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Saudi Aramco and Maaden Joint Venture to Assist Saudi Arabia in Gaining Political Leverage to Navigate the Current Transitional Times and Intensify their Current National Interests through an Expansion into the Democratic Republic of the Congo

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Abstract

The following case report will cover a proposal that will postulate a joint venture between Aramco and Maaden to expand into the Democratic Republic of the Congo. The report will put forward a capitalization structure given the context of Saudi Arabia's international leverage in the context of American Hegemony with an explication of the strategic leverage. The report will also outline the details of the proposed joint venture and how it will serve the Saudi national interest given the current transitional times encompassing the transient nature of current hegemony and energy production. Furthermore, the Congolese strategic interests will be illuminated in the context of Saudi national interests. Finally, the report concluded with a suggestion for the future hinting that Saudi Arabia should move to solar energy given the upcoming decline of oil and gas while insisting that the target of the aforementioned proposal is the medium term.

Keywords: Gold; Zinc; Phosphate; Aluminum

Introduction

ARAMCO, the most significant oil and oil by products company globally, was formed through a concession agreement signed with what is currently known as the Standard Oil Company of California (SOCAL). After the Saudi's acquired control of the operation and nurtured the company, it became a catalyst that gave Saudi Arabia its semi-periphery position in the global political economy [1]. Saudi Arabia is a semi-periphery country because it relies on resource extraction and a mix between low-skilled and high-skilled labour; semi-periphery countries are more flexible [2]. On the other hand, Maaden is the largest mining and Metals Company in Saudi Arabia and the Middle East; it specializes in exploring, developing, and producing minerals. The company has a broad commodity focus spanning gold, zinc, phosphate, aluminum, and industrial minerals [3].

Moreover, it is open to expanding into new commodities that serve the bottom line [3]. Saudi Aramco is 98.5% owned by the Saudi government, and it currently pays a 50% tax to the government [4,5]. In contrast, as of June 2018, Maaden et al. is 65.44% owned by the Saudi government; the government increased its holding to 65.44% through its internal investment fund after floating half of the shares on the Tadawul Saudi stock exchange in 2008. Therefore, both companies are majority-owned by the Saudi government; thus, controlled by the Saudi government. The target host country of expansion is the Congo which is regarded as the wealthiest country in the world in terms of natural resources; its deposits of raw minerals are estimated to be worth in surplus of 24 trillion US dollars, and they are diversified [6]. The country is rich in copper, cobalt, cassiterite, manganese, coal, silver, cadmium, germanium, gold, palladium, uranium, platinum, gold, and a slew of other minerals and metals [7]. This paper will outline a proposal of a strategic 50/50 joint-venture between Saudi Aramco and Maaden backed politically by the government of Saudi Arabia to expand smoothly into the Congo through a concession agreement that serves both the national interests of Saudi Arabia and the Congo while explicating the context given the current regime of the global political economy.

Saudi Arabia's International Leverage Given the Context of American Hegemony

Orthodox hegemony is defined as material control over the international system and telling other countries what to do through force or coercion. The United States is currently the orthodox hegemonic core of the global political economy because it controls the four elements of structural power, which are finance, production, knowledge, and the main element which the Americans have control over is security and military power, which include the structural bi-lateral deals that sustain American hegemony [8]. The Chinese are challenging the Americans in knowledge, production, and finance; however, they still have a firm grip over the structural elements of security that sustain their control over the international system and military might [9]. Arguable given the interests involved, the pivotal aspect of their control hinges on their relationship with Saudi Arabia or, in other words, the petrodollar system.

The Petrodollar system works like this: Saudi Arabia possesses around 17% of the world's proven petroleum reserves, and the country is the leader of the Organization of Oil Exporting Countries (OPEC) [10,11]. This organization includes the most significant oil producers globally, including Russia. Moreover, OPEC controls 79.4% of world oil reserves, and it was formed in the 1960s, and since then, Saudi Arabia has had de facto control. Subsequently, in 1971 the Bretton Woods system collapsed developed after World War 2, pegging all currencies to the US dollar, and backing the US dollar by gold. Through the Nixon shock of 1971, it collapsed, and this happened because the United States Federal Reserve was printing more currency than they had in gold. Thus, countries demanded their gold back, stored in US domestic vaults; however, Nixon stopped the dollar's convertibility into gold, coining the term 'Nixon shock' [10-12]. Printing more currency is labeled today as quantitative easing, which is borrowing purchasing power from the future monetary value of the currency (IMF, 2022). Since creating the Federal Reserve in 1913, the United States dollar lost 96% of its value [13]. Now, this is where the Saudi's gain political leverage; in 1971, Henry Kissinger under Nixon met with King Faisal of Saudi Arabia after the collapse of the Bretton Woods system to cement the US dollar's reserve currency status [14]. The Saudi's agreed to sell oil exclusively in US dollars, and by 1975, all OPEC members started to sell oil exclusively in US dollars; through this, the backing of the dollar moved from gold to oil.

Through this deal, the Saudi's became the gatekeepers of the US dollar because, in a closed system, most countries needed to export to the United States to gain US dollars to buy oil from OPEC. On the other hand, the Saudi's who are the de facto leaders of OPEC, have the option to be the catalysts for changing the denomination of the sale of oil; thus, giving them an option that gained them political leverage that is increasing as time marches forward [15]. The leverage increases because the economic forcing function to export to the United States to buy oil is double-edged. It decreases in strength as more US dollars are traded outside of the United States because countries would develop foreign reserves in US dollars that other countries can trade goods and services for; thus, not having to export to the United States and siphon US dollars from the US. Therefore, decreasing the printing powers of the Federal Reserve and the credit issued by the commercial banks through the leverage and reserve ratios stipulated by the central bank. The forcing function allows them to print more currency and issue more credit through their commercial banks, thus, financing American productivity and competitiveness domestically. The inflation is exported abroad due to the demand for the US dollar to buy oil. Unfortunately, through a slippery slope, the United States put itself in a situation where they are not in complete control of their interests because the number of US dollars sitting abroad has gone out of hand, with 39% of total US dollars sitting abroad, amounting to trillions of dollars [16]. Therefore, to manage the possible domestic hyperinflation due to too many US dollars going abroad, creating a future risk of a flood of dollars coming in if the dollar lost market value, the Americans came up with an idea. They underwrote petrodollar recycling deals with the gulf countries outlining that the US dollars that they acquire from the sale of oil are reinvested back into the United States mostly in government bonds in a sustained manner to control inflation and strengthen the petrodollar economic forcing function [17]. The idea was implemented with the thought that if demand for the US dollar falls globally because, for example, oil started to be sold in another currency, or if the federal reserve raises interest rates that increase the demand for the US dollar in the United States, there would not be a flood of US dollars causing inflation in the United States. This is because a sizeable amount of the exported inflation would have been reinvested back into the United States mostly through government bonds, thus, funding productivity through government spending. However, the Americans took the printing of the currency out of hand. Sadly, the idea was not sustainable and mismanaged; consequently, 39% of US dollars and credit are currently sitting abroad. Thus, if demand for the US dollar falls abroad, then that would lower its price in the market, which means people would want to trade their US dollars for assets in the United States which would increase the supply of the dollar domestically, thus, causing inflation and lowering its price further. This would then lead to more people trading their US dollars for assets in the United States, creating a negative feedback loop. Unfortunately, the Americans cannot close their border to the US dollars because lowering the options of a currency also lowers its market price, thus, creating a similar problem. The Americans are also dealing with the absorption of the growing number of US dollars through exporting oil; they have become the world's biggest oil exporter, and Saudi Arabia is second [18]. The export of oil in America productively absorbs US dollars through dynamic industry and not just asset-buying; it increases the demand for currency while also increasing the supply of currency; thus, it balances out, and unlike government bonds, the currency does not have to be sent back out. However, the cost per barrel in the United States is $36, and in Saudi Arabia, due to different extraction methods, it is less than $10 [19]. Consequently, this gives Saudi Arabia another leverage point to lower the price so low that the Americans' extraction methods are not cost-effective. Now the Saudi's have the option to bankrupt the American oil industry and lower the demand for the dollar through negative feedback loops caused by the market's reflexivity. In summation, according to Quigley's historical model of the seven stages of hegemonic cycles, American Hegemony is in the declining portion of the model, or the sixth stage, and it is only a matter of time before another hegemony comes into power; no hegemony lasts forever is an objective truth everything that has a beginning has an end [20]. Therefore, the following proposed joint venture between Aramco and Maaden would help Saudi's weather these transitionary times and keep control over their national interests; the Americans have been helping them with regime continuation, which further proves that chaos in Saudi Arabia is against American national interests because of their structural significance to sustaining American hegemony [15]. The economic forcing function is a behaviour-shaping constraint that compels action to export to the United States to receive US dollars to buy oil while allowing America to issue more credit and export inflation. The Americans have been absorbing the US dollars through petrodollar recycling deals and now their oil industry. Nevertheless, Saudi Arabia is an Achilles heel of the US-controlled international system.

Details of the Proposed Joint Venture

The proposed deal structure is simple, and it must be kept in mind those metals and minerals are sold in US dollars. Both Saudi Aramco and Maaden create a new corporate entity where the company's board of directors is representatives from the Saudi government. The venture will be headquartered in Saudi Arabia at the preliminary stage with 50% owned by Aramco and 50% owned by Maaden, which means that the government given their share of interest in each company, will own 81.97%. The Saudi government will orchestrate a concession agreement on behalf of the two companies with the Congolese president to take over a few mines with the option for the joint venture to explore more. The deal will be maneuvered so that it is hopefully done through an executive order. The two Saudi companies will own 100% of the joint venture for the first 13 years; then the Congolese government will have the option to buy 49% at the end of year 13, but the company will still be headquartered in Saudi Arabia and still have representatives from the Saudi government as its board of directors. Subsequently, after 25 years since the company's inception, the Congo will have the option to buy another 26%, and the headquarters of the company will move to the Congo with the Saudi's keeping 25% of the operation indefinitely and one board member indefinitely. The company will mine for metals and minerals, and the Saudis will keep their respective share after expenses given their ownership share at the time up until year 25, where Congolese representatives will make decisions about the company. During the first 25 years of the deal, 70% of the minerals and metals sold will be sold from Congolese land, distributing profits given the ownership structure. The Saudi's will ship home 25% of their share of the minerals and metals and pocket the profits of the other 75% of their share given the ownership structure until the end of year 25. After year 25, the Saudi will take no more profits but expect 25% of all the metals and minerals mined after expenses to be shipped to Saudi Arabia. After 25 years, the Saudi Government will pay for its shipping costs, the company will be majority-owned by the Congo, the board of directors will be of Congolese choice except for one Saudi government representative, and the headquarters will be in the Congo. Moreover, given the amount of fighting in the Congo, the Congo must either offer troops to protect Saudi interests or allow the Saudis to bring in their troops to protect its investments.

One last clause is that the Saudi's have the option to convert 75% of their share of the profits given the ownership structure in the first 25 years from being paid in currency to being paid metals and minerals at their prerogative.

Serving the Saudi National Interest

This deal will serve the Saudi national interest because, firstly, it will allow them to increase their foreign reserves. Secondly, since the Saudi government will be importing metals and minerals for storage, they can be used as insurance in these transitionary times. The metals and minerals will be stored and leveraged as inflation-proof investments that can be used as political leverage when the world changes its hegemonic core, thus, its reserve currency. Thus, the Saudi's will have another structural resource, not only oil but also metals and minerals, that they can use to help them influence whichever country gains control of the world reserve currency. Assuming it is the Chinese, then expanding into Africa will produce synergies with the building of the city of Neom on the west of Saudi Arabia, which is assumed to be built so that the Saudi's can have leverage over the silk road; thus, this proposal will produce synergies with other aspects of Saudi interests (Neo, 2021). This plan affords Saudi Arabia more ubiquity within the structure of the complex adaptive system. Therefore, when there is a shift in the balance of power, they stay integral because not only will they have strategic points of control like the petrodollar system, which may change into the 'petroyuan' system, the petrodollar system is an Achilles heel that is very advantageous but can be broken during times of change. However, having both ubiquitous influences through the integration of the Saudi economy into different markets in the same political and economic scope as their strategic influence with the petrodollar economic forcing system would greatly benefit Saudi Arabia given the current environment.

Lastly, the Saudi's can use their currency to mineral clause to increase ubiquity and develop their technology industry by becoming a manufacturing hub for technology and complex goods, thus, helping them grow from their dependency on oil. Currently, in Saudi Arabia, "the oil and gas sector accounts for about 50% of gross domestic product, and about 70% of export earnings” [10,11]. Therefore, this deal serves the bottom line for Saudi Arabia, and the Americans cannot oppose the deal politically because Saudi Aramco was formed through a similar concession agreement, and it became the fruit of a robust relationship between Riyad and Washington. Thus, an agreement with the Congo may produce similar fruits, especially with Africa being the last frontier and the growing influence of the Chinese in Africa.

Navigating the Risky Congolese Environment and the Strategic Benefits for the Congo

The Democratic Republic of the Congo is home to much fighting; the country is plagued with civil war, tribal conflict, and rebel gang fighting that has pulled in Burundi, Rwanda, and Uganda. Moreover, the country’s financial system is not very developed, so there is a lot of money laundering and embezzlement going on within the country [21]. A suggestion to acquire cultural consent from the general population, the House of Commons, and the executive branch of government smoothing the investment and expansion into the Congo would be to leverage COVID-19 and donate 80 million Pfizer vaccines to the population of the Congo. This would amount to fully vaccinating about half of the Congolese population as a sign of good faith in the relationship between the Congo and Saudi Arabia. This would cost Saudi Arabia about $20 per vaccine or about $1.6 billion; the long-term benefit of the relationship outweighs the short-term cost [22].

Nevertheless, this could be kept as an option of last resort. The host country of the Congo will receive a massive dose of investment to develop its infrastructure and capital that it can leverage for the betterment of its people internally and solidify its political position in the future, the same way the Americans helped Saudi Arabia. The Congo will have more control over its mining industry in the future, and assuming the joint venture becomes a vast operation; it will allow the Congo to have a crown jewel that they can call theirs. They can use it to gain political leverage and improve the countries standard of living. This idea is not far-fetched because the Saudi's gained much of their political significance through Aramco because they were able through that company to make use of their oil resources effectively and efficiently gaining national security, political stability, social stability, and assisted them in gaining the ability to fight for their national interests.

Conclusion

This proposal is to help Saudi Arabia navigate the medium timeline of the foreseeable future. It would help Saudi Arabia position itself in a way that is robust enough so that it can withstand a dramatic shift in the balance of power which is being accelerated due to COVID-19 causing a strain on the world financial, political, and economic structure. However, this is not a long-term solution as the world moves away from oil and non-renewable resources. Nevertheless, even though metals and minerals do not currently have a viable substitute, the scale of this proposal will never be a big as the oil industry already in Saudi Arabia as that is their competitive advantage or leading factor endowment. However, it only acts as a supplement to the current order of things within the country. Therefore, further research is recommended into solar panels in the desert as Saudi Arabia receives much solar energy as it is a desert landscape. Solar energy can be Saudi Arabia's long-term plan for tomorrow, but in the meantime, this proposal may be the answer to navigating today.

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