The Gulf and Transition

US Policy Ten Years
After the Gulf War:

The Challenge of Southern Gulf Alliances
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Arleigh A. Burke Chair in Strategy

Revised November 2, 2000
Introduction

This transition study reflects the result of a long-standing project on Gulf net assessment, funded in part by the Smith Richardson Foundation. This project has already produced some eight books, including two major studies of Iranian and Iraqi military forces published in 1999 – *Iraq and the War of Sanctions* and *Iran’s Military Forces in Transition* (Praeger 1999). Additional detailed briefings and supporting data on the military balance in the Gulf, energy and economic trends, Iranian and Iraqi proliferation, and Gulf arms transfers can be found on the CSIS web page at [www.csis.org](http://www.csis.org) under the sections market as “Gulf in Transition” and “Strategic Assessment.

This volume is intended to support US policy making and the reader should be aware that the sources used are deliberately chosen to rely as heavily as possible on current official US government documents and reports, unclassified intelligence reporting and estimates, and official international institutions like the World Bank. The goal is to provide data that policy makers are familiar with and can trust. The author, however, is solely responsible for the conclusions and suggestions made in this analysis and no attempt was made to coordinate its content with either any officials or experts in the US government or other policy analysts in the CSIS.
# Table of Contents

THE IMPORTANCE OF SOUTHERN GULF ALLIES

| Figure IV-1 | 4 |
| Gulf Military Expenditures: 1997-2000 | 4 |
| Figure IV-2 | 6 |
| Figure IV-3 | 7 |
| Figure IV-4 | 8 |
| Figure IV-5 | 9 |
| Cumulative Arms Imports of the Gulf States - 1984-1997 | 9 |
| Figure IV-6 | 10 |
| Comparative Arms Imports of the Gulf States – 1986-1997 | 10 |
| Figure IV-7 | 11 |
| Total Gulf New Arms Agreements and Deliveries 1996-1999 | 11 |
| Figure IV-9 | 13 |
| Major Supplier Share of Total Gulf Arms Agreements and Deliveries: 1987-1998 | 13 |
| Figure IV-9 | 14 |
| Major Supplier Share of Total Gulf New Arms Agreements: 1996-1999 | 14 |
| Figure IV-10 | 15 |
| Major Supplier Share of Total Gulf New Arms Deliveries: 1996-1999 | 15 |

SAUDI ARABIA

| Saudi Arabia and Energy | 17 |
| Political, Economic, and Social Transition in Saudi Arabia | 19 |
| Internal Change and Saudi Security | 21 |
| Structural Economic Problems | 22 |
| Saudi Demographics | 25 |
| Transformation is the Price of Stability | 26 |
| Continuing External Threats: Saudi Arabia, Iran, Iraq, and Yemen | 27 |
| Saudi Arabia and Iran | 28 |
| Saudi Arabia and Iraq | 29 |
| Saudi Arabia and Yemen | 29 |

Copyright CSIS, all rights reserved.
Saudi Military Capabilities......................................................................................................................... 30
Collective Security in the Southern Gulf ........................................................................................................ 32
Implications for US Policy.............................................................................................................................. 35

KUWAIT............................................................................................................................................................. 36
Kuwait and Energy.............................................................................................................................................. 37
Internal versus External Security Issues........................................................................................................... 39
Kuwaiti Military Capabilities............................................................................................................................ 42
The Pivotal Role of U.S. Power Projection Forces .......................................................................................... 44
Kuwait and Collective Security in the Southern Gulf....................................................................................... 45
Implications for US Policy.............................................................................................................................. 47

THE UNITED ARAB EMIRATES (UAE) ........................................................................................................... 48
The UAE and Energy........................................................................................................................................ 50
The UAE and Gulf Security............................................................................................................................. 53
UAE Military Capabilities................................................................................................................................. 55
The UAE, the US, and Collective Security in the Southern Gulf................................................................. 57
Implications for US Policy.............................................................................................................................. 58

BAHRAIN ............................................................................................................................................................. 60
Bahraini Internal Development and Stability................................................................................................. 60
Bahrain’s Military Capabilities......................................................................................................................... 62
Bahrain, the US, and Collective Security in the Southern Gulf...................................................................... 63
Implications for US Policy.............................................................................................................................. 65

OMAN ................................................................................................................................................................ 66
Oman, Development, and Internal Security..................................................................................................... 66
Oman and Energy.............................................................................................................................................. 68
Oman and Gulf Security.................................................................................................................................. 70
Omani Military Capabilities............................................................................................................................. 71
Oman, the US, and Collective Security in the Southern Gulf....................................................................... 73
Implications for US Policy.............................................................................................................................. 74

QATAR ................................................................................................................................................................. 75
The Qatari Economy: Betting on Gas ............................................................................................................. 76
Qatar and Energy.............................................................................................................................................. 77
Qatar and Gulf Security.................................................................................................................................. 79

Copyright CSIS, all rights reserved.
Qatari Military Capabilities .................................................................................................................. 79
Qatar, the US, and Collective Security in the Southern Gulf .............................................................. 80
Implications for US Policy ................................................................................................................... 81
YEMEN .................................................................................................................................................. 82
Economics and Internal Stress ............................................................................................................. 83
Energy .................................................................................................................................................. 85
Yemen and Gulf Security ...................................................................................................................... 86
Implications for US Policy ................................................................................................................... 90
THE BROADER IMPLICATIONS FOR US POLICY IN THE SOUTHERN GULF............................... 92
The Importance of Southern Gulf Allies

US policy towards the Gulf may be dominated by the need the US and global economy has for energy, but it can only be successful if it recognizes that each Gulf state is a sovereign nation with its own needs, and priorities. The US is fortunate that each Southern Gulf state is now both an ally and a partner. Maintaining this partnership is a key aspect of US regional strategy, and the US must shape its diplomacy, energy policy, and military plans and commitments accordingly.

Ideally, the Southern Gulf states, could play a much larger share in maintaining their own security, and do so through collective security efforts like the Gulf Cooperation Council (GCC). Figures IV-1 through IV-4 show that the Southern Gulf states make major military expenditures. Figures IV-5 to IV-10 show that they have also made truly massive arms imports in recent years which have far outpaced those of Iran and Iraq.

There are, however, certain facts of life in the Gulf that push Saudi Arabia and all of the other Gulf states towards a high degree of bilateral dependence on the US:

- The Southern Gulf states are all members of the Gulf Cooperation Council (GCC), which was formed in 1980. This sometimes leads Americans to treat the GCC as a potential NATO, and as a strong foundation for collective defense. In practice, it has always been militarily weak, and Gulf leaders have shown little interest in what have often been good plans to improve military cooperation in creating effective rapid deployment forces, common air defense, and common maritime surveillance. There has been real progress, but it has been grindingly slow and so far has not reach the need of a major commitment to collective security. The GCC is a political reality, but it is still largely a military myth.

- Internal rivalries between the Southern Gulf states continue to divide them, and block full cooperation on sensitive security issues. Saudi Arabia’s very size and strength – and its history as a state King Ibn Saud forged by war – make its smaller neighbors worry about its power and influence and fear its hegemony. Saudi Arabia has done much to reduce these tensions, but it has never had warm relations with Kuwait and some low-level tensions remain between Saudi Arabia and Qatar, the UAE, Oman, and Yemen. The UAE is particularly concerned because the Saudi rapprochement with Iran has weakened Southern Gulf solidarity in opposing Iran’s claim to total sovereignty over three islands near the main shipping channels in the Gulf: Abu Musa and the Greater and Lesser Tunbs.

- The Gulf is a large region and does not share a unity of strategic interests. Upper Gulf states like Kuwait, Bahrain, and Saudi Arabia naturally see Iraq as a major threat. Lower Gulf states like Oman and the UAE focus on Iran. Qatar seeks to minimize the threat from both. Oman and Saudi Arabia
have common borders with Yemen, and see Yemen as a continuing concern. Oman has important strategic interests in the Indian Ocean and Gulf of Oman, and Saudi Arabia is a Red Sea power. The US sometimes tends to talk about the Southern Gulf states as a strategic bloc. They are not, there is no reason for them to be, and they will never act of some vague, theoretical concept of collective interest.

• There is a school of Gulf intellectuals and Western Arabists that advocate the creation of regional security structures and US withdrawal – over the horizon at a minimum, but total if possible. This is a political and ideological fantasy as long as Iran and Iraq present real potential threats. At the same time, there is real opposition to Southern Gulf military ties to the US at many different levels – ranging from Pan-Arabism to Islamic extremism. The US cannot avoid these political realities. It can only attempt to reduce them by taking full account of political, religious, and cultural sensitivities; making a major and continuing effort to explain and justify its presence, showing that it treats its allies as partners, and minimizing its forward presence.

• Nations like Egypt and Jordan can play an important strategic role in Gulf security. It is one of the ironies of Pan-Arabism, however, that there is considerable distrust of both Arab states in much of the Southern Gulf, and far more confidence that the US will not interfere in local politics. It is also a military reality that other Arab states have limited warfighting technology by American standards, and are not structured for power projection. An effort was made at the time of the Gulf War, called the Damascus Declaration, to link the GCC states and Egypt and Syria. It foundered because (a) the GCC states were fully aware of the military limitations in other Arab states, (b) their political concerns with having other Arab states present on their soil, and (c) their refusal to provide major aid packages to pay for low capability military forces. None of these realities have changed.

• Europe can play a role in the Gulf. However, Britain is the only nation that has shown a real will and capability in doing so, and it has limited power projection capabilities. France experienced major problems in deploying and fighting during the Gulf War, and other European states played a peripheral role in the air war and would not commit their mine warfare ships to combat. In spite of the rhetoric surrounding the European Defense Initiative, European power projection capability and will is very limited and likely to remain so.

The Gulf Cooperation Council does provide a useful political and security forum, and some progress has been made in holding common military exercises and in dealing with internal security issues. However, phrases like “collective security” and “coalition warfare” describe useful political efforts to create a united effort to deter and end aggression in the Gulf, but they are only very limited military realities.

Accordingly, the key to successful security policy is US success in bilateral relations between the US and each of its individual Southern Gulf allies. The US must also be sensitive to the fact that while no Southern Gulf state may be a democracy, each has a high degree of legitimacy in terms of responding to the feelings and needs of its own peoples. This means the US
must also respond to important national, cultural, and religious sensitivities. The US cannot afford to lecture any of its allies, it must work with them.
Figure IV-1

($Current US Millions)

0 = less than $50 million or nil, and all data rounded to the nearest $100 million.
Source: Estimated by the author using IISS, CIA, and country data.

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### Figure IV-2

**Comparative Military Expenditures of the Gulf Powers - 1983-1997**

($97$ Constant Millions)

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Figure IV-3

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Figure IV-4

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Figure IV-5
Cumulative Arms Imports of the Gulf States - 1984-1997
(Value of Deliveries in Constant $1997 Millions)

Figure IV-6

(Value of Deliveries in Constant $1997 Millions)

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Figure IV-7

Total Gulf New Arms Agreements and Deliveries 1996-1999
($Current US Millions)

0 = less than $50 million or nil, and all data rounded to the nearest $100 million.

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Figure IV-9

Major Supplier Share of Total Gulf Arms Agreements and Deliveries: 1987-1998
($Current US Billions)

0 = less than $50 million or nil, and all data rounded to the nearest $100 million.

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Figure IV-9

Major Supplier Share of Total Gulf New Arms Agreements: 1996-1999
($Current US Billions)

Iran  Iraq  Bahrain  Kuwait  Oman  Qatar  Saudi Arabia  UAE  Yemen

- All Others  100
- China  800  200
- Russia  200
- All Other Europe
- Major West Europe  100  300  800  400  6,000  200
- US  0  500  800  5,500  300

TOTAL  1,100  500  1,100  400  800  7,100  7,700  600

0 = less than $50 million or nil, and all data rounded to the nearest $100 million


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**Figure IV-10**

Major Supplier Share of Total Gulf New Arms Deliveries: 1996-1999

($Current US Billions)

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0 = less than $50 million or nil, and all data rounded to the nearest $100 million.


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Saudi Arabia

Saudi Arabia is the key to energy security in the Gulf, and to the success of US policy in the region. Saudi Arabia has long had close security ties to the U.S., and has been a reliable exporter of oil since the end of the oil embargo of 1974. It is the only Southern Gulf power strong enough to serve as a strategic counterbalance to Iran and Iraq, and is a critical partner in U.S. collective security efforts in the region. It is the world’s largest “swing” producer, and plays a critical role in ensuring moderate and stable oil prices.

Saudi Arabia and Energy

Saudi Arabia has proven oil reserves of 263.5 billion barrels including the Neutral Zone it shares with Kuwait, or about 25.5% of the world’s total. If the Neutral Zone is excluded, it has reserves of 261 billion barrels. It has gas reserves of 204.5 trillion cubic feet or about 4.0% of the world total. Saudi Arabia is the world’s largest oil exporter, and the growth in Saudi oil production will outstrip the growth in all of the nations in the Former Soviet Union, in spite of major increases in production by the former Soviet republics in the Caspian and Central Asia.

Saudi Arabia has a current total of 77 oil and gas fields, but more than half of its oil reserves are in eight fields, including Ghawar (the world's largest onshore oil field, with estimated remaining reserves of 70 billion barrels) and Safaniya (the world's largest offshore field, with estimated reserves of 19 billion barrels). Ghawar alone accounts for about half of Saudi Arabia's total oil production capacity. Saudi Arabia has fewer than 1,430 wells, which is extremely low relative to the volume of oil the country produces.

Saudi Arabia produced about 8 million bbl/d of crude oil in early 2000 (28% of total OPEC crude production) and exports around 6.6-6.7 million bbl/d. It produced 8.4 million bbl/d in 1998 (and 8.6 million bbl/d in 1997, and it announced increases to levels of well over 8 million bbl/d in September 2000. Saudi Arabia maintains the highest share of OPEC oil export revenues (at around 28% of the OPEC total).
The U.S. Department of Energy estimates that Saudi Arabia will increase its production capacity from 8.6 million barrels per day in 1990, and 11.4 million barrels per day in 1998, to 13.6 (11.3-14.5) million barrels per day in 2005, 14.7 (12.5-17) million barrels per day in 2010, 17.7 (14.1-21.8) million barrels per day in 2015, and 22.1 (19.6-27.6) million barrels per day in 2020.\(^4\)

This increase in Saudi production will be the most critical single factor in ensure that world oil exports expand to meet the needs of the global economy. The key question is whether it will take place. So far, many of the signs are positive. Although the EIA estimates that Saudi Arabia had roughly 3 MMBD of spare production capacity in 2000, Saudi Arabia continues to invest in the slow development of lighter crude reserves. Priority has been given to developing the Shaybah field in the remote Empty Quarter, which contains an estimated seven billion barrels of premium sweet crude oil, and ultimately is slated to produce 500,000 bbl/d of crude oil and 870 million cubic feet/day of natural gas. Shaybah began production in July 1998 and the Shaybah project is estimated to have a total cost $2-$2.5 billion. Developing it will include three gas/oil separation plants (GOSPs) and a 395-mile pipeline to connect the field to Abqaiq, Saudi Arabia's closest gathering center, for blending with Arabian Extra Light crude.\(^5\)

Saudi Arabia is the only Gulf nation, except Iraq, that has an extensive pipeline network that can bypass the Strait of Hormuz. Saudi Arabia's primary oil export terminals are located at Ras Tanura (5 million bbl/d capacity) and Juaymah (3 million bbl/d) on the Arabian Gulf, plus Yanbu (3 million bbl/d) on the Red Sea. Saudi Arabia also operates two major oil pipelines. One is a 4.8 million bbl/d East-West Crude Oil Pipeline (Petroline) that is used mainly to transport oil to refineries in the Western Province and to Red Sea terminals for direct export to Europe. The second is the 270,000 bbl/d Abqaiq-Yanbu natural gas liquids pipeline, which parallels the Petroline and serves Yanbu's petrochemical facilities.\(^6\) Saudi Arabia claimed in mid-2000 that it had substantial surplus oil export and pipelines capacity and that the East-West oil pipeline system could carry five million bbl/d but was being run at half capacity. It stated that its export terminals on the Arabian Gulf could load 14 MMBD were also being run at half capacity.\(^7\)

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Like all Gulf state, Saudi Arabia faces sharply growing domestic demands for energy. Saudi Arabia is seeking increase gas use to ensure it can maximize its oil exports. Domestic gas demand is expected to grow as much as 8% per year through 2007, and increasing gas production is a key priority for the Saudi government. This domestic demand has already led to substantial investment in Saudi Arabia’s Master Gas System (MGS), which started up in 1982. Gas development now consumes a large share of Aramco’s budget and Aramco plans to invest $45 billion over 25 years on upstream gas development and processing facilities. The EIA reports that additional gas production is being encouraged as a feedstock for the country’s growing petrochemical industry, as well as for electricity generation, desalination plants and other industrial establishments, and as a replacement for direct oil burning. Using gas for domestic energy frees up additional crude oil for export.  

**Political, Economic, and Social Transition in Saudi Arabia**

Saudi Arabia does not face any imminent risk of instability, but it will enter the twenty-first century in the midst of major political, social, economic, and military transitions. External transitions include

- The reemergence of Iraq as a major force in Gulf security and the world oil market,
- Iran’s uncertain shift towards political moderation and regional cooperation,
- The failure of the Southern Gulf states to develop their military forces effectively and develop meaningful collective security arrangements,
- Creeping proliferation, and
- The need to redefine dependence on the U.S. for security.

They also include the continuing uncertainties in the world energy market, a factor that drives virtually every aspect of the Saudi economy.

The most visible internal transition will be political: King Fahd’s health continues to deteriorate. For the first time in decades, Saudi Arabia is likely to have a king who is not one of...
the “Sudairi Seven.” Almost inevitably, this has raised a “succession issue” among policymakers and has focused the world’s attention on (a) whether Crown Prince Abdullah will come to full power, (b) on how the Saudi regime will change, and (c) on whether there will be major changes in its foreign and domestic policy. In practice, however, this debate probably has little near to mid term importance. Crown Prince Abdullah will almost certainly become king, and Prince Sultan and other sons of King Saud will dominate the succession in the near to mid-term. The problem of succession seems unlikely to be a major priority for US policy until it falls to the next generation of princes at some point 5-10 years from now – if then.

It is the social, economic, and military transitions in Saudi Arabia that have priority, and it is important for American policymakers to keep them in perspective. In 1973, before the beginning of the oil boom, Saudi Arabia was a nation of roughly 6.8 million people. It had a GNP of less than $10 billion in market prices, and a per capita income of less than $2,500. It was largely rural or nomadic and largely pre-industrial in character. While no precise figures are available, its population growth rate was probably under 2.7% and less than 30% of its population was under 14 years of age.  

The oil boom that began in 1974 transformed Saudi Arabia. By 1997, it was a nation of 20.1 million people. Its economy had become so different that it is impossible to make direct comparisons of its GNP before and after the oil boom. The World Bank estimated that in 1997, Saudi Arabia’s GNP was $143.4 billion, and that Saudi Arabia’s per capita income was almost $7,000. The CIA estimated in 1999 that its GDP was $186 billion and that its per capita income was $9,000. The CIA estimates for 1996 were a GDP of $198 billion with a per capita GDP of $10,200, and the estimates for 1997 were a GDP of $206.5 billion with a per capita GDP of $10,300. In contrast, the EIU estimated a GDP of $135.5 billion for 1996, and $139.6 billion for 1997.
A poor and largely agricultural Saudi Arabia became a heavily urbanized, welfare state with a large service sector. Agriculture shrunk to only 9% of the GDP by 1995, while industry rose to 50% and services to 41%. The labor force shifted from a time when 64% of the total worked in agriculture to a force where only 5% works in agriculture while 40% works in government, 25% works in industry and oil, and 30% works in services. Equally important, a subsistence society has become a welfare society where close to 20% of all personal income comes from government grants, services, and subsidies.\(^1^2\)

Much of this development has had positive effects. Oil wealth allowed Saudi Arabia to spend some $1,124 billion dollars on development between 1970 and 1995. Saudi Arabia had 8,000 kilometers of paved roads in 1970, and 67,893 in 1995. It had 27 wharves at its seaports in 1970 and 182 in 1995. It had 3,283 elementary schools in 1970 and 21,854 in 1995. It tripled the number of hospitals, set up 3,300 community health centers. It increased the number of doctors at its hospitals and clinics from 1,172 to 30,306, its nursing staff grew from 3,261 nurses to 60,736 nurses and added 33,047 technicians. It increased the output from its desalination plants from 5.1 million gallons to 512 million gallons, and its electric generation capacity from 344 megawatts to more than 17,400 megawatts. Saudi Arabia had 119 factories in 1970 and 2,303 in 1995, with an invested capital of $40.7 billion.\(^1^3\)

**Internal Change and Saudi Security**

At the same time, Saudi Arabia faces many challenges. Its military forces are not strong enough to defend the Kingdom from Iran or Iraq without U.S. military aid, and it is dependent on a strategic partnership with the U.S. and other Western states. It has not been able to catalyze effective collective security efforts within the Gulf Cooperation Council (GCC) and it still faces serious problems in eliminating its historical rivalries with other Southern Gulf states.

Most importantly, Saudi Arabia must deal with the social and economic impacts of explosive population growth described earlier at a time when its oil wealth has diminished sharply.
in both absolute and relative terms. These problems did not begin with the “oil crash” in 1997. The same wealth that transformed other aspects of Saudi society helped raise the average population growth rate to 4.7% during 1980-1995.\textsuperscript{14}

Although this growth rate declined to an average of 3.3% during 1990-1995, it had risen back to 3.45% in 1995 and grew again in 1996 to 3.6%. While it dropped to 3.42% in 1997, this was still higher than in 1990-1995, and one of the highest rates of growth in the world. The end result is that 43% of the population was under 14 years of age by 1999. The World Bank forecasts that Saudi Arabia’s population will grow by about 3.3% per year over the next five years. As a result, even conservative World Bank estimates project a total Saudi population approaching 33.7 million people in 2010.\textsuperscript{15}

Oil wealth also led to radical changes in Saudi Arabia’s social structure. Urbanization reached 67% of the total population by 1980 and 79% by 1995 -- a total of roughly 14.9 million people. By 1995, over 20% of Saudi Arabia’s population lived in cities of over one million -- a total of roughly 14.9 million people. Education changed radically: Only 61% of school age Saudi males ever entered primary school when the oil boom began while the percentage rose to over 80% by 1990. The percentage for females rose from 29% to 73%. Literacy in the population as a whole rose from fewer than 15% of the population to over 60%, and Saudi society became exposed to the world’s media. Saudi Arabia had over 250 television sets per 1,000 people in 1997, and over 95% of the Saudi people had exposure to radio.\textsuperscript{16} This helps explain why Saudi demand for utilities like electric power is growing by around 5% annually, and the government estimates $117 billion will need to be invested in electricity supply alone over the next 24 years.\textsuperscript{17}

\textbf{Structural Economic Problems}

Since the early 1980s, Saudi Arabia’s oil wealth has declined in both absolute and per capita terms. Saudi Arabia’s population has grown explosively while oil revenues have remained nearly constant. The World Bank estimates that Saudi Arabia’s population rose from roughly 9
million in 1980, to 21 million in 1998 -- a rise of 233%. In contrast, the World Bank estimates that Saudi Arabia’s GDP dropped from $156.5 billion in 1980, in current dollars, to $128.9 billion in 1998. This is a drop of nearly 20% in current dollars and well over 30% in constant dollars. U.S. estimates are similar. They indicate that the Saudi GNP dropped by over 35% during the same period.\textsuperscript{18}

Saudi Arabia failed to adequately diversify its economy as its oil revenues declined. The earnings from its petroleum products and downstream operations were partly offset by their cost and by the diversion of crude oil to feedstock. Domestic energy use has remained extremely wasteful, and much of Saudi Arabia’s GDP now consists of service industries whose net impact is to increase and meet the demand for imports. Trade makes up nearly 50% of the Saudi GDP today, but only a few percent of Saudi exports are manufactured. Trade is virtually all in petroleum-related exports and in imports financed by these exports.\textsuperscript{19} While estimates differ, virtually all outside analyses agree that Saudi Arabia’s per capita income declined to less than 40% of its peak at the height of the oil boom.

An analysis by the EIA, published in April 2000, found the sharp decline in oil revenues which Saudi Arabia experienced during 1998, and early 1999, represented a major challenge for the country’s government (since oil export revenues account for nearly 90% of total Saudi export earnings). From January 1998 through March 1999, the price of Saudi oil averaged between $9 and $13 per barrel, down sharply from late 1997, and the lowest in inflation-adjusted terms for any sustained period of time since 1973.\textsuperscript{20}

Low oil prices, in late 1997 thru early 1999 forced state oil and gas company Saudi Aramco -- whose expenditures account for around 6% of Saudi GDP) -- to reassess its capital expenditure program, to delay a series of upstream and refining projects (at an estimated savings of $2 billion this in 1998), and to defer bidding on the $150-$200 million Haradh (phase 2) crude oil production increment project. In October 1998, a planned $800 million upgrade of the Rabigh oil refinery was cancelled, leaving Saudi Arabia with only one major energy project under
bidding—the $2 billion Hawiya natural gas processing plant (part of an ambitious expansion plan for the Saudi Master Gas System).

This situation eased in 1999-2000. Saudi oil prices increased sharply following OPEC’s March 23, 1999 cutback agreement, however, and average $25-$30 per barrel during the first six months of 2000. The sharp increase in oil prices over the past year has significantly improved Saudi Arabia’s economic situation, with 5.4% real GDP growth forecast for 2000. The EIA forecast that Saudi Arabia would earn about $60 billion in 2000 from crude oil exports, up 55% from around $38 billion in 1999, and double 1998 oil export revenues. Other forecasts, later in 2000, indicated that Saudi Arabia might earn as much as $80 billion.\footnote{21}

The dramatic turnaround in Saudi oil revenues resulted in a significant higher GDP growth rate, greatly improved external trade and internal budgetary situations, and new investment in energy projects. Nevertheless, they ease Saudi Arabia’s problems rather than solve them. This explains why Crown Prince Abdullah has continued his efforts to reform the Saudi economy, reduce dependence on foreign labor, encourage private domestic and foreign investment, and open up the nation’s economy to the WTO to help make it globally competitive. If fully implemented, the new Saudi five year plan issued in 2000 will carry forward many of the reforms the Kingdom needs, although it would not free it of the need for major additional investments in its energy sector.

Saudi Arabia remains far too heavily dependent on oil revenues (for around 90% of total export earnings, about 70% of state revenues, and 40% of GDP) despite its attempts to diversify its economy. Unless very high oil prices become a continuing fact of life, it will still face budget and investment problems and be unable to fund both its entitlements and development. Most important, it will face serious problems because of its demographics.
**Saudi Demographics**

Demographics are the key problem. The World Bank estimates that Saudi Arabia’s per capita income increased by an annual average of only 0.5% during 1970-1998, and decreased by a total of nearly 20% during 1985-1995. During the same period, however, total Saudi Arabian private consumption rose from 1980-1998 from $34.5 billion to $53.2 billion. This growth in consumption reflected both the impact of population growth and a growing social dependence on imports and services. Private consumption rose from 22% of the GDP in 1980 to 41% in 1998, while government consumption rose from 16% to 27%. At the same time, gross domestic investment dropped slightly from 22% to 21% and gross domestic savings dropped precipitously from 62% of GDP to 26%.\(^{22}\)

Most of Saudi Arabia’s young population is not educated for real-world jobs or to compete in the modern world economy and nearly half of its labor force is foreign. While over 90% of Saudi young males and females reached grade four in 1995, only 5% of males and 2% of females moved on to secondary school. Much of Saudi education is “Islamic,” and oriented towards recitation and rote learning, rather than towards training students for real world jobs and to be competitive with the leading economies of the developing world.

Saudi Arabia educates women with no clear idea of the role they should play in the labor force. Although female workers rose from 5% of the total labor force in 1970 to over 13% in 1997, they have been heavily restricted towards teaching other women.\(^{23}\) Dependence on welfare, meaningless government and government-related jobs, and foreign labor has left much of native Saudi youth without a work ethic, while declining per capita oil revenues mean the Kingdom cannot hope to sustain its past pattern of disguised unemployment and subsidies.

Recent increases in educational spending will do little to improve the character and quality of Saudi education. Far too much of this education is unfocused, religious in character, reliant on route learning, and provided by low-wage contract teachers from outside Saudi Arabia. Saudi
youth had a direct and undisguised unemployment rate of 30-36% in early 2000. Some 800,000 young Saudis a year now enter the labor force and have uncertain prospects of finding real, productive employment unless Saudi Arabia radically restructures its educational system and economy. Its government has swollen to the point where it consumes 40% of Saudi Arabia’s labor force, and more than half of its native labor force. The Saudi government costs the country’s economy over $50 billion a year. Government spending accounts for 36% of GDP, and is in its eighteenth year of continuous budget deficits, although higher than expected oil revenues may balance the Saudi budget by the end of the year 2000.

**Transformation is the Price of Stability**

If Saudi Arabia pushes ahead with its current reform plans, it may well be able to meet these internal challenges, but it will not be easy. During the coming decades, Saudi Arabia must make massive new investments to maintain its status as a petroleum power, and make equally massive investments in the national infrastructure necessary to support its rapidly growing population. These investments will cost in excess of one-third of a trillion dollars, is a far larger sum than Saudi Arabia can self-finance, even if it were to shift from almost complete dependence on state investment to dependence on private financing.24

Saudi Arabia must restructure its economy and diversify to find declining per capita oil wealth and come to rely on native, rather than foreign labor. It must transform its society to compete in a world where oil wealth alone is not enough to keep its per capita income from dropping steadily lower, and do so without losing its Islamic and Arab character.

There has already been progress, and Crown Prince Abdullah seems committed to pushing ahead with reform. Saudi Arabia's government has accepted the need to reduce state involvement and increase private sector investment in its last two five year plans, although it so far has moved slowly. It has gradually cut some subsidies, and increased the price of gasoline by 50% in May 1999, although only to 90 cents per gallon. Crown Prince Abdullah created a new Supreme
Economic Council in September 1999, and gave it the mandate to increase investment, give employment to for Saudi nationals, and promote the private sector. Saudi Arabia is also seeking admission to the WTO, in part to force its economy to become more efficient and create better conditions for foreign and private domestic investment.25

Saudi Arabia has become more aggressive in "Saudisation," and its efforts to increase the employment of Saudi citizens by replacing 60% of the estimated 5-6 million foreign workers in the country. It has stopped issuing work visas for certain jobs, has moved to increase training for Saudi nationals, and has set minimum requirements for the hiring of Saudi nationals by private companies. At present, the private sector accounts for around 40% of Saudi Arabia's GDP (and 89% of employment), but only 5%-10% of those employed in the private sector are Saudi nationals.

Saudi Arabia also has encouraged foreign investment in its energy sector, although it has not indicated it will accept investment in downstream oil production. Crown Prince Abdullah and Oil Minister Ali Naimi met with U.S. oil companies (in September 1998) regarding possible upstream investment in Saudi Arabia's oil, natural gas industries, and petrochemicals. Saudi Arabia asked foreign companies to submit proposals for possible projects for the first time since it nationalized these industries in the mid-1970s. Saudi officials have made it clear, however, that they feel that more foreign involvement in upstream oil production is not necessary at this point.26

**Continuing External Threats: Saudi Arabia, Iran, Iraq, and Yemen**

Saudi Arabia is free to concentrate on internal security as long as the US maintains a strong military presence in the Gulf area, and Saudi Arabia and the US work closely together to deter regional threats. Saudi Arabia does, however, face continuing external threats from Iran and Iraq, and a possible threat from Yemen.
**Saudi Arabia and Iran**

Saudi relations with Iran have improved steadily since the election of President Khatami in 1997, but tensions still exist along sectarian lines and the two states are still rivals for power and influence in the Gulf. Iran’s efforts to proliferate present a new potential threat to Saudi Arabia, and challenge existing US and Saudi military capabilities with a new form of asymmetric warfare. There are natural differences in the energy strategies of the two countries. Saudi Arabia is a low cost producer with immense reserves that can afford to produce at very high levels even when oil prices are low. Iran has much higher production and development costs, more limited production capacity and reserves, and much less capability to pursue a “market share” strategy. Put differently, Iran benefits from limits on Saudi production.

Saudi Arabia is responding by continuing to strengthen its military forces, and maintain close ties to the US, but it has also chosen a close dialogue with Iran and the regime of President Khatami over attempts to isolate Iran or sanction it. Prince Abdullah has been a key leader in this effort, and Oman began to pursue a similar approach to Iran even earlier. So far, this mix of defense and dialogue has worked well. Iran has sharply reduced its support of extremists and terrorists, has ceased public attacks on the Saudi regime and adopted a friendly diplomatic attitude, and has worked with Saudi Arabia to reach viable compromises on energy policy and OPEC quotas. The end result has been notably more successful than US efforts to sanction Iran. In fact, the Saudi initiative has aided US security interests in two important ways. First, reducing tensions in the Gulf enhances US security interests. Second the Saudi-Iranian dialogue sets a useful precedent for a possible US-Iranian re-engagement -- assuming the political situation in Iran continues develop in ways that will allow for an official US-Iranian dialogue to occur.

The fact remains, however, that Saudi Arabia still confronts an Iran that continues to proliferate, that has developed a considerable capability to use asymmetric warfare to attack Gulf shipping and targets in the Gulf, and trains Islamic and other extremists. Iran’s ties to Saudi Shi’ites, ability to attack Saudi religious legitimacy and disrupt the pilgrimage, provide continuing
options for Iranian pressure on the Kingdom. Iran also remains overtly hostile to the Arab-Israel peace process and any Arab support of this process, to the US presence in the Gulf, and to military ties between Gulf powers and the US. There is also no assurance as yet that the struggle between Iran’s “moderates” and “hardliners” will be resolved in ways that ensure Iran remains relatively friendly to Saudi Arabia.

**Saudi Arabia and Iraq**

Iraq is a very different case from Iran from a Saudi perspective. Iraq remains a hostile dictatorship that has repeatedly threatened Saudi Arabia and Kuwait since the Gulf War. Saddam Hussein has continued to attack the Saudi regime and its legitimacy. He also regularly threatens Saudi Arabia for allowing the US and Britain to use its territory to enforce the Southern no fly zone in Iraq. Iraq sent aircraft across its border with Saudi Arabia in September 2000, and an effective Saudi-Iraq dialogue with Saddam Hussein seems virtually impossible.

Oil policy remains an issue even if prices are high. Iraq too has major oil reserves, but nearly two decades of war and a decade of sanctions have limited Iraq’s ability to develop its oil wealth and it needs major investment to rework and modernize its existing fields. It may be years before Iraq can exploit its new fields and costs are difficult to estimate. In the short to medium term, Iraq benefits from any limits it can impose on Saudi oil production and needs to take every possible step to maximize its oil revenues.

Like Iran, Iraq is a major proliferator. It is likely to rebuild its massive military forces the moment UN sanctions are lifted or can be ignored, and it is already a major conventional power. Unlike Iran, it shares a common and poorly defended border with Saudi Arabia, and could deploy corps size forces for an attack across the border in a matter of days.

**Saudi Arabia and Yemen**

Yemen does not pose an overt military threat to Saudi Arabia. In fact, Saudi Arabia has greatly improved its relations with Saudi Arabia in recent years and signed a common land and marine border agreement with Yemen on July 4, 2000. Even in the past, clashes in the border area
were relatively limited and often involved smuggling and tribal issues, rather than serious
differences at the state to state level. Yemen also has had few recent imports and has seen its
military forces devastated by civil war, while its government has become more moderate and more
focused on economic development.

Nevertheless, Saudi Arabia sees Yemen as an enduring potential threat because of its large
population and armed forces, past claims on Saudi territory, and a level of poverty that could
drive it to attack a far richer Saudi Arabia. Yemen has a population of 18 million, virtually the
same as that of a far larger Saudi Arabia. It has armed forces with 66,300 men, 1,320 main battle
tanks, and 49 combat aircraft. While these forces are smaller and far less well-equipped than those
of Saudi Arabia, they can still pose a problem on the border using low intensity conflict, and
Yemen’s strategic geography places it at the Bab el Mandab. It also faces serious internal
pressures. Its population growth rate is nearly 4%, its per capita income is less than $2,300, and it
has structural real and disguised unemployment of over 30%.  

**Saudi Military Capabilities**

Saudi Arabia has spent some $18 to $22 billion annually on defense in recent years. It
signed a total of $21.9 billion in new arms agreements between 1991 and 1999. Some $20.4
billion came from the US, $8.2 billion from Europe, and $300 million from other countries. It had
placed massive orders before and during the Gulf War, and took delivery on $76.1 billion during
the same period, $27.8 billion came from the US, $38.0 billion from Europe, $200 million from
China, and $200 million from other countries.  

It has created regular forces with a total of some 126,000 men, with an additional 75,000
actives in its National Guard. Its army has some 75,000 actives, and has nine active brigades –
three armored, five mechanized, and one airborne. It is deploying 315 M-1A2 Abrams tanks, and
has 450 M-60A3s. It also has 290 obsolete AMX-30s, many of which are in storage. It has large
numbers of modern armored personnel carriers (APCs) and armored infantry fighting vehicles,
including 400 M-2 Bradleys and 1,750 M-113s. It has nearly 200 active 155mm self-propelled artillery weapons, including 110 US-made M-109 A1Bs and 90 GCTs, and large numbers of towed artillery weapons and mortars. It also has 60 ASTROS II multiple rocket launchers. It has modern antitank weapons and adequate light antiaircraft systems. It is well equipped with helicopters, including 12 AH-64 attack helicopters, and has good logistic equipment. The National Guard is largely equipped with wheeled armored infantry fighting vehicles, but can provide rear area security, scouting, and reconnaissance capability.²⁹

The main problems with Saudi land forces are a lack of training and a force structure organized more to fight from military cities than conduct rapid deployments and execute sustained maneuver warfare. Training above the battalion level is weak, particularly in combined arms and joint operations. Logistic equipment and stocks are good, but the organization and training are weak. The regular army lacks manpower and leadership, although the Guard is an effective force. The so-called GCC rapid deployment force is a hollow exercise in military symbolism, and Saudi land forces lack any meaningful prospect of major reinforcement from the other Southern Gulf states that will help in an intensive war against Iraq. Saudi-Kuwaiti planning and cooperation is grossly inadequate above the battalion level.

The Saudi Air Force and Air Defense Force have a total of 20,000 men, some 417 combat aircraft, and 33 surface-to-air missile batteries, including 16/128 I Hawk batteries. Saudi Arabia’s first line air strength includes 70 F-15Cs, 25 F-15Ds, 72 F-15Ss. 76 Tornado IDSs, and 24 Tornado ADVs. It also has 77 aging F-5E/Fs and 10 RF-5s. Saudi Arabia has 5 E-3A airborne warning and air control system (AWACS) aircraft, and 16 tankers. Saudi Arabia is the largest modern air force in the Gulf, and the only one with an airborne warning and air control system, major in-air refueling capability, and a modern land-based air defense sensor and control network. It has a high degree of interoperability with US forces, and good average training levels. Readiness and aircrew numbers are inadequate, however, and it has only limited capability for joint warfare and proficiency in offensive operations. It cannot manage a large defensive air battle.
without US aid, and most potential Southern Gulf air reinforcements do not have the readiness and proficiency to be integrated into a major air battle against Iraq.

The Saudi Navy has some 15,500 men and has modern bases in both the Gulf and the Red Sea. It has a total of four frigates and four corvettes, and the frigates are modern French Madina-class missile ships. It has nine missile craft, and seven mine countermeasure ships, three of which are modern Sandown-class vessels. It has 31 armed helicopters, and 3,000 marines. Unfortunately, it is better equipped than trained, and is only beginning to develop an effective capability for surface warfare. Its mine warfare forces are improving, but its capabilities in surface-to-surface missile warfare are limited. Furthermore, the capabilities of most other Southern Gulf navies are equally limited. It can, however, perform a maritime surveillance and escort mission and supplement US and British naval action.

**Collective Security in the Southern Gulf**

While Saudi Arabia may receive only limited warfighting support from its Gulf allies, it scarcely stands alone and clearly recognizes this fact. It has long been the most important US military ally in the Gulf region. While Saudi Arabia has often strongly support the Arab side in the Arab-Israeli conflict, and has limited the US presence in Saudi Arabia, even a summary history of US and Saudi military cooperation shows the depth of US and Saudi cooperation:\(^30\)

- Although the US does not have a formal status of forces agreement with Saudi Arabia, it has long had close military ties to Saudi Arabia. The US first leased port and air base facilities in Dhahran, Saudi Arabia, in 1943. It renewed these leases on April 22, 1957 and maintained them until April 2, 1962 -- when they were canceled both for political reasons and because the US Strategic Air Command ceased to forward deploy the B-47. Saudi Arabia renewed its US Military Training Mission Agreement with the US in June, 1992.\(^31\)

- During the late 1970s and 1980s, Saudi Arabia increased the size of its air bases and port facilities to aid in US power projection to Saudi Arabia, and created massive stockpiles of munitions and equipment, and support facilities, that could be used by US forces deploying to Saudi Arabia. Saudi Arabia purchased $16 billion worth of US military construction services during this period, and supervised military construction worth billions of dollars more.\(^32\)

- The US and Saudi Arabia cooperated closely in setting up combined air and naval defenses against Iran beginning in 1983, when Iraq came under serious military pressure from Iran. The two countries
conducted combined exercises, and cooperated in establishing the “Fahd Line,” which created an Air Defense Identification Zone and forward air defense system off the Saudi coast. This cooperation helped Saudi Arabia defend its air space and shoot down an Iranian F-4 that tested Saudi defenses on June 5, 1984. The US and Saudi Arabia have jointly operated E-3A AWACS units in Saudi Arabia ever since. The US and Saudi Arabia also cooperated closely during the tanker war of 1987-1988.

- The US deployed massive land and air units to Saudi Arabia during the Gulf War, and jointly commanded UN Coalition forces with Saudi Arabia during Desert Storm. Saudi forces played a major role in the air and land campaigns. Saudi Arabia also provided the US with $12.809 billion in direct aid during the Gulf War, and $4.045 billion in goods and services, for a total of $16.854 billion.

- Saudi Arabia commanded both Arab task forces -- Joint Forces Command (East) and Joint Forces Command (North). Saudi forces were organized under the command of Lt. General Prince Khalid Bin Sultan al-Saud. The Arab task forces reported to Prince Khalid through a Joint Forces Command in the Saudi Ministry of Defense, and were divided into a Joint Forces Command (North), a Joint Forces Command (East), and a Joint Forward Forces Command Ar'Ar (the command of the Arab defensive forces screening the border area). The Ar'Ar command was subordinated to the Joint Forces Command (North). It included two Saudi National Guard battalions, a Saudi Army airborne battalion, and a Pakistani armored brigade with about 5,500 men, over 100 tanks, and about 90 other additional armored vehicles and artillery weapons. These forces did not play an offensive role in Desert Storm. By the time the AirLand phase of the war began, the Saudi ground forces in the theater totaled nearly 50,000 men, with about 270 main battle tanks, 930 other armored fighting vehicles, 115 artillery weapons, and over 400 anti-tank weapons.

- The Saudi Air Force flew a total of 6,852 sorties between January 17, 1991 and February 28 -- ranking second after the US in total air activity during the Gulf War, and flying about 6% of all sorties flown. These sorties included 1,133 interdiction missions, and 523 battlefield air interdiction missions, for a total of 1,656 offensive missions. The RSAF flew 2,050 defensive counter-air missions, 129 offensive counter-air missions, and 102 escort missions for a total of 2,281 air defense sorties. The RSAF flew 118 reconnaissance sorties, 85 E3-A AWACS sorties, 485 refueling sorties, and 1,829 airlift sorties. During the slightly longer period of January 16 to February 28, Saudi Air Force F-15C units flew 2,088 sorties (over one-third the total F-15C sorties flown by the USAF) and 451 Tornado ADV sorties. Saudi pilots were as capable in these air defense sorties as most pilots in NATO. The RSAF also flew 665 Tornado GR1/IDS strike sorties, 1,129 F-5 sorties, and 118 RF-5 sorties. Saudi F-15Cs shot down three Iraqi Mirage F-1s with air-to-air missiles -- including the only double kill by a single fighter in the war on January 24, 1991. The RSAF lost only two aircraft -- one Tornado GR1 to anti-aircraft fire and one F-5 to unknown causes.

- Since the Gulf War, the US has expanded its security arrangements with Saudi Arabia. Although no formal status of forces agreements exist, the US and Saudi Arabia have expanded the USMTM agreement to increase US access to Saudi air and seaports, including Jubail, and have improved the capabilities of the combined AWACS force. The US deploys a wing of aircraft in southern Saudi Arabia, including F-117 and U-2 aircraft. Saudi Arabia has increased stocks of selected spares and electronics to support US forces in deploying -- including enough parts and supplies to support 15 USAF tactical fighter equivalents -- and has increased the number of combined exercises with US forces. It is standardizing key aspects of its C4I system to make them interoperable with US C4I systems, including theater missile defense arrangements for Saudi Arabia’s Patriot missiles.
• Since the Gulf War, Saudi Arabia has made major purchases of US M-1 tanks, M-2/M-3 armored vehicles, and US artillery and related support systems that increase both Saudi interoperability with US forces and Saudi capability to support the rapid deployment of heavy US ground forces to Saudi Arabia. Although Saudi Arabia has not agreed to formal prepositioning of US Army combat unit equipment in Saudi Arabia, it has carried out combined exercises with US land forces since 1991, and is considering storage of selected US Army heavy combat equipment. The US maintains a US Military Training Mission in Saudi Arabia with 69 military four civilians, and nine local personnel.

• The Saudi National Guard has long relied largely on US equipment, and on training support by the US Vinnell Corporation.

Saudi Arabia now has many of the elements of a modern force structure.

US advisors now work closely with Saudi military forces, and US and Saudi forces have improving interoperability and experience in joint exercises. Saudi Arabia has large amounts of modern US military equipment. During 1992-1999, Saudi Arabia signed $20.4 billion worth of new US arms agreements out of a total of $28.9 billion from all sources, and took delivery on $27.7 billion out of a total of $66.1 billion.41 Saudi Arabia has provided critical basing and other support to US in operations against Iraq in the Southern No Fly Zone, in building up forces to deter Saddam Hussein’s adventures since the Gulf War, and during Operation Desert Fox in December 1998.

U.S. military ties to Saudi Arabia do, however, present continuing problems. There are inevitable differences in national interest and culture. These differences have aroused the opposition of some of Saudi Arabia’s hard-line Islamists, as well as most opponents of the regime, including some violent terrorists movements, The attacks on the Saudi National Guard training center in November 1995, the US Air Force barracks at Al Khobar in June 1996, and USS Cole in Aden harbor in October 2000, are a warning of how serious these tensions can be.

Saudi Arabia’s partnership with the U.S. also presents problems in burden-sharing, counter-terrorism, prepositioning, and longer-term problems in defining a stable and equitable division of effort. There is also substantial opposition at virtually every level within Saudi Arabia, including some ministers and members of the Royal Family, to what is often perceived as wasteful
and corrupt expenditures on military forces and arms imports – some of which is inevitably directed at the US.

**Implications for US Policy**

There are no easy answers to shaping US policy towards Saudi Arabia, or towards any other Southern Gulf state. The US and Saudi Arabia have found over the years that continuing dialogue is necessary and that there still are many unanticipated policies and real differences. In fact, it is important to note that current US policy towards Saudi Arabia is the product of decades of evolution and is successful in most ways. Many of the supposed weaknesses in US policy are the result of compromises on both sides that have to be made in the real world and that can never be made perfectly or with a clear vision of the future.

There are, however, where the US does need to make improvements:

- **The US needs to actively support Saudi Arabia’s efforts at economic reform, encourage Saudi Arabia to persist in these plans, and to do everything it can to encourage US industry to help when Saudi Arabia offers competitive opportunities.** Saudi Arabia is scarcely “oil poor” today, but it can become “oil poor” in the future. It does not need to follow IMF and World Bank models of development, but it does need to be more aggressively in pursing its own reform plans. Helping Saudi Arabia achieve these goals should change from a relatively moderate US priority to a key policy objective. It is the key to ensuring Saudi internal security and a sound basis for US and Saudi cooperation, and Saudi Arabia is the strategic key to the success of US policy in the Gulf.

- **The US needs to fully recognize the Kingdom’s economic priorities in seeking burden sharing and proposing arms sales.**

- **The US needs to recognize that Saudi Arabia is the key to the success of a more active US energy policy in the Gulf region.** It is key to the success to any dialogue on price stabilization, and on ensuring the successful expansion of Saudi exports. The secure and continuing flow of the investment Saudi Arabia will require will be critical to ensuring suitable energy supplies. The key will be to forge a partnership that relies on markets forces whenever possible, and which is of convincing mutual self-interest to both sides.
A gentle dialogue is needed on Saudi Arabia’s requirement for population management policy, and to push Saudi Arabia towards fully implementing its own Saudisation policies and developing competitive educational programs that train its youth for real-world jobs.

There are serious weaknesses in Saudi military capabilities that need attention. The Saudi Air Force has seen a serious decline in readiness in recent years, it has failed to develop effective offensive capabilities, and the Saudi Army is not effectively organized and trained to defend the Saudi border and Kuwait against Iraq. These are key contingency capabilities the US needs to help Saudi Arabia develop and they are far more important than vague concepts of strengthening the GCC or improving force-wide capability without prioritization by mission.

USCENTCOM has already created an engagement strategy with Saudi Arabia that stresses training and maintenance, and a focus on making Saudi Arabia’s existing weapons and forces effective, rather than showpiece arms buys. The US should firmly support Saudi military modernization, interoperability with US forces, and creating effective Saudi capabilities for regional defense. It should not make arms sales a goal in itself, and it should expand the USCENTCOM engagement strategy to explain how the US effort to help Saudi Arabia to improve its military capabilities is in the interest of the Saudi people and is cost-effective for the Kingdom. The US needs to worry more about explaining the “legitimacy” of its security effort in the region.42

The US cannot move entirely over-the-horizon or out of sight, and USCENTCOM has probably already reduced the US presence in Saudi Arabia to levels close to the minimum that meets Saudi and regional security needs. The US must, however, remain acutely conscious of Saudi Arabian religious and cultural sensitivities.

Kuwait

Kuwait is the center of day-to-day US security concerns in the Gulf. It is of major strategic importance as an oil power, and Iraq’s effort to annex it by invading and seizing Kuwait was the reason for the Gulf War. While it is difficult to prioritize US strategic involvement in the Southern Gulf, Kuwait probably ranks second after Saudi Arabia in terms of overall importance. The defense of Kuwait against another Iraqi invasion is also the most important current contingency for sizing US rapid deployment capabilities in the Gulf region.
Kuwait and Energy

Kuwait plays a critical role in any projection of the world’s future oil supplies. Kuwaiti net crude oil exports are expected to average around 1.8 million bbl/d in 2000, up slightly from 1.7 million bbl/d in 1999. Kuwait has oil reserves of 112.5 billion barrels, or about 10.9% of the world’s total, and gas reserves of 52.7 trillion cubic feet or about 1.0% of the world total. The Neutral Zone area, which Kuwait shares with Saudi Arabia, holds an additional 5 billion barrels of reserves, half of which belong to Kuwait. Most of Kuwait's oil reserves are located in the 70-billion barrel Greater Burgan area, which is widely considered the world's second largest oil field, surpassed only by Saudi Arabia's Ghawar field. Kuwait's Raudhatain, Sabriya, and Minagish fields have large proven reserves as well, with 6 billion, 3.8 billion, and 2 billion barrels of oil, respectively. All of these fields have been producing since the 1950s.

The U.S. Department of Energy estimates that Kuwait will increase its production capacity from 1.7 million barrels per day in 1990, and 2.6 million barrels per day in 1998, to 3.1 (2.9-3.2) million barrels per day in 2005, 3.8 (3.5-4.0) million barrels per day in 2010, 3.8 (3.9-4.9) million barrels per day in 2015, and 5.2 (4.3-5.6) million barrels per day in 2020. These production figures could be even higher if Kuwait could fully exploit its offshore oil reserves, and oil fields near its border with Iraq.

Kuwait’s near term objectives are to increase its production capacity from a current 2.4 million bbl/d to 3.5 million bbl/d by 2005. To facilitate this increase in capacity, Kuwait is considering permitting foreign oil companies to invest in upstream production, which would reverse more than two decades of Kuwaiti policy. Kuwait announced in July 2000 that it intended to launch an international tender for infrastructure improvements which would allow it to increase its export capacity to 3 million bbl/d. Plans include the construction of two additional mooring buoys at Mina al-Ahmadi, additional storage capacity, and additional pumping stations. Kuwait has completed major renovations of Mina al-Ahmadi, the country's main port for the export of...
crude oil, to both repair damage during the Gulf War and improve the facility, Kuwait has also repaired its terminals at Mina Abdullah, Shuaiba and Mina Saud.\textsuperscript{47}

Kuwait is seeking to reduce its barriers to foreign investment. The current policy, which has been in place since 1975, limits the participation of foreign oil companies to providing technical assistance and construction and maintenance services under contracts, which pay them fixed prices for specific activities. Kuwait's constitution forbids the award of concessions that give foreign entities an ownership interest in Kuwait's natural resources. Nevertheless, the government has sought to find a way to involve foreign oil companies in increasing production without violating the constitution. The Supreme Petroleum Council (SPC) approved foreign cooperation in principle in 1997, but opening upstream activities to involvement by foreign oil companies proved controversial with opposition members of the Kuwaiti parliament.

The structure of the agreements the Kuwaiti government is proposing are called "Operating Service Agreements," unlike PSA's, allows the Kuwaiti government to retain full ownership of the oil reserves. The foreign firms would be paid a "per barrel" fee, along with allowances for capital recovery and incentive fees for increasing reserves. Kuwait held a formal conference in November 1999 to discuss the upstream opening, but the initiative was stalled by strong political opposition. In February 2000, the Kuwaiti parliament passed a resolution calling on the government not to proceed with the program until legal issues involving foreign interests in the Kuwaiti oil sector were resolved. New legislation dealing with the foreign investment program is currently under consideration in the Kuwaiti parliament.

Kuwait's refining capacity was damaged severely during Iraqi invasion and occupation in 1990-91, but a Kuwaiti $400-million downstream reconstruction program was completed in mid-1994. Kuwaiti officials have expressed interest in accelerating development of the country's relatively small petrochemical industry to boost the value of Kuwait's crude oil reserves; helping to protect Kuwait's revenues during periods of low crude prices; and boost Kuwaiti revenues while adhering to OPEC crude oil quota limitations.
Kuwait only produces only a modest quantity of natural gas. Production stood at 330 billion cubic feet (Bcf) in 1998 - most of it associated gas from oil production. Kuwait does, however, plan to make a significant increase in its use of natural gas, in order to free up a substantial amount of oil for export. Kuwait and Qatar signed a Memorandum of Understanding (MOU) in July 2000 for export of Qatari gas from its offshore North Field to Kuwait. Kuwait also signed an MOU with Iran for the import of gas via pipeline in July 2000. It is unclear whether the two gas import projects can both go forward. Saudi Arabia and Kuwait concluded an agreement in July 2000 on the offshore Dorra gas field, which had been claimed by Saudi Arabia, Kuwait, and Iran. The agreement calls for an equal sharing of the gas resources between Saudi Arabia and Kuwait.

Oil revenues account for about 90% of Kuwait’s government income (and nearly half the country’s GDP), and this does make Kuwait vulnerable to low oil prices. The “oil crash” led to a serious recession in 1997 and 1998. Under most conditions, however, Kuwait is one of the few oil exporting states that can remain relatively wealth be remaining highly dependent on oil. Sharp increases in oil prices in early 1999 have already demonstrated this. Kuwait’s economy is expected to grow by 4.5% in real GDP in 2000. Kuwaiti oil export revenues are expected to increase sharply in 2000, to $16.2 billion, up 62% from 1999 revenues and more than double 1998 revenues.48

**Internal versus External Security Issues**

Increases in oil production capacity will ensure that Kuwait remains in different economic position from Saudi Arabia. Kuwait still has a small native population: Only about 780,000 or 35% of its total population of 2.2 million.49 It has enough oil reserves and foreign investments, so that it is unlikely to undergo severe internal strains for economic reasons. Kuwait has been slow to modernize some of its energy sector and open it up to private and foreign investment.
Kuwait does, however, have all of the same structural economic problems as Saudi Arabia, and is grossly over-dependent on foreign labor. Its moves towards representative government have done to more to create service politics based on narrow factional greed than effective government, and it has created a “lost generation” of Kuwaiti youth where far too many young Kuwaitis have meaningless government jobs. This means there are basic social issues that Kuwait must address.

**Kuwait’s Security and the Continuing Threat from Iraq**

The fact remains, however, that US policy must focus on the external threats to Kuwait. As Iraq’s invasion of Kuwait demonstrated with consummate brutality, Kuwait’s geography, small size, and limited population also make it one of the most vulnerable Gulf states. Its location on Iraq’s border has been the source of continuing Iraqi threats, military confrontation, and actual invasion. Kuwait is located in the far northwestern corner of the upper Gulf between Iraq and Saudi Arabia, and within a short distance of Iran.

While Kuwait may be one of the world’s major oil powers, it has a total area of only 17,800 square kilometers -- roughly the size of New Jersey. At its largest point, Kuwait is about 200 kilometers from north to south and 170 kilometers from east to west. It shares a 242-kilometer border with Iraq and a 222-kilometer border with Saudi Arabia. It has a 499-kilometer coastline on the Gulf, and its territory includes nine islands. Bubiyan and Warbah -- two large islands in the north -- are uninhabited but are of strategic importance, because they border the Umm Qasr channel, which is Iraq’s only waterway with direct access to the Gulf.50

Kuwait is keenly conscious of the fact that Saddam Hussein remains in power, that Iraq has not abandoned its desire to annex Kuwait, and that Kuwait is dependent on the U.S. for its survival. At the same time, Kuwait can only provide limited forces for its own defense. It will remain dependent on the US indefinitely into the future, and there are no alternative options the US can realistically pursue.
Iraq has not forgotten its desire to make Kuwait its “19th Province,” or forgiven Kuwait for the aftermath of the Gulf War and its support of sanctions. It has other reasons to behave as a revanchist state. The new border the UN demarcated after the Gulf War gave Kuwait considerable advantages at the expense of Iraq. It gave Kuwait greater control over the Ratga and Rumalia oil fields in its northern border area, and reduced Iraqi access to the port facilities at Umm Qasr. At the same time, the new border created political problems. Only six days after the Secretary-General accepted the report, the Speaker of Iraq's National Assembly stated that the new border would keep tensions in the region high. Iraq has never really accepted the new demarcation and Iraqi editorials media make this clear.

The Ratqa field has since been the subject of major controversy between the two countries. While it was once thought to be an independent reservoir, the EIA reports that it is actually a southern extension of Iraq's super-giant Rumaila field. Iraq accused Kuwait of stealing billions of dollars worth of Rumaila oil just before it invaded Kuwait, and refused to negotiate a sharing or joint development arrangement. After the Gulf War of 1991, a United Nations survey team made a demarcation of the border between Iraq and Kuwait, and it was this demarcation put all 11 of the existing wells at Ratqa within Kuwaiti territory.\(^{51}\)

Iraq's leadership is unlikely to end its claims to part of Kuwait's Ratqa oilfield even if it accepts the existence of an independent Kuwait. Making matters worse, Iraq disputed its border with Kuwait, and in fact claimed the entire country as part of Iraqi territory. During the weeks preceding Iraq's August 1990 invasion of Kuwait, Iraq accused Kuwait of stealing “billions of dollars” worth of Rumaila oil, and had refused to negotiate a sharing or joint development arrangement for Ratqa and southern Rumaila. Kuwait's new U.N.-drawn border includes a 1919-foot extension for Ratqa further to the north. Iraq renewed these criticisms in September of 2000, claiming that Kuwait was stealing oil from the Iraqi people.
It seems likely that Iraq will create problems in the Iraqi-Kuwaiti border area the moment it is given the political and military opportunity. Kuwait has already had to delay plans to allow Western oil companies to explore and develop its oil fields near the Iraqi border because of the risk of new clashes. Iraq, on the other hand, is aggressively attempting to negotiate deals with nations like Russia to exploit the fields on its side of the border once the UN sanctions are lifted. Kuwait, the U.S, and other allied nations have already been forced to react to Iraqi provocations in 1992, 1994, 1996, 1997, and 1998. At least one of these provocations were large enough to pose a threat of invasion.

**Kuwaiti Military Capabilities**

Kuwait has spent some $2.3 to $3 billion annually on defense in recent years. And spent $2.6 billion in 2000. It signed a total of $7.2 billion in new arms agreements between 1991 and 1999. Some $4.2 billion came from the US, $2.0 billion from Europe, and $800 million from Russia. It took delivery on $7.6 billion during the same period, $4.9 billion came from the US, $1.8 billion from Europe, $800 million from Russia, and $200 million from China, and $100 million from other countries.\(^{52}\)

Nevertheless, Kuwait only has total active forces of some 15,300 men – including 1,600 foreign personnel – with an additional 5,000 men in its National Guard. Its army has only 11,000 men, and three small active brigades – three armored, two mechanized, and one reconnaissance (mechanized infantry) brigade. These forces actually are reinforced battalions, two brigades are little more than reserve cadres, and one is more a guard unit than a full combat unit.

The land forces deploy 218 M-1A2 Abrams tanks, and has 150 M-84s and 17 Chieftains, at least 50% of which are in storage. Kuwait army units are well-equipped with modern armored personnel carriers (APCs) and armored infantry fighting vehicles for a force of its size, and its holdings include 254 Desert Warriors, 60 M-113s, 40 M-577s, 46 BMP-2s and 55 BMP-3s. It has 41 active 155mm self-propelled artillery weapons, including 23 US-made M-109 A2s. It has 27
Smerch 9A52 multiple rocket launchers, and some towed artillery weapons and mortars. It has modern antitank weapons and adequate light antiaircraft systems. It has good logistic equipment.\textsuperscript{53}

Kuwaiti land forces are far too small to defend against Iraq, and Kuwait has not developed a meaningful conscription system. Kuwaiti training is steadily improving, but it is not ready to execute sustained maneuver warfare. Saudi land forces are not properly organized and trained to reinforce and cooperate with Kuwait land forces, and Saudi-Kuwaiti planning and cooperation is grossly inadequate above the battalion level. Kuwait would lack meaningful prospect of major reinforcement from the other Southern Gulf states that would help in an intensive war against Iraq.

The Kuwaiti Air Force has only 2,500 men, 82 combat aircraft, 20 armed helicopters, and 4 surface-to-air missile batteries. The core of its forces consist of 40 F/A-18 multirole fighters 14 aging Mirage F-1CK/BKs, 12 Hawk 64 trainers, 16 Shorts Tucano trainers, and 16 SA-342 attack helicopters armed with HOT anti-armored missiles. Its surface-to-air missile batteries. These forces include four IHAWK III batteries with 24 launchers, and six Amoun batteries, each with one Skyguard radar, two Aspide launchers, and two twin 35-mm Oerlikon AA guns. It also has 48 Starburst launchers, are well equipped and trained, although they would have to depend heavily on US sensor and battle management support in any major engagement. These air units are far too small to conduct a large defensive air battle without US and Saudi aid, and could only play a limited role in halting an Iraqi land advance.

The Kuwait Navy has only 1,800 men and 11 patrol craft. Eight of these ships are relatively modern missile patrol craft, six with Sea Skuas and two with Exocets. The Air Force has four armed AS-332 helicopters that also have a transport and search and rescue mission. The navy has no dedicated mine warfare forces. It has no real warfighting capability and is sized largely to patrol and screen Kuwait waters and deal with small incursions. In any major conflict, Kuwait would have to rely on US and British naval forces.
The paramilitary forces include a 5,000 man National Guard with six company-sized battalions, and a some Coast Guard with four small patrol boats and 30 armed light craft.

**The Pivotal Role of U.S. Power Projection Forces**

The limits to Kuwaiti, Saudi, and other Southern Gulf forces means that guarding Kuwait poses a continuing and critical challenge to U.S. power projection capabilities. These problems are reinforced by the presence of large Iraqi land forces near Kuwait, the sheer distance between Kuwait and the US, and by the fact Kuwait’s flat territory makes it so exposed to invasion. These challenges will grow sharply if Iraq can break out of sanctions, rearm, and rebuild its weapons of mass destruction.

If U.S. and British forces had not been continuously deployed in the Gulf, it is doubtful that Kuwait would have survived Iraq’s desire for revenge. U.S. power projection has had to play a continuing role in ensuring the security of Kuwait and Gulf energy exports since the Gulf War. As early as August and September of 1992, the confrontation between Iraq and the UN over the elimination of weapons of mass destruction, and Iraq's treatment of its Shi'iites and Kurds, forced Kuwait and the U.S. to transform their joint exercises into a demonstration that the U.S. could protect Kuwait against any military adventures by Iraq. The U.S. rushed Patriot batteries to both Kuwait and Bahrain, and conducted a test pre-positioning exercise called Native Fury 92 and an amphibious reinforcement exercise called Eager Mace 92. The U.S. also deployed a 1,300 man battalion from the 1st Cavalry division, 1,900 Marines and 2,400 soldiers, including two armored and two mechanized companies.

Since that time, the U.S. has repeatedly had to use force or rapid deployments from the U.S. to contain Iraq, maintain a near-permanent carrier task force in the Gulf, keep a brigade set prepositioned in Kuwait, base aircraft in Turkey and the Southern Gulf to maintain the ‘no fly’ zones in Iraq, and maintain a network of force deployments and prepositioning capabilities in virtually every Southern Gulf country. The U.S. and Britain launched cruise missile strikes on Iraq.
on two other occasions, and conducted major air and missile strikes on Iraq in December 1998, as part of Operation Desert Fox. Since that time, the U.S. and Britain have fought a steady low-level air defense war with Iraq in both the Northern and Southern “No-fly zones.”

Iraq is not the only issue. While Kuwait has established relatively close relations with Iran – and has joined Saudi Arabia and Oman in maintaining a high level of dialogue with the Iranian government – Iran has been hostile in the past. It was responsible for major bombings in Kuwait during the Gulf War, and deployed combat aircraft and ships in threatening ways. It was Iran that triggered the reflagging of Kuwait tankers with US flags in 1987, and the “tanker war” between the US and Iran that followed. US forces in the Gulf also act as a powerful deterrent to and Iranian threat to Kuwait.

**Kuwait and Collective Security in the Southern Gulf**

Given this background, it is hardly surprising that Kuwait is an important US military ally in the Gulf region. The history of US and Kuwait military cooperation since the Gulf War clearly demonstrates this fact:54

- Until the tanker war of 1987-1988, Kuwait attempted to maintain its security by balancing the competing political and military interests of its neighbors in ways where it could obtain support from a wide range of countries and defuse potential threats through financial aid or political accommodation. Kuwait then obtained the reflagging of its tankers from the US during the tanker war, cooperated closely with the US to ensure its security against Iran, and bought US F/A-18 aircraft to modernize its air force.

- The US and Kuwait cooperated closely after Iraq’s invasion of Kuwait, and Kuwait provided the US with $16.056 billion in direct aid during the Gulf War, and $44 million in goods and services, for a total of $16.059 billion.55 The US played a key role in helping Kuwait to rebuild its military forces before the liberation of Kuwait, and this help enabled Kuwait to deploy some 7,000 troops and 60 tanks as part of the Saudi-led Joint Force Command (East).56

- Less than 200 trained Kuwaiti Air Force personnel were in service at the start of Desert Storm, but Kuwait used French Air Force and US contract personnel to support its 15 operational Mirage F-1s, and 19 A-4s. The Kuwaiti Air Force also had 12 armed helicopters. Kuwaiti units flew 568 interdiction missions and 212 battlefield interdiction missions for a total of 780 sorties. About 650 of these sorties were A-4 sorties, and Kuwaiti A-4s flew an average of about 18-20 sorties per day. Kuwaiti Mirage F-1s flew the remaining 130 sorties, flying 4 to 10 sorties per day. Operational availability rates averaged 80-85% per day. Kuwait lost one A-4 on the first day of fighting, but attacked Iraqi artillery and infantry locations, and some Iraqi air defense positions throughout the war.

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The US Fifth Special Forces trained some 6,300 Kuwaitis for the Free Kuwait Forces, and the US Navy Special Forces Command trained 224 Kuwait marines and sailors.

Since the Iraqi invasion of Kuwait, Kuwait has signed security agreements with Britain, France, Russia, and the US. Kuwait signed a 10 year bilateral agreement with the US on September 19, 1991. This agreement provided for $35 million per year in Kuwaiti payments to offset the cost of US military support.57

Kuwait now relies heavily on the US to help it in rebuilding and expanding its military forces, and its military facilities are being sized and redesigned to support the rapid deployment, support, and sustainment of US land and air units. A US-Kuwait Defense Review Group helps coordinate these efforts.

Kuwait is equipping much of its force structure with US Army and US aircraft, and has bought 40 F/A-18s and M-1A2 tanks, M-2/M-3 armored fighting vehicles, and US artillery, and Kuwait has support contracts with US defense contractors that provide it with increased sustainability as well as increased capability to support the deployment of US forces. The US has an Office of Military Cooperation in Kuwait.

Kuwait allows a cadre of US Army personnel to be stationed in Kuwait, and is paying $215 million to finance the prepositioning of the combat equipment of one US Army mechanized brigade (three armored companies and three mechanized companies) -- including 58 M-1A2 tanks, M-2A2 Bradleys, and M-109A6 Paladin artillery weapons. A company of US Army military police provides security for the equipment and 600 employees of the DynCorp are responsible for its maintenance.

The Kuwaiti C4I system is now interoperable with that of US forces. The C4I links for the US-operated Patriot units in Kuwait are linked to those for Patriot units in Saudi Arabia and to US satellite warning systems that detect the nature and vector of missile launches.

Kuwaiti land, air, and naval forces now conduct extensive combined training with the US. Kuwait and the US held at least eight major exercises between November, 1991 and January, 1995, including “Eager Mace,” “Intrinsic Action,” and “Native Fury.” These exercises include practicing the unloading of tanks from prepositioning ships and the defense of Kuwait City from an Iraqi invasion.

Kuwait and the US conducted Operation Vigilant Warrior in early October, 1994, in response to the build-up of 70,000-80,000 Iraqi troops, 1,100 tanks, 1,000 AFVs, and 700 artillery pieces in the border area. Kuwait provided major offset aid, air and kind, and facility support as the US began supplementing the 13,000 troops already deployed in Kuwait with the 1st Marine Expeditionary Force, 24th Infantry Division, and added Patriot forces.

US advisors now work closely with Kuwait military forces, and US and Saudi forces have steadily improved their interoperability and experience in joint exercises. Kuwait has also bought
large amounts of modern US military equipment since the Gulf War. During 1992-1999, Kuwait signed $3.7 billion worth of new US arms agreements out of a total of $7.2 billion, and took delivery on $4.9 billion worth of arms out of a total of $7.4 billion. Kuwait has provided basing and other support to US in operations against Iraq in the Southern No Fly Zone, in building up forces to deter Saddam Hussein’s adventures since the Gulf War, and during Operation Desert Fox in December 1998.

**Implications for US Policy**

Kuwait does not face the same economic challenges as Saudi Arabia, but it is considerably more vulnerable. The US has already made major progress in improving the quality of Kuwait’s military forces and Kuwait has provided major assistance in improving US ability to reinforce Kuwait in an emergency. There again, however, are areas where further improvements are needed in US policy:

- The US needs to actively support Kuwaiti efforts at economic reform, encourage Kuwait to persist in these plans, and to do everything it can to encourage US industry to help when Kuwait offers competitive opportunities.

- Kuwait will be the second-most important nation in shaping the success of a more active US energy policy in the Gulf region. It will play a major role in determining the success to any dialogue on price stabilization and on ensuring the successful expansion of oil exports. Once again, improving the flow of foreign and domestic private investment may prove critical to ensuring suitable energy supplies.

- A gentle dialogue is needed to push Kuwait towards reducing its dependence on foreign labor, and developing competitive educational programs that train its youth for real-world jobs.

- There are a serious limits to what Kuwait can do to improve its military forces, and it has already done a great deal to help the US improve its power projection capability. The main strategic weakness affecting Kuwait, however, is the lack of a truly integrated Kuwaiti-Saudi effort to defend against Iraq and over reliance on the US to improvise an effective defense in an emergency. Some progress has been made at the small unit level, but the real-world key to collective security in the Gulf is not the GCC, but the combination of Kuwaiti, Saudi, and US capability to deter and defeat
Iraq. The often petty tensions between Kuwait and Saudi Arabia that limit effective cooperation, and the lack of offensive capability in the Saudi Air Force has seen a serious decline in readiness in, and lack of Saudi Army organization and training to defend the Saudi border and Kuwait against Iraq represent the most serious single weakness in Southern Gulf military capabilities. These are key contingency capabilities the US needs to help develop, and they are far more important priorities than efforts to strengthen the entire GCC or improving force-wide capability without prioritization by mission.

- **Kuwait has good military leadership and USCENTCOM has already created an effective engagement strategy that stresses training and maintenance, and a focus on making forces existing weapons and forces effective, rather than showpiece arms buys.** The basic problem is not US arms sales policy, however, but a longstanding Kuwait tendency to politicize arms purchases and buy from a range of influential countries at the cost of military effectiveness. This problem has been made worse by the tendency of the Kuwaiti National Assembly to micromanage Kuwaiti modernization and arms buys without having the experience to do so. The US should expand the USCENTCOM engagement strategy to explain how the US effort to help Saudi Arabia improve its military capabilities is in the interest of the Saudi people and is cost-effective for the Kingdom. The US needs to worry more about explaining the “legitimacy” of its security effort in the region.

- **US capability to rapidly deploy ground forces to Kuwait, and deploy massive amounts of air and missile power to halt an Iraqi ground invasion the moment it begins is the most critical sizing criteria for US forces in the region.** It is impossible to determine how good US capabilities now are on the basis of unclassified data, but it seems clear that they have been underfunded in terms of both readiness and force modernization. This capability needs zero-based examination by USCENTCOM that is not subject to rigid adherence to existing funding and force allocation constraints.

### The United Arab Emirates (UAE)

The UAE is a federation of seven emirates - Abu Dhabi, Dubai, Sharjah, Ajman, Fujairah, Ras al-Khaimah, and Umm al-Qaiwain. Political power is concentrated in Abu Dhabi, which controls the vast majority of the UAE's economic and resource wealth. The EIA estimates that the two largest emirates -- Abu Dhabi and Dubai -- provide over 80% of the UAE's income.°63
The UAE has slowly become a real country, rather than a loose confederation of emirates left over from British withdrawal from the Gulf. In June 1996, the UAE’s Federal National Council approved a permanent constitution for the country. This replaced a provisional document that had been renewed every five years since the country’s creation in 1971. The establishment of Abu Dhabi as the UAE’s permanent capital was one of the new framework’s main provision.

Nevertheless, the UAE still bears a slight resemblance to the Holy Roman Empire in its lack of coherence. It is a legacy of the time the Trucial States of the Persian Gulf coast granted Britain control over their defense and foreign affairs in 19th century treaties. When Britain withdrew from the Gulf in 1971, six of these states - Abu Zaby, 'Ajman, Al Fujayrah, Ash Shariqah, Dubayy, and Umm al Qaywayn - merged to form the UAE. They were joined in 1972 by Ra's al Khaymah, after Ra's al Khaymah lost a dispute with the Shah of Iran over the control of three islands in the Gulf. There are still long-standing tensions between its largest Emirates (Abu Dhabi, Dubai, and Sharjah), and the less wealthy mini-states to the east. Most of its population is not Arab, and consists of foreign workers. Only the word “Emirates” accurately describes the country. It remains a rentier nation composed of seven small city-states ruled emirs.

Political stability may be an issue in the future. Much of the UAE’s stability has depended on the political skills of Sheik Zayid bin Sultan Al Nuhayyan, the ruler of Abu Dhabi, and his ability to use diplomacy and Abu Dhabi’s oil wealth to hold the UAE together. Sheik Zayid is aging and his sons have yet to show they can replace his political skill. Dubai is particularly conscious of its status, and there are low-level concerns that the Eastern Emirates might seek independence or that Oman might seek to include them in its territory. It seems much more likely, however, that the succession in Abu Dhabi will proceed relatively smoothly, and that the individual emirates will continue to evolve towards unity, rather than divide.

Political reform is moving slowly in the UAE. It is wealthy enough to coopt most potential opposition – as is likely to remain so indefinitely into the future -- but change is creating a new
class of intellectuals who will probably seek participation in government. Many are supporters of close strategic relations with the US and see Iran as a major threat. Some, however, are serious critics of many aspects of US policy. The presence of U.S. power projection forces, US support of Israel and slow progress in the Arab-Israeli peace process, arms sales to the UAE, and the “hardship” sanctions have imposed on the Iraqi people, have all become political issues. Many intellectuals are now calling for a Gulf security structure that eliminates a U.S. presence.

As yet, there are few signs of active internal political tension. There have, however, been riots between Hindu and Pakistani foreign workers. The UAE has a total population of about 2.4 million and 75% is expatriate, with 30% Indian, 16% Pakistani, 12% Arab, 12% other Asian, and 1%. Only 19% are legally Emiri and less than 20% are UAE citizens. The military is at least 30% expatriate. There is at least some question of how long the landlord will actually control the country.65

Population growth also does put some strain on even the UAE’s oil wealth. The United Arab Emirates grew from 1.0 million in 1980 to 2.7 million in 1998. It is projected to grow to 3.7 million in 2015, and 4.3 million in 2030. It averaged 5.3% annual population growth during 1980-1998. This growth helped cut the UAE’s real per capita income by an annual average of 3.6% during 1965-1998.

The UAE and Energy

Oil and gas wealth, and vulnerability, are the glue that holds the UAE together. Despite some disunity, money still talks and oil and trade give the UAE’s ruling elites the resources to provide major subsidies and benefits. The UAE has oil reserves of 97.8 billion barrels, or about 9.4% of the world’s total, and gas reserves of 212 trillion cubic feet or about 4.1% of the world total.66 Abu Dhabi holds 94% of this amount, or about 92.2 billion barrels. Dubai contains an estimated 4.0 billion barrels, followed by Sharjah and Ras al-Khaimah, with 1.5 billion and 100 million barrels of oil, respectively.67 It is also one of the world’s large oil producers. The UAE will
earn at least $20 to $25 billion in oil export revenues in 2000, up well over 160% from 1999 and far more than double 1998 revenues.

As with other Gulf countries, the sharp increase in oil prices in 1999 and 2000 has significantly improved the UAE’s economic and budgetary situation, which was never under serious stress even during the “oil crash” of 1997-1998. Its real GDP is forecast to grow by at least 5.2% in 2000, up from 5% growth in 1999 and a 5% decline in 1998, and may well exceed 8%. The UAE is expected to export around 1.9 million bbl/d in 2000, up slightly from 1999 oil export levels.68

The U.S. Department of Energy estimates that the UAE will increase its production capacity from 2.5 million barrels per day in 1990, and 2.7 million barrels per day in 1998, to 3.2 (2.8-3.4) million barrels per day in 2005, 3.6 (3.3-4.2) million barrels per day in 2010, 4.2 (3.9-5.5) million barrels per day in 2015, and 5.1 (5.2-7.2) million barrels per day in 2020.69 These figures are somewhat misleading, however, because each emirate controls its own oil production and resource development under the UAE’s constitution. Furthermore, although Abu Dhabi joined OPEC in 1967 (four years before the UAE was formed), Dubai does not consider itself part of OPEC or bound by its quotas. Consequently, if Dubai were to produce at its full capacity, Abu Dhabi would have to adjust its output in order to keep the UAE within its OPEC production quota.70

Many of the UAE’s oil fields have been producing since the 1960s. Even so, but the proven oil reserves in Abu Dhabi have doubled in the last decade, and there have been major increases in rates of recovery. Abu Dhabi has continued to identify new finds, especially offshore, and to discover new oil-rich structures in existing fields. The Abu Dhabi National Oil Company (ADNOC) is the key national firm shaping the UAE’s energy development.

The UAE’s natural gas reserves of roughly 212.0 trillion cubic feet (Tcf) are the world's fourth largest after Russia, Iran, and Qatar. The largest reserves of 196.1 Tcf are located in Abu
Dhabi, Sharjah, Dubai, and Ras al-Khaimah contain smaller reserves of 10.7 Tcf, 4.1 Tcf, and 1.1 Tcf, respectively. The non-associated Khuff gas reservoirs beneath the Umm Shaif and Abu al-Bukhush oil fields in Abu Dhabi rank among the world's largest. The EIA projects that current gas reserves are projected to last for about 150-170 years.

The EIA reports that Dubai’s gas consumption is expected to grow by nearly 7% each year through 2005, due to expansion of its industrial sector, a switch to gas by its power stations, and the need for an enhanced oil recovery (EOR) system based on gas injections for its dwindling oil formations. Dubai projects future demand will average 655 Mmcf/d in 2000 and 810 Mmcf/d in 2005, with major swings between summer and winter consumption patterns. Currently, Dubai’s entire gas supply comes from fellow UAE member Sharjah, which transports about 430 Mmcf/d, but Dubai will be connected to the main Abu Dhabi gas receiving station by a pipeline. The pipeline’s capacity is expected to be around 800 Mmcf/d; 400-600 Mmcf/d is to be supplied to Dubai. 71

The UAE has launched a massive multi-billion dollar program of investment in its gas sector including a shift toward gas-fired power plants and the transformation of the Taweelah commercial district into a gas-based industrial zone. An ambitious plan to interconnect the gas grids of Qatar, the UAE, and Oman, called the Dolphin Project, is now underway. It will allow the export of non-associated gas from Qatar's massive offshore North Dome field. It is estimated to cost $8 to $10 billion over the next six to seven years, and will begin as an underwater pipeline from Ras Laffan in Qatar to a landfall in Abu Dhabi, which will then be extended to Dubai and northern Oman. There is discussion of an extension of this pipeline from Oman to Pakistan, to carry 1.5 Bcf/d and be built after 2005. This phase of the project is dependent on uncertain cost-effectiveness calculations regarding its construction costs and feasibility, and on Pakistan's ability to pay for the gas, which is questionable. 72
Oil and gas exports account for about 33% of the GDP, and have helped give the UAE a high per capita income, which totaled around $17,700 in 1999. The UAE has undertaken major several projects to diversify its economy and reduce dependence on oil and gas revenues. The federal government has invested heavily in aluminum production, tourism, aviation, re-export commerce, and telecommunications, agriculture remains a significant – if inefficient and water wasting – part of the UAE’s economy. Dubai has become a central Middle East hub for trade and finance, and accounts for about 70% of the Emirates’ non-oil trade. The UAE implement some important reforms during the “oil crash.” It increased spending on job creation and infrastructure expansion and began to open up its utilities to greater private-sector involvement.73

The UAE and Gulf Security

The UAE’s principal foreign threat is Iran, which is also one of its major trading partners – particularly with Dubai. The key to this dispute between the two countries is a dispute over sovereignty over three small and arid islands that divide the major shipping channels in the Gulf: Abu Musa, the Greater Tunbs, and Lesser Tunbs.74

Iran effectively seized all three islands from the nominal control of Ras al Khaimah when the British left the Gulf in 1971, and did so with at least tacit British compliance. Ras al Khaimah, which later became part of the UAE was given a face-saving compromise and jurisdiction over the small Arab population on Abu Musa. The island dispute is further complicated by the development of Mubarak field in the Gulf. It is located six miles off Abu Musa, and has been producing gas-rich oil since 1974.

This strange combination of de facto Iranian sovereignty, and a limited political role in the islands for the UAE survived the Iranian Revolution and the Iran-Iraq War. It came as something of a surprise, therefore, when Iranian troops effectively occupied all three islands in 1992. In 1995, the Iranian Foreign Ministry went further, and claimed that the islands were “an inseparable part of Iran.” Iran rejected a 1996 proposal by the Gulf Cooperation Council (GCC) for the
dispute to be resolved by the International Court of Justice, an option supported by the UAE. In early 1996, Iran took further steps to strengthen its hold on the disputed islands. These actions included starting up a power plant on Greater Tunb, opening an airport on Abu Musa, and announcing plans for construction of a new port on Abu Musa.  

The UAE has received political and diplomatic support from the GCC, the United Nations, and the United States in its efforts to restore its position on the islands. The UAE officials in Abu Dhabi have chosen not to try to escalate the dispute in ways that would lead to the use of force. This is partly because of the risk such a conflict could escalate to a major and lasting confrontation between the UAE and Iran, partly because of the UAE’s military weakness, and partly because none of the UAE’s allies see the dispute as either a case of naked aggression or worth a conflict. This is because Iran is one of Dubai’s major trading partners, accounting for 20% to 30% of Dubai’s business.

The UAE has repeatedly reasserted its claims to sovereignty, sought support from bodies like the GCC, and tried to bring the issue to the World Court. Iran, however, has resisted any efforts to internationalize the dispute, and continues to take a firm position that the islands are sovereign Iranian territory – a position it also took under the Shah. It seems doubtful that the dispute will escalate to open conflict. Nevertheless, the dispute is a key rationale for the UAE’s military build-up.

The dispute over the islands has also created some animosity between the UAE and Saudi Arabia in 1998-1999. Saudi Arabia and Iran made attempts to reconcile their differences and improve their relations during this period and these attempts were met with harsh criticism from the UAE who were angered by what they felt was Saudi abandonment of their claim to the islands. The two nations exchanged heated remarks, and the dispute seemed to have the potential to become a serious issue between the UAE and Saudi Arabia, but it was resolved through Qatari mediation. Saudi Arabia, Qatar, and the UAE established a committee in the GCC dedicated to resolve the conflict and planned summit negotiations in the future. Other potential disputes
include past Omani claims to territory in the UAE, and past border problems with Qatar and Saudi Arabia.

More is involved, however, than politics. Relations have also been strained by Saudi development of the Shaybah oilfield, with estimated reserves of 14 billion barrels of crude oil. The UAE and Saudi Arabia do not have a precisely defined border in desert separating them, and the Shaybah field straddles territory claimed by both countries. Saudi Arabia began production from the Shaybah field in late 1998, and the UAE has demanded an agreement to share production from Shaybah.76

UAE Military Capabilities

The UAE has spent some $13.7 to $14 billion annually on defense in recent years. It signed a total of $15.0 billion in new arms agreements between 1991 and 1999. Some $600 million came from the US, $13.4 billion from Europe, $400 million from Russia, and $200 million from other countries. It took delivery on $7.8 billion during the same period, of which $1.1 billion came from the US, $1.8 billion from Europe, $600 million from Russia, and $500 million from other countries.77 This is an exceptionally high level of expenditure for a force of some 64,500 men, some 30% of which are expatriates.

Its army has a strength of 59,000 actives, and has six active brigades – one armored, two mechanized, two infantry, and one royal guard. It is deploying 156 modern Le Clerc tanks, and has 81 aging AMX-30s and OF-40s. The procurement of Le Clercs will eventually give it about two Western brigades worth of modern main battle tanks. It has 570 armored personnel carriers (APCs) and 558 armored infantry fighting vehicles, including 415 modern BMP-2s. It has 177 active 155mm self-propelled artillery weapons, including 87 US-made M-109 A3s and 72 G-6s, plus an adequate number of towed artillery weapons and mortars. It is equipped with modern anti-tank guided weapons and light anti-aircraft weapons.78
The UAE’s land forces are, however, something of a hollow shell. Its manning is inadequate, and it is over-dependent on expatriates. Overall training is poor, and it organized more to fight its Southern Gulf neighbors than to project land power. Training above the battalion level is weak, particularly in combined arms and joint operations. Logistic equipment and stocks are good, but the organization and training are weak. More emphasis has been placed on equipment quality and numbers than effective warfighting capability. The potential saving grace is that Iran has only limited offensive sealift and has never practiced major combined arms amphibious landings with serious forced entry capability.

The UAE Air Force has a total of 4,000 men, some 101 combat aircraft, 49 armed helicopters, and 5 I Hawk surface-to-air missile batteries. Its first line air strength now includes 45 Mirage 2000s in various configurations, 10 SA-342K armed helicopters with HOT antitank missiles, and three AS-332 armed helicopters with Exocet antiship missiles. The Mirage 2000 is a capable combat aircraft, and the UAE is buying large numbers of modern F-16 Block 60 fighters, which will be some of the most advanced combat aircraft in region and much more advanced than any combat aircraft in service in Iran.

The UAE air force does, however, lack modern maritime surveillance and any airborne warning and air control system (AWACS) aircraft, and airborne refueling capability, and a modern land-based air defense sensor and control network. It has good average aircrew training levels. Readiness and aircrew numbers are inadequate, and the UAE air force has only limited capability for joint warfare and proficiency in offensive operations. It cannot manage a large defensive air battle against Iran without US aid, and most potential Southern Gulf air reinforcements lack the readiness and proficiency to be integrated into a major air battle against Iraq.

The UAE Navy has some 2,000 men. It has two modern missile frigates, two missile corvettes, and eight missile craft --all armed with Exocet antiship missiles. It also has eight inshore patrol craft and five amphibious craft. While these ships are limited in size and number,
they are more capable than most of their equivalents in the Iranian Navy. Unfortunately, it is far better equipped than manned and trained, and is only beginning to develop an effective capability for surface warfare. It has little current mine, antisubmarine, and surface-to-surface missile warfare capability. It can, however, perform a maritime surveillance and escort mission, and supplement US and British naval action.

The UAE, the US, and Collective Security in the Southern Gulf

The UAE has not played as intensive a role in supporting US security policy in the Gulf as Kuwait, Saudi Arabia, Bahrain, and Oman. The US did not begin to develop close security arrangements with the UAE until the tanker war of 1987-1988, but the US and UAE cooperated closely during both the tanker war and Gulf War. The UAE provided port call facilities and support during Operation Earnest Will, and cooperation between the US and UAE has improved steadily since the Iraq’s invasion of Kuwait: 79

- The US Navy and MEF conducted a combined exercise with UAE in July, 1990, after Saddam Hussein began to threaten the UAE.
- The UAE provided the US with $6.572 billion in direct aid during the Gulf War, and $218 million in goods and services, for a total of $6.455 billion. 80 The UAE committed a Motorized Infantry Battalion to Joint Forces Command (East) and created a combined aviation battalion with Kuwait. It used its 7,000-man air force to fly 109 sorties, including 58 Mirage 2000 interdiction sorties, 45 C-212 and C-130 airlift sorties, and six Mirage 2000 reconnaissance sorties. The UAE Air Force had reasonable readiness. It canceled or aborted 18 sorties, but only two due to maintenance reasons. Its Mirage 2000 fighters attacked targets like Iraqi infantry and mechanized forces, artillery positions, and supply areas. 81
- The UAE negotiated a security arrangement with the US in 1992 that offered the US access to UAE air and naval facilities. The UAE and US signed a Defense Cooperation Agreement on July 23, 1994.
- A small amount of US Navy equipment is prepositioned at Jebel Ali and a small US Navy support facility exists in Fujairah. US Navy ships make regular port calls to the UAE -- Jebel Ali is one of the most frequent port calls in the world for the US Navy. Fujairah, on the Gulf of Oman, also allows the US to provide logistic support to reach destinations in the Gulf without going through the Straits of Hormuz by moving from ports in Fujairah along a modern highway to locations in the Southern Gulf.
- In 1995, the UAE agreed to host a US Army prepositioned brigade with 120 tanks and 70 AIFVs. An agreement in principle has already been signed and negotiations are underway over cost-sharing.
- UAE forces have conducted combined air exercises with the US. The UAE deployed a squadron of fighter
aircraft to Kuwait when Iraqi forces moved towards the Kuwaiti border in October, 1994.82

- UAE forces have increasing amounts of US equipment, and the US has a military liaison office in the UAE with six military, one civilian, and two local personnel to manage military programs in the country.

The UAE and US have steadily improved their cooperation in military exercises since the Gulf War, and the UAE could play a role in US operation against Iran or to secure shipping traffic in the Gulf. The UAE has relied largely on European military suppliers in the past, but it still bought significant amounts of modern US military equipment after the Gulf War. During 1992-1999, the UAE signed only $600 million worth of new US arms agreements out of a total of $15 billion, and took delivery on $1.1 billion worth of arms out of a total of $7.7 billion. The UAE has, however, recently made a massive buy of F-16s, which will greatly increase its interoperability with US forces and ability to support the USAF in US power projection into the region.

**Implications for US Policy**

The US the same major policy goals in the UAE that it has in the rest of the Southern Gulf: To ensure the security of the UAE, to ensure the smooth flow of oil at moderate prices, and to ensure the development of the UAE’s oil reserves to meet the demands of the global economy. In broad terms, US policy has been successful in meeting these objectives, but once again there are areas with the US does need to make improvements:

- **The US needs to prepare for a post-Zayid political leadership in the UAE, although there is little it can do other than urge a smooth transition in the Abu Dhabi, and that Dubai, Sharjah, and the smaller Emirates continue the present power sharing arrangements and movement towards a more unified and modern form of government.** One key to the success of such US policy will be supporting UAE economic reforms, measures to limit dependence on foreign labor, and more effective measures to transfer capital from the wealthier Emirates, particularly Abu Dhabi and Dubai, to aid in the development of the poorer eastern Emirates.

- **As is the case with Saudi Arabia and Kuwait, the UAE will play a critical role in shaping the success of a more active US energy policy in the Gulf region, and of any dialogue on price stabilization and ensuring the successful expansion of exports.**
Once again, the flow of the required investment is critical to ensuring suitable energy supplies, although the UAE can use almost certainly use state funds to finance most of its energy expansion.

- **The dispute over the islands of Abu Musa and the Tunbs is one where the US should continue to back the UAE in seeking a peaceful legal resolution of the dispute, but make it clear it will not support any UAE use of force.** The strategic placement of the islands near the main shipping routes in the Gulf would also make it far better if they were not heavily militarized by Iran. At the same time, the legal nature of the dispute surrounding Abu Musa and the Tunbs is a historical nightmare of conflicting laws and precedents from a time of empires and colonial expansion. The US and Britain also tolerated the Shah’s seizure of the islands in 1971, and are in a poor position to argue legalisms now. Accordingly, the US should make it clear to the UAE that it will not support any military adventures over the islands, and that a US commitment to aid in the defense of UAE territory and offshore holdings does not extend to the islands. The US does seem to have made this position clear at the diplomatic level. This is not yet fully understood within the UAE military.

- **The UAE is the worst remaining example in the Southern Gulf of a nation obsessed with buying arms for status and their glitter factor, rather than seeking to develop balanced and effective military forces where the value of the mission, readiness and training, and actual warfighting effectiveness are given priority.** These purchases have been of considerable benefit to the US in the case of the F-16 sale, and have had some value in creating a deterrent to Iran and building up the UAE’s ability to support US power projection. Unlike most of its neighbors, the UAE can also afford a considerable amount of military waste. The fact remains, however, that the US needs a lasting strategic partner and not a customer.

- **The US should quietly encourage the UAE to limit its arms purchases and concentrate on “train and maintain” and real-world military effectiveness.** It should also encourage the UAE to resolve the tension with Oman that led to the dismissal of significant numbers of Omanis from the UAE military. The UAE cannot create effective forces with its own native manpower resources.

- **The UAE’s critical strategic position in the lower Gulf makes it critical to its effective naval and air defense.** The creation of a common air defense and maritime surveillance system with its neighbors, particularly Saudi Arabia and Oman, would greatly improve regional defense capability and the ability to accept US reinforcements. Similarly, the UAE will play a critical role in improving regional defense against mine warfare. The US may or may not be able to encourage slow progress in GCC-wide military cooperation. This particular form of focused
cooperation has much higher priority than overall generic improvements, although USCENTCOM has already found that it is anything but easy to achieve.

**Bahrain**

Bahrain is a small, strategically important island in the central Gulf. Its limited size and wealth make it a minor regional military power, and it has only very limited oil reserves. At present, it exports only 40,000 barrels per day, and receives its entire oil supply of 140,000 barrels per day from a field it shares with Saudi Arabia. At the same time, its position in the upper Gulf off the coast of Saudi Arabia and near Kuwait, Iraq, and Iran gives it great value as a base and center for power projection into the upper Gulf. Bahrain has been a close ally of both the US and Saudi Arabia, and plays an important role in Gulf security.

**Bahraini Internal Development and Stability**

Bahrain has little oil left and its refinery operations are highly dependent on Saudi oil and Saudi Arabia’s grant to Bahrain of its share of a jointly owned oil field. Bahrain is trying to create a post-oil economy. It has a large ship repair facility and aluminum plant, has invested in petroleum processing and refining, and has transformed itself into an international banking center. A number of multinational firms with business in the Gulf are headquartered in Bahrain. Its economy varies sharply according to the flow of oil revenues to other Gulf states and the prices for its petroleum exports, however, and petroleum production and processing still account for about 60% of export receipts, 60% of government revenues, and 30% of GDP. The depletion of its underground water resources adds to its serious long-term economic problems.

Economic conditions have fluctuated with the changing fortunes of oil since 1985, for example, during and following the Gulf crisis of 1990-91. Bahrain was hit hard by the oil crash, and there is still high unemployment -- especially among young Shi’ites -- in spite of high prices in 1999 and 2000. While its per capita income is still $13,700 in purchasing power parity terms, income is poorly distributed and much of it is concentrated in a small elite citizens have been squeezed out of the position in the middle class that they occupied a time of peak oil revenues.
Bahrain has suffered from deep divisions between its ruling Sunni elite and a largely Shi’ite population. The CIA estimates that the total population is 75% Shi’a Muslim, 25% Sunni Muslim, but these figures are not based on a census, and most expert feel the portion of Shi’a is at least 80%. Poor labor and immigration policies -- and deliberate efforts to exploit low cost foreign labor even at the price of native unemployment -- have created a total population that is 63% Bahraini, 19% Asian, 10% other Arab and 8% Iranian.

Bahrain has been the target of serious Iranian political pressure in the past, although both the Shah and Khomeini renounced Iran’s past claims to Bahrain. Iran probably did sponsor a coup attempt in the early 1980s, and has continued to back Shi’ite opposition groups, some of which have had extremist and violent elements. Other largely native Shi’a activist movements have been a key source of opposition since late 1994, however, and their demands have focused on return of an elected National Assembly and an end to unemployment.85

In recent years, Bahrain has often used Iran as an excuse for Shi’ite unrest that was provoked by its own failed economic policies and failure to grant Shi’ites a fair share of the nation’s wealth and some share of political power. There are several small, clandestine leftist and Islamic fundamentalist groups that remain a source of danger, and some have ties to Iran. Most of the problem, however, is internal. Prime Minister Khalifa bin Salman Al Khalifa, who has served for many years, has exported blame when internal reform was needed. His intransigence and a failures to deal fairly with the Shi’ite problem, has been a significantly greater threat to Bahrain than Iran.

Fortunately, a new and younger Amir, Hamad bin Isa Al Khalifa, came to power in March of 1999. Both the new Amir, and his son and heir apparent Crown Prince Salman bin Hamad, have made important economic and political reforms, and have worked to improve relations with the Shi’a community. They understand the need to heal Bahrain’s internal differences, and its economic priorities. Bahrain has a good planning staff, and has developed good development and
economic reform plans in the past. The new Emir also promised a “new political era” in a speech on October 3, 2000, after he had appointed a new consultative council (Shura) with 19 new members out of 40. These include one Jew, an Indian-Bahraini, and four women. He also stated that elections for the Shura would be held for the first time in 2004. The key issue is whether Bahrain can now act on these plans.

**Bahrain’s Military Capabilities**

Bahrain has spent some $360 to $400 million on defense in recent years. It signed a total of $7.2 billion in new arms agreements between 1991 and 1999, all of which came from the US. It took delivery on $500 million during the same period, all of which also came from the US.

Bahrain has a total strength of only 11,000 actives. Its army has a strength of 8,500 actives, and has two active brigades – one armored and mechanized – although these are the equivalent of reinforce battalions by Western standards. It is largely US-equipped and has 106 M-60A3s and 220 M-113A2 armored personnel carriers (APCs). It has 120 additional APCs, and 51 armored infantry fighting vehicles, including 25 YPR-765s. It has 62 M-110 203-mm self-propelled artillery weapons and nine 227-mm multiple rocket launchers, plus an adequate number of towed artillery weapons and mortars. It is equipped with modern anti-tank guided weapons and adequate light anti-aircraft weapons. Bahrain’s one I Hawk heavy surface-to-air missile battery is in its army.

These land forces are reasonably well equipped and trained, but training is weak at the brigade level and in combined arms and joint operations. The potential saving grace is that both Iran and Iraq have only limited offensive sealift and have not practiced major combined arms amphibious landings with serious forced entry capability. It should also be noted that Bahrain has a total of 10,150 men in its paramilitary forces – more than in its army – and that Bahrain’s overall military structure focuses as much on internal security as foreign threats.
The Bahraini Air Force has a total of 1,500 men and 34 combat aircraft and 26 armed helicopters. Its first line air strength now includes 22 F-16C/D fighters and 24 AH-1E armed helicopters. It also has 12 F-5E/F fighters and 10 armed AB-212 helicopters. This small force is well trained and is combat capable within the limits imposed by its size. It does not have modern maritime surveillance, airborne warning and air control aircraft, and airborne refueling capability, or a modern land-based air defense sensor and control network, but these are not practical for a small country.

The Bahraini Navy has some 1,000 men. It has one modern missile frigate with Harpoon anti-ship missiles, two missile corvettes with Exocet anti-ship missiles, and four missile patrol craft with Exocets. These ships are reasonably well manned, but training funds are limited. Like most Southern Gulf navies, the Bahraini has limited current mine, antisubmarine, and surface-to-surface missile warfare capability. It can, however, perform a maritime surveillance and escort mission, and supplement US and British naval action.

**Bahrain, the US, and Collective Security in the Southern Gulf**

Bahrain’s vulnerability and strategic location in the upper Gulf means it will always be vulnerable to pressure and threats from either Iran or Iraq. Bahrain has long recognized this, however, and has developed military relationship to the US and Saudi Arabia that provide it with a high degree of external security.

Bahrain’s strategic location also makes it an important partner for the US. It has excellent port and air basing facilities, and one of the most modern ship repair facilities in the region. It has long been a close ally of the US, and is now the host to the U.S. 5th Fleet. The history of Bahraini and US military cooperation provides an impressive picture of its strategic importance to US operations in the Gulf.  

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Bahrain has maintained close military relations with the US since Britain departed the Gulf. On December 31, 1971, the US and Bahrain signed a leasing agreement allowing the US to use 10 acres at Jufair to support its Middle East Force (MEF) in the Gulf -- this included US use of a transmitter and antennae, priority use of Berth 1 at the port, waterfront ship repair facilities, and land rights, and hangar and office space at Muharraq Airfield.

As a result of the tensions following the October War, Bahrain officially terminated this arrangement on October 20, 1973, but this termination had no practical effect, and Bahrain quietly reinstated the lease in July, 1975 -- expanding its scope on August 12, 1975, and June 30, 1977. The agreement of June 30, 1977, is typical of many aspects of the informal cooperation between the US and Gulf states before the Gulf War. Officially, the US Navy no longer homeported the MEF in Bahrain, but maintained a “temporary duty administrative unit.” In practice, the US continued to “homeport” its Gulf naval forces (Middle East Force) in Manama and use the port facility at Mina Al-Sulman.

Bahrain provided extensive support, basing, and repair support to the US during “Operation Earnest Will” in the tanker war with Iran in 1987-1988. This US operation required extensive support from friendly Gulf states. The US used a total of 27 warships, which conducted 127 missions from July, 1987 to December, 1988. Bahrain played a critical role in helping the US recover the USS Stark after it hit a mine in the Gulf, and also supported the US during Operation Praying Mantis -- when the US attacked Iranian oil platforms in the Gulf.

Bahrain furnished extensive naval and air facilities to the US and Britain during the Gulf War. In September, 1990, Bahrain accepted US F/A-18, A-6, EA-6 and AV-8B air units, and British Tornado units. Bahrain provided a 200-man infantry company to Joint Forces Command (East). Bahrain's air force was relatively new and just absorbed deliveries of F-16s. Nevertheless, the Bahrain Air Force flew a total of 266 combat sorties. It used its new F-16s to fly 166 defensive and offensive counter-air sorties, averaging 4-6 sorties per day. It used its F-5s to fly 122 interdiction sorties, averaging about 3-4 sorties per day. It attacked targets like radar sites, Silkworm sites, and artillery positions.

Bahrain deployed a squadron of fighter aircraft to Kuwait when Iraqi forces moved towards the Kuwaiti border in October, 1994.

On October 22, 1991, Bahrain signed a ten-year bilateral agreement, expanding the US military presence in Bahrain. The agreement expanded US prepositioning in Bahrain, called for expanded joint exercises and training, allowed the US to set up a JTME (USCENTCOM headquarters), and increased US access to Bahraini ports and airfields. The US now has several warehouses of prepositioned equipment and supplies at Sheik Isa Air Base.

On July 1, 1995, Bahrain agreed to allow the US to create the headquarters for its new 5th Fleet in Bahrain, with an Admiral and a headquarters contingent. This headquarters commands a force that now averages 15 vessels, including a carrier. There are now roughly 1,500 US military personnel based in Bahrain. The fleet is now officially based at Mina Sulman.

In November, 1995, Bahrain agreed to allow the US to temporarily deploy 18 additional US combat aircraft in Bahrain to make up for the “gap” created by the need to withdraw a US carrier from the Gulf before a new one could be deployed.

Joint exercises between Bahraini and US forces have increased from two per year after the Gulf War to
nearly eight.

- There is a US Office of Military Cooperation in Bahrain.

During 1992-1999, Bahrain signed $700 million worth of new US arms agreements out of a total of $700 million, and took delivery on $500 million worth of actual deliveries out of a total of $500 million. Most came as surplus US equipment and aid.

**Implications for US Policy**

In spite of Bahrain’s small size and limited oil wealth, it is an important strategic partner in the Gulf. The US has already developed a solid strategic partnership with Bahrain, and its key priority is to maintain that partnership and consolidate it. This can best be done by continuing the level of close military cooperation it has already developed, but the US needs to improve its efforts to help Bahrain deal with its internal problems.

- **The US should act quietly, but strongly support the political and economic reforms the Amir is making and efforts to share power and the nation’s wealth with the Shi’ite population. It should also strongly encourage Bahrain’s efforts to reduce its dependence on foreign labor.** The principal security risk that Bahrain now faces is that the long-standing political tensions between its Sunni elite and Shi’ite majority could explode into open civil conflict, lead to Iranian covert or overt intervention, and/or bring down its royal family. The new Amir is making real progress, but the Prime Minister remains a political embarrassment and now all of Bahrain’s elite seems to understand that change and reform are essential to its security.

- **The US should continue to make it clear, however, that it will oppose any such Iranian efforts to interfere in Bahrain’s internal affairs and work closely with Bahrain and Saudi Arabia to monitor Iran’s actions.** Bahrain has reestablished diplomatic relations with Iran, and there is little evidence that Iran has made aggressive attempts to support any form of Shi’ite unrest or violence in Bahrain since the Khatami government came to power.

- **The US should continue to avoid taking sides in this dispute and do everything possible to encourage Bahrain and Qatar to fully resolve them by relying on the ICJ.** Bahrain is making progress in reducing its long-standing tensions with Qatar. Its territorial dispute with Qatar over the Hawar Islands, and its maritime boundary dispute with Qatar are currently before the International Court of Justice (ICJ)
Oman

Oman’s primary strategic importance lies in its control of the Strait, the strategic position of the Omani enclave in the Musandam Peninsula opposite Iran, and its value in staging and prepositioning U.S. power projection forces. Oman has also been a critical staging point for US and British operations in the Gulf, and Britain continues to play a major economic role in Oman and serve as the key military advisor. The US has substantial amounts of military equipment prepositioned in Oman, and makes regular use of Omani ports and airfields. Oman could also provide ports on the Indian Ocean for pipelines for the rest of the Gulf.

Oman’s oil and gas exports will, however, play a role in future global energy balances. Oman has proven oil reserves of 5.3 billion barrels, and natural gas reserves of 28.4 trillion cubic feet, but this scarcely makes it “oil rich’ by the standards of its neighbors. As a result, Oman’s success in economic development is dependent on the success of its efforts to diversify and reform its economy.

Oman, Development, and Internal Security

There have been important recent political reforms in Oman. Sultan Qabus issued a royal decree on November 6, 1996, that promulgated a new Basic Law. The Basic Law created a new structure for the country's political institutions, creating an upper legislative chamber, the Majlis al-Dawla (Council of State), alongside the Majlis al-Shura, for which elections were held in 1997 and 2000. The two chambers now form the Council of Oman. The upper chamber or Majlis al-Dawla has 41 seats. The monarch appoints its members and it only has advisory powers. The lower chamber or Majlis ash-Shura has 82 seats. Its members are elected by limited suffrage, but the monarch makes final selections and can negate the results of the election. This body has some limited power to propose legislation, but otherwise only has advisory powers. The law also clarified the succession, provided for a prime minister, barred ministers from holding interests in
companies doing business with the government, and guaranteed basic civil liberties for Omani citizens.  

Nevertheless, Omani political reform has not kept pace with the overall modernization of Omani society in recent years. At least some Omanis feel Sultan Qabus is less in touch with his people, and the nation’s wealth has become too concentrated in the hands of a relatively small elite. Sultan Qabus seems to have solved the succession problem that has grown out the fact he lacks an heir. He has given instructions for his family to consult on an heir rather than formally designated a specific person. This leaves some degree of remaining uncertainty. 

An extremely high population growth rate and a declining real per capita income threaten Oman’s development program and stability in spite of major advances in overall national development. Oman’s population grew from around 800,000 in 1980 to 2.4 million in 1998. It is projected to grow to 3.3 million in 2015, and 4.2 million in 2030. It averaged 4.1% annual population growth during 1980-1998. The growth rate remains at a very high 3.46%. Oman also has failed to reduce its dependence on foreign labor at anything like the rate required to ensure employment and productive jobs for native labor. Its per capita income was a maximum of $8,000 in 1999, even it purchasing power parity terms, and its national income was highly concentrated among a relatively small percentage of its population. 

It is far too soon to predict any serious threat of political or economic instability, but Oman’s current five-year plan calls for unrealistic levels of foreign investment, and future gas and oil production. There has been some salination of key agricultural areas, industrial development has been slow, and Omanization has not significantly reduced the number of foreign workers, many of whom are Indian, Pakistani, Sri Lankan, Bangladeshi and are not Muslims or part of Oman’s dominant Ibadhi sect. 

Oman’s economy remains over-dependent on oil and gas exports. Oil revenues account for roughly 80% of the country’s export earnings and 40% of gross domestic product (GDP). Oman
encountered major funding and investment problems during the late 1990s, particularly during the “oil crash,” and it had negative growth in 1998. Its economy is recovering, however, and real GDP growth was 2.5% for 1999 and is projected at well over 6.0% for 2000. Inflation is mild, projected at 2.0% for 2000.\footnote{100}

These pressures help explain why Oman has made privatization and diversification of its economy top policy priorities. The government is seeking to privatize of its utilities, and develop body of commercial law to facilitate foreign investment, and increased budgetary outlays. It is making an effort to liberalize its markets and accede to the World Trade Organization.\footnote{101} Oman has made major efforts to attract foreign investment, particularly in light industry, tourism and power generation. Incentives include a 5-year tax holiday for companies in certain industries, an income tax reduction for publicly held companies with at least 51% Omani ownership, and soft loans to finance new and existing projects. Oman pursuing membership in the World Trade Organization, and hopes to complete its accession negotiations by the end of 2000.

**Oman and Energy**

Most of the 5.28 billion barrels in proven oil reserves in Oman are located in the country’s northern and central regions. Neither its reserves nor output will compare with those of the more oil-rich Gulf nations. The EIA estimates that the average well in Oman produces about one-tenth the volume per well compared to neighboring countries. Oman uses enhanced oil recovery (EOR) techniques to try to minimize the costs of exploration and further development at new and existing oil fields. Oman has succeeded in bringing down the cost of oil production to $3 per barrel in some fields and $4 per barrel in others - but these production costs are still substantially above most other Persian Gulf oil fields.\footnote{102}

Oman is not a member of OPEC or OAPEC (The Organization of Arab Petroleum Exporting Countries). Oman has cooperated with both however, and pledged production cuts of 63,000 barrels per day (bbl/d) from its production of 910,000 bbl/d in March 1999 in cooperation

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with OPEC's attempt to raise prices. Oman's next 5-year plan, which runs from 2001 through 2005, calls for an increase production to 1 million bbl/d.  

Oman has made natural gas -- both for export as well as for domestic gas-intensive industries -- the cornerstone of its diversification and economic growth strategy. Official projections call for gas to contribute about 15% of Oman's GDP by the year 2002. Through an extensive exploration program, Oman has consistently increased its natural gas reserves in recent years. The EIA estimates that Oman's estimated proved reserves were approximately 28 trillion cubic feet (Tcf) as of January 1, 2000, up from only 12.25 Tcf in 1992, mainly of associated gas.

The expanded utilization of natural gas is central to Omani diversification plans, both for export as well as for domestic use. Gas projects include a LNG project in Sur, which began exports in April 2000, an aluminum smelter and petrochemical plant in Sohar, and a urea fertilizer plant in Sur. These projects can reduce Oman's dependence on oil and dependence on government spending and employment.

Oman is also planning to extend its gas pipeline network. Two contracts have been awarded to separate firms for projects connecting gas deposits in central Oman to the coastal cities of Sohar in the north and Salalah in the south. Oman also is one of the intended destinations for natural gas from Qatar's North Dome field under the Dolphin Project. Initially, the project will link gas consumers in the United Arab Emirates with gas supplies from Qatar, but plans include the eventual construction of a line to Oman around 2005. If demand warrants, Oman could also serve as a transit corridor for gas exports from the Dolphin Project to Pakistan through a subsea pipeline.

Oman recently inaugurated its first LNG export venture, which shipped its first cargo to Korea in April 2000. The 6.6-million-ton-per-year liquefaction plant is located at Qalhat, near Sur. The LNG plant consists of two 3.3-million-ton-per-year LNG trains supplied by non-
associated gas from the Saih Nihayda, Saih Rawl, and Barik gas fields. The second train became operational in May 2000, and Oman LNG will be selling on the spot market in 2000-2001.

Oman has signed a number of joint venture agreements to carry out exploration and development activities for future gas-based export projects. Oman also made an agreement with Iran in 1997 for the development of the Hengam/Bukha offshore field in the Strait of Hormuz, which straddles the line between the two countries’ territorial waters. The field is currently producing 40 million cubic feet per day (Mmcf/d) of gas.

**Oman and Gulf Security**

Oman faces a number of security problems. Its most tangible foreign threat is Iran. Although Oman has made continuing efforts to improve its relations with Iran, and has had considerable success in dealing with Iran under both President Rafsanjani and President Khatami, it sizes and shapes its forces primarily to deal with the Iranian threat. Oman is fully aware of the Iranian build-up in the lower Gulf and the nature of Iranian proliferation. It is also aware that Iran may seek to seize control of the Strait of Hormuz in some future conflict, although the main shipping channels flow through the Omani side.

The Strait of Hormuz is the only shipping route in and out of the Gulf. It is the world's most important oil chokepoint. Even partial closure of the Strait of Hormuz would force tankers to use Red Sea ports and the use of longer alternate shipping routes at increased transportation costs, and there are no alternate routes that can meet anything approaching current export levels, much less the much higher production levels forecast by DOE. To put these projections in perspective, the DOE reference case implies that two to three times as many tankers will transit the Strait in 2020 than do today. This means that Oman will become steadily more important with time, especially since Oman also offers the only potential secure land route for pipelines from the Southern Gulf to ports on the Indian Ocean.
Oman also faces low-level threats in the form of long-standing tensions with Saudi Arabia and Yemen. Oman and Saudi Arabia have formally demarcated their boundaries, but Omanis question whether Saudi Arabia has firmly given up all of its past claims to Omani territory. The UAE has expressed some fears that Oman might seize its eastern emirates, and Oman and Yemen have had border clashes in the past. None of these threats seem particularly important today, but the Gulf is a region where no problem ever has a final solution or is forgotten.

**Omani Military Capabilities**

Oman has spent some $1.6 to $1.75 billion on defense in recent years. It signed a total of $1.1 billion in new arms agreements between 1991 and 1999. None came from the US, $1.0 billion came from Europe, and $100 million from other countries. It took delivery on $1.4 billion worth of arms during the same period, $1.3 billion came from Europe, and $100 million from other countries.  

It has a total active force of some 43,500 men, plus 4,400 more in paramilitary forces – largely in the Tribal Home Guard of Firgat, Police Coast Guard, and Police Air Wing. The royal household has a separate 5,000 man mechanized brigade, and two special forces regiments with 1,000 more men. There is also a royal flight and a Royal Yacht Squadron.

Its army has a total strength of 25,000 actives – less the 6,500 men in the royal household forces – and has headquarters for one armored and two infantry brigades. In practice, its combat units consist of regiments that are battalion sized by Western standards – two armored, one armored reconnaissance, eight infantry, and one infantry reconnaissance. It has relatively little heavy equipment. It has 79 M-60A1 and M-60A3s, and 38 Challenger 2, main battle tanks. It has 183 armored personnel carriers (APCs), of which 160 are Piranhas. It has 78 armored infantry fighting vehicles, including 37 Scorpions and 41 VBLs. It has 24 G-6 self-propelled artillery
weapons, plus 91 towed artillery weapons and 89 mortars. It is equipped with modern anti-tank guided weapons and light anti-aircraft weapons.\textsuperscript{107}

Oman’s land forces have a good reputation as fighting men, but are under-equipped, and lack the ability to project power and fight armored maneuver warfare. They are neither equipped nor trained for modern combined arms and joint operations, and have limited logistic equipment and sustainment capability. Much of Oman’s terrain is good for defensive infantry warfare, however, and Iran has only limited offensive sealift and has never practiced major combined arms amphibious landings with serious forced entry capability. As a result, Oman’s main problems would be in dealing with a surprise Iranian attack on its Musandam Peninsula at the Strait of Hormuz. Even then, Iran would have to conduct an amphibious attack that would be vulnerable to aerial interdiction.

The Omani Air Force has a total of 4,100 men, some 40 combat aircraft, no armed helicopters, and no heavy surface-to-air missile batteries. It is a good force within the constraints imposed by its size and equipment, but its first line air strength now includes 12 modernized Jaguar fighters. It lacks advanced aircraft and adequate aircraft numbers. It has no modern maritime surveillance, airborne warning and air control system (AWACS) and airborne refueling aircraft, and lacks a modern land-based air defense sensor and control network.

The Omani Navy has some 41200 men. It has two corvettes with Exocet anti-ship missiles, four modern missile craft with Exocet, plus seven patrol craft. It has one LST plus 5 landing craft. The Omani navy has a good reputation, but it is equipment limited. It has little current mine, antisubmarine, and surface-to-surface missile warfare capability. It can, however, perform a maritime surveillance and escort mission in the Strait and Gulf of Oman, and supplement US and British naval action.
Oman, the US, and Collective Security in the Southern Gulf

Oman was the first Gulf nation to establish an embassy in the US, and the US and Oman have cooperated in the defense of the region since the Dhofar rebellion. Oman gave the US critical support in its effort to rescue the US Embassy hostages in Iran, during the “tanker war” with Iran in 1987-1988, and during the Gulf War.108

- The US has cooperated with Oman since the time of the Dhofar Rebellion and the US provided informal assistance to Oman, Britain, and Iran during their campaigns against the Dhofar rebels. The US supported Oman in its long confrontation with the PDRY, and in dealing with the potential threat posed by Iran after the beginning of the Iran-Iraq War. Oman has long permitted USCENTCOM to conduct exercises in Oman, and US Navy ships to use Omani facilities. Oman has provided data on tanker and other ship transits of the Straits of Hormuz to the US and UK from its base on Goat Island since the early 1980s.

- Oman and the US signed a military access agreement in July, 1981, which provided US access to building cantonments, hardened shelters, warehouses, and other facilities at Seeb, Masirah, Khasab, and Thumrait air bases, and ports at Muscat and Salalah, in return for $320 million in US funds to build-up these facilities.109 The US provided over $199.1 million in FMS credits to Oman between FY1980 and FY1990, and about $853,000 in IMET assistance. During FY1981-FY1985, the US provided support to Oman for the construction of four air bases at Masirah, Seeb, Khasab, and Thumrait that could be used by US air units in rapid deployment to the Gulf.

- This construction included facilities for rear-area staging and forward deployment, and included improved operations, personnel, storage, and maintenance facilities. The US Navy developed an aircraft maintenance facility, ground support equipment shop, warehouse facility, and ammunition storage facility. The US Army created a staging base at Masirah to support the forward deployment of US Army forces. The US helped provide hardened shelters, dispersal and access pavements, environmentally controlled warehouses, transient billeting, and cantonment support areas at Seeb and Thumrait. The US access agreement is reviewed every five years, and the latest review was due in 1995.

- Oman allowed the US and Britain to use Oman as a staging base and to deploy reconnaissance aircraft during the tanker war, and Gulf Wars, and allowed the US to stage reconnaissance and air-control flights out of Oman during Operation Praying Mantis -- when the US attacked Iranian oil platforms in the Gulf. Oman provided about 950 troops to the Arab Joint Forces Command (East) during the Gulf War.

- Oman has regularly renewed its 1981 access agreement with the US. Oman deployed a squadron of fighter aircraft to Kuwait when Iraqi forces moved towards the Kuwaiti border in October, 1994.110

- The US maintains an Office of Military Cooperation in Oman.

- Oman works closely with Britain, and British soldiers help train the Omani Army. There are British officers and NCOs seconded to the Omani Navy, and some 80 British officers seconded to the Omani air force. British SAS personnel have trained the Omani anti-terrorist force and assist in surveillance of the border with Yemen. France provides a limited amount of training for Omani officers.

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Oman has consistently given the US close support since the Gulf War, and sees its alliance with the US as a critical deterrent to attack from Iran and political pressure from Southern Gulf states like Saudi Arabia. It has received little US aid for this support, although Oman is a relatively poor country by Southern Gulf standards. It has only been able to afford a limited degree of force modernization and has relied largely on Britain for its military equipment. During 1992-1999, Oman signed less than $50 million worth of new US arms agreements out of a total of $1.1 billion, and took delivery on less than $50 million worth of actual deliveries out of a total of $1.4 billion. 111

**Implications for US Policy**

Oman is an important strategic partner in the Gulf. The US has long had good military relations with Oman and has supported its development efforts. The challenge is to build upon success and there are several areas where the US could strengthen its alliance.

- **Respect and courtesy are part of successful policy.** The US has tended to ignore Oman’s political sensitivities, and show sufficient gratitude for Sultan Qabus’s and the Omani government’s support. This failure has occurred at the Washington level and not in diplomacy or in USCENTCOM’s efforts.

- **Oman is not a major energy power. Its ports are, however, a potential way to bypass the Strait of Hormuz in shipping oil and gas from the rest of the Gulf. The GCC examined such pipeline options in the past, and they need reexamination as part of any broad effort to reduce the vulnerability of energy facilities in the Gulf.**

- **The US should strengthen its dialogue with Oman over economic development.** This is not simply a matter of encouraging US investment. Like a number of other Gulf states, Oman’s plans tend to overreach, reforms are slowly executed, and efforts to attract foreign investment are blocked by a number of regulatory, tax, and procedural barriers. The problem is not that the US has not tried to help, it is that it could raise the level of dialogue, strengthen the embassy team to help, and give the activity higher priority in Washington. Development and reform are the key to Omani internal security.
• **Once again, the US needs to quietly push a Gulf ally towards some form of population management policy, as well as better plans to reduce its dependence on foreign labor and create more jobs for native youth.**

• **Oman, like Bahrain, is one of the few Gulf states that needs more effective US military aid.** Even limited amounts of US aid could help, and so could more effective efforts to transfer surplus US military equipment and to subsidize the costs of making such transfers.

• **Encouraging, rather than discouraging, Oman in maintaining and expanding its dialogue with Iran is in the US national interests.** As is the case with Saudi Arabia, Oman’s dialogue with Iran has helped to reduce tensions in the Gulf and strengthen the forces that are leading Iran towards moderation. This is recognized by many US officials, but goes against the spirit of US law. Oman is the one nation in the Gulf where Britain maintains a significant presence, and has major economic and trading interests. The US needs to be more sensitive to these interests, and the degree to which they help ensure the continued British presence in the Gulf.

**Qatar**

Qatar is a small nation that occupies a peninsula in a strategic location in the middle of the Southern Gulf. It is a small to medium-sized energy exporter, but future importance because of its ability to exploit its massive gas resources. Qatar is one of the founders of the Gulf Cooperation Council (GCC), and Qatari troops fought on the side of the UN Coalition during the Gulf War. The Qatari forces at the battle of Ras al Khafji were among the first Coalition troops to engage Iraqi ground forces. Since the Gulf War, Qatar has steadily expanded its strategic ties to the West and the United States. It is providing prepositioning facilities for a U.S. Army brigade and the support equipment for a division base, and it conducts regular exercises with British, French, and U.S. forces.

The present Amir, Sheik Hamad bin Khalifa Al Thani, assumed power in June, 1995 as the result of a bloodless coup that ousted his father, the former Amir Khalifa bin Hamad Al Thani. This bloodless coup is the kind of “family coup” that has occurred several times in Qatar since the Al Thani family first took power. Hamad survived a low-level counter-coup attempt by his father, and he seems reasonably secure although his health is uncertain. There are no current signs that
there would be any radical changes in Qatar’s policies, even if a new Amir did emerge from within the royal family.

Qatar has modernized steadily since 1995, when Sheik Hamad bin Khalifa al-Thani, took power and is becoming one the most liberal Gulf states. Sheik Hamad has allowed limited political liberalization, including the creation of an elected council and allowing women the right to vote. The Qatari media, including its large TV broadcast station, are some of the most liberal in the Gulf.

**The Qatari Economy: Betting on Gas**

Qatar retains considerable per capita oil and gas wealth, although Qatar’s total native and expatriate population grew from around 200,000 in 1980 to 700,000 in 1998.\(^{112}\) Its current per capita GDP is well over $17,000, and is equal to three-fourths that of the leading West European industrial countries. Oil continues to dominate Qatar’s economy, although natural gas is becoming more important. Oil accounted for 30% of the GDP, roughly 80% of export earnings, and 66-70% of Qatar’s government revenues in 1999, and also has an impact on production of condensate and associated natural gas.\(^{113}\)

Qatar has had budgeting problems in recent years to pay for a huge liquefied natural gas (LNG) development program (Qatar has the third largest gas reserves in the world, after Russia and Iran). Qatar has had to maintain relatively tight fiscal and monetary policies, because of the burden its massive investments in gas production have placed on its economy. Qatar is now servicing a debt that increased from under $5 billion to over $10 billion between 1994 and 1996, and reached nearly $12 billion by 1999. Qatar accumulated this debt largely for infrastructure investment in oil and gas projects, which sharply increased Qatar’s oil production capacity, construction of facilities for the export of LNG, and petrochemical plants.\(^{114}\)

Qatar did not receive an expected increase in export revenues in late 1997-1998, because of low crude oil prices, and the Asian financial crisis. This placed a strain on Qatar’s economy.
which had already suffered because the Amir’s deposed father had initially kept control over much of the nation’s capital, which was kept in his overseas accounts.

The recovery in Asia and oil prices in 1999-2000, and the start of gas deliveries from the RasGas LNG project substantially eased Qatar’s debt burden and its real gross domestic product (GDP) grew at an annual rate of 3.3% in 1999, after posting growth of only 0.3% in 1998. Qatar’s oil export earnings for 2000 currently are forecast at $6.6 billion, up 61% from 1999 and more than double the $2.9 billion which Qatar earned from oil exports in 1998.\textsuperscript{115}

Qatar recorded a budget surplus for the 1999/2000 fiscal year, which ended in March 2000. This was the first budget surplus in several years, and the CIA estimates that, Qatar will post its highest ever trade surplus in 2000 - of more than $4 billion. The estimated rate of real growth in GDP for 2000 is well over 5%, and growth is projected to be at least around 5% after 2000, because of the rise in the production and sale of natural gas.\textsuperscript{116} Qatar has also accelerated its gas development plans. Qatar’s Ras Laffan Natural Gas Company announced plans on October 2, 2000 to double its LNG capacity by 2005. It plans to add two gas trains to its current facilities at a cost of over $2 billion. This would add about 8 million tons of capacity to Qatar’s two existing trains, which has a total capacity of 6.4 million tons, and create a total capacity of 14.9 million tons by 2005.\textsuperscript{117}

**Qatar and Energy**

Qatar is still a significant oil exporter, although its reserves are limited compared to those of many of its Gulf neighbors. The US estimates that Qatar has proven oil reserves of 3.3-4.3 billion barrels (0.4% of the world’s total). BP Amoco estimates reserves of 3.7 billion barrels.\textsuperscript{118} About 2.2 billion barrels are located in the Dukhan field, Qatar’s only onshore field. The remaining proven 1.5 billion barrels are held in six offshore fields Bul Hanine, Maydan Mahzam, Id al-Shargi North Dome, al-Shaheen, al-Rayyan, and al-Khalij. In 1999, Qatar’s net oil exports totaled 760,000 barrels per day (bbl/d), The U.S. Department of Energy estimates that Qatar’s oil
production capacity will increase slowly from 0.6 million barrels per day in 1998, to 0.7 million barrels per day in 2020.\textsuperscript{119}

As has been touched upon earlier, Qatar does, however, have massive gas reserves and is gradually becoming a major gas power. According to U.S. estimates, Qatar has total producible gas reserves of approximately 237 trillion cubic feet, or 40 billion barrels of oil equivalent; this is about 5\% of the entire world’s gas reserves. BP Amoco estimates that Qatar has 300 trillion cubic feet of gas, or 5.8\% of the world total.\textsuperscript{120} Both sources agree that Qatar is the third largest nation in the world in terms of total gas reserves. Qatari sources make much more ambitious claims and estimate that Qatar has reserves approaching 380 trillion cubic feet.\textsuperscript{121}

Most of Qatar's gas is located in the North Dome Field in the Gulf which contains 380 Tcf of in-place and 239 Tcf of recoverable reserves, making it the largest known non-associated gas field in the world. This field is part of a structure that extends into Iranian waters. Its Dukhan field contains another estimated 5 Tcf of associated and 0.5 Tcf of non-associated gas, and there are smaller associated gas reserves.\textsuperscript{122}

Qatar now has two liquefied natural gas (LNG) exporters: Qatar LNG Company (Qatargas); and Ras Laffan LNG Company (Rasgas). Qatargas venture delivered its first shipment of LNG to Japan in December 1996, and its plant now consists of three, 2-million-ton-per-year (Mmt/y) (97 billion cubic feet - Bcf) trains. Qatargas has plans to add a fourth train by 2002. Rasgas has two 2.5-Mmt/y (122 Bcf) trains. The first train was completed in early 1999, and second train came onstream in April 2000. A tender for a planned third and fourth trains is planned for late 2000.

An Enhanced Gas Utilization (EGU) project will develop upstream infrastructure in a portion of the North Field for domestic use, export to neighboring Gulf states, and use as a feedstock for petrochemical projects. The initial phase of the project will produce 500 million cubic feet per day (Mmcfd), with eventual capacity slated to rise to 1.75 Bcf/d. The Dolphin
Project to create an integrated gas pipeline grid for Qatar, UAE, and Oman, has been discussed earlier, and the total project is expected to cost $10 billion. Kuwait also has held discussions with Qatar about the purchase of Qatari gas.\textsuperscript{123}

**Qatar and Gulf Security**

Qatar faces a potential challenge from Iran because its massive North Dome Field has gas reserves that cross into Iranian waters. Qatar currently has good relations with Iran. Qatar has tried to balance its relations with Iran by showing sympathy for Iraq’s positions on sanctions. The main threat to Qatar’s position would be if Iran should dispute Qatar’s claims to any part of its North Dome Field, or take advantage of the high vulnerability of Qatar’s gas facilities.

Qatar also has a tendency to feud with its Southern Gulf neighbors and other moderate Arab states. The Foreign Affairs Minister, Sheik Hamad bin Jassem bin Jabr Al-Thani, has sometimes seemed to delight in such feuds. He has picked them with Bahrain, Egypt, Saudi Arabia, and the UAE – although these feuds have largely died down in recent years.

**Qatari Military Capabilities**

Qatar has spent some $1.2 to $1.4 billion on defense in recent years, roughly the same as Oman. It signed a total of $2.0 billion in new arms agreements between 1991 and 1999, all of which came from Europe. It took delivery on $3.1 billion worth of arms during the same period, all of which also came from Europe.\textsuperscript{124}

Qatar has a total active force of some 12,330 men, plus a mobilizable national guard. Its army has a total strength of 8,500 actives. It’s a royal guard regiment, a special forces company-sized unit, a tank battalion, and four infantry battalion. It has little heavy equipment. It has 44 obsolete AMX-30 tanks, 172 armored personnel carriers (APCs) and 112 armored infantry fighting vehicles. It has 28 F-3 self-propelled artillery weapons, plus four ASTROS II multiple rocket launchers, 12 G-5 towed artillery weapons and some mortars. It is equipped with modern anti-tank guided weapons and light anti-aircraft weapons.\textsuperscript{125}
This is a small force. Although some Qatar troops fought well in the Gulf War, it is simply too small to do more than screen the border and coasts. Its advantage would be that neither Iran or Iraq have ever practiced major combined arms amphibious landings with serious forced entry capability, and would have to conduct an amphibious attack that would be vulnerable to air and naval interdiction.

The Qatari Air Force has a total of 1,500 men, some 18 combat aircraft, 19 armed helicopters, and no heavy surface-to-air missile batteries. It is an adequate force within the constraints imposed by its size and equipment, but its first line air strength now includes only 12 Mirage 2000 fighters, 11 SA-342L helicopters with HOT anti-tank missiles, and 8 Commando helicopters with Exocets. It lacks advanced aircraft and adequate aircraft numbers. It has no modern maritime surveillance, airborne warning and air control system (AWACS) and airborne refueling aircraft, and lacks a modern land-based air defense sensor and control network.

The Qatari Navy has some 1,730 men. It has seven modern missile craft with Exocet ASMs, plus four inshore patrol craft, and several shored-based Exocet batteries. It has little current mine, antisubmarine, and surface-to-surface missile warfare capability. It can, however, perform a maritime surveillance mission, and supplement US and British naval action.

**Qatar, the US, and Collective Security in the Southern Gulf**

Qatar is too small to be a significant military power. Like Bahrain, however, its port and air facilities are of great strategic value in naval and air operations against either Iraq or Iran. Qatar and the US did not cooperate closely in military terms until the Gulf War. Qatar did, fight well in the Gulf War, and Qatar has now become an important base for US prepositioning and could provide important basing facilities.126

- Qatar permitted US air units to stage out of Qatar during the Gulf War. Qatar provided a 1,600-man mechanized battalion with 25 tanks, 60 other armored vehicles, and 3-5 artillery weapons. This force fought well at the Battle of Khafji, and in Joint Forces Command (East). Qatar also committed 700 men, 21 fighters, and 12 armed helicopters from its small air force. Qatari Mirage F-1s flew 41 interdiction
sorties, with a maximum of about 5 sorties per day. Qatari Alphajets flew two sorties. The Qatari Air Force was forced to cancel or abort 22 sorties, but 16 of these cancellations were due to weather.\textsuperscript{127}

- On June 22, 1992, Qatar negotiated a bilateral security arrangement with the US that offers the US access to Qatari air and naval facilities. Since that time Qatar has conducted an increasing number of exercises with US forces.

- In March, 1995, Qatar formally agreed to the prepositioning of the heavy equipment for one US Army mechanized brigade in Qatar -- including up to 110 US M-1A2 tanks. Warehouses are now under construction in Doha to preposition US equipment. The Qatari air force has also begun to conduct combined air exercises with the US, and may acquire a site in Qatar.\textsuperscript{128}

- Qatari forces are largely French-equipped and only have limited interoperability and sustainability with US forces. Qatar only purchased $1.9 million worth of US Foreign Military Sales (FMS) between FY1950 and FY1990, and took delivery on $1.9 million worth.\textsuperscript{129} A US Military Liaison Office opened in Doha in 1991. Since the Gulf War, Qatar has purchased $2.7 million worth of US Foreign Military Sales (FMS), and taken delivery on $1.4 million worth.\textsuperscript{130}

There has been substantial US and Qatari cooperation in training and exercises, but there is little direct interoperability in terms of Qatari reliance on US weapons. During 1992-1999, Bahrain signed less than $50 million worth of new US arms agreements out of a total of $2.8 billion, and took no significant deliveries of US arms out of a total of $3.1 billion.\textsuperscript{131}

**Implications for US Policy**

Qatar is a small nation that occupies a peninsula in a strategic location in the middle of the Southern Gulf. It is a relatively small oil and gas exporter, but has considerable future importance in world energy supplies because of its ability to exploit its massive gas resources. Since the Gulf War, Qatar has steadily expanded its strategic ties to the West and the United States. It is providing prepositioning facilities for a U.S. Army brigade and the support equipment for a division base, and it conducts regular exercises with British, French, and U.S. forces.

Qatar’s economy now seems relatively strong, and Qatar’s small military forces cannot be expanded beyond tight limits. The US has maintained good relations with Qatar since the Gulf War, but there are some areas where existing policy can be improved or reinforced.
• As is the case with Oman, the US needs to be more sensitive to Qatar’s political sensitivities. This failure has occurred at the Washington level and not in diplomacy or in USCENTCOM’s efforts.

• The US needs to monitor the success of Qatar’s oil and gas development and help to ensure suitable investment is available. Market forces should be adequate to provide the necessary investment, but some US official encouragement could prove necessary.

• Qatar offers the best option outside Saudi Arabia for US Army prepositioning. Current plans need to be reexamined to look at ways to provide more firepower, and less emphasis on the standard US army unit equipment set.

• Qatar needs focused military modernization. The US is not a major supplier to Qatar, but it can encourage Qatar to make improvements in the right mission areas. Mine warfare and playing a role in integrated air defense and maritime surveillance systems

• Qatar’s political liberalization is already impressive and being encouraged by the US. This should continue.

• While it is an extremely delicate issue, Qatar’s past tendency to pick petty quarrels with neighboring states has not helped regional cooperation. There are severe limits to what US diplomacy can do to persuade Qatar not to repeat these problems in the future, but the US should do what it can.

Yemen

Yemen is not geographically a Southern Gulf state, and is not a major energy power. It does have a strategic location at the entrance to the Red Sea, however, and can have a significant impact on the security of Oman and Saudi Arabia. In also has a dismal history of political violence and civil war. It is formed out of the Yemeni Arab Republic, or North Yemen, -- which had a long history of low level tension and internal violence -- and a far more violent People’s Democratic Yemeni Republic, or South Yemen, which sponsored the Dhofar rebellion against Oman and whose pseudo-Marxist political character scarcely concealed the most vicious internal power struggles in the modern Arab world.132
Yemen was united in May 1990, when a civil war in South Yemen crippled the nation to the point where a new regime emerged that signed a unification agreement with North Yemen that created a united Republic of Yemen. Political battles between the new President Ali Abdallah Saleh, from North Yemen, and Vice President Ali Salim al-Baidh, from South Yemen, then led to armed clashes between north and south forces in April 1994. This escalated into civil war by May 1994. The war ended after the fall of Aden, the former capital of South Yemen in July 1994.

President Ali Abdallah Saleh now seems to have a relatively firm group on power – to the extent political stability is possible in Yemen -- and there is a slow movement towards political liberalization and economic reform. There are, however, continuing tribal disputes, political tensions between north and south, and periodic kidnappings. The attack on the USS Cole in October 2000 has also shown that Yemen remains a major base for terrorist or extremist action. Peace and stability in Yemen remain uncertain.

**Economics and Internal Stress**

Yemen is an extremely poor country. The US State Department estimates that over 40 percent of its population lives in poverty. Its embryonic market-based economy faces excessive government interference and endemic corruption despite a major economic reform program. Its annual per capita gross national product (GNP) fell from $325 in 1997 to $260 in 1998, although it rose to $275 in 1999.\(^{133}\)

Agriculture accounts for approximately 22 percent of GNP, industry for approximately 27 percent, and services for approximately 51 percent. Oil provides the primary source of foreign exchange. Other exports include fish, agricultural products, cotton, and coffee. Remittances from citizens working abroad (primarily in Saudi Arabia) are also important. Remittances were reduced sharply in 1990, however, after Saudi Arabia and other Gulf States expelled up to 850,000 Yemeni workers during the Gulf War because of the Government's lack of support for the U.N.
coalition. The Gulf states also suspended most assistance programs, and most Western aid was reduced, although foreign aid has gradually been restored.\textsuperscript{134}

Yemen is an economic and demographic nightmare in terms of absolute increases in population numbers.\textsuperscript{135} Yemen’s population grew from 8.5 million in 1980 to 16.6 million in 1998. It is projected to grow to 26.6 million in 2015, and 36 million in 2030. It averaged 3.7\% annual population growth during 1980-1998. \textsuperscript{136} At present, some 47\% of the population is 14 years of age or younger, and the growth rate is still a high 3.36\%. The average annual per capita income is only $750, and the national income is largely controlled by a relatively small elite.\textsuperscript{137}

Years of civil war, military adventures, and misgovernment have combined to leave the current government with a heritage of limited economic development; a failed, drug-dominated agricultural sector; and heavy dependence on limited oil revenues and income from expatriate workers. High population growth approaching an annual rate of 4\% has made the situation far worse.

The impact of Yemen’s efforts to reduce subsidies under an IMF reform package have also created political problems. Reduced subsidies on oil and electricity doubled fuel prices in March 1995, and led to violent protests, especially South Yemen. Further increases in prices for fuel, electricity water and diesel fuel prices led farmers to block the main Sanaa-Aden highway in 1996, and similar unrest took place with new price rises in 1997 and 1998.

Yemen does seem to be making a real effort to achieve economic reform, however, and to follow the guidance of the IMF and World Bank. The government is trying to encourage private investment in the agriculture, fisheries, oil, and tourism sectors, and privatize state companies. State-owned businesses cited as candidates for privatization include farm and agricultural cooperatives, construction companies, power stations, public housing facilities, refineries, the state's petroleum retail network, shipping companies, and the state telecommunications company. It is also seeking to encourage foreign and private domestic investment.
So far, investment in Yemen is only marginally attractive except in the energy sector, and even now there are problems with kidnapping and banditry. Yemen's real gross domestic product (GDP) growth may still not exceed its population growth rate in 2000, in spite of very high prices, and the fact that oil sales account for approximately 40% of Yemen's total government revenues and is the country's main source of foreign currency.

Energy

The EIA estimates that Yemen contains proven oil reserves of 4 billion barrels, and proven recoverable reserves of 1.7 billion barrels. Yemen's oil output average only 409,000 barrels per day (bbl/d) in 1999, although it provided the country's main source of income. Production is expected to climb to increase to 500,000 bbl/d by the end of 2000. Civil war has limited Yemen’s energy development. Exploration and investments declined in 1994, because of the civil war but also because of non-competitive unattractive exploration and production contract conditions, and a low success rate of new discoveries. Exploration activity did increase after 1997 when the civil was over and Yemen offered more attractive contract terms. It is unlikely, however, that Yemen will approach one million barrels a day unless it makes major new discoveries.

Yemen has natural gas reserves of 16.9 trillion cubic feet (Tcf), and some potential as a natural gas producer and exporter. France's TotalFina and Yemen's General Gas Corporation set up Yemen Liquefied Natural Gas Company in early 1996, to operate a $5-billion LNG project. It is now Yemen's largest single energy project, and will develop Yemeni natural gas fields, and transport gas via pipeline to a natural gas processing plant and export terminal in Bal Haf on the coast of southern Yemen. The LNG would supply a planned LNG terminal in Bombay, India. The Yemeni LNG plant is to projected to have an export capacity of 0.26 Tcf per year. The project was originally supposed to begin production 2000 or 2001, but weak demand because to the Asian economic crisis delayed the start of the project. The planned completion date is now 2003.
Yemen and Gulf Security

Yemen does not play a major role in Gulf security, but --as has been discussed earlier-- major internal unrest could trigger a threat to Oman of Yemen. The former People’s Democratic Republic of Yemen was a key sponsor of the Dhofar rebellion in southern Oman in the 1960s, and the Yemeni Arab Republic has repeatedly clashed with Saudi Arabia over a border dispute that has lasted for more than 60 years. The new Republic of Yemen and Saudi Arabia agreed to settle their common border in September 2000, but there have been past agreements that failed and led to new fighting along their 1,300-mile frontier. Yemen has also been involved in disputes over islands in the Red Sea also is in dispute.

Yemen is not a major military threat to its Gulf neighbors. Civil wars have destroyed much of its military equipment and it has had few recent arms imports. It can only afford to spend $370-400 million a year on armed forces. It signed a total of $900 million in new arms agreements between 1991 and 1999. Some $700 million came from Europe, and $100 million from other countries. It took delivery on $300 million worth of arms during the same period, of which $200 million came from Europe, and $100 million from China.138

Its active military forces now total 66,300 men. Its army has 61,000 men, with a claimed total of nine armored brigades, 18 infantry brigades, and one special forces brigade, but these units are normally little more than large battalions. It has some 990 main battle tanks, but virtually all are obsolescent FSU-supplied models. Only 30 are T-72s and its 60 M-60A1s are now aging. Most of its armored infantry fighting vehicles and personnel carriers are also aging and of low quality, although it does have some 200 BMP-1/2s. Its artillery is largely towed, with 412 towed weapons, 30 obsolete SU-100 assault guns, and roughly 200 FSU-supplied 122-mm and 140-mm multiple rocket launchers. It has large numbers of low quality anti-tank weapons and antiaircraft systems. It also has 12 FROG-7, 12 SS-21, and 6 Scud-B surface-to-surface missiles.139
The 3,500-man Yemeni air force consists of 49 active combat aircraft, and 40 in storage, plus eight Mi-35 attack helicopters. Its only modern aircraft consist of five MiG-29s and 17 Su-20/22s. It has SA-2, SA-3, and SA-6 surface-to-air missiles, but they have limited operational capability.

Yemen’s 1,800 man navy has for missile patrol boats, three of which are relatively modern Chinese-supplied vessels, but which are equipped with only 4 C-801s for all three craft. It also has two aging Russia missile patrol boats, equipped with Styx, of which only one is operational. Its other holdings include eight inshore patrol boats, six aging mine vessels, and one LST, 2 LCMs, and some small landing craft.

Given these forces, Yemen would require a major military build up to challenge Saudi Arabia or Yemen and some source of outside supply of modern weapons. It would also require major improvements in organization, training, sustainment capability, C4I/battle management systems, and virtually every other aspect of military readiness. Yemen has fought many civil and internal security battles, but its experience lies largely in infantry combat and artillery warfare and it does not have modern forces or effective war fighting capability.

Yemen would present a threat, however, if it launched a prolonged low intensity border war against either Saudi Arabia or Oman, or if it could exploit internal unrest in either of its neighbors. Both Saudi Arabia or Oman continue to see Yemen as a continuing threat, and one that requires significant contingency planning. Yemen is also a potential base for extremism and terrorism. The US State Department report on terrorism recognized this long before the attack on the USS Cole.¹⁴⁰

Yemen expanded security cooperation with other Arab countries in 1999 and signed a number of international antiterrorist conventions. The government introduced incremental measures to better control its borders, territory, and travel documents and initiated specialized training for a newly established counterterrorist unit within the Ministry of Interior. Nonetheless, lax and inefficient enforcement of security procedures and the government’s inability to exercise authority over remote areas of the country continued to make the country a safehaven for terrorist groups. HAMAS and the PIJ had official representatives in Yemen, and sympathizers or members of other international terrorist groups—including
the Egyptian Islamic Jihad, al-Gama’at al-Islamiyya, Libyan opposition groups, and the Algerian Armed Islamic Group—also resided in the country.

Yemeni courts convicted the four surviving terrorists involved in the kidnapping in December 1998 of Western tourists in Mudiyah following a lengthy trial and appeals process. The 16 Western tourists held captive in that incident included two US citizens. Four of the tourists died, and two others—including one US citizen—were wounded during a Yemeni Government rescue attempt that liberated the remaining hostages. The leader of the Islamic Army of Aden, Zein al-Abidine al-Midhar, admitted to all charges against him in the incident and was executed by firing squad on 17 October. The three other defendants each received 20-year prison sentences. In a separate case, a Yemeni court in August convicted 10 terrorists—eight Britons and two Algerians—of conspiring to commit terrorist acts, including attacks targeting US citizens.

Kidnappings of foreigners by well-armed and independent tribesmen continued to be fairly common in Yemen. The tribesmen’s grievances were more often with the Yemeni Government than with Western governments. Tribesmen kidnapped and released fewer than 30 foreign nationals during the year, a significant decline from the number abducted the previous year. On 17 January, two US Embassy employees escaped a kidnap attempt; later the same day, tribesmen kidnapped six Europeans, who overheard their captors saying they wanted “to kidnap an American.” In October, tribesmen kidnapped three US citizens and released them unharmed in less than two days. In an effort to contain the kidnapping of foreigners, the Yemeni Government in October announced the creation of a special court and prosecutor to try suspects charged under a law, promulgated in August 1998, that imposes severe punishment for convicted kidnappers and saboteurs.

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Yemen is also reported to be the base of the operations of a cousin of Usama bin Laden, whose al-Qaida movement is the best-organized umbrella coup that can threaten the US with terrorist and extremist attacks in the Gulf.141

The bombings of the U.S. Embassies in Nairobi, Kenya, and in Dar es Salaam, Tanzania, on 7 August 1998 underscored the global reach of Usama Bin Ladin—a longtime sponsor and financier of extremist causes—and brought to full public awareness his transition from sponsor to terrorist. A series of public threats to drive the United States and its allies out of Muslim countries foreshadowed the attacks, including what was presented as a fatwa (Muslim legal opinion) published on 23 February 1998 by Bin Ladin and allied groups under the name “World Islamic Front for Jihad Against the Jews and Crusaders.” The statement asserted it was a religious duty for all Muslims to wage war on US citizens, military and civilian, anywhere in the world.

The 17th son of Saudi construction magnate Muhammad Bin Ladin, Usama joined the Afghan resistance almost immediately after the Soviet invasion in December 1979. He played a significant role in financing, recruiting, transporting, and training Arab nationals who volunteered to fight in Afghanistan. During the war, Bin Ladin founded al-Qaida (the Base) to serve as an operational hub for like-minded extremists. The Saudi Government revoked his citizenship in 1994, and his family officially disowned him. He moved to Sudan in 1991, but international pressure on Khartoum forced him to move to Afghanistan in 1996.

Bin Ladin has stated publicly that terrorism is a tool to achieve the group’s goal of bringing Islamic rule to Muslim lands and “cleanse” them of Western influence and corruption. To this end, Bin Ladin in 1999 led a broad-based, versatile organization. Suspects named in the wake of the Embassy bombings—Egyptians, one Comoran, one Palestinian, one Saudi, and U.S. citizens—reflect the range of al-Qaida operatives. The diverse groups under his umbrella afford Bin Ladin resources beyond those of the people directly loyal to him. With his own inherited wealth, business interests, contributions from sympathizers in various countries, and support from close allies like the Egyptian and South Asian groups that signed his fatwa, he funds, trains, and offers logistic help to extremists not directly affiliated with his organization. He seeks to aid those who support his primary goals—driving US forces from the Arabian Peninsula, removing the Saudi ruling family from power, and “liberating Palestine”—or his secondary goals of removing Western military forces and overthrowing what he calls corrupt, Western-oriented governments in predominantly Muslim countries. His organization has sent trainers throughout Afghanistan as well as to Tajikistan, Bosnia, Chechnya, Somalia, Sudan, and Yemen and has trained fighters from numerous other countries, including the Philippines, Egypt, Libya, Pakistan, and Eritrea.

Using the ties al-Qaida has developed, Bin Ladin believes he can call upon individuals and groups virtually worldwide to conduct terrorist attacks. In December 1998, Bin Ladin gave a series of interviews in which he denied involvement in the East Africa bombings but said he “instigated” them and called for attacks on US citizens worldwide in retaliation for the strikes against Iraq. Bin Ladin’s public statements then ceased under increased pressure from his Taliban hosts. Nonetheless, in 1999, Bin Ladin continued to influence like-minded extremists to his cause, and his organization continued to engage in terrorist planning. His Egyptian and South Asian allies, for example, continued publicly to threaten US interests. Bin Ladin’s public remarks also underscored his expanding interests, including a desire to obtain a capability to deploy weapons of mass destruction.
The Government of Saudi Arabia continued to investigate the bombing in June 1996 of the Khubar Towers housing facility near Dhahran and to cooperate with the United States in its investigation of the incident. Saudi authorities arrested and detained several persons in connection with the attack but reached no conclusion in the investigation. The Saudi Government stated that it still was looking for three Saudi suspects linked to the bombing who authorities believed were outside the Kingdom. The United States expelled Saudi national Hani al-Sayegh to Saudi Arabia on 11 October. He faces charges there for his alleged role in the bombing. Al-Sayegh originally was detained in Canada in March 1997, and documents submitted to the Canadian court alleged al-Sayegh, as a member of the Saudi Hizballah, had participated in the Khubar Towers bombing.

Yemen has some of the weakest counterterrorism forces in the Gulf. The primary state security apparatus is the Political Security Organization (PSO), which reports directly to the President. It is independent of the Ministry of Interior. The Criminal Investigative Department (CID) of the police conducts most criminal investigations and makes most arrests. The Central Security Organization (CSO), a part of the Ministry of Interior, maintains a paramilitary force. A paramilitary police or Central Security Unit (CSU) is under the command of Ahmed Nasser al-Dahiri. The civilian authorities do not maintain effective control of the security forces. The US State Department reports that members of the security forces, particularly the PSO, committed numerous, serious human rights abuses. More generally, the security forces do not control most rural areas, are far less effective in Aden and the former South Yemen than in the north, are corrupt, and have some ties to Iraq.

**Implications for US Policy**

Yemen is of limited importance to Gulf security, although it can play an important role in the Red Sea area. The sharp limits on the size of US foreign aid impose equally sharp limits on what the US can do to meet Yemen’s most important needs. There are some areas, however, where the US can help Yemen and the overall effort to ensure Gulf stability.

- *The US can encourage Saudi Arabia and Yemen to fully resolve their border disputes, and implement their 2000 agreement.*

- *The US can work with Yemen to help it develop security and investment policies that will expand energy development and its export revenues.*
• The US can continue to encourage political modernization, efforts to unify the country, and efforts to improve internal security.

• The US can strengthen its dialogue with Yemen over economic development. Once again, this is not simply a matter of encouraging investment. Yemen’s plans tend to overreach, reforms are slowly executed, and efforts to attract foreign investment are blocked by a number of regulatory, tax, and procedural barriers. The problem is not that the US has not tried to help, it is that it could raise the level of dialogue, strengthen the embassy team to help, and give the activity higher priority in Washington.

• Once again, the US needs to quietly push a Gulf nation towards some form of population management policy, as well as better plans to reduce its dependence on foreign labor and create more jobs for native youth.

In the end, however, Yemen’s most important challenges can only be resolved from within. Outside efforts to support and encourage reform plans, and exhortations to take more steps to limit population growth, can only have marginal value. Yemen must assume responsibility for change.
The Broader Implications for US Policy in the Southern Gulf

The previous country-by-country policy suggestions focus largely on the need to encourage economic reform, efforts to reduce demographic problems, and the need for a constant high level dialogue to ensure the development of suitable oil production and export capability.

This does not mean that the US can ignore its other priorities. Human rights, representative, government, and the rule of law remain important policy goals. None of the Southern Gulf states are Western states. They have their own cultural choices to make, and they may well not choose to follow the same path as the US. US analysts are often far too quick to challenge the legitimacy of Gulf regimes without seriously examining how legitimate they really are in terms of broad local perceptions and whether there is any realistic better alternative. Human rights groups are often equally quick to accept opposition charges without looking closely at the level of violence such opposition groups advocate or practice. Anyone can claim their movement supports democracy and human rights. In fact, virtually every tyranny and dictatorship in the 21st Century did at some point in its history.

The nature and complexity of the problems just outlined should also make it clear that the US will need to stay in the Gulf for decades. There is no quick fix for either energy or security policy. Calls for new regional security arrangements that mean US withdrawal, and a reliance on any form of collective security based solely on the Gulf states is a fantasy. This does not mean that the US should not take prudent steps to minimize its military presence and to avoid cultural and religious tensions. It also seems likely that any combination of the fall of Saddam Hussein and sustained moderation in Iran would lead to the withdrawal of many U.S. forces from the Gulf.
Even this “best case,” however, would still require the U.S. to play a critical role in securing the ‘four cornered’ balance of power in the Gulf. Neither Saudi Arabia nor any combination of Southern Gulf states seems likely to be able to create a significant deterrent and defense capability to deal with either Iran or Iraq in the near to mid-term. Proliferation may make this equally true in the long-term. The U.S. may not need to be as forward and visible in the future, but unless its power projection forces are capable and credible, the fragile structure of military security in the Gulf could explode at any time.

It is a key theme of this analysis, however, that the US should, however, do its utmost to create effective Southern Gulf military forces, and to develop the highest possible level of cooperative security – both within the GCC and on a multilateral level. Its emphasis should be on the creation of effective forces and not arms sales or burden sharing. The Southern Gulf is no longer wealthy enough to be a bank for US security efforts, and must be treated as a real partner.

The US also needs to understand that it will have to engage in a continuous political battle for the support (or tolerance) of the peoples in the Southern Gulf states. In the past, it has relied on winning the support of Gulf leaders and the Gulf military. This simply is not enough. Too many people in the Southern Gulf now see the US as thrusting pointless arms sales on their countries, maintaining a massive forward military presence, and provoking or prolonging regional tensions and quarrels to stay in the region. Far too many see the US as a threat to their culture and religion, and as the cause of much of the suffering of the Iraqi people. These charges are untrue, but they cannot be met with the current largely passive character of US diplomatic efforts to reach the peoples of the region – which is dictated in part by Congressional funding constraints that make an effective effort impossible. Like it or not, the struggle for hearts and minds is one that must be won in terms of peoples and not simply in terms of ruling and military elites. It is a struggle that the US now loses risks losing largely by default.
6 The Trans-Arabian Pipeline (Tapline) is largely mothballed or inoperable (having provided only limited service to a refiner in Jordan since the 1970s), and the 1.65 million bbl/d Iraqi-Saudi Pipeline (IPSA-2) was closed indefinitely following the 1990 Iraqi invasion of Kuwait.
9 Based upon the ACDA data base for World Military Expenditures and Military Transfers, and unclassified CIA estimates.
13 Saudi Arabia, March 1997, p. 3.
18 World Bank, World Development Indicators, 2000, Washington, World Bank, 2000, p. 188; historical data base for Table I , U.S. Army Control and Disarmament Agency (ACDA), World Military Expenditures and Arms Transfers, various editions.
20 This analysis is based largely on the EIA fact page for “OPEC” of April 2000.
21 Middle East Economic Digest, September 8, 2000, p. 16.
24 No precise estimate is possible and some private Saudi estimates for water, electricity, energy, roads, housing, facilities, and rehabilitation and improvement of existing infrastructure would exceed one trillion U.S. dollars between 1995 and 2015.

25 This summary is based on a visit to Saudi Arabia in early 2000, Saudi Information Office fact sheets, and the EIA country analysis of Saudi Arabia, downloaded on September 16, 2000, www.eia.doe.gov/emeu/cabs/saudi.html.

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29 These estimates are based on the IISS, Military Balance, and the author’s visits to Saudi Arabia.


36 Interview with senior Saudi official, November, 1993.


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53 These estimates are based on the IISS, Military Balance, and the author’s visits to Saudi Arabia.
67 This analysis of energy in the UAE draws heavily on the EIA country analysis of the UAE, September 2000, www.eia.doe.gov/emeu/cabs/uae.html.

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The islands have a number of different names and spellings. The Lesser Tunb is called Tunb as Sughra in Arabic by UAE and Jazireh-ye Tumb-e Kuchek in Persian by Iran, and the Greater Tunb is called Tunb al Kubra in Arabic by UAE and Jazireh-ye Tumb-e Bozorg in Persian by Iran.; Abu Musa is called Abu Musa in Arabic by UAE and Jazireh-ye Abu Musa in Persian by Iran.


These estimates are based on the IISS, Military Balance, and the author’s visits to Saudi Arabia.


Bahrain’s unicameral National Assembly was dissolved on August 26, 1975 and legislative powers were assumed by the Cabinet. An appointed Advisory Council was established on December 16, 1992.

Reuters, October 3, 2000, 1338.


98 These figures are taken from estimates in the US State Department data base for World Military Expenditures and Arms Transfers, and from World Bank, World Development Indicators, 2000, Washington, World Bank, pp. 22-24 and 38-44.
100 These estimates are based on the IISS, Military Balance, and the author’s visits to Saudi Arabia.
102 Reuters, October 3, 2000, 1201.
125 These estimates are based on the IISS, *Military Balance*, and the author’s visits to Saudi Arabia.
132 North Yemen achieved its independent of the Ottoman Empire in 1918. The British set up a protectorate area around the southern port of Aden in the 19th century, but withdrew in 1967 from what became South Yemen. Three years later, the southern government became Marxist the flight if hundreds of thousands of Yemenis from the south to the north contributed to two decades of hostility between the states.
139 These estimates are based largely on the IISS, *Military Balance, 2000-2001*, “Yemen.”
140 Office of the Secretary of State, Office of the Coordinator for Counterterrorism, *Patterns of Global Terrorism: 1999*, Department of State Publication 10687, Released April 2000.

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