange more than twenty-fold, forcing a selling wave that spread to coffee futures and other commodity trading.

A Common Fund For Whom?

The UNCTAD meeting, on the other hand, has thus far left the door open to the common fund proposal. A March 8 conference of European Economic Community foreign ministers agreed to wait for the U.S. position on the buffer financing scheme, according to preliminary reports. West German Foreign Minister Hans-Dietrich Genscher urged that the EEC not "present the U.S. with any *faits accomplis*" in the direction of earlier EEC opposition to the plan, because this would deprive Europe of future influence on the Carter Administration. The West German cabinet had unequivocally opposed the UNCTAD proposal.

In turn, the U.S. State Department's official position had also been one of opposition; the *Wall Street Journal* reported March 11 that Washington is now grudgingly "prepared to participate in negotiations on a common fund." A confidential study prepared by Vance's department, however, actively promotes the plan.

By contrast, the Soviet Union's delegation, which had previously supported the UNCTAD proposal, has announced that it will reject the program in current negotiations, on the ground that no one stands to benefit but "multinational companies."

The Soviet reference to multinational represents an oblique attack on UNCTAD proposals to use "buffer stock" funds to finance projects to "diversify" the economies of primary producers in the Third World. This aspect of the UNCTAD program could be a lead-in to a revival of Henry Kissinger's International Resources Bank (IRB) blueprint, rejected on all sides in 1976, for centralized investment in Third World extractive industries. UNCTAD, like the IRB, would borrow on international markets to invest in industrially regressive, labor-intensive projects.

The State Department-banking push in the commodities sphere began in earnest when European negotiations with the USSR on the international use of the transferable ruble bogged down two weeks ago due to fears in sections of the Soviet leadership of antagonizing Washington. With the pro-development, anti-dollar Western European factions apparently on the defensive and thus more open to being browbeaten into agreement on a plan that would gravely compound their existing oil-payments burden, the U.S. is expecting to use the price hike arrangement as a "concession" to the Third World in exchange for indefinite stonewalling on the debt question.

The UNCTAD proposal, one of several spinoffs of 1970s Brookings Institution scenarios for U.S. raw materials control, enjoys relative credibility as "pro-Third World," a point emphasized in the London *Economist*'s recent endorsement of the plan. Even those Third World countries most oriented toward technological development can be manipulated on the bases that they need higher short-term commodity earnings to help that development take off, although in practice the earnings are slated to be creamed off to debt payment. In 1976, the International Monetary Fund already lent $2.7 billion to