

THE U.S.–SAUDI ARABIAN RELATIONS: ECONOMIC OR STRATEGIC PARTNERSHIP?

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Abstract

This paper focuses on the energy, economic and political relationship between U.S., which is today the world's first largest oil importer, and the Kingdom of Saudi Arabia , which has established itself as the world's top oil producer and exporter . Due to Saudi Arabia's dominance of the world oil market, U.S. is focusing its attention on the Saudi Arabia as important regional reliable energy partner; while Saudi Arabia sees U.S. as a strategic partner. Within this context the paper using the analytical descriptive method and will try to answer the following question: are U.S-Saudi relations an energy economic relation or a strategic alliance? The answer to this question will have broad implications not only for the Middle East but also for the broader international system .

Keywords: U.S., Saudi Arabia , economic relation, oil.

1. Introduction

The origins of the Saudi-US relationship go back almost 90 years to the personal admiration that the Kingdom's founder, King Abdulaziz bin Abdulrahman Al-Saud, held for President Woodrow Wilson. The King was particularly impressed by Wilson's call for self-determination at a time when much of the world, including the Middle East and North Africa, was burdened by colonialism.

Relations between the Kingdom of Saudi Arabia and the United States of America are based upon mutual respect and common interests – economic, political, technological and energy. Over the past few decades, it was very important for Saudi Arabia, homeland security and regional stability is guaranteed and Ensure sustainability about stable export of energy to the United States .

The relationship between the two countries have been Strategic and strengthened over the past decades and many analysts have mentioned it as security against the oil equation.

The Saudi's considerable financial clout and its deepening energy ties to important U.S. trading partners in Asia are important factors for U.S. and Saudi decision makers to consider when assessing the future of the bilateral relationship.

U.S.-Saudi counterterrorism and internal security cooperation has expanded since 2008, when a bilateral technical cooperation agreement was signed establishing a U.S.-interagency critical infrastructure protection advisory mission to the kingdom. Modeled loosely on embedded advisory and technology transfer programs of the U.S.-Saudi Joint Commission for Economic Cooperation, the Office of the Program Manager-Ministry of Interior (OPM-MOI) is a Saudi funded ,U.S.-staffed senior advisory mission that provides embedded U.S. advisors to key industrial, energy, maritime and cyber security offices within the Saudi government. In parallel to these advisory efforts, the United States Military Training Mission also oversees a Saudi-funded program to train a Facilities Security Force for the Ministry of Interior to protect key infrastructure locations.

2. Methodology

The main research question is The U.S.–Saudi Arabian Relations: Economic Or Strategic Partnership?

This paper tries to answer this question by using Scientists comments and with a descriptive analytical method and using library resources and documents .

3. Results

3.1. U.S.-Saudi Trade and Oil Imports

Saudi Arabia remained the largest U.S. trading partner in the Middle East in 2013. According to the U.S. International Trade Administration, Saudi exports to the United States in 2013 were worth more than \$51.8 billion (up more than \$29.7 billion from 2009 but below the 2008 figure of \$54.8 billion). U.S. exports to Saudi Arabia were valued at more than \$18.9 billion (up nearly \$8.2 billion since 2009). To a considerable extent, the high value of U.S.-Saudi trade is dictated by U.S. imports of hydrocarbons from Saudi Arabia and U.S. exports of weapons, machinery, and vehicles to Saudi Arabia. Fluctuations in the volume and value of U.S.-Saudi oil trade account for declines in the value of Saudi exports to the United States in some recent years.

One of the primary elements of the Saudi-US relationship has always been oil. The U.S. imported approximately 10.6 million barrels per day of petroleum in 2012 from about 80 countries. Also exported 3.2 MMbd of crude oil and petroleum products, resulting in net imports (imports minus exports) equaling 7.4 MMbd. Net imports accounted for 40% of the petroleum consumed in the United States, the lowest annual average since 1991."Petroleum" includes crude oil and refined petroleum products like gasoline, and biofuels like ethanol and biodiesel. In 2012, about 80% of gross petroleum imports were crude oil, and about 57% of all crude oil that was processed in U.S. refineries was imported. The top five source countries of U.S. petroleum imports in 2012 were Canada, Mexico, Saudi Arabia, Venezuela, and Russia. Their respective rankings vary based on gross petroleum imports or net petroleum imports (gross imports minus exports). Net imports from OPEC countries accounted for 55% of U.S. net imports.

The Kingdom is a key supplier of crude oil to the United States. In 2013, Saudi Arabia produced an average of more than 9 mbd of its estimated 12.5 mbd capacity and had indicated that it may not expand that capacity in light of current trends in international oil markets.

According to the U.S. Energy Information Administration, as of the end of January 2014, Saudi Arabia was the second-largest source of U.S crude oil imports, providing more than 1.3 million barrels per day (mpd) of the 6.89 mpd in gross U.S. crude imports, behind only Canada. Oil exports to the United States account for roughly 15% of Saudi exports, with East Asia accounting for more than 50%.

In the last few years, oil export proceeds have provided sufficient funds for Saudi Arabia to maintain healthy, but declining budget surpluses and make large spending increases to invest in solutions for long-standing social and economic problems, including those related to education, employment, and housing. The kingdom's foreign reserves are estimated at more than \$700 billion, and its current debt to GDP ratio is under 3% (down from more than 100% in the late 1990s). Since 2011, the kingdom has approved a series of record annual budgets and launched major additional spending programs to meet economic and social demands that some feared could fuel stronger calls from citizens for political change. Actual spending reached an all-time high in 2013, and the 2014 budget sets a higher spending target than 2013, with 38% of total spending earmarked for education and healthcare initiatives. Defense and security spending exceeded 30% of the budget in 2013. In December 2013, an IMF official observed that significant Saudi labor force growth in the coming decade will require "a large increase in the absorption of nationals into private sector jobs ...to avoid an increase in unemployment." The kingdom's investments in

the education sector are an acknowledgement of the challenges related to preparing the large Saudi youth population to compete and prosper in coming decades. It also is possible that a more educated and economically engaged youth population could make new social or political reform demands as well.

3.2. Oil shale and U.S.–Saudi Relations

Shale oil and gas has been labeled a game changer. Statistics would suggest that, yes, the new technologies and discoveries associated with hydraulic fracking change the energy picture and economic outlook, in particular for the United States, but less so than predictions would have it a year or two go. Five years after Obama's first visit to Riyadh, the drilling of shale oil fields from North Dakota to Texas has put the U.S. on the path to energy independence, weakening economic interdependence between the two nations.

Estimates for the impact on US economic growth vary from 0.2 percentage points per year to a marginal hike of the growth rate. Petrochemical exports have risen threefold from 2006 to 2012, but account for not more than 1.2 percent of US gross domestic product. The trade balance has improved by a modest 0.1 to 0.2 percentage per year, yet still is in deficit to the tune of around 3.5 percent of GDP. The expectations were and still are that shale oil and gas would help bring manufacturing back to the US – re-manufacturing. The figures do not bear such hopes out though. From 2007 to 2009 more than 2 million manufacturing jobs were lost; 600,000 have returned.

"The global picture for Saudi Arabia has changed fundamentally as a result of the growth of unconventional oil in the U.S.," said Valerie Marcel, an associate fellow at Chatham House, a think-tank in London. The greater impact won't be on the US economy, but rather US-Saudi relations and stability for the Middle East. "Saudi Arabia and the rest of the Gulf exporters are turning their attention eastward and that has an impact on how they see the West."

So Because of its emerging energy independence, the U.S. may pursue policies that are not favorable to the Saudis. The so-called shale-gas revolution and eventual self-sufficiency in the

United States will influence the relationship with its second largest foreign supplier of oil. Other countries may try the new extraction technologies, and the United States could be tempted to lift its restrictions on petroleum exports.

For Saudi Arabia and other Middle East producers, the shale boom is accelerating the redirection of oil shipments toward Asia. China, which overtook the U.S. as the world's largest oil importer in September last year, is becoming an increasingly important customer. It imported 53.9 million tons of Saudi crude in 2013, or about 1 million barrels a day. That's 28 percent more than in 2009, according to Chinese customs data.

3.3. U.S.- Saudi Security Cooperation

Following the last severe test of U.S.-Saudi relations in the early 1970s, Saudi and U.S. officials engaged in a multi-track effort to re-anchor the bilateral relationship on a range of joint military and economic commitments. Official political relations recovered and remained close, but a degree of public mistrust persisted on both sides. Several contentious debates regarding proposed U.S. arms sales to Saudi Arabia in the 1980s and 1990s demonstrated this mistrust; some Members of Congress and others made evident their doubts about Saudi Arabia's reliability as an ally, and some Saudi officials questioned the reliability of U.S. commitments to Saudi Arabia.

Under the Bush Administration, the Saudi and U.S. governments sought to maintain the mutual strategic benefits of existing cooperative arrangements while managing the potential negative side effects of policy differences and working level disagreements. In 2005, the United States and Saudi Arabia established a cabinet-level strategic dialogue to address issues of mutual importance. Six associated working groups met "as needed" to discuss (1) counterterrorism; (2) military affairs; (3) energy; (4) economic and financial affairs; (5) partnership, education, exchange, and human development; and (6) consular affairs.

On the eve of President Bush's May 2008 visit to Riyadh to commemorate the 75th anniversary of the establishment of U.S.-Saudi relations, U.S. National Security Adviser Stephen Hadley argued that the U.S.-Saudi relationship was in "pretty good shape."²² In conjunction with President Bush's visit, the Administration announced a series of agreements designed to strengthen bilateral relations in key areas: Civil Nuclear Cooperation, Enhanced Security Arrangements, Reciprocal Visa Policies.

U.S. efforts to support Saudi critical infrastructure protection continue under the auspices of a bilateral agreement signed in May 2008. A Joint Commission on Critical Infrastructure and Border Security Protection serves as the bilateral coordination mechanism for State Department, Energy Department, and Defense Department engagement with Saudi counterparts. Initial joint security assessments have been completed, and U.S. advisory support is being provided on a contract basis via the Office of the Program Manager-Facilities Security Force (OPM-FSF) to the Saudi Ministry of Interior as it implements an initial five year development plan for the new Facilities Security Force.

In previous years, Congress has enacted prohibitions on IMET and other foreign assistance to Saudi Arabia, and the Bush and Obama Administrations subsequently issued national security waivers enabling the assistance to continue. The Obama Administration requested \$10,000 in International Military Education and Training assistance funding for Saudi Arabia for FY2013. This nominal amount makes Saudi Arabia eligible for a substantial but undisclosed discount⁶ on the millions of dollars of training it purchases through the Foreign Military Sales program.

President Barack Obama met King Abdullah March 28 (2014), and both leaders recognize that the geopolitical ground shaped by their common interest in stable oil prices has shifted, creating a new imbalance that could spill over into Mideast security policy.

4. Conclusions

Saudi Arabia's importance to the US economy, and the global economy as a whole, can be seen in the role the Kingdom has historically played in the oil market. The U.S. may still need Saudi Arabia's oil in the long term if its domestic shale oil boom peters out, according to the Paris-based International Energy Agency. U.S. oil production is projected to level off and then slowly decline after 2020. Saudi Arabia is committed to ensuring the stability of supplies and prices and to expanding its oil production capacity. The Saudi-US oil partnership also led to increasing trade between the two nations.

Saudi Arabia opened up to a wide range of US companies, which initially came to provide products and services for the oil industry and later entered into other ventures. There are many joint ventures between Saudi and American companies in fields such as energy, petrochemicals, manufacturing, telecommunications, and finance. An example is Motiva, a joint venture between Shell Oil Company and Saudi Refining Inc. that is one of the largest refining and marketing companies in the United States.

Though greater energy independence has altered the strategic framework, the U.S. still views Saudi Arabia as a critical player in globally linked energy markets. U.S.–Saudi relations have produced a mutually beneficial connection that still matters tremendously from an economic, strategic, and political perspective.

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