

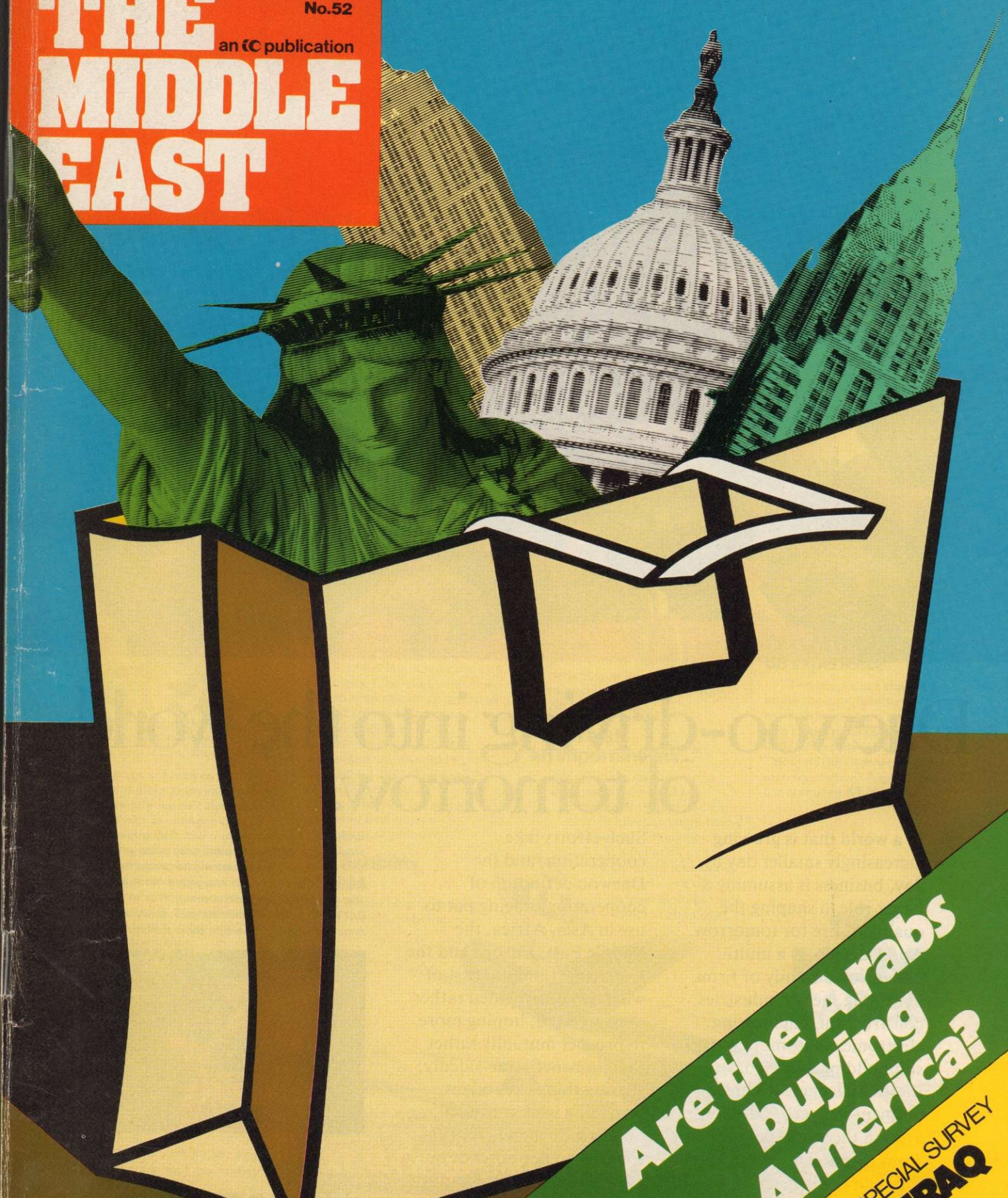
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FEBRUARY 1979

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THE MIDDLE EAST



**Are the Arabs
buying
America?**

SPECIAL SURVEY
IRAQ

THE MIDDLE EAST

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Head Office (London UK):

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Executive Manager Jean Norton
Overseas Director Eileen Crittle

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SALES International: Robert Becker, Stephen Bevis, Janey Burland, Alan Evans. **W. Africa:** Beatrice Mensah. **UK:** Colin Miller. **Classified:** Sandra Appleyard. **Production:** Hilda Iqloj.

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Denmark: Abdelkader Alliche, Middle East & Africa Advisory Services, Kobmagerade 47, DK-1150, Copenhagen. Tel: 01-110417. Telex: 16320.

Publisher	Ahmad Afif Ben Yedder
Editor-in-Chief	Raphael Calis
Senior Editors	Judith Perera (Politics) Naomi Sakr (Business) Maureen Abdallah (Culture)
Associate Editor	John Wallace
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Egypt: Ali Kamel, Pyramid Advtg. Agency, Al-Ahram Building, al-Galaa St., Cairo. Tel: 46460. Telex: 2001.
France: Diana Lecron, 15 Avenue Victor Hugo, 75016 Paris. Tel: 502-1800. Telex: 620893.
Holland: G. Arnold Teasing BV, Hobbemastraat 26, Amsterdam 1007. Tel: 020-768666. Telex: 13133.
Hong Kong: Martin Clinch & Assocs., Jam Fair Commercial Bldg., 53-55 Lockhart Road, Wanchai. Tel: 5-2735256/6. Telex: 76041.
India: Media Society International, 107/2 Raja, Ram Mohan Sarani, Calcutta 700009. Tel: 35-0030.
Italy: Vladimir Massone, Via Cardano 8, 20124 Milan. Tel: 652563/6597132. Telex: 320461.
Japan: M. Isomine, Media Force International (Asia), Azabu Heights, 1-5-10 Roppongi, Minato-ku, Tokyo 106. Tel: (03) 585-5441. Telex: 28208.
Spain: Maria Sarmiento, Iberia Mart 1 - off 320 Pedro Teixeria 8, Madrid 20. Tel: 455-2891/455-2923. Telex: 23357/23354 mart e.
Sudan: Sudan Publicity Ltd, P.O. Box 536, Khartoum. Tel: 78033.
USA: East Coast-New York: Richard Setti, International Communications, Room 1121 The Chanin Building, 380 Lexington Avenue, N.Y. 10017. Tel: (212) 867 2150. Telex: 425442.
Chicago and Mid-West: Will Strube, International Communications, The Esco Building, 5728 West 95th Street, Oaklawn, Ill. 60453. Tel: 312-599 7773.

LETTER FROM THE EDITOR

The questions posed by the Shah's departure from Iran are as serious as the problems caused by his presence. Perhaps there is a lesson for everyone in this situation; one wonders if the Shah has belatedly learned his.

The Iranians have proved their point. The millions that walked in the streets of Tehran confirmed that the revolt was not instigated by a small group of leftists, Marxists or Leninists, but that it was prompted by a desire to rid the country of Savak, the bureaucratic inefficiency, wide-spread corruption and above all the extravagances of the "king of kings".

Although they have begun to realise their ambitions, for the people of Iran, the real challenge lies ahead. How will they use their new-found freedom and power? Will they improve the lot of the masses or will they be side-tracked by internal squabbles? Many people, specially in the West, expect to see the Islamic purists clash with the Marxists and Communists, now that the Shah is out of the picture. Nor is this unlikely, if the experience of other countries is anything to go by. It would be equally significant if there is a military coup d'etat. That would bring the crisis back to square one.

Another lesson to be learned from Iran is that of over-dependence on a superpower. By trying to remove the grip of US influence the Iranians might suddenly find themselves in the embrace of the "Russian bear". But if someone like the Ayatollah Khomeini does take over this is unlikely to happen, Islam and communism being poles apart. This is one reason why some of the Gulf countries should not have too many apprehensions about what is happening in Iran.

The real challenge in Iran is how to combine the principles of Islam as defined by the purists without standing in the way of progress.

But whoever assumes power must remember that Iran cannot develop and progress in isolation from the rest of the world - East and West. Economic interests dictate flexibility which does not mean abandoning national rights. Countries like Algeria and Iraq have proved they can make economic and political ends meet.

There is little doubt, in the end, that the United States will again be the biggest loser in Iran. And the Americans have no one else to blame but themselves. The US has shown once more that it cannot learn from past mistakes. Once again it has bet on the wrong horse, even by expressing explicit support for Dr. Bakhtiar. Consequently it must continue to pay a high price for its mistakes.

Raphael Calis

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COVER STORY: The United States is in an uproar over reported large-scale buying by the Arabs of all things American. *The Middle East* takes a rational look at this new "media event" and finds mountains made out of mole hills. *Page 25*



FORUM: Muhammad Hassanein Heikal is nothing if not outspoken. In a wide-ranging interview with *Fulvio Grimaldi*, the late President Nasser's closest confidant covers Soviet and American policies towards Egypt and the rift in the Arab world caused by Camp David.

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MUCH SOUND AND FURY

ARE THE ARABS BUYING AMERICA?

Americans have a rather xenophobic reaction now that international capital has reversed its course and is flowing into the United States. Determining the realities of foreign investment in the US is a "kind of detective game played with extremely elusive and fuzzy tools", a recent study concludes. But one thing does emerge from a study of the facts by Mark Bruzonsky in Washington - there is very little fire behind the smoke screen of confusion which has it that the Arabs are buying the States lock, stock and barrel.



A "foreign money invasion" into the US has some Americans near panic, fearful that America is fast losing control over itself.

Newspaper stories began raising eyebrows a few years ago with erroneous warnings that with just three years surplus revenues the OPEC countries could buy up all the stocks listed on the New York Stock Exchange.

Magazine headlines - such as "Foreign Investors Go on a Spree in the US" in *US News And World Report* and "Who's Buying America" in *New York Magazine* - have become part of America's daily diet.

More than 80 bills have been introduced in the Congress during the past five years in order to investigate or restrict foreign money inflows into the US. So far, the main result has been disclosure legislation for investments of specific kinds past specific thresholds.

"The Arabs" of course are recipients of most of the criticism, even though they are responsible for very little of the business

takeovers or accumulations of real estate.

These are the two types of foreign investment which are the most controversial. If it were true that any substantial segment of American real estate or American industry were being bought up, there might be cause for "sunshine" (disclosure) legislation or even protective measures. Yet it is precisely in these areas that foreign control is minimal and Arab control minute.

Still, for many Americans, the spectre of "Foreign Investment" is an all-encompassing one with little distinction being made between portfolio investments and direct investments, which do involve ownership and hence however indirectly, politics.

American concern has three basic causes:

First, there is, undeniably, a substantial rise in foreign funds into America spurred by a decade of dollar devaluations, OPEC's successful assertion of oil-pricing power, and the relative soundness of the gigantic US

economy. It is a new phenomenon for Americans who have an "extremely ethnocentric view" of this kind of thing which is "part of American immaturity", one foreign affairs specialist notes.

Second, Arabs (and also Japanese) have always been rather mysterious and sinister figures to Americans. As one study has concluded. "Foreign investments are perceived as a threat in direct proportion to how foreign the foreigners are." And for this reason the Arabs get most of the press attention while the Europeans do most of the non-portfolio investing.

Third, Jewish concern over how Arab money influence can trickle down into political power and public opinion manipulation has substantially increased public interest in all foreign-money inflows. Such organisations as the B'nai B'rith, the American Zionist Organisation, the American Israel Public Affairs Committee and the American Jewish Congress are con-

COVER STORY

stantly attempting to portray Arab money as Arab power and Arab power as "bad for America" (not to mention Israel).

Of course, it is the press which nourishes the incipient uneasiness accompanying this historic reversal of the post-World War II flow of international capital. "The press has indeed found foreign investment in the US to be a hot topic," journalist Carlton Smith recently noted in *Politics Today*. "It may even be, in large part, a media event."

To a certain extent, the tide of articles focusing on what is in fact largely an overblown invasion of foreign funds is a journalistic natural. After all, with the ever-present "energy crisis", the periodic muscle-flexing by OPEC, the dollar's continual weakness and the constant Arab-Jewish propaganda squabbling, discussions of foreign investments here are but normal spin-offs from these other everyday topics.

Normally, though, the fires of public anxiety are more often doused with press-provided analyses and statistics than fanned by them. But despite numerous newspaper and magazine reports which tend to highlight the limited amounts and effects of foreign investment, public anxiety still seems to be growing. And despite press reports that Arab investment remains heavily portfolio - with Arab direct investment and real estate purchases very small proportions of those totals - the myth remains the Arabs are buying up America.

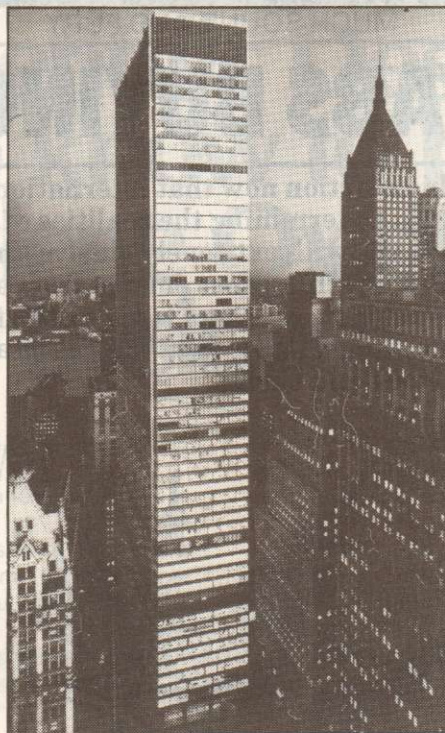
Examples of worry and concern over the "Foreign Money Invasion" abound:

... *Newsweek's* cover on 27 November last year portrayed the Statue of Liberty beleaguered by a Japanese, a European and an Arab - all with hands raised and filled with dollars. A sign hung from the statue's head read "For sale". The cover's title: "The Buying of America".

... The American Jewish Committee has begun publishing *Petro Impact* - a newsletter devoted to uncovering the misuses and abuses of "Arab involvement in American affairs".

... A new best-seller - *America For Sale: An Alarming Look At How Foreign Money Is Buying Our Country* - is now on the bookstands. Respected author Kenneth C. Crowe concludes in the book's final paragraph: "The United States must formulate an economic equivalent of the Monroe Doctrine - a national policy which clearly prohibits foreign governments or their agencies from making controlling investments in corporate America and which would impose on the Commerce Department its own suggested role of a continuous monitoring, analysis and disclosure of the impact of all foreign investments, private and government, on the nation's economy."

... The cover of the first issue of *Real Estate Washington* - "a slick, classy bimonthly" says *The Washington Post* - pictures a smiling Arab with the caption "Is Washington for Sale?" and dollar signs in



Chase Manhattan, New York; Senate concern on "bundles of foreign money"

the lenses of his sunglasses. Author Jay Gourley warns that experts see a "tidal wave" of foreign investment in American real estate just ahead.

... *Time* magazine reported in its 8 January issue that "few subjects scare and anger American farmers more than reports that carpetbagging foreigners are swallowing up US agricultural land from Georgia to California. If one wants to listen to many farmers and farm-belt politicians, at least half the population of Europe and maybe a million Arabs and Japanese are storming ashore, money bags in hand, to buy every square inch of topsoil."

... Fears of "a collapse of the entire international financial structure" and of the "enormous growth of Arab influence and power over the shaping and exercise of US policy decisions and private sector behaviour" are highlighted in a new 49-page American Jewish Committee study titled "Arab Investment and Influence in the US."

The report raises some valid points, says one Treasury Department official. "But it only looks at Arab foreign investments while it should consider the general subject of foreign money coming into the US."

In spite of its economic difficulties, the US remains the world prime investment centre par excellence. And that's why foreign investors are lined up to sink their funds into what many Americans consider a somewhat ill economy.

"At bottom the foreign investors are banking on the bedrock of America," *Newsweek* noted. "The economy and the dollar might stumble, but America is seen as a pillar of free-market capitalism and private wealth in a world sliding toward socialism." One multinational executive sums things up, "The American economy has a slight hiccup, that is all."

Europeans are diversifying, hedging their wealth against political troubles in their homelands and taking advantage of out-of-balance exchange rates. "The situation in Europe is growing worse and worse when it comes to the economic and social situation," says Marc Theisen, head of international marketing for a Washington realty firm. "They are not so much looking to get rich in the states, because they are rich. They want to stay rich."

The Japanese are compensating for the yen-dollar reversal, improving the US-Japan balance of trade situation, and protecting themselves against possible protectionist import restrictions by manufacturing inside the US.

The Arabs are looking for methods of safely investing their windfall and attempting to replace their inevitably declining oil base with a secure, long-term investment base.

All in all, the Euro-, Japo- and petrodollars flowing back to the US are sizeable by all previous measurements - and sheer volume is sometimes unsettling. Yet the entire \$311 billion in US securities and direct investments held by foreigners - a 400 per cent increase in one decade - is still below the \$381 billion in similar US investments abroad.

And the forecasts of hundreds of billions of yearly surplus petro-dollars craving

	"Direct Investment" By Foreign Companies in US	"Direct Investment" by US Companies Abroad
Canada	6	34
Netherlands	6	4
United Kingdom	6	16
Germany	2	10
Switzerland	2	6
Other European	4	20
Japan	1	4
Latin America	3	24
Other	1	20
Total	31	138

* "Direct investment" defined as ownership of 10 per cent or more of company's stock.

Source: Commerce Department through 1976.



New myth: Europeans, Arabs, Japanese buying every square inch of top soil

attempts to buy large segments of the US stock market and American farm land have proved illusory. One Treasury Department official recently confided in private that the West had learnt to do a fantastic job in selling the Arabs everything imaginable, recouping through recycling much more of the petrodollar bonanza than had been expected just a few years ago.

In fact, according to noted oil consultant Walter J. Levy writing in *The New York Times* on 5 January, OPEC government revenues since 1974 have totalled \$500 billion. But of that a gigantic \$400 billion has probably been expended on goods, services and military expansion. And the actual value received, based on cost levels in industrialised countries falls in the \$200 - 300 billion range."

Although Arab purchases of treasury bonds and other financial securities have been substantial since 1974, this kind of portfolio investment is not - or at least should not be - a major source of concern. These financial instruments, largely a matter of government-to-government debts, involve no production or marketing, no real estate ownership or management decisions.

In fact, the Treasury Department strongly

encourages this kind of investment as a stabilising mechanism for the dollar. And furthermore, though this is rarely mentioned by government officials, by entrusting parts of their national treasuries to American safekeeping, these Arab governments give a de facto pledge to support the dollar's worth and to generally align their policies with the US at the risk of finding their assets frozen during any major political confrontation.

OPEC holdings do make up the majority of the \$107 billion in foreign government claims against the US. And within the private-assets category OPEC citizens no doubt hold a large amount of the \$55 billion in securities and \$74 billion in loans attributable to foreigners.

But when it comes to the kinds of investment which are more than financial transactions, which truly represent "buying" of American businesses, land, and property not only are Arab holdings negligible, but all foreign holdings are minute before America's nearly \$3 trillion in business assets and the vastness of its real estate resources.

The Washington Post recently concluded: "Actually, less than 1 per cent of all foreign direct investment has come from the

oil-producing nations. The bulk - 67 per cent - has poured in from Europe, Canada has accounted for 18 per cent, and Japan 5 per cent."

This being the reality, how can the fear of Arab investments be explained? Carlton Smith took a stab at explaining things:

"It cannot be merely coincidental that perception of foreign investments as a problem or potential threat began - at least in the media - in 1974." That was the year the Arab oil embargo against the US ended, the energy crisis became contemporary wisdom, and the Japanese were becoming visible with, for instance, Matsushita purchasing Motorola (creating Quasar) and the Bank of Tokyo acquiring Southern California First National Bank. Before that, Smith notes, "there was no indication that Americans had been alarmed by, or were even aware of, foreign ownership of such thoroughly domesticated companies as Seagram, Lever Brothers, Shell, Lipton, or Good Humor. But of course those foreigners were Canadians, British, Dutch - people just like you or me."

As Smith continues, "The Japanese tend to get a discreetly bad press. The Arabs are simply, as an old-fashioned editor would say, good copy."

In short, Smith notes, "the Arabs are news. Being much in the news, they are called to the attention of politicians and other attention-getters, who partly realise they can get attention by invoking the Arab bogeyman... They view with alarm and are thereupon quoted by the press. The stories can't be said to be media-invented, but they are certainly media-propelled."

Many writers who have attempted to understand American attitudes toward foreign investment have concluded, like Smith, that there is a subtle combination of racism and xenophobia involved in the way Americans unconsciously select what to worry about. Smith adds in his *Politics Today* analysis, "Americans have not completely forgotten the yellow peril. As for the Arabs... well, Americans aren't quite used to men dressed in flowing white robes. The reflex reaction in some American brains is that there's something spooky over there, a little scary..."

"So, there's your foreign investor, the one a lot of us are getting worried about, alarmed, or even damn mad. The Canadians are okay, and the British, even the Germans. It's those other people," Smith concludes. Still, he adds, "the Arab who is buying up huge chunks of America - its banks, its commercial properties, its farms and ranches - is a figment of the national imagination. Perhaps something for psychologists to ponder, a symptom of whatever it is that's troubling many Americans. Particularly, it seems, farm folk." What's really troubling most Americans, one foreign affairs specialist confides, is that foreign money is a "symbol of

	US Assets Abroad in Billions of Dollars	Foreign Assets in US in Billions of Dollars
Official Reserve Assets	19	101
Other Government assets	46	6
Total	65	107
Private Assets:		
Direct Investments	137	30
Securities	45	55
Bank and Non-Bank Loans	101	74
Total	283	159

Source: Commerce Department through 1976.



Another unfounded fear: Arab grants to American universities

how we're losing our power in the world."

Beyond the xenophobic origins of much of the American befuddlement about foreign money, there is at least one interesting irony. Half of the state governments actually maintain offices in Europe or Japan vigorously competing to lure foreign money to their states. The State of Michigan unashamedly runs advertisements exclaiming "State for Sale". Investment banker Felix Rohatyn puts a humorous gloss on all this by suggesting: "We ought to change the sign on the Statue of Liberty to read, 'This time around, give us your rich'."

In fairness to American sensibilities, however, it is necessary to point out that there have been protests over European investment too. Pennsylvania Congressman Joseph Gaydos headed a vocal campaign in 1975, for instance, to prevent Baron Guy de Rothschild from purchasing Copperweld Corporation - Rothschild is a prominent French Jew. "The upsurge of foreign holdings in this country has been dramatic and frightening," Gaydos harked. "Is it wise for America to put the control of key industries, strategic raw materials and vital natural resources into the hands of someone

whose national loyalties are not with the US but with a foreign government?" he asked. No discrimination here. Just a lot of political gravy and fear-provoking rhetoric.

In two areas, however, real problems do seem to have arisen with foreign investment, and specifically with Arab investments.

Unlike with direct investments, no national records are kept concerning land purchases. Thousands of county court houses throughout the country maintain these records, but purchases are often through dummy corporations.

It is not so much that petrodollars are being used to purchase any sizeable amount of American farmland - in fact only about 3 per cent of farm acreage changes hands yearly and only about 5 per cent of that is bought by possibly foreign buyers.

Rather it is the inflationary effect of foreign money, especially OPEC money, on land prices which has so many farmers up in arms. "It's creating a problem for younger farmers to ever be able to buy land," explained the president of a rural Maryland farm bureau to the *Washington Post* in November.

Even on this issue, however, there is con-

siderable dispute whether foreign investment in farm land is responsible for inflationary prices. While acknowledging that this belief is the main objection of US farmers to foreign investment, *Time* magazine concluded: "in fact land prices have been climbing steeply, but almost wholly because of demand by Americans."

Nevertheless, all the attention has resulted in federal legislation requiring registration and disclosure of foreign land ownership. And many states are beginning to restrict or even prohibit foreign purchasing of their farm land.

Considerable foreign money is also flowing into urban real estate. But here considerable secrecy still prevails. In Washington D.C., for instance, "there are a lot of office buildings that have been bought with Mid-East money. But as a rule you don't get the facts behind it because they are kept pretty quiet," according to Jim Roberts in the Washington office of the Rome-based Societa Generale Immobiliare U.S. A Washington consultant notes, "foreigners look upon Washington as the centre of the universe." Other primary choices for foreigners are Houston and Southern California where numerous Iranians are now relocating.

Since the US Commerce Department keeps track of foreign ownership of non-agricultural property mostly by clipping newspapers and magazines, the extent of this type of foreign investment remains largely unknown. "What we know about may only be the tip of the iceberg,"

OPEC Surplus Invested in US 1974-1977 By Categories

Treasury Securities	34%
Other Marketable US Bonds	12%
US Stocks	12%
Commercial Bank Liabilities	16%
Other (including real estate, other direct investment, pre-payment on US exports, debt amortisation)	26%

Notes:

- Minimum total amount of OPEC surplus invested in US during this period, according to Treasury Department figures, is \$44 billion as of 1976, one-fourth of total OPEC investible surplus. Total estimate of figure today is between \$60 and 70 billion.
- Over 90 per cent of this total for OPEC investment is from Middle East countries with a great majority of this from Saudi Arabia alone.
- Estimated 50 percent of investible surplus of Saudi Arabia, Kuwait and UAE invested in US.
- In addition, more than \$10 billion deposited by OPEC countries in foreign branches of US banks.

Source: "Arab Investments and Influence in the United States," Louis J Walinsky for American Jewish Committee, October 17, 1978.



Japanese construction boss in Tokyo; the threat is in "direct proportion to how foreign foreigners are"

Commerce Department official Milton Berger admits. Even so, according to the *Real Estate Washington* article, "to suggest that foreign investment is a major force in the hyper-active Washington real estate market would be inaccurate."

Another specific problem, this one the focus of considerable Jewish attention, comes from the increasing practice of "investing in education" in the form of endowments to American institutions.

The most visible and controversial grant so far has gone to Georgetown University to establish the Centre for Contemporary Arab Studies.

According to the Jewish monthly *Moment*, at least 75 American colleges and universities have accepted gifts from various Arab states for purposes of supporting Middle East or Arab studies. Ira Silverman, the American Jewish Committee's "Arab watcher," charges in the first issue of *Petro Impact* that "while these funds may be used for perfectly legitimate purposes - including study of the contemporary Arab world, they

may also be used to skew university curricula, underwrite biased anti-Israel programmes and support on-campus propaganda activities not consonant with the universities' fundamental quest for truth and knowledge."

A number of specific incidents have caused considerable academic uneasiness and press attention:

... Saudi Arabia's gift of \$1 million to endow a King Faisal Chair of Islamic and Arab Studies at the University of Southern California has raised special questions because the university has apparently agreed to consult Saudi officials before assigning the chair.

... An educational exchange programme between Al Fateh University in Libya and the University of Alabama was ended after Jewish-inspired protests about the nature of the Tripoli regime.

... Three Quaker-affiliated schools - Bryn Mawr, Swarthmore and Haverford - discovered that a \$590,000 grant for Arab studies was to come from the Triad Foun-

ation. The foundation was then recognised as an offshoot of Adnan Kashoggi's Triad corporation. All the schools except Bryn Mawr have backed out, with Haverford stating that "because of its Quaker background ... it shouldn't apply for funds derived from arms traffic which it deplors."

... The University of Pennsylvania has rejected a grant from the Libyan-financed Arab Development Institute over the issues of discrimination and ideological advocacy.

A final area of special concern for many Americans is international banking. In the past five years the number of foreign banks in the US has more than doubled. And their assets have tripled to over \$80 billion.

But here too, US banking abroad still far outpaces what foreigners are doing on American shores. Foreign branches of US banks have \$258 billion in assets - more than three times what foreign banks have for assets in the US. And for many of America's most prestigious banks, from one-third to two-thirds of their total deposits are held by their foreign branches.

Still, the rather petty (in amount) Bert Lance - Gaith Pharaon Georgia Bank affair has exposed all banking ventures to public glare and left a bad political taste.

A number of Senate Foreign Relations Committee reports often emphasise a number of international monetary system concerns about the bundles of foreign money made available to the US banking system.

According to the AJ Committee's Walinsky report, "two kinds of risks are involved in Arab investments in this country. First if the Arabs decided to use their money as a weapon, they could abruptly liquidate their assets in this country and transfer them abroad, completely disrupting our financial markets. The second risk is that US banks, which have played a major role in lending to oil-importing countries to help them finance their balance of payments deficits, may sooner or later encounter debt default or repudiation by their debtors which could plunge the banks themselves into bankruptcy and cause a collapse of the entire international financial structure."

And in general, the report warns, "Saudi Arabia has acquired a degree of influence and power over the US never before achieved by any other country in this nation's history."

How Americans will respond in coming years to the continual inflow of foreign investment capital will depend on a great variety of political and economic imponderables.

But the nervousness and anxiety here seem certain to be at least leading to greater disclosure requirements and possible restrictions on certain forms of investment opportunities. And the fact that American public opinion and the press are both supersensitive to the Arab component of foreign investment presents special public relations problems for Arab investors. □