# U.S. losing $600 billion on the Middle East market

by Judith Wyer

Since 1973, the American construction industry has been systematically legislated out of its number one position in worldwide construction contracts by the U.S. government. The rate of decline over the last five years in foreign construction, notably the thriving Middle East markets, has been staggering.

Like every other industrial sector in the United States, construction operating both at home and abroad has been tied into a straightjacket of government regulations, credit restrictions, taxes and environmental constraints, the result of years of cumulative government disincentives.

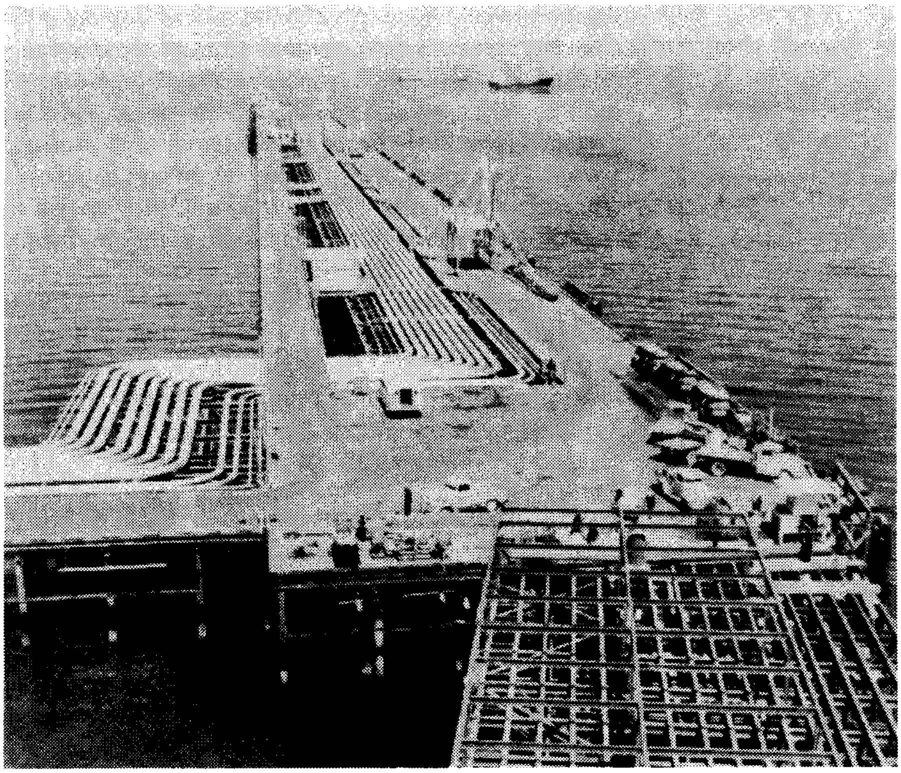
By mid-1979, according to the U.S. Army Corps of Engineers, the United States had slipped to 12th place in the race to win new construction contracts with the Middle East over the 13 month period up to the summer of 1979. Over the last three years, the U.S. construction industry dropped from first to fifth behind Japan, Korea, West Germany and Italy in terms of new construction contracts awarded abroad. In 1975, the U.S. commanded 10 percent of the Saudi Arabian construction market; today, the U.S. percentage is 3 percent. In 1960, the American share of total world trade was 20 percent, today it is only 13 percent. According to construction industry sources, since the 1950s, U.S. exports of manufactured goods have dropped by almost 30 percent. *Engineering News Record*, reports that the top 400 construction companies, registered $4 billion in business in the Middle East for 1978, 61 percent less than 1977. The same source reports that 25 U.S. construction firms reported new business in the Middle East last year, while in 1977, 70 companies reported new contracts. Even the Saudi-controlled Arabian-American Oil Company is currently buying most of its construction equipment from Japan.

On top of the ever-increasing government constraints which are hamstringing foreign-oriented American business, is the foreign policy of the Carter administration, which most construction executives will admit in confidence is further complicating the United States market position abroad. Nowhere is this more evident than in the Middle East. It is not coincidental that the fall off of business between the surplus Arab oil-producing nations of the Persian Gulf and the United States occurred at the same time as the bilateral Egypt-Israel Camp David peace agreement, an agreement which was summarily condemned by the Arab Gulf states.

## Antitrade policy

While any construction company executive can spend hours detailing the damage done to his business as a result of policies from Washington, what that angry executive cannot explain is why the American government has embarked on such a course.

Since at least as early as 1973, a close-knit financial oligarchy centered in the City of London and lower Manhattan have been operating on a strategic policy elaborated by the New York Council of Foreign Rela-



**Construction contracts awarded by Saudi Arabia, January-March 1980**
(in millions of dollars)

| Country | Value of contract |
|---|---|
| Korea | $33.1 |
| Korea | 17.7 |
| Korea | 9.0 |
| Taiwan | 12.6 |
| United Kingdom/ Saudi Arabia | 33.2 |
| Saudi Arabia* | 3.1 |
| Saudi Arabia | 7.4 |
| United States | 6.7 |
| TOTAL | 112.8 |

* Contracts awarded to Saudi Arabian domestic firms.
*Source:* The Army Corps of Engineers.

*The oil-loading and cargo-unloading pier at Mena Al-Ahmadi in Kuwait during its construction (1949).*

tions in a series of studies entitled *Project 1980s.* That policy calls for the "controlled disintegration" of the world economy over the course of this decade. Under conditions of contrived and sustained depression, the Anglo-American elites associated with the CFR aim to consolidate top-down control over the U.S. economy.

This consolidation will have a two-fold impact. First, it will usher in a major restructuring of thee U.S. government and economy giving the Federal Reserve control over U.S. banking and credit availability—the degree of such government control has not been seen since the days of Hitler's Finance Minister Hjalmar Schacht during the Great Depression of the 1930s. Second, there will be a corporate consolidation in which numerous business interests will be bankrupted and then integrated into corporate structures of Anglo-American controlled multinational corporations.

The recent legislation by Wisconsin congressmen Reuss and Proxmire dubbed the Omnibus Banking Act would give the Federal Reserve such unprecedented powers over national banking. It is no coincidence that Reuss along with Senators John Heinz (R-Pa.) and Birch Bayh (D-Ind.) together with Georgetown Unniversity's Center for Strategic and International Studies are preparing a legislative effort to impose many of the same restrictions now hampering U.S. export-oriented business on the nation's most aggressive competitors in Third World development markets, notably the nations of continental Europe, Japan, and South Korea.

Reuss, Proxmire and their cohorts in the Congress are acting as the delivery boys for the Council on Foreign Relations and its post-1973 offshot the Trilateral Commission whose plan is to create over the course of the next decade a single governing body for the world for which the multinational companies will be the economic arbiters. In order for such a scheme to work, the Anglo-American oligarchy behind it is committed to breaking the strong progrowth dirigist governments of our major allies, just as the progrowth interests in the United States have been contained.

## A $600 billion trade war

Central to the effort to undercut the position of America's competitors in gaining contracts in the developing sector is the fight over what interests will control the approximate $600 billion worth of development projects in the Arab nations of the Persian Gulf over the next 5 years. Saudi Arabia alone is expected to spend over $300 billion for development. Unlike the period following the four-fold increase in oil prices by the OPEC oil cartel, during the 1980 to 1985 period the surplus oil producing nations of the Gulf will put most of their growing petrodollar resources directly into project development and less into bank deposits in the West.

As every business and government leader in the industrial West knows, whoever gains access to the hefty development oontracts will enjoy the benefits of receiving recycled petrodollars. The continental Europeans,

## Who received Middle East construction contracts

(Contract awards in $ millions and number of contracts)

| | June 1975- April 1978 | May 1978- June 1979 | Total June 1975- June 1979 | Percent of total |
|---|---|---|---|---|
| West Germany | 14,960 (62) | 3,327 (18) | 18,287 (80) | 16.9% |
| Japan | 14,577 (94) | 2,662 (33) | 17,219 (127) | 15.9 |
| Italy | 6,708 (39) | 3,529 (20) | 10,237 (59) | 9.5 |
| U.S.A. | 8.946 (53) | 346 | 9,292 (60) | 8.6 |
| South Korea | 4,585 (51) | 346 (7) | 9,525 (85) | 8.6 |
| France | 6,573 (32) | 1,324 (6) | 7,897 (38) | 7.3 |

*Source: International Construction Week Newsletter,* Corps of Engineers and U.S. Agency for International Development.
*Note:* Table includes only the top six competitors for Middle East contracts.

# What it means at home

The economic data below was generated from the Department of Commerce and the construction industry on the benefits of foreign projects.

- Commerce estimates that for every 1 billion in U.S. exports 40,000 jobs are created at home.
- Between 40 to 60 percent of the total value of U.S. construction contracts abroad is the value of U.S. exports in construction-related equipment. Between 1975 and 1978, the U.S. generated about $70 billion in foreign construction contracts; the value of construction related net exports was between $28 and $42 billion.
- Using Commerce's formula, the construction industry, between 1975 and 1978, provided approximately 1.1 to 1.7 million jobs at home.
- American construction abroad contributes to the marketing of the U.S. technology overseas. In 1978, Caterpiller estimates that it did business with 13,000 U.S. suppliers of which 9,500 were small businesses; 50,000 supplier employees backed up Caterpiller's production sold overseas during 1978.

*Source: Proceedings of Fifth Conference of International Engineering and Construction Industries Council,* Sept. 1979.

notably West Germany and France, are in a strong position to land hundreds of billions in contracts over the next five years. This increased transfer of technology relationship between Europe and the Arab world will serve as the basis for expanding the European Monetary System a the basis for a new international monetary system. Both the Carter administration and its ally government of Margaret Thatcher's in Great Britain are committed to destroying such a potentiality on the part of the EMS.

At the present time, the City of London and lower Manhattan interests are in a weak position with respect to the Persian Gulf Arab nations, following a trip made to the region by French president Giscard d'Estaing. Far reaching economic and political agreements were reached between the Arab world and the nations of the EMS.

## Straitjacket on business

As reported in *Business Week* last week, the United States will for the first time find itself unable to capture a dominant share of the massive development market which the Gulf nations will open up over the next five years. U.S. firms will be prevented from gaining new contracts primarily because of the roadblocks put in place by Washington. These very constraints are, as one West Coast construction company executive put it, "halting productive investment and feeding the inflationary spiral at home."

Here is a summary of some of these constraints:

**Credit.** Senator Heinz's bill, the Competitive Export Financing Act of 1980 which attacks Europe and Japan for subsidizing credits for exports, is strikingly coherent with the current assault on U.S. exports. The lack of availability of cheap credits for U.S firms has contributed to the decline of U.S. construction abroad.

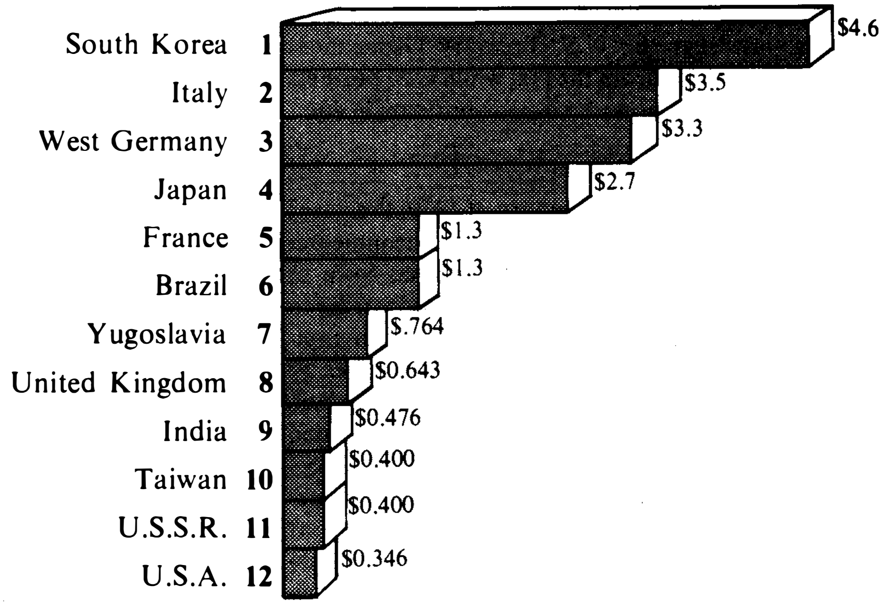
Over the last decade, the rates of demand to actual credit availability by the U.S. government backed Export-Import Bank has been rapidly rising. The government simply is not allocating sufficient capital to the bank to meet demand. Since its founding in 1945, the bank had been one of the best generators of revenue for government coffers, but now the bank is rapidly running out of funds due to what Washington sources say is a bureaucratic haggle between the House, the Senate and the White House over how much to increase the current lending ceiling of $3.75 billion which is allocated through the budget.

The demise of the Eximbank which has accompanied a round of well publicized scandals involving Exim President John Moore, is a feature of the plan to give the Federal Reserve dictatorial powers over U.S. banking. The plan is to transform the Eximbank into an arm of a U.S. trade war machine against Europe, Japan and

**U.S. drops to 12th place in Middle East contracts race**

(13 months ending June 1979 in $ billions)

*Source: International Construction Week*, U.S. Army Corps of Engineers, U.S. Agency for International Development.




Korea. This was confirmed by a spokesman from Proxmire's Senate Banking Committee: "The U.S. must get tough and put an end to credit subsidies. We need to enforce an international agreement from our major allies on this issue. If we have to we should get tough and hit them over the head, but it must be done. The Eximbank can serve as an example for our allies. The bank must stop lending at lower interest rates. We should simply insure long-term credits at a fixed rate of interest which should be agreed to internationally."

Another Washington source stated that Senator Proxmire is one of the leading proponents of "dismantling" the Eximbank."

The decline of the Eximbank's ability to meet demand parallels the skyrocketing interest rates in the private banking sector. According to a source at the Associated General Contractors organization, the current credit squeeze has seriously impacted the U.S. construction industry's ability to bid for projects in Saudi Arabia. According to the source, once the Saudis award a contract they immediately pay the contractor for the total amount of the project. In return, Saudi Arabia requires that the firm post a bond for the amount of the contract. "But in the U.S., when a company asks for a bond, it is considered to be a loan, which of course is not easy to secure especially considering interest rates. Our competitors in Korea, Italy, and France have much more government backing than we do and this gives them a margin U.S. companies just don't have any longer," said the source.

**Taxes.** The package of the 1976 Tax Reform Act, a bill in the works since 1973, marked a turning point in the United States' market position abroad. One of the key features of the bill was to impose income tax on U.S. workers abroad. "The imposition of that tax," said a source from Morrison Knudson, "seriously undercut U.S. construction's competitiveness abroad...because the worker's income was halved as a result of the tax, we had to raise the salaries just to make working abroad more attractive. But that meant that we could no longer underbid our foreign competitors. Unlike a few years ago, the Saudis just aren't interested in paying a U.S. company a premium, because in their eyes U.S. technology and expertise no longer exceeds that of, say, Japan or West Germany. So we are losing our markets," the source declared.

Senator Proxmire has been a major block in efforts to amend the foreign taxation legislation. It was Proxmire who played a leading role in transforming efforts to amend that law in 1978 into a complex legislative procedure which resulted in the Foreign Earned Income Act of 1978.

According to an article by the executive vice president of J.A. Jones Construction Company, Johnie H. Jones, in the May *International Construction Newsletter*, the Foreign Earned Income Act of 1978, "which has been touted as the tax relief for Americans working abroad, is in fact, the most complicated set of filing procedures ever enacted into law...the act creates substantial administrative costs for the companies employing American labor, due to the fact that day-to-day cost of living expenses must be documented for withholding purposes."

The irrationality of the tax on foreign worker income is nowhere made more clear than in the comparison of government income from the tax to the estimated lost business due to the tax. According to construction industry sources, last year the U.S. Treasury Department brought in $380 million from the tax, while U.S. business lost an estimated $7 billion of overseas business in competitive bidding.

**Environmental restrictions.** In January of 1979, President Carter approved the Executive Order on Environmental Effects Abroad. The result of this action has been to further increase the costs of U.S. construction in order to make projects comply with the stricter American environmental standards. While the order only applies to projects in such areas as the seas and the Antarctic, which involve federal support, there are also more limited environmental restrictions on a vast array of other foreign projects. Washington construction industry sources note that this law has soured many foreign governments to the United States since it is viewed abroad as Washington imposing an extraterritoriality to its own environmental laws which is seen as an intrusion on national sovereignty.

**Boycott restrictions.** Since the enactment of the antiboycott provision so the Export Administration Act of 1977, U.S. exporting companies, notably construction, have been caught in a juridical dispute between the Department of Justice, Treasury, and Commerce on the interpretation of boycott regulations. For example, last year the Treasury Department issued guidelines prohibiting U.S. exporters compliance with the Saudi and Kuwaiti shipping and insurance certification requirements. Prior to the announced prohibition by Treasury, the Commerce Department had authorized compliance.

**Bribery.** The Foreign Corrupt Practices Act is yet another constraint being placed on U.S. businesses opprating abroad. This legislation is unique only to the U.S. As any businessman who has operated in the Middle East can testify, what is considered to be bribery in the West is considered to be a commission in the Middle East. The Foreign Corrupt Practices Act is perhaps one of the most aggravating of government restrictions on U.S. firms operating abroad, since the interpretations of the provisions of the legislation are so vague. The businessman, therefore, will simply refrain from certain kinds of business transactions.

**Human Rights.** A number of U.S. construction deals have either been stalled or in some cases cancelled through government intervention in applying the White House Human Rights policy. This has occurred in countries such as Argentina. Invariably such a policy has thrown these contracts into the hands of foreign competitors.

# The contracts and their petrodollar link

Between 1980-85, the oil producing nations of the Persian Gulf expect to engage in one of the most intensive development efforts in history—an effort conservatively estimated at a value of $600 billion.

Over half of the new development opportunities will come from Saudi Arabia. Iraq, the United Arab Emirates, Qatar and Kuwait will provide the remaining contracts. Last month, Sauid Arabia announced that its new five-year plan will be double in value that of the 1975-1980 plan. Riyadh chose to announce the plan during French President Giscard d'Estaing's historic tour of the Persian Gulf region. As *Business Week* pointed out last week, the United States is will get few of the new Saudi contracts. France, West Germany, South Korea and Japan will take the lion's share.

Linked to the Saudis' brute force development drive, is their policy that its massive wealth of petrodollars will no longer be recycled through western banks in direct deposits, but recycled back to the west through development project contracts.

Saudi Arabia's recent monetary agreements with Japan and West Germany are exemplary. Last month, Saudi Arabia announced that it would directly lend West Germany 5 billion deutschemarks in return for Bonn government promissory notes. The agreement was reached simultaneously with a new Saudi-West German state-to-state agreement for oil shipments. Over the last 18 months, West Germany has been picking up an increasing number of large Saudi construction projects.

Shortly after the Saudi-West German loan agreement, Japan won approval from the Saudi royal family to accept yen-denominated bonds using the Bank of Japan as the agent. According to the *Financial Times* of London April 5, the purchases have been going on for some months. The Japanese are hopeful that other OPEC surplus countries will follow Saudi Arabia's lead and that this will help to strengthen the flagging yen.

Timed with the public revelations about the yen bond purchases, Saudi Arabia and Japan signed their largest-ever construction deal for a $2 billion joint petrochemical project in the Jubail industrial city which is now under construction. Part of the deal, which has been under negotiation for 10 years, includes the Saudi offer of direct oil sales of 200,000 barrels a day of crude to Japan.

## Oil for development

These new agreements between Saudi Arabia and Japan and Germany follow demands put forward in Davos, Switzerland by Saudi Oil Minister Zaki Yamani at an international trade conference earlier this year. Yamani stated that his country was looking for paper investments in the industrialized nations which would yield a better return. He demanded a greater investment from the advanced nations in Saudi development as another precondition for future guaranteed oil supplies.

The Saudis are now awarding direct oil sales agreements, bypassing the multinational oil companies of the Arabian American Oil Company (Aramco), based on a formula that for every million dollars of investment in Saudi development a 1,000 barrels a day of oil will be sold directly to the investor nation.

Included in the Saudi development projection for the next five years is a heavy emphasis on the construction of downstream crude oil processing capacity. Royal Dutch Shell and Mobil have both won sizable contracts for such projects and have in return received oil contracts through the Saudi state-owned oil company Petromin. Saudi Arabia's neighbors, Iraq and Kuwait, are also placing an emphasis on building crude oil processing installations.

The invariant in many of the new development contracts being signed by the Gulf surplus countries is technology for oil. In both categories the U.S. is losing out. The *Wall Street Journal* on April 8 reports that the four U.S. partners of Aramco (Socal, Texaco, Exxon and Mobil) are concerned that the volume of oil they move on world oil markets will further shrink. These companies see the Saudi plan to use the oil incentive to get foreign participation in joint venture development projects as threatening their own supplies. Saudi oil is particularly valued given its lower than other OPEC producer prices.

# America's competitors in the Gulf market

Behind the aggressive moves by Europe, Japan and South Korea to gain a greater share of the contracts in the developing sector is their commitment to a transfer of technology as the means to expand the world economy and reverse the current economic crisis.

And unlike in the United States where the government has become the greatest impediment to increasing the nation's market share in foreign construction, America's competitors enjoy an alliance between the public and the private sectors. In a statement published in the *International Construction Newsletter* in December 1979, Congressman Guy Vander Jagt (R-Mich.) warned that "the U.S. role in the world economy is very weak at this point and the future prospects are quite grim unless our government makes a drastic change in the attitude toward trade...We need to develop a partnership between private export industries and the government to expand export—along the lines of what is being done in Japan."

This "partnership" outlook led to the creation of the U.S. Export-Import Bank in 1945. Japan's economic miracle has been based on such a policy, and has made Japan one of the leading market forces abroad, notably in the Middle East. Trade statistics for 1979 indicate Japan nearly overtook the U.S. in total exports to Saudi Arabia.

Before the Iranian revolution last year, Germany and

### A sample of West Germany's Middle East projects, 1979

| The company | The country | The project |
|---|---|---|
| Co. Holzmann | Saudi Arabia | Tabruk town development |
| Co. Holzmann | Saudi Arabia | Damman harbor |
| Co. Holzmann | Algeria | Arzew lubricant refinery |
| Co. Holzmann | Libya | Abu Kammash chemical plant |
| Hochtief | Saudi Arabia | Jeddah airport |
| Hochtief | Saudi Arabia | Jubail harbor |
| Dywidag | Saudi Arabia | Riyadh television center |
| Dywidag | Algeria | Al Itissam dam |
| Kraftwerke Union | Saudi Arabia | Desalinization plant in Al Khobar |

### West German construction projects in major Middle East markets
(in millions of dollars)

| | 1977 | 1978 |
|---|---|---|
| U.A.E. | 50.5 | 421.9 |
| Saudi Arabia | 501.8 | 900.9 |
| Iran | 520.0 | 4,082.1* |
| Algeria | 292.7 | 57.8 |
| Libya | 1,237.8 | 365.2 |

* The 1978 figure for West German construction in Iran includes the value of two nuclear plants. These contracts were scrapped following the Islamic revolution in Iran.

Japan had overtaken the U.S. in total trade, a large percentage of which was in construction. According to the *Engineering News Record* of Nov. 29, 1979, the U.S. exports market share in Japan, Italy, the Netherlands, and several Latin American countries, has dropped since 1977.

Another edge which Japan, South Korea and West Germany hold over the United States is their ability to offer their services in turnkey projects, supplying the steel, cement and other materials. A Wisconsin-based construction executive recently bemoaned the fact that even U.S. domestic construction uses more and more Japanese cement and steel. According to Kaiser Engineers of Oakland, California, 64 percent of the cement plants under construction *domestically* now use Japanese technology!

Crucial to the success of the European and the Asian competitors of the United States in the Mideast are the generous financing programs. A South Korean commercial attaché noted his country's policy of government support for private sector banking loans for export. "My government is very export oriented. Our export-import bank is deeply involved in backing the supply of raw materials for our overseas projects such as steel and cement, as well as shipping. This cheapens our costs and enables us to underbid other competitors."

The rapid increase of German construction in Saudi Arabia over the last 18 months is a reflection of the Franco-German alliance to integrate oil producers holding surplus petrodollars into the EMS through expanded transfer of technology agreements. Since Germany began its strong export policy in the late 19th century, it has relied on a firm alliance between Germany's commercial banks and exporting firms. The banks, which include the Dresdner Bank, the Deutsche Bank, and the Commerzbank, are committed to providing credits to Germany's exporters either directly or through the AKA Ausfuhrkredit Gesellschaft (mbH) (which is two-thirds owned by the Deutsche Bank, Dresdner and Commerzbank).

In the mid-1970s, the Dresdner Bank was responsible for setting up an elaborate triangular trade arrangement between West Germany, the U.S.S.R. and Iran involving the export of Iranian natural gas. This was worked out by then Finance Minister Hans Friederichs in cooperation with the late Dresdner Bank President Jürgen Ponto. Not long after the deal was finalized, Ponto was assassinated by West German terrorists. A year later the Shah of Iran fell.

Today in Saudi Arabia a similar pattern of new trade relations is developing with West Germany and Japan that had developed with Iran. In this connection it is not coincidental that the Soviet press recently pointed to the United States as being involved in destabilization operations against the ruling Saudi regime.

# The Eximbank: just a 'candy store'?

The Export-Import Bank is expected to deplete its government appropriated funds by June of this year. If the White House and Congress do not resolve differences over how much funds to appropriate for fiscal year 1981, the bank for the first time in its history, will close its doors.

A Senate Banking Committee source thinks the likelihood of a resolution before the June date is remote. Because of an "indifferent attitude primarily from the White House, the bank will soon be turned into a candy store." Already the bank has begun cutting back on loans, most seriously affecting U.S. aircraft corporations, "Our foreign competitors," Senate sources observed, "are doing very well thanks to the decline of Exim lending."

Through the Foreign Assistance Act of 1980, the bank has a lending ceiling of $3.75 billion. Last year, the White House assured the bank that it would push to increase its ceiling to about $5.8 billion. So the bank began to escalate its rate of lending. Then along came Federal Reserve Chairman Volcker's tight credit policy in October 1979. Senator Muskie of the Budget Committee soon announced that there would be no increase in the ceiling. But by that time the bank had more rapidly depleted its funds than it would have had the White House pledge not been made. Today, the bank has about $600 million remaining in revenues for lending.

Even before the crunch, the Eximbank was becoming overextended for lack of funds to meet growing demand. Fiscal year 1980-81 demand for Exim credit exceeds available lending capacity by about $7 to $8 billion. The bank has adopted a policy of smaller loans at higher interest rates.

At present, the bank has extended more preliminary commitments to exporters for credit over the next 24 months than ever before. Exim sources say that the bank has pledged credits to exporters worth over $18 billion over this period. A preliminary commitment does not mean that the exporter will necessarily collect the loan. The commitment is used by companies to bid for foreign projects. However, assuming that the government resolves its differences over the lending ceiling for the bank before June, sources say it is probable that the bank *will not* receive an increase in its ceiling given the balanced budget mood in Washington. Exporters with preliminary commitments will be left emptyhanded.