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Key Issues in Saudi Foreign Policy

An Intelligence Assessment

State Dept. review completed

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PA 81-10125C UNCODED March 1981

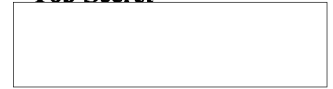
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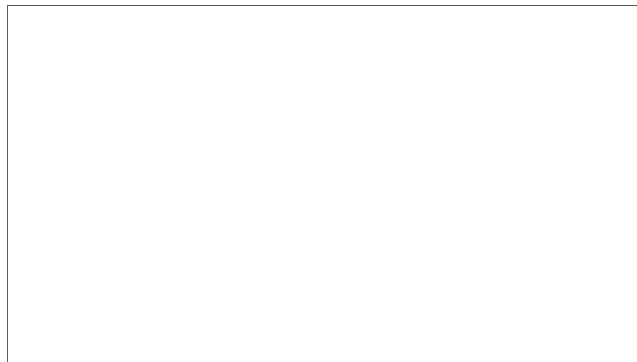
Key Issues in Saudi Foreign Policy



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An Intelligence Assessment

*Information available as of 2 March 1981
has been used in the preparation of this report.*



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Key Issues in Saudi Foreign Policy

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Key Judgments

Saudi efforts to promote Arab unity under moderate leadership and to maintain close ties to the United States have long served as the basis of Saudi Arabia's foreign policy and search for security. Because of growing Arab disenchantment with American policy, however, Saudi leaders find it increasingly difficult to reconcile these objectives. The Saudis in recent years have become disillusioned with US Middle East peace efforts and bitter over what they view as US unresponsiveness to their defense needs. Moreover, they are no longer sure they can count on the United States to check Soviet expansionism or to pursue policies in harmony with basic Saudi security interests. These factors taken together have contributed to an erosion in Saudi confidence in the United States that threatens to undermine the "special relationship."

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Ironically, recent US moves to reassure the Saudis of the American commitment to their defense against Soviet encirclement have increased their misgivings about the direction of US policy. The Saudis fear that a US military presence near the Persian Gulf could be destabilizing and would prefer that the United States act more discreetly to help its friends. Moreover, US efforts to enlist the Saudis' cooperation in pre-positioning equipment have aroused suspicions that the US may be trying to perpetuate their dependence on the US—and thus reduce Saudi Arabia's room for political maneuver.

[Redacted]

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Saudi leaders believe that pressures will increase from domestic as well as Arab sources to wield the "oil weapon" because of continued US support for Israel. Ineffective US criticism of Israel's annexation of Jerusalem and settlement activities on the West Bank embittered many members of the Saudi elite and caused Saudi leaders to doubt that the US will ever press Israel for meaningful concessions.

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As a result, the Saudi Government has taken steps over the past year or so to broaden its security links to non-US suppliers and to put greater political distance between itself and the United States. France in particular has benefited from this shift, although it remains a distant second behind the US as an arms supplier. Similarly, the Saudis have strengthened their security ties with regional allies, turning to Pakistan for combat forces to bolster their weak defenses against the Marxist regime in South Yemen.

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The Saudis, however, still look to the United States as their ultimate protector against Soviet-inspired threats and hope to return relations to a firmer footing. The Soviet invasion of Afghanistan has made more acute Saudi Arabia's sense of vulnerability to Soviet pressure, but it also has created in the Saudi view strong justification for greater US arms aid. The US response to the Saudi request for F-15 accessories has, therefore, become a test in Saudi eyes of the US commitment to their security. [redacted]

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Over time and barring new Soviet moves, the shock of the Soviet invasion of Afghanistan will diminish. Saudi conviction that the unsolved Palestinian problem most acutely threatens their security will again dominate their thinking. Continued Saudi willingness to accommodate US oil and strategic interests will be greatly influenced by the approach the US adopts toward this issue. Although not an elected government, Saudi leaders see limits imposed on them by emotion-laden opposition to the current US approach among the citizenry and within the royal family. The leadership, therefore, will press the US hard—directly and through the West Europeans—for a new negotiating strategy. [redacted]

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Key Issues in Saudi Foreign Policy



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Quest for Security

Saudi foreign policy is driven by an overriding concern for security. The search for security underlies Saudi relations with the United States and the West in general as well as Saudi efforts to promote Arab and Islamic solidarity. Saudi Arabia is basically a weak country surrounded by stronger neighbors. Consolidation of disparate tribal elements under one ruler occurred less than 60 years ago. Modern governmental institutions are not well developed; the country has a one-resource economy, poor population resources, and a weak military.



Recent developments have placed Saudi Arabia under conflicting pressures. The Soviet invasion of Afghanistan underscored the value of the US-Saudi tie, while US policy toward Israel and the unresolved Palestinian question have tended to undermine that relationship. The perceived danger from Moscow is not complicated and, in Saudi opinion, should be dealt with at the superpower level. The Palestinian issue, they believe, radicalizes Arabs, opens opportunities for greater Soviet involvement in the area, and subjects moderate Arab governments to pressures to adopt policies—use of the oil weapon, for example—that may run counter to other long-range interests. Saudi foreign policy is very much an attempt to deal with these ambiguities.



Even a cursory examination of the Saudi foreign aid program—which now almost rivals the US program in size—underscores the Saudi approach to maximizing security.



The bulk of this aid has been intended to accomplish complementary objectives:

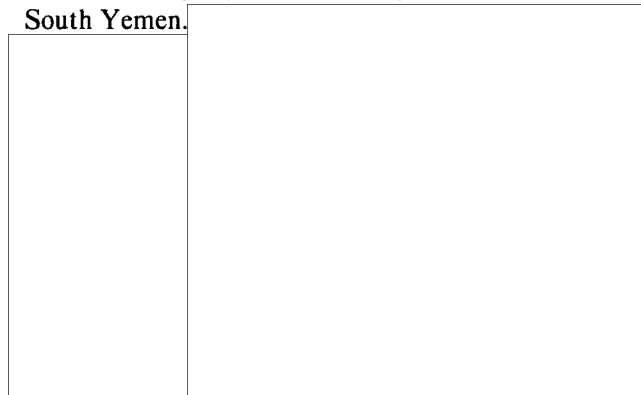
- Bolster conservative and moderate regimes from Morocco to Pakistan.
- Strengthen the frontline Arab states against Israel, with the aim of promoting a peace settlement.



- Demonstrate the Saudis' commitment to the Palestinian cause and increase Saudi influence over the Palestine Liberation Organization.
- Counter the spread of Soviet influence in the Middle East and Africa.
- Foster a resurgence of Islamic fundamentalism as a bulwark against leftist revolutionary forces at work in the region.
- Until 1979, underwrite Saudi Arabia's alliance with Egypt.



Saudi financial support, for example, played a key role in President Sadat's decision in 1972 to eject the Soviets from Egypt and the subsequent turn of Sudan and Somalia away from Moscow. The Saudis have tried to use similar inducements to undercut Soviet influence in Syria, North Yemen, and even Marxist South Yemen.



The Saudis recognize that their strategic as well as economic interests are tied to the West and have adjusted their oil policy accordingly. The Saudi decision to freeze oil prices from 1976 through 1978 reflected their fear that rising oil costs might trigger a new recession in the West and help Communist parties come to power in several West European states. At the same time, the Saudis have manipulated their growing state-to-state oil sales, lucrative commercial contracts, overseas investments, and arms purchases to deepen the West Europeans' stake in the survival of the Saudi

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monarchy and to prod the European Community to play a more active role in the Middle East peace process.

be used to influence the new US administration's approach to the Palestinian problem.

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The American Connection

Saudi leaders, however, are aware of the limitations on the West Europeans' ability to influence Israel and to counter the Soviets in the area. As a result, they have traditionally looked to the United States as their most important strategic ally. Since the October 1973 war the US-Saudi friendship has evolved into an alliance based on a mutually beneficial trade-off. Saudi oil sales and policy and Saudi markets for American goods are exchanged for US help in providing technology and expertise for Saudi Arabia's ambitious economic development program; building Saudi defense capabilities and providing a shield against external aggression; and promoting a resolution of the Arab-Israeli dispute.

Growing Strains

The US agreement in mid-1978 to sell 60 F-15 Eagle fighters to Saudi Arabia over strong Israeli opposition marked a high point in recent US-Saudi relations. For the Saudi leadership, the symbolic importance of the sale far outweighed the defensive value of the planes, which are not scheduled for delivery until next year.

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Saudi confidence in the US commitment to their security also was bolstered, easing earlier disappointments over US reactions to Soviet advances in the Horn of Africa and elsewhere.

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US exports to Saudi Arabia, for example, have grown more than fivefold since 1973 in constant 1975 dollars, making Saudi Arabia the seventh largest trading partner of the US worldwide. Over the past five years, US companies have signed defense contracts with the Saudi Government worth about \$12 billion for hardware and related training and technical services, plus an additional \$3-4 billion for military construction projects.

The decision of the United States and Egypt, only a few months later, to conclude the Camp David Accords without prior consultation with Saudi Arabia came as a rude shock. The Saudis deeply resented being taken for granted and forced to choose between their two closest allies—the US and Egypt—and the rest of the Arab world over an agreement they believed was fundamentally flawed.

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In return, Saudi Arabia supplies just over one-fifth of US oil import needs. But cooperation on oil matters goes beyond that. The Saudis used their predominant position within OPEC for several years to hold down oil prices, partly in response to US urging, until the Iranian revolution broke their ability to do so. Since mid-1979, they have kept oil production above their preferred 8.5 million barrels-per-day ceiling in order to help make up shortfalls on the international oil market. The Saudis increased production to 9.5 million barrels in July 1979 at the behest of the United States, and they added another 500,000 barrels after the start of the Iran-Iraq war last fall.

Rather than defusing the Arab-Israeli conflict, the Camp David Accords have, in the Saudi view:

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- Dangerously polarized Arab politics.
- Neutralized Egypt as a moderating force.
- Increased the vulnerability of leaders friendly to the United States, making future cooperation more difficult and politically risky.
- Handed the Soviets and their regional allies an opportunity to increase their influence.
- Failed to address adequately the Palestinian problem, which they believe is the greatest threat to regional stability.

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A number of other problems since 1978 have contributed to a steady erosion in US-Saudi relations and to declining Saudi confidence in the United States as a reliable ally. The Saudis are questioning the ability of the US to defend its own strategic interests, let alone protect Saudi Arabia against its enemies. Develop-

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Recent softness in the international oil market has allowed the Saudis to regain some leverage over world oil prices. Saudi oil policies are designed to maintain and increase this leverage partly in the hope that it can,

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ments that have contributed to this perception are the fall of the Shah of Iran, the inability of the United States to rally its European allies to take stronger measures against the Soviet intervention in Afghanistan, the failure of the US mission to rescue the hostages in Iran, and the inadequacy—in the Saudi view—of US assistance to Pakistan and Somalia against Soviet threats. These doubts have been only partially offset by the prompt US response to Saudi calls for help during the war between the two Yemens in February 1979 and the dispatch of AWACS aircraft to Saudi Arabia shortly after the outbreak of the Iran-Iraq war last fall.

The recent heavy emphasis on the development of a US Rapid Deployment Force has reinforced Saudi misgivings about the direction of US policy. They fear that a US military buildup—if not handled more deftly and discreetly than it has been so far—will provoke the Soviets into matching the US effort; stimulate greater Soviet and Arab radical subversion against Oman, North Yemen, and other pro-Western states in the Persian Gulf; and increase the likelihood of a superpower conflict in the region. Moreover, US efforts to draw the Saudis into contingency planning and prepositioning equipment have aroused suspicions that the US may be trying to perpetuate the Saudis' dependence on the US rather than bolster their defenses—and thus reduce their room for political maneuver. They would prefer that the US demonstrate its resolve against the Soviets elsewhere; keep US forces discreetly at a distance from the area; and help its friends more indirectly by selling them arms so that they can better defend themselves. Recent Saudi efforts to forge formal security ties with the smaller Persian Gulf states in part reflect their desire to keep both superpowers out of the Gulf.

The Saudis have come to see the special relationship as increasingly tilted in favor of the United States. Crown Prince Fahd has become especially vulnerable domestically to the charge that he is too accommodating to the US on oil production and pricing matters and has received too little in exchange—both on arms and the Palestinian issue. As a result, Fahd has had to fend off increasing domestic pressure to cut oil production. Conservation-minded technocrats worry about wasting the country's only natural resource. Social conserv-

atives fear that the present massive injection of oil revenues is leading to uncontrollable social change.

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Both Saudi officials and US businessmen believe that US export and tax laws are undermining US-Saudi commercial ties. Of the 163 major construction contracts awarded since 1976 by the US Army Corps of Engineers—which oversees these projects for the Saudi Government—only 20 have gone to American companies. The others have gone to West European and Asian firms able to underbid the US companies. Similarly, US income tax laws are discouraging ARAMCO, which manages the major Saudi oilfields, and Saudi Government agencies from hiring additional American contract personnel because they cost more than other expatriates.

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Above all, the failure of the US in the Saudi view to disassociate itself more forcefully from the Israeli Government's provocative settlement policy and formal annexation of East Jerusalem last year has embittered many members of the Saudi elite

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The effect has been a weakening of Saudi resistance to domestic as well as Arab pressures to put more distance between themselves and Washington and to wield the "oil weapon" on behalf of the Arab cause.

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Diversification Efforts

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Because of Saudi disillusionment with US peace efforts and its growing sense of vulnerability, Riyadh has increased its efforts over the past two years to diversify the sources of its arms and to reduce its dependence on the United States for other security assistance. France

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in particular has benefited. The Saudis have concluded arms contracts with the French worth about \$4.4 billion since 1979, including a recent contract for \$3.4 billion in French naval equipment. The Saudis signed a security cooperation agreement with France last November for counterterrorist training

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The Saudi-French romance has blossomed for several reasons. The French are far more pro-Arab than the other West Europeans on the Arab-Israeli dispute, publicly calling for Palestinian self-determination. Purchase of French arms involves no implicit Saudi political commitments.

The Saudis have instead turned to the West Europeans and their old ally, Pakistan. Seconded Pakistani military personnel have long performed vital support functions for the Saudis; several thousand Pakistanis are scattered throughout the Saudi armed forces. It was only a short step for the Saudis to ask for Pakistani combat forces when the 1979 Yemen crisis made clear to Saudi leaders that their forces were too weak to intervene in North Yemen and possibly to defend against a South Yemeni attack.

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Both Prince Sultan and Prince Nayif, the powerful Ministers of Defense and Interior, have close personal and business ties with the French. And finally the Saudis probably believe their arms purchases from France lend greater credibility to their veiled warnings that they will turn elsewhere for arms unless the United States is more responsive to their political and security needs.



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France is not the only European country to benefit from Saudi unhappiness with the United States. Riyadh has also turned to the British and West Germans for arms and internal security assistance. The Saudi request for Leopard tanks from Bonn is the most recent example.

Riyadh has no such financial leverage over Iraq, and relations are colored by mutual distrust and ideological differences. Nevertheless, the old chill has been replaced by closer cooperation as a result of a convergence of Iraqi-Saudi interests over the past two years. Common opposition to the Camp David Accords has been one factor. Saudi gratitude for Iraqi help in settling the Yemeni crisis is another. A closer personal rapport has developed between Iraqi strongman Saddam Hussein and Crown Prince Fahd. More important, the Iranian revolution has forced the two former adversaries to look to each other for support. In addition, the Saudis have been encouraged by and have sought to encourage the growing strains between Moscow and Baghdad and have found common cause with Iraq within OPEC against the price hawks—Libya, Algeria, and Iran

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The fall of the Shah and the Saudi break with Egypt have also prompted the Saudis to strengthen ties with regional allies, especially Morocco and Pakistan, and to improve relations with an old adversary, Baathist Iraq. The Saudis have provided almost \$1.4 billion in aid to Morocco over the past few years to help King Hassan stay in power and are working closely with the Moroccans to counter the Soviets in Africa.



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Since the start of the Iran-Iraq war, moreover, Baghdad has found itself increasingly dependent on Saudi Arabia, Kuwait, and Jordan for political support and assistance in moving much needed supplies, including arms, overland to Iraq. The Saudis have turned this situation to their advantage to encourage greater Iraqi flexibility on the Arab-Israeli question and to promote a private rapprochement between Iraq and Egypt. [redacted]

[redacted]

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If the Saudis succeed in bringing Baghdad and Cairo together, they would find it easier to cooperate with Egypt [redacted] against commonly perceived threats, such as the Libyans and Soviets. The Saudis would still be reluctant to embrace Sadat openly unless there were substantial progress toward a resolution of the Palestinian problem, or Sadat broke with the Camp David peace process. Their hope is that Sadat will look for a way to rejoin the Arab fold. Without such a face-saving device, the Saudis fear a Saudi-Egyptian reconciliation would intensify divisions in Arab ranks and bring about their own isolation. [redacted]

If Iraq should adopt more moderate policies over the longer term, the political landscape in the region would be substantially changed and prospects for negotiations would probably improve. It is too soon to tell, however, whether these fragile relationships will hold together. The longstanding rivalry between Iraq and Egypt for Arab leadership and conflicting Saudi and Iraqi interests in the Persian Gulf could still undo all of the efforts at closer cooperation among these states. [redacted]

A Look Ahead

Despite the strains that have developed in US-Saudi relations, the Saudis still look to the United States as their ultimate protector against Soviet-inspired threats and hope to return relations to a firmer footing. They probably have been encouraged by the new, tougher line toward Moscow emanating from Washington and the new administration's initial criticism of Israeli settlement activity. But they will wait to see how this rhetoric is translated into action. [redacted]

Much will depend on the US response to the Saudi request for the F-15 enhancement package (fuel pods, bomb racks, KC-135s, and AWACS). The arms issue

has mushroomed in importance because of Saudi disappointment with other aspects of US policy. It has become a test for the Saudis of whether the US or Israel will dictate the terms of the US-Saudi defense relationship. US Congressional approval of the sale, therefore, would help restore Saudi confidence in the US commitment to their security and increase their willingness to cooperate on regional security matters. [redacted]

It would also increase the Saudis' ability to deflect domestic and Arab pressures to use the "oil weapon" and thus buy the US more time to consider its next moves in the Middle East peace process. [redacted]

Finally, the sale would strengthen the political position of Crown Prince Fahd, the strongest advocate within the Saudi leadership of close cooperation with the US and still the most influential policymaker on oil matters. Fahd has a much stronger emotional attachment to the US than many of the younger, more nationalistic members of the Saudi elite—royal and nonroyal—who are pressing him to adopt a more independent policy toward the US. Foreign Minister Prince Saud, a son of the late King Faisal, is the most prominent and influential spokesman for this view. [redacted]

Fahd also has come under heavy pressure from another quarter—his ambitious younger brother Defense Minister Sultan—to press the F-15 accessories issue as the price for his continued political support. [redacted]

Sultan has become increasingly powerful over the past year or so as a result of his role in defense matters and influence with the aging King Khalid. Fahd is politically vulnerable because of his close identification with the United States, and his dependence on Sultan's support. A US refusal to sell the F-15 enhancement items could lead to a withdrawal of Sultan's support for Fahd's pro-American policies. [redacted]

No matter how responsive the United States is to Saudi arms requests, the Palestinian issue will continue to bedevil bilateral relations. Because of the change in US administrations and the Israeli elections at the end of June, the Saudis probably are resigned to the peace process marking time until the fall. In the meantime, they will maintain pressure on the US to discard the

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Camp David negotiating framework, which they regard as bankrupt and a cover for a separate Egyptian-Israeli peace.

would not serve their long-term interests and might invite US retaliation.

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Using the recent Islamic summit conference as a springboard, Riyadh already has called for a *jihad*—a holy struggle. The call is designed to further isolate Israel diplomatically and to keep the international spotlight focused on the Palestinian issue. The Saudis almost certainly will press the West Europeans to move ahead with their own peace initiative in order to buy time, if nothing else. The Saudis do not regard the West European initiative as a viable substitute for an American one. They only hope that Washington's NATO allies can help persuade it to change negotiating tacks.

Rather the Saudis would, at a minimum, balk at coordinating strategic planning and become less responsive to US requests for help in funding arms purchases for US clients in the region, such as Oman and Somalia. In addition they probably would turn an increasingly deaf ear to US demarches on oil pricing and production policies that run counter to their narrower self-interest; enforce the Arab boycott more strictly against American companies doing business with Israel; accelerate their turn to Western Europe for arms; discriminate against US firms competing for Saudi Government contracts; and use their state-to-state oil sales more to prod the West Europeans to recognize the PLO and isolate the US on this issue.

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Whatever new approach emerges, the Saudis believe that the Palestine Liberation Organization must be included in the negotiating process. They, however, have no clear idea how this can be done.

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Paradoxically, the Saudis would see such anti-US measures as necessary not only to protect themselves but also to lay the basis for a more equitable relationship between Riyadh and Washington. Rightly or wrongly, Saudi leaders have become convinced that progress toward Palestinian self-rule must precede broader strategic cooperation with the US against the USSR if their long-term security interests are to be safeguarded.

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The Saudis acknowledge that no negotiating progress was possible during last year's US presidential campaign. But by next fall, they will expect the US administration to take steps to break the present deadlock. They also hope the US, at a minimum, will endorse the Palestinians' right to self-determination and will take stronger steps to disassociate itself from Israel's settlement policy.

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Without a credible demonstration of US resolve to move the peace process forward, Saudi leaders probably will feel compelled to increase their diplomatic pressure and loosen their ties with the US in order to protect their domestic position and relations with other Arab states. They would be unlikely to resort to confrontational tactics or threats. They realize that

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