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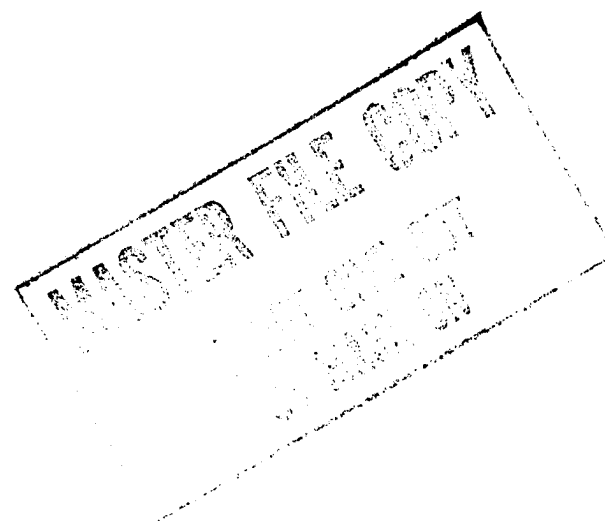
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Smaller Gulf States: Cutting Back Foreign Aid



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An Intelligence Assessment



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*NESA 84-10252
August 1984*

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Smaller Gulf States: Cutting Back Foreign Aid

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An Intelligence Assessment

This paper was prepared by of the
Office of Near Eastern and South Asian Analysis. It
was coordinated with the Directorate of
Operations.

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directed to the Chief, Persian Gulf Division, NESAs,

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**Smaller Gulf States:
Cutting Back Foreign Aid** 

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Key Judgments

*Information available
as of 31 August 1984
was used in this report.*

Acutely sensitive to external pressures and threats from revolutionary forces in the Gulf region, Kuwait, Qatar, and the United Arab Emirates have used foreign assistance to try to bolster their security. With the surge in their oil revenues in the late 1970s and early 1980s, these countries boosted foreign assistance to unprecedented levels. Bilateral and other aid disbursements reached \$6.1 billion in 1981 or 10 percent of GDP compared with the aid equivalent to one-half percent of GDP provided by the United States.

We believe the smaller Gulf states provide aid to:

- Ingratiate themselves with countries, especially Iraq and Syria, that pose threats to their security.
- Prevent the spread of Iran's Islamic revolution to their shores by providing financial support for Iraq's war effort.
- Strengthen conservative, pro-Western Arab states, particularly Jordan, Morocco, and the poorer Gulf states, Oman and Bahrain.
- Bolster their legitimacy at home by supporting the Palestinian cause.
- Enhance their international prestige and make less developed countries more responsive to Gulf Arab desires in international forums.

Although financial assistance has become a principal foreign policy tool and a vital element in the security policy of the smaller Gulf states, they have had only limited success in buying allies and conciliating enemies. Aid to Syria and the Palestinians has afforded some protection from extremists in those camps, but it has gained the Gulf states only limited influence in Arab and Islamic capitals. For example, substantial Kuwaiti financial assistance to Iraq has not softened Baghdad's claim to Kuwait's Bubiyan Island, and the Gulf states were unsuccessful in using their aid to influence Syrian policies toward Lebanon or Iran. In addition, the Gulf states fear Iranian retaliation for their aid to Iraq.

The effectiveness of the financial aid program has been reduced even more by the current oil glut that lowered oil revenues from \$34 billion in 1981 to \$22 billion last year. Cuts in foreign assistance have far outpaced overall budget reductions as the Gulf states have attempted to minimize cuts in politically important domestic welfare and subsidy systems and to expand military capabilities in response to the Iran-Iraq war. Bilateral and other aid disbursements probably will total only \$1.6 billion or about 3 percent of GDP this year.

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Because of these reductions, troublesome aid recipients like Iraq, Syria, and the Palestinians, who have come to rely on regular assistance, may become more antagonistic toward the smaller Gulf states. In part because of concern over this possibility, we believe the Gulf states will not cut aid further in 1985. These states, however, are unlikely to increase aid disbursements until the oil market improves—probably after 1986.

We believe that aid recipients will turn first to Saudi Arabia to fill the gaps created by reduced Gulf assistance. We doubt that the Saudis, given their own lower oil revenues and aid priorities, will make up the reduced assistance from Kuwait, Qatar, and the UAE.

Some Gulf aid recipients—particularly Jordan, Pakistan, Morocco, and Sudan—are likely to turn to the United States and international aid organizations for additional assistance. Syria, which has been hardest hit by Gulf aid reductions, probably will try to offset the cutbacks by maintaining ties to Iran, which provides significant economic aid to Damascus. We also believe that the Syrians could try to intimidate the smaller Gulf states into loosening their purse strings by threats of terrorism.



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[Redacted]

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**Smaller Gulf States:
Cutting Back Foreign Aid** [Redacted]

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The escalation in world oil prices in the 1970s provided Kuwait, Qatar, and the United Arab Emirates with the wherewithal to boost foreign assistance to unprecedented levels. The foreign assistance of these countries averaged 10 percent of GDP in 1981 compared with the aid equivalent to one-half percent of GDP provided by the United States. Aid became a principal foreign policy tool of these countries and was given primarily to Muslim countries for development projects or balance-of-payments support [Redacted]

economic and military grants and loans—probably will reach only \$1.5 billion compared with a peak of \$5.9 billion in 1981 ² (see the figure and table 1). [Redacted]

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The Donors

Kuwait, which ranks third worldwide in proven oil reserves and fifth in official foreign asset holdings, is by far the leading aid donor of the smaller Gulf states, providing more than Qatar and the UAE combined. The assistance given by Kuwait amounted to over 12 percent of GDP in 1981. Although the weak world demand for oil has reduced Kuwait's earnings by about 25 percent since 1981, declining oil revenues are not as significant a problem in Kuwait as in most other oil-exporting countries, because Kuwait earns almost as much income from investments as it does from oil production. [Redacted]

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The onset of the current oil glut, however, caused the Gulf states to slash aid disbursements to their lowest levels since the early 1970s, when such programs were in their infancy. With their oil revenues declining from \$38 billion in 1981 to \$25 billion last year, the smaller Gulf states have taken the ax to foreign aid rather than impose domestic-spending cuts that might lead to civil unrest. [Redacted]

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Nonetheless, current economic constraints and lingering debts resulting from the crash of Kuwait's stock market in 1982 have forced the country to pursue limited domestic austerity measures. In addition to substantial cutbacks in foreign aid, Kuwait has raised fuel prices and utility rates and delayed some development projects.³ Although Kuwait's proposed budget for fiscal year 1984 includes an 8-percent increase in expenditures to stimulate the depressed economy, no increases in aid are planned. [Redacted]

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Since 1973, Gulf residents have come to expect booming economies and rising social welfare spending. Although some domestic-spending cuts have been implemented since 1981, Gulf leaders are reluctant to reduce significantly benefits that were designed to promote greater allegiance to their regimes. We judge that the Iranian revolution has underscored to the Arab governments the importance of maintaining prosperity. [Redacted]

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According to Embassy reporting, some Kuwaiti financiers believe that Kuwait's leaders are exaggerating domestic economic problems and the adverse impact

As a result of these factors, as well as the Gulf states' concern about further lending to such financially troubled countries as Iraq, Sudan, and Bangladesh, aid disbursements probably will total only about 3 percent of GDP this year. Contributions to multilateral lending institutions will amount to only an estimated \$100 million. Bilateral assistance—which includes

² This paper concentrates on bilateral aid, because such aid normally accounts for 90 to 95 percent of total aid extended by the smaller Gulf states. [Redacted]

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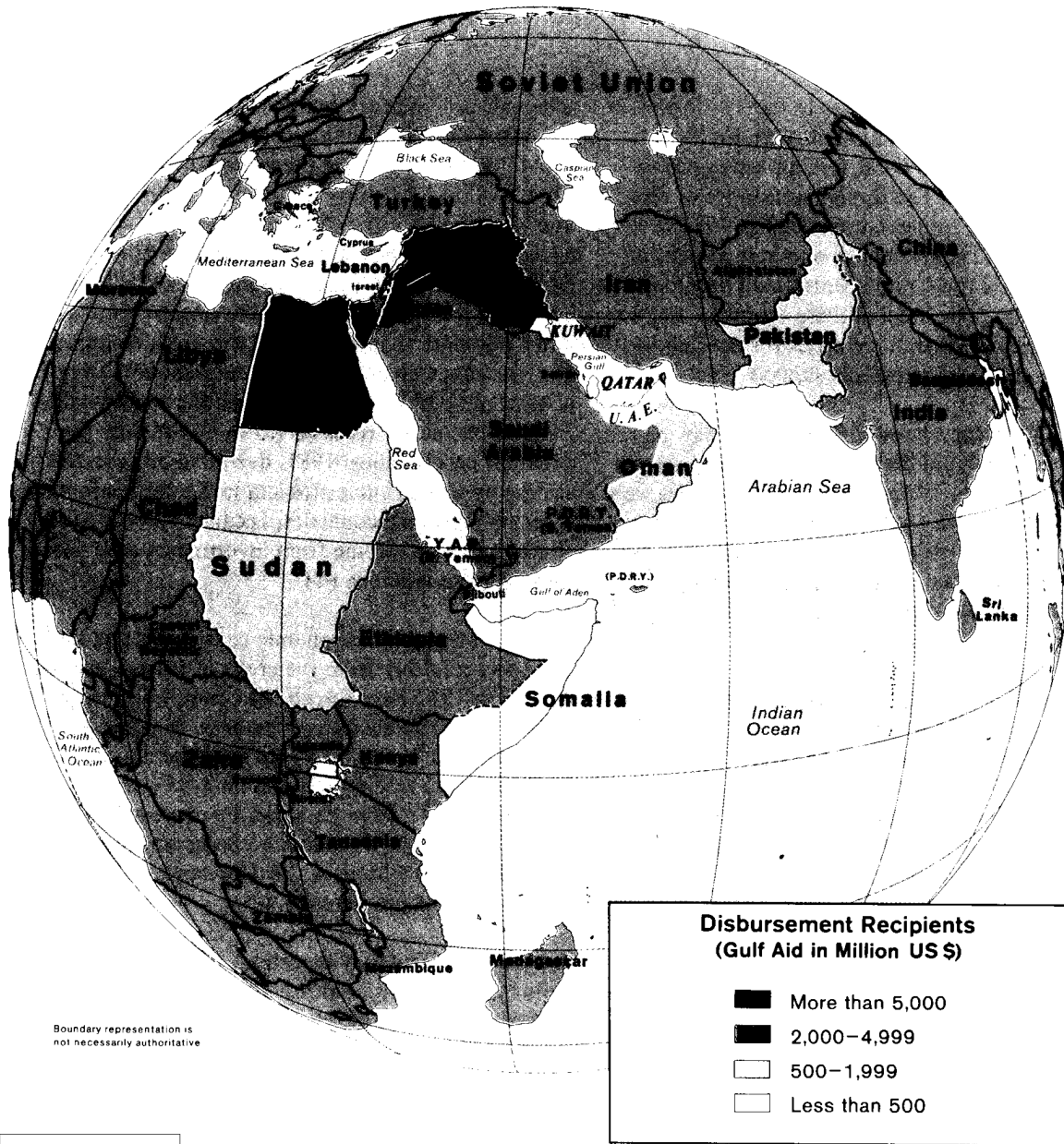
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Recipients of Gulf States' Aid, 1974-84



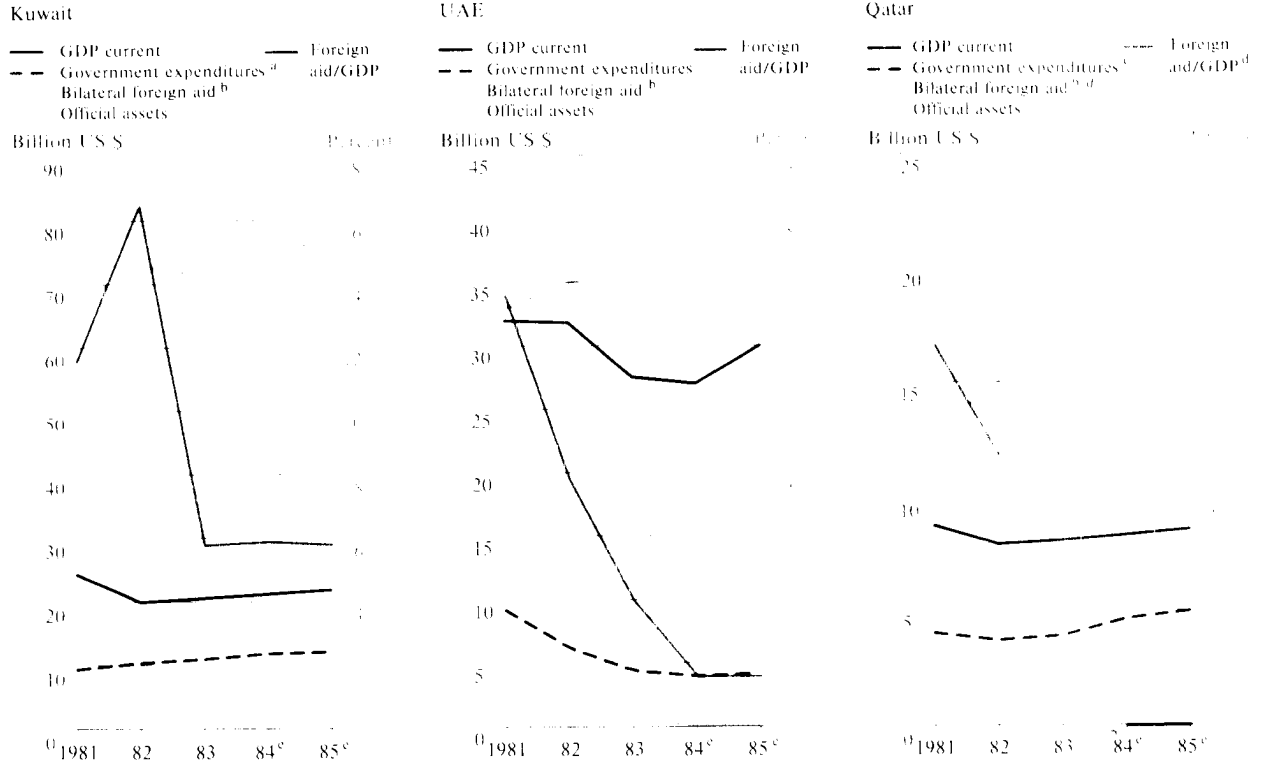
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Smaller Gulf States: Economic Indicators, 1981-85

Note scale change



^a Fiscal year, 1 July through 30 June.
^b Multilateral aid is not included because of difficulty in distinguishing each country's contribution. This represents a small portion of aid.
^c In 1982 the budget year lasted 18 months as government changed to Hijri fiscal year (roughly mid-April to mid-April). This expenditure is prorated to represent 12 months.
^d Data not available for 1983.
^e Estimated.

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Table 1
Smaller Gulf States: Bilateral Economic and
Military Commitments and Disbursements to
Less Developed Countries, 1981-85

Million US \$

| | 1981 | | 1982 | | 1983 ^a | | 1984 ^b | | 1985 ^b | |
|---------------------|--------------|----------------|--------------|----------------|-------------------|----------------|-------------------|----------------|-------------------|----------------|
| | Commit-ments | Disburse-ments | Commit-ments | Disburse-ments | Commit-ments | Disburse-ments | Commit-ments | Disburse-ments | Commit-ments | Disburse-ments |
| Total | 6,500 | 5,855 | 7,500 | 5,530 | 3,695 | 1,775 | 3,395 | 1,540 | 2,895 | 1,520 |
| Arab states | 5,950 | 5,660 | 6,565 | 5,250 | 3,335 | 1,730 | 3,075 | 1,500 | | |
| Iraq | 4,000 | 4,000 | 4,000 | 3,570 | 1,500 | 1,250 | 1,300 | 1,000 | | |
| Jordan | 590 | 535 | 655 | 360 | 425 | 255 | 425 | 240 | | |
| Lebanon | 135 | 90 | 135 | 30 | 135 | 0 | 135 | 0 | | |
| Morocco | 100 | 5 | 135 | 140 | 65 | 5 | 15 | 0 | | |
| Sudan | 55 | 40 | 55 | 50 | 0 | NEGL | 0 | 0 | | |
| Syria | 710 | 775 | 1,005 | 935 | 630 | 180 | 620 | 180 | | |
| Others ^c | 360 | 215 | 580 | 165 | 580 | 40 | 580 | 80 | | |
| Bahrain | | | 90 | 0 | 90 | 0 | 90 | 0 | | |
| Oman | | | 105 | 0 | 105 | 0 | 105 | 40 | | |
| Non-Arab Islamic | 250 | 140 | 605 | 200 | 150 | 10 | 110 | 10 | | |
| Bangladesh | 60 | 25 | 25 | 0 | 5 | NEGL | 0 | NEGL | | |
| Pakistan | 120 | 85 | 270 | 185 | 35 | NEGL | 0 | NEGL | | |
| Others | 70 | 30 | 310 | 15 | 110 | 10 | 110 | 10 | | |
| Non-Islamic | 300 | 55 | 330 | 80 | 210 | 35 | 210 | 30 | | |

^a Estimated.^b Projected.^c Includes PLO and Israeli-occupied territories.

[redacted]

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of weak oil demand to avoid fulfilling aid requests. Kuwait's Foreign Minister, for example, has stated that his country could not pay all of its aid commitments in 1984 because of a projected budget deficit of \$2.65 billion. Press reporting indicates, however, that Kuwait's income from foreign investments—estimated at about \$7 billion in 1983—was not included in the projected budget, thus giving the country a surplus of over \$4 billion. [redacted]

customers, turning the receipts over to Iraq. These oil sales have averaged about 70,000 barrels per day since the contract began. Kuwait incurs only the cost of pumping the oil—between \$2.00 and \$2.50 per barrel—and a small reduction in its oil reserves. [redacted]

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Under the Baghdad Agreement of 1978,⁴ Kuwait pledged \$291 million annually to Syria, \$196 million to Jordan, and \$63 million to the PLO. The Kuwaitis

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Kuwait has given nearly \$6 billion to Iraq since 1981—almost 65 percent of Kuwait's foreign aid disbursements over this period—to support Baghdad's war effort against Iran. In 1983, however, we estimate that Iraq received only \$800 million, a decrease of 60 percent from the 1982 level (see table 2). Almost half of this sum was in the form of oil sales on Baghdad's behalf, a cheaper alternative to monetary assistance. In 1983, Kuwait began selling crude oil from its share of the Saudi-Kuwaiti Neutral Zone to some of Iraq's

⁴ Algeria, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, and the United Arab Emirates met in Baghdad following the signing of the Camp David accords and agreed to provide aid to the so-called confrontation states at war with Israel—Jordan, Syria, and the PLO. Payments to these countries were to be made in three equal annual installments. Algeria and Libya reneged on their commitments soon after the agreement was signed, and Iraq fell into arrears on its payments during 1980. [redacted]

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Table 2

Million US \$

Kuwait: Bilateral Economic and Military Commitments and Disbursement to Less Developed Countries, 1981-5

| | 1981 | | 1982 | | 1983 ^a | | 1984 ^b | | 1985 ^b | |
|---------------------|--------------|---------------|--------------|---------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
| | Commitments | Disbursements | Commitments | Disbursements | Commitments | Disbursements | Commitments | Disbursements | Commitments | Disbursements |
| Total | 3,380 | 2,810 | 3,985 | 3,280 | 2,210 | 1,195 | 2,485 | 1,280 | 2,100 | 1,260 |
| Arab states | 2,870 | 2,730 | 3,480 | 3,100 | 1,895 | 1,150 | 2,185 | 1,240 | | |
| Iraq | 2,000 | 2,000 | 2,000 | 2,000 | 1,000 | 800 | 1,300 | 800 | | |
| Jordan | 280 | 250 | 340 | 205 | 195 | 205 | 195 | 180 | | |
| Lebanon | 65 | 30 | 65 | 30 | 65 | 0 | 65 | 0 | | |
| Morocco | 10 | 5 | 80 | 115 | 15 | 5 | 15 | 0 | | |
| Sudan | 5 | NEGL | 5 | 0 | NEGL | NEGL | 0 | 0 | | |
| Syria | 290 | 360 | 670 | 670 | 300 | 100 | 290 | 180 | | |
| Others ^c | 220 | 85 | 320 | 80 | 320 | 40 | 320 | 80 | | |
| Bahrain | | | 35 | 0 | 35 | 0 | 35 | 0 | | |
| Oman | | | 40 | 0 | 40 | 0 | 40 | 40 | | |
| Non-Arab Islamic | 230 | 45 | 185 | 110 | 115 | 10 | 100 | 10 | | |
| Bangladesh | 60 | 25 | 0 | 0 | 0 | NEGL | 0 | NEGL | | |
| Pakistan | 120 | 10 | 15 | 110 | 15 | NEGL | 0 | NEGL | | |
| Others | 50 | 10 | 170 | 0 | 100 | 10 | 100 | 10 | | |
| Non-Islamic | 280 | 35 | 320 | 70 | 200 | 35 | 200 | 30 | | |

^a Estimated.^b Projected.^c Includes PLO and Israeli-occupied territories.

[redacted]

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were current on these payments until 1983, when payments to Syria and the PLO were reduced by some \$150 million. According to the US Embassy in Amman, Kuwait's National Assembly recently approved a plan to cut the country's Baghdad payments by 40 percent to \$340 million annually. [redacted]

Kuwaiti aid to other Arab countries also has been reduced. It gave \$5 million to Morocco and nothing to Lebanon in 1983, compared with \$115 million and \$30 million, respectively, the previous year. [redacted]

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Aid to African and Asian countries also has been slashed. In 1983, Kuwait gave only \$10 million to non-Arab Islamic countries, compared with \$110 million in 1982. In addition, the Kuwait Fund for Arab Economic Development (KFAED) lent \$606 million during fiscal year 1983, a drop of 18 percent from the previous year, according to the Fund's

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[redacted] The Assembly turned down a proposal by its financial committee to stop all aid to Syria, according to some Arab weeklies. The US Embassy in Kuwait, however, reports that the government intends to apply future payment reductions primarily to Syria. [redacted]

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Table 3
United Arab Emirates: Bilateral Economic and Military
Commitments and Disbursements to Less Developed
Countries, 1981-85

Million US \$

| | 1981 | | 1982 | | 1983 ^a | | 1984 ^b | | 1985 ^b | |
|---------------------|--------------|----------------|--------------|----------------|-------------------|----------------|-------------------|----------------|-------------------|----------------|
| | Commit-ments | Disburse-ments | Commit-ments | Disburse-ments | Commit-ments | Disburse-ments | Commit-ments | Disburse-ments | Commit-ments | Disburse-ments |
| Total | 2,230 | 2,170 | 2,610 | 1,690 | 1,185 | 580 | 610 | 230 | 520 | 230 |
| Arab states | 2,190 | 2,080 | 2,180 | 1,525 | 1,140 | 580 | 590 | 230 | | |
| Iraq | 1,400 | 1,400 | 1,400 | 1,250 | 500 | 450 | 0 | 200 | | |
| Jordan | 225 | 200 | 230 | 100 | 145 | 50 | 145 | 30 | | |
| Lebanon | 45 | 45 | 45 | 0 | 45 | 0 | 45 | 0 | | |
| Morocco | 80 | 0 | 55 | 25 | 50 | 0 | 0 | 0 | | |
| Sudan | 50 | 40 | 50 | 40 | 0 | 0 | 0 | 0 | | |
| Syria | 275 | 290 | 210 | 140 | 210 | 80 | 210 | 0 | | |
| Others ^c | 115 | 150 | 190 | 50 | 190 | NEGL | 190 | NEGL | | |
| Bahrain | | | 35 | 0 | 35 | 0 | 35 | 0 | | |
| Oman | | | 40 | 0 | 40 | 0 | 40 | 0 | | |
| Non-Arab Islamic | 20 | 70 | 420 | 65 | 35 | 0 | 10 | 0 | | |
| Bangladesh | 0 | NEGL | 25 | NEGL | 40 | 0 | 0 | 0 | | |
| Pakistan | 0 | 50 | 255 | 50 | 20 | 0 | 0 | 0 | | |
| Others | 20 | 20 | 140 | 15 | 10 | 0 | 10 | 0 | | |
| Non-Islamic | 20 | 20 | 10 | 10 | 10 | 0 | 10 | 0 | | |

^a Estimated.

^b Projected.

^c Includes PLO and Israeli-occupied territories.

[Redacted]

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annual report. Arab countries typically receive about 15 percent of the allocated KFAED funds, African countries 25 percent, and Asian countries about 60 percent. [Redacted]

The effect of austerity on operations of the Abu Dhabi Fund for Arab Economic Development (ADFAED)—the UAE's main lending organization and disburser of bilateral aid—is evidenced by a recent fund decision to forgo printing the annual report for 1983 due to lack of content. During 1983 the Fund engaged in only two new development projects, according to the US Embassy in Abu Dhabi. The head of the Arab countries division at ADFAED confirmed that new funds for lending operations are unlikely during 1984. [Redacted]

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The *United Arab Emirates* has been one of the most generous aid donors in the world, giving as much as 20 percent of GDP in 1979. A 45-percent decline in oil revenues since 1981, however, has resulted in the UAE's sharp reduction of aid payments. We estimate that bilateral grants and loans totaled almost \$2.2 billion in 1981 but dropped to \$580 million in 1983 (see table 3). Abu Dhabi, the richest and most generous donor of the seven Emirates, is all but halting foreign aid, according to the US Embassy in Abu Dhabi. To our knowledge, the UAE gave no assistance to non-Arab countries in 1983. The UAE recently formulated its federal budget for 1984, but it does not include any increases in aid. [Redacted]

Since the start of the Iran-Iraq war, we estimate that the UAE has given about \$3.5 billion in monetary assistance to Iraq. We believe that nearly 80 percent of UAE aid in 1983 went to Iraq. The government

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Table 4

Million US \$

Qatar: Bilateral Economic and Military Commitments and Disbursements to Less Developed Countries, 1981-85

| | 1981 | | 1982 | | 1983 ^a | | 1984 ^b | | 1985 ^b | |
|---------------------|-------------|---------------|-------------|---------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
| | Commitments | Disbursements | Commitments | Disbursements | Commitments | Disbursements | Commitments | Disbursements | Commitments | Disbursements |
| Total | 890 | 875 | 905 | 560 | 300 | 0 | 300 | 30 | 275 | 30 |
| Arab states | 890 | 850 | 905 | 535 | 300 | 0 | 300 | 30 | | |
| Iraq | 600 | 600 | 600 | 320 | 0 | 0 | 0 | 0 | | |
| Jordan | 85 | 85 | 85 | 55 | 85 | 0 | 85 | 30 | | |
| Lebanon | 25 | 15 | 25 | 0 | 25 | 0 | 25 | 0 | | |
| Morocco | 10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| Sudan | NEGL | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| Syria | 145 | 125 | 125 | 125 | 120 | 0 | 120 | 0 | | |
| Others ^c | 25 | 25 | 70 | 35 | 70 | 0 | 70 | 0 | | |
| Bahrain | | | 20 | 0 | 20 | 0 | 20 | 0 | | |
| Oman | | | 25 | 0 | 25 | 0 | 25 | 0 | | |
| Non-Arab Islamic | 0 | 25 | 0 | 25 | 0 | 0 | 0 | 0 | | |
| Bangladesh | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| Pakistan | 0 | 25 | 0 | 25 | 0 | 0 | 0 | 0 | | |
| Others | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| Non-Islamic | 0 | NEGL | 0 | NEGL | 0 | NEGL | 0 | NEGL | | |

^a Estimated.^b Projected.^c Includes PLO and Israeli-occupied territories.

[Redacted]

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paid \$200 million to Iraq early this year, but we judge that the Emirates are unlikely to give more. The UAE, because of its traditional commercial and cultural ties to Iran, is more susceptible than the other Gulf states to Iranian pressure to reduce aid to Iraq.

[Redacted]

The UAE pledged to give \$211 million annually to Syria, \$143 million to Jordan, and \$46 million to the PLO under the Baghdad Agreement. The UAE was late in providing its Baghdad payments in 1982 and met only one-third of its commitment in 1983, according to UAE officials. So far, the UAE has paid \$15 million to Jordan toward its 1984 commitment, according to the US Embassy in Amman. The Embassy believes—and we concur—that the UAE is unlikely

to make significant additional Baghdad payments this year. According to the UAE Minister of Petroleum and Mineral Resources, the UAE stopped all payments to Syria in the summer of 1983 and does not plan to resume them soon. [Redacted]

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Qatar once pursued a generous aid policy, giving as much as 16 percent of GNP in concessional assistance during the mid-1970s. Aid payments dropped by one-third in 1982 as a result of a corresponding falloff in oil revenues, and Qatar terminated all foreign assistance in 1983. In sharp contrast to last year's austerity measures, Qatar's budget for fiscal year 1984 probably will include expenditure increases of 19 percent, due primarily to higher oil production. Although aid payments in 1984 have resumed, we do not expect them to match earlier levels (see table 4). [Redacted]

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We estimate that Qatar had disbursed about \$1 billion to Iraq between 1981 and late 1982, when payments were stopped. Qatar's Amir Khalifa insists that his country ended aid to Iraq so as not to antagonize Iran. [redacted]

Under terms of the Baghdad Agreement, Doha is supposed to give \$122 million annually to Syria, \$83 million to Jordan, and \$26 million to the PLO. The US Embassy in Amman reports that Qatar ceased all Baghdad payments following the Gulf Cooperation Council summit meeting in Manama in November 1982, primarily to punish Syria for its ties with Iran. We have no evidence that the government made any of its scheduled Baghdad payments in 1983, although it has made a partial payment of \$27 million to Jordan so far in 1984, according to the US Embassy in Amman. The Embassy reports that Jordan's Central Bank expects more aid from Qatar. We believe, however, that Doha will delay further subsidy payments as long as possible. [redacted]

Qatar never has been a large contributor to non-Arab Islamic states or other less developed countries, giving only \$25 million in both 1981 and 1982 and nothing in 1983. We do not expect payments to resume in 1984. [redacted]

Foreign Relations

We believe that financial assistance is a principal foreign policy tool and a vital element in the security policy of the smaller Gulf states. Despite significant military expenditures and extensive modernization programs, the sparsely populated Gulf states have limited military capabilities and little prospect of successfully defending their territories—particularly their oilfields and installations—without outside assistance. In addition, their large Shia and Palestinian communities, as well as their undermanned and ineffective internal security forces, make them vulnerable to subversion, terrorism, and sabotage. Therefore, the states have tried to use their abundant oil wealth to buy allies and conciliate enemies (see table 5). [redacted]

Consonant with these political purposes, the financial assistance policies of the Gulf states are shrouded in secrecy. Gulf leaders seldom boast of their generosity, and most assistance is given with little publicity.

Table 5

Million US \$

**Gulf Financial Aid:
Selected Disbursements, 1974-84**

| Leading Recipients | Economic | Military | Total |
|--------------------|----------|----------|--------|
| Iraq ^a | NA | NA | 11,000 |
| Syria | 2,650 | 3,255 | 5,905 |
| Egypt ^b | 3,270 | 1,000 | 4,270 |
| Jordan | 1,705 | 1,655 | 3,360 |
| Oman | 555 | 265 | 820 |
| Pakistan | 350 | 150 | 500 |
| Sudan | 370 | 130 | 500 |
| Somalia | 235 | 180 | 415 |
| Lebanon | 265 | 115 | 380 |
| Morocco | 255 | 70 | 325 |
| PLO | 75 | 170 | 245 |
| Bangladesh | 170 | | 170 |

^a Aid begun in 1981 at the start of the Iran-Iraq war. The breakdown into economic and military aid is unavailable. We estimate, however, that the Iraqis spend more on military purchases.

^b Aid halted in 1980 after signing of Camp David accords.

[redacted]

When the subject is raised, Gulf officials do not give the whole story, according to US Embassy reports. Information on politically sensitive aid to Iraq, for example, is particularly closely held. [redacted]

We believe the Gulf states have attempted to use aid to:

- Buy off countries, especially Iraq and Syria, that pose threats to their security.
- Gain support among the many Palestinians who live and work in these countries and thus protect themselves from extremists.
- Mold a moderate Arab consensus by support to other conservative Arab states—particularly Jordan, Morocco, and the poorer Gulf states, Oman and Bahrain.
- Enhance their international prestige and make less developed countries more responsive to Gulf Arab desires in international forums. [redacted]

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Gulf aid to Iraq is motivated largely by fear that an Iranian victory will result in the spread of the Islamic revolution to their shores. According to Kuwait's Ambassador to the United States, Kuwait also is concerned about the possibility of Iraqi reprisals and terrorist attacks if it halts such aid. [redacted]

Kuwait, Qatar, and the UAE realize that they will have to live with both Iran and Iraq when the war ends. Kuwait's Crown Prince has indicated that the Gulf states have discussed the creation of a joint fund for Iraqi and Iranian postwar reconstruction. Even if such a fund were established, it could not satisfy all Iranian and Iraqi demands—Iran already has asked Iraq for \$150 billion in reparations and reconstruction costs. [redacted]

The Gulf states often have attempted to attach a high level of conditionality to their assistance to states weaker and farther removed than Iraq. [redacted]

[redacted] When certain recipients—usually those that are politically moderate and militarily weak—have displeased the Gulf states, assistance has been cut off or delayed. The Gulf states, however, are more comfortable using the carrot than the stick. [redacted]

Although the Gulf states have tried to accomplish many of their foreign policy goals by giving aid, this tactic has given them only limited leverage with the recipients. For example, Kuwait's aid to Iraq has not softened Baghdad's claim to Kuwait's Bubiyan Island. Gulf aid to Syria and the Palestinians, however, has afforded some protection from extremists in those camps. [redacted]

We judge that the Gulf states will face a new set of foreign policy problems because of their collective decision to reduce foreign aid. They risk antagonizing recipients who have come to rely on regular assistance. According to press reporting, Syria has indirectly threatened Kuwait, Qatar, and the UAE for not meeting their Baghdad commitments. On the other hand, we believe Iranian-supported terrorism in Kuwait and Iranian air attacks on Kuwaiti oil tankers beginning in late spring were due partly to Kuwait's continued financial support for Iraq. [redacted]

Outlook and Implications for the United States

We estimate that the Gulf states will reduce bilateral foreign aid by approximately 15 percent in 1984 to \$1.5 billion and will not increase aid disbursements until the oil market improves, probably after 1986. As oil revenues pick up, Gulf leaders will ease their austerity programs and consider only selective aid increases. [redacted]

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The smaller Gulf states probably will continue monetary assistance to Baghdad for the foreseeable future. As a result of Iraqi Foreign Minister Tariq Aziz's visit to Kuwait in the spring of 1984, Kuwait has committed unspecified amounts of new financial assistance to Baghdad, according to the US Embassy in Kuwait. The future level of Gulf aid to Iraq, however, is likely to be considerably less than two years ago—when it accounted for over 10 percent of Iraqi budget revenues—because of financial stringencies and the hope of avoiding Iranian ire. Gulf aid to Iraq probably will decline further, in our view, if the Iran-Iraq war causes a substantial reduction in oil exports from the Arabian Peninsula. So far, the spread of the war to the Gulf and the attacks on tankers have not significantly disrupted oil exports, according to US Embassy reports. [redacted]

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We judge that Damascus will be hardest hit by reductions in aid from the Gulf states, which accounted for about 50 percent of the economic and military aid provided to Syria in 1982 but less than 25 percent in 1983. As a result, Damascus may tilt even more toward Tehran to win additional financial support. We believe that Syria also hopes that its support for Palestinian, Iranian, and other radical groups will pose a sufficient threat to the smaller Gulf states to forestall further cuts and may even cause them to restore aid to previous levels. The Gulf states, however, probably will continue to delay their scheduled Baghdad Pact payments to Syria, trying to penalize Damascus for its relations with Iran and Libya as well as its links to terrorist operations against the Gulf states. [redacted]

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We believe the Gulf states probably will maintain aid to Jordan at current levels because they are concerned that further reductions would weaken the like-minded, conservative rule of King Hussein. Baghdad

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Pact assistance from the Gulf states made up about 45 percent of aid flows to Amman in 1982. Reduced Gulf aid this year sparked some cutbacks in Jordan's development budget, which could lead to unrest among Jordanians accustomed to rising living standards and low unemployment. Further aid reductions might force Jordan to take more politically sensitive steps, such as reducing military spending and food subsidies. [redacted]

Although Kuwait has decided to reduce all of its Baghdad Pact payments, we believe that this maneuver was designed primarily to convince Damascus that it was not being singled out for aid reductions. Kuwait probably will find other ways to support Jordan's King Hussein and his moderate foreign policies, perhaps through increased development aid or funding of military equipment. [redacted]

[redacted]
In addition, Kuwait is unlikely to cut aid to the PLO substantially, because of its own large Palestinian community—over 20 percent of the country's population. [redacted]

We believe that the Gulf states will not resume aid to Lebanon—halted in the aftermath of the Israeli invasion in the summer of 1982—until they believe a stable government is in place and until the Israelis withdraw from the country. Gulf aid to Lebanon had reached \$90 million in 1981. Lebanon has sought more aid from the Gulf states, but they have declined to respond. [redacted]

The smaller Gulf states are reluctant to extend new aid to Sudan because of what they perceive as gross mismanagement of the economy and aid funds. Kuwait recently refused to help fund Sudan's balance-of-payments gap and has even tried to restrict IMF assistance to Khartoum because of its mounting arrears. Sudan owes about \$500 million to Kuwait, according to Embassy reporting. UAE Government officials have commented that they view aid to Sudan as "throwing good money after bad." The UAE made no commitments to Khartoum in 1983 and is unlikely to lend any money this year. The lack of Gulf aid will take on more importance as the insurgency in Sudan's southern region worsens. [redacted]

The greatly reduced amount of Gulf aid for non-Arab Islamic states in 1984 and 1985 threatens to place further pressures on these states' economies. Bangladesh and Pakistan—which have been the major recipients of Gulf aid to non-Arab Islamic countries over the last decade—are the most affected. Pakistan had been trying to line up about \$800 million in military assistance from the Gulf states since 1980 and probably delayed or canceled weapons purchases from Western Europe in 1983, when it did not receive the requested aid. Pakistan has since had to rely more heavily on Saudi Arabia and the United States to finance military purchases. [redacted]

Aid recipients probably will turn increasingly to other countries—especially Saudi Arabia—to make up the shortfalls in Gulf assistance. The Saudis have made some cuts in bilateral foreign aid but not nearly as many as the smaller Gulf states. In contrast to Kuwait, Qatar, and the UAE, the Saudis continue to provide the \$1 billion in Baghdad subsidies they promised to Jordan, Syria, and the PLO. The Saudis will maintain these payments through 1985, in our estimate. [redacted]

[redacted] the smaller Gulf states are relying on continued aid from Saudi Arabia to soften the impact of their cutbacks and hope that Saudi Arabia might even cover their shortfalls. In view of their own reduced oil revenues and aid priorities, however, we doubt that the Saudis will increase their aid payments. [redacted]

Some aid recipients—such as Jordan, Pakistan, Morocco, and Sudan—probably will turn to the United States and international aid organizations for additional assistance. They could request almost \$1 billion in our estimate. Without such assistance, these states will have to curtail development or military modernization programs that contribute to their stability and security. [redacted]

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