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The New Politics of Patronage:

The Arms Trade and Clientelism in the Arab World

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Abstract

Contemporary scholarship on the Arab world generally concentrates on the largest and most high-profile regional sources of state largess, oil revenues and foreign aid. This Working Paper focuses on a less visible source of state patronage—the international arms trade. Dr. Shana Marshall identifies some of the interests and institutions involved in the arms trade between the United States and the Arab world with the aim of exploring how the variation in the design of defence contract requirements reflects the unique patronage strategies adopted by ruling elites in the Arab world. To this end, Dr. Marshall examines two pairs of contrasting cases: Egypt and Jordan, where the defense contracts have buttressed the resources and capacities of state-run military producers, versus Saudi Arabia and the UAE, where defense dollars have financed a range of commercial enterprises owned by private sector businessmen.

Introduction

The late scholar Harold Lasswell taught us that political science is the study of "who gets what, when, and how."[1] Although scholars of American politics rarely compare the United States with the states of the Arab world, we are ultimately concerned with explaining the same processes and outcomes—though this is obscured by our different vocabularies. American scholars generally deploy terms like "interest groups" or "pressure groups" to denote organized constituencies that lobby for specific privileges, whereas those of us who study Middle East politics (and the developing world more generally) tend to utilize more disparaging phrases like "patronage politics" and "clientelism." To be sure, this is partially owing to the difference in contexts. In the U.S., there are highly institutionalized legal channels for pursuing particularistic benefits, while in much of the Arab world, "who gets what" is often decided through informal and extralegal channels. But by attempting to answer the ultimate question of our discipline in isolation, practitioners of both subfields miss an important opportunity to identify the common interests and institutions that influence "who gets what" across our divergent areas of study.

Much of the scholarship on the Middle East focuses on how resources are distributed domestically, with little reference to how those resources accrue to Arab regimes in the first place. Scholars often fail to adequately address the organizational and financial interests of the institutions that mediate this transfer of resources, or to investigate how those interests influence the patterns of resource distribution within Arab states. This paper is an attempt to identify some of the interests and institutions involved in the arms trade between the United States and the Arab world. By examining how influential actors on both sides of this commerce collaborate to ensure mutually beneficial forms of patronage, we gain a better understanding of how politics operates in both locales.

The specific system of benefits examined here takes the form of reciprocal investment contracts that U.S. defense firms negotiate with the governments of procuring countries in the Arab world in order to facilitate arms sales—contracts commonly known in industry parlance

1. Harold Lasswell, *Politics: Who Gets What, When, How*. (New York: McGraw-Hill, 1936).

as "defense offsets."[2] These proprietary investment agreements concluded between a defense firm and officials from the importing government can take a wide variety of forms. Procuring states design their own offset policies, specifying the amount of investment that foreign arms manufacturers are required to make and the domestic enterprises to which those funds must be allocated.

The procuring state's control over the process allows us to analyze the individual projects generated by specific offset agreements in order to draw some conclusions about how procuring state governments distribute this investment in order to strengthen their patronage networks. An analysis of how these contracts are fulfilled also reveals how U.S. defense firms are able to influence the process in order to secure their own financial benefits, and how the efforts of these firms help fuel the expansion of offsets in the Arab world.

Contemporary scholarship on the political economy of the Arab world concentrates on the largest and most high-profile regional sources of state largesse, primarily oil revenues and foreign aid. However, as Heydemann and others have argued, two decades of economic liberalization have fundamentally altered not only the universe of resources available to the state for distribution to domestic groups, but also the institutional channels that governments have at their disposal to manage that distribution.[3] Some well-established sources of state spending have dried up even as new sources have become available. Defense offsets are one of these new types of resources, and this paper examines how regimes have cultivated defense offsets to expand their capacity to provide patronage to influential domestic groups.

Systemic developments including the ideological triumph of economic liberalism have curtailed the ability of regimes to utilize traditional, overt subsidies, while at the same time the region's growing share of the global arms market has created a large reservoir of potential investment generated by offset agreements. The sheer magnitude of money involved in the arms trade, as well as the secretive nature of the transactions and their exemption from trade-related oversight bodies such as the World Trade Organization, further contributes to the appeal of defense offsets as a system of patronage distribution.

In addition to highlighting the changing nature of distributionary politics, an examination of defense offsets also provides us with analytical leverage that we may not derive from similar investigations of oil revenues (which are highly fungible) or foreign aid (which is subject to donor conditionality). Unlike oil or aid, defense offsets are discrete contracts that flow to particular recipients as designated by the procuring country governments. Although information on these contracts is not collected systematically across cases, and significant secrecy and intentional obfuscation present challenges to data collection, it is still possible to develop a coherent picture of the domestic actors on the receiving end of offset investment.

2. Although this paper is limited to the Arab world, a similar analysis could be undertaken with respect to most other regions. Additionally, non-U.S. defense firms also engage in offsets, and although I make reference to a few such cases in this paper, the focus here is on American companies.
3. Steven Heydemann. "Upgrading Authoritarianism in the Arab World," *Analysis Paper* 13 (Washington DC: Brookings Institution Press, October 2007). See also Peter Moore and Anne M. Peters, "Beyond Boom and Bust: External Rents, Durable Authoritarianism, and Institutional Adaptation in the Hashemite Kingdom of Jordan." *Studies in Comparative International Development* 44(3), August 2009; Samer Soliman, *The Autumn of Dictatorship: Fiscal Crisis and Political Change in Egypt Under Mubarak*, (Stanford: Stanford University Press, 2011).

Defense Offset Terminology and Scope

The classification schemes used by firms and governments generally divide offsets into two categories: direct and indirect.[4] Direct offsets are directly linked to the defense materiel or service provided, and can include the co-production or licensed manufacturing of particular weapons systems; the transfer of military technologies; investment in the defense production facilities of the procuring country; or the use of in-country military subcontractors or suppliers. Indirect offsets are investments in civilian, non-weapons-related ventures. These can include establishing joint ventures with domestic commercial entities; transferring non-military technologies; eliciting investment from third parties; and providing capital for state-owned investment vehicles.[5]

Although offsets first appeared after World War II, what began as a modest program of official U.S. assistance aimed at rebuilding Europe's defense industrial base has since evolved into a multi-billion dollar system of commercial incentives that permeates the global arms trade. One estimate from a business-consulting firm put the value of offset agreements for the Middle East and North Africa at $12 billion in 2011 alone, and predicted that this figure will reach $156 billion for the period between 2005 and 2016.[6] The magnitude of this figure suggests an obvious question: How do defense firms remain profitable if they are liable for such substantial offset obligations? The answer is, in short: *because the procuring state pays for its own offsets.* This might seem to present a major challenge to my theoretical claim that procuring countries are using offsets to generate resources for patronage distribution. Upon further inspection, however, it not only underscores a feature common to all forms of patronage politics—namely, that they impose high costs on society—but also demonstrates why offsets are such an appealing vehicle for patronage: They satisfy the requirements of both defense firms and purchasing governments.

Reciprocal Patronage: Why Offsets Appeal to Both Defense Firms and Procuring Country Governments

In order to maintain their access to official subsidies, defense firms must convince their home governments that offsets constitute a significant cost (and not a *source* of revenue). Although a handful of analysts and foreign procurement officials have conceded that the cost of offsets is borne by the purchasing country,[7] regulations governing offsets in major arms-exporting

4. The term "offset" is widely used by both governments and the private sector, although the latter has more recently opted for euphemistic terms such as "industrial participation," "industrial collaboration," and "economic enhancement."
5. In previous decades, indirect offsets frequently took the form of a commitment on behalf of the defense firm to purchase commodities or manufactured goods from the procuring country or to identify third-party buyers. Such simple "barter" schemes have largely been abandoned, however, in favor of more complex transactions involving financial firms and so-called 'offset brokers.' Programs designed by these intermediary firms often allow procuring countries to leverage offset investment as a financial tool in order to secure additional financing for future weapons purchases.
6. Avascent Group and Fleishman-Hillard, "The Half-Trillion Dollar Challenge: Designing Offset Strategies to Build Reputation, Promote Development," *Avascent*, July 2012.* For previous estimates, see Andrew Chuter, "Nations Seek More Offsets from Suppliers," *DefenseNews*, April 18, 2010.* The offset broker cited is Grant Rogan, founder of Blenheim Capital.
7. Richard Aboulafia, an industry analyst at the Teal Group, remarks in a 2010 *Financial Times* article that "[t]here

countries such as the U.S. continue to characterize offsets as costs borne by the firms. This is evidenced by the language of reports issued by various U.S. government agencies that deal with defense industry regulation. A report from the Bureau of Industry and Security (housed within the Department of Commerce), for example, states that

> [w]hether direct or indirect, offset transactions return funds to the purchasing country. The offset funds spent in the foreign country to fulfill offsets are, therefore, a means by which the foreign government redirects public expenditures back into its own country.[8]

Industry advocates promote this misconception in their public statements and in official consultations with U.S. Government agencies.[9] Defense executives and sympathetic analysts characterize offsets as an unavoidable part of doing business[10] that is at best a "nuisance"[11] and at worst a threat to the industry's financial viability.[12] By denying that offsets are a source of revenue for firms, these advocates perpetuate the idea among policymakers that such transactions must be counterbalanced by continued government subsidies. One former industry trade group executive speaking at an offset conference went even further, raising the specter of unpredictability and volatility owing to internal confusion over the actual magnitude of companies' offset obligations

> [m]y industry probably has billions of dollars of offset obligations. They don't show anywhere on our balance sheets because no auditor knows what to do with an offset. When you start asking us for performance bonds and penalty clauses, that's going to show, and that makes people [i.e., investors and shareholders] very nervous. I am aware of some recent cases where companies simply weren't willing to put that on their books.[13]

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seems to be a massive confusion about who pays for offsets. It's the buyer, not the seller." Sylvia Pfeifer, "Overseas Defence Clients Get Tougher," *Financial Times*, June 10, 2010.*

8. U.S. Department of Commerce, Bureau of Industry and Security (Office of Strategic Industries and Economic Security, Strategic Analysis Division), "Offsets in Defense Trade" (Sixth Study Conducted under Section 309 of the Defense Production Act of 1950, as Amended), p. 9.*

9. The process through which firms are able to transfer the cost of offsets to procuring country governments is complicated, but usually involves inflating the price tag of the original equipment contract up front as well as resorting to various accounting tools (including multipliers and other industry-specific mechanisms). There is not space in this paper for a meaningful analysis of this phenomenon, but I have treated it at length in my unpublished dissertation manuscript.

10. Government Accountability Office, "Military Exports: Offset Demands Continue to Grow," (GAO/NSIAD-96-65, April 12, 1996), p11.

11. In his 1999 testimony to a House Subcommittee, Joel Johnson, then-Vice President of Aerospace Industries International, stated, "from an industry perspective, offsets are certainly a nuisance." "Defense Offsets: Are They Taking Away Our Jobs?" Hearing before the Subcommittee on Criminal Justice, Drug Policy, and Human Resources of the Committee on Government Reform, U.S. House of Representatives, Serial No. 106-114, June 29, 1999.

12. Industry reporters and their interview subjects frequently strike an alarmist tone, citing hits to companies' profit margins from growing offset obligations and the increasing sophistication of officials in purchasing countries. Part of this is strategic in nature, since defense firms are more likely to retain the services of a professional offset consultant if they perceive offset obligations as increasing in scope and complexity. See Andrew Chuter, "Nations Seek More Offsets From Suppliers," *DefenseNews*, April 18, 2010. Also see Zachary Fryer-Biggs, "From Nuisance to Necessity," *DefenseNews*, July 22, 2012.

13. Countertrade & Offset Newsletter, 26 (10), May 26, 2008.

Procuring country governments likewise want to depict offsets as costs borne by firms. This arrangement makes procuring country officials look like shrewd negotiators able to exact meaningful financial capitulations from powerful and (in most cases) Western or multinational firms. Although it is possible that some officials really believe this to be the case, statements issued by bureaucrats and industry analysts in the UAE and India suggest that seasoned statesmen know better. An analyst writing for the website Pragmatic Euphony (On the Indian National Interest) summed it up this way:

> There is an economic cost to offsets. Depending on the economic conditions prevalent in the offset [recipient] country . . . vendors hike the cost of their product to compensate for the inefficiency inherent in the nation seeking offsets. Therefore, an offset [recipient] country pays more for the import of defense items than it would otherwise have to if it did not impose mandatory offset obligations.[14]

An executive in the UAE's offset bureaucracy demonstrated a similar level of sagacity:

> If we look at the procurement and try to find the offset cost you will not find it. There are a lot of ingenious ways to hide that cost. They are charging also for offset fees from countries that don't have offsets for their procurements, just to take that extra money and try to invest it in a country that does have an offset program. And we know that this is true.[15]

The myth that defense firms are responsible for financing offsets is central to the continued utility of offsets as political patronage: It allows regimes to deliver subsidies to influential domestic actors without subjecting themselves to the perennial allegations of crony capitalism and economic mismanagement that complicate the provision of other forms of patronage. Offsets provide a vehicle for dispensing patronage to domestic constituencies that is unhindered by donor conditionality (unlike foreign aid) or by political debates over the optimal allocation of state resources (as with oil and other natural resource revenues). The debate over distributing offset-generated investment never takes place, because the funds appear to be generated externally and allocated through market mechanisms (with the defense firm choosing a suitable domestic partner based on the latter's objective qualifications). The emergence of professional offset consultants, offset trade associations, industry-specific networks and conferences, and official government agencies dedicated to offset implementation all lend an air of legitimacy and legal sanction to offsets that is absent from other patronage transactions. And the efforts of defense industry representatives to depict offsets as an innovative means for procuring country governments to expand private sector activity, finance domestic infrastructure projects, and encourage foreign direct investment help ensure that offsets appear to harmonize well with the principles of liberal economics and the reform programs of international financial institutions. Examining these contracts will improve our understanding of the ways in which prevailing modes of patronage politics evolve in response to changing norms and new opportunities, and the processes through which these new modes of distributive politics reinforce the economic and political power of influential domestic constituencies.

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14. "Muddled Defence Offsets Policy," *Pragmatic Euphony*, January 8, 2011.*

15. Comments of Saif Al Hajeri, Director of the UAE's Offset Venture Group, at the 2007 Middle East Regional Offset Conference held in Abu Dhabi. *Countertrade & Offset Newsletter* 25 (5), March 12, 2007.

Summary of Research Claims

This paper claims that variation in the design of offset requirements reflects the unique strategies adopted by ruling elites in the Arab world to secure the support of 1) indigenous military and security institutions or 2) powerful business elites—two constituencies identified in the regional literature as crucial to regime maintenance.[16] The cases examined below include Egypt and Jordan, where indigenous military and security institutions remain an influential force in politics. In both cases, the regimes' offset policies have been designed to steer resources to firms owned by the military, enhancing their productive capabilities and their capacity to generate revenues. Conversely, in Saudi Arabia and the UAE, also examined below, the regimes' offset policies steer investment toward large family-owned conglomerates whose patriarchs provide much of the sociopolitical support for their respective monarchs.

Although the strategies employed by these governments differ—in the type of offset they seek and in how they distribute the resources offsets generate—their goals are the same: to utilize defense offsets to provide political patronage to pivotal domestic constituencies. The ultimate goal of channeling offset investment in order to provide patronage is to consolidate and maintain the support of these constituencies. However, as some of the nuances of the following cases will reveal, the distribution of patronage is a complicated and contentious process, and the fact that certain groups (such as the Egyptian military) are primary recipients of state-mediated benefits is itself an indication of their influence. Although incumbents like former president Hosni Mubarak may have expected to retain the support of such influential groups when faced with internal opposition from those shut out of the regime's patronage networks, a close examination of how offsets operated in the Egyptian context may help us understand why the erstwhile guardians of regime incumbents ultimately decide to abdicate their role as regime bulwarks.

In the Gulf States, where oil-driven state spending has often been criticized as short-sighted, volatile, and pro-cyclical, offset-generated projects are framed as evidence of a thriving, diversifying private sector. In Egypt and Jordan, where bloated state-owned enterprises and import-substitution schemes are cited by neoclassical economists and development functionaries as primary causes of economic decline, military production facilities that receive offset investment are characterized as efficient producers attracting foreign investment and contributing to export earnings. Both narratives are false, not only because funds are being drawn from the procuring government's military procurement budget in order to finance the costs of offsets, but also because offset-generated ventures are frequently granted additional subsidies at state expense. (Common subsidies include tax holidays and/or exemptions, free [or cheap] land and facilities, below-market rates for utilities and raw material inputs, preferential credit rates and repayment schemes, and privileges meant to lure

16. See especially the following works: Eva Bellin, "The Robustness of Authoritarianism in the Middle East: Exceptionalism in Comparative Perspective," *Comparative Politics* 36(2), January 2004, pp. 139-157; and the edited volume *Debating Arab Authoritarianism: Dynamics and Durability in Nondemocratic Regimes.* Oliver Schlumberger (ed.) (California: Stanford University Press, 2007) especially the chapters by Steven Heydemann, "Social Pacts and the Persistence of Authoritarianism in the Middle East" and Thomas Richter, "The Political Economy of Regime Maintenance in Egypt." For perspective on the alliances between the state and business elites in the Gulf, see two articles in *Studies in Comparative International Development:* Pete W. Moore, "Rentier Fiscal Crisis and Regime Stability: Business-State Relations in the Gulf." 37(1), Spring 2002, pp. 34-56; and Sean Yom, "Oil, Coalitions, and Regime Durability: the Origins and Persistence of Popular Rentierism in Kuwait," 46 (2), June 2011, pp. 217-241.

in foreign partners, including unrestricted profit repatriation and assistance in navigating the state bureaucracy in order to facilitate the licensing process and bypass other regulatory requirements.)

Subsequent sections of this paper will examine the features of offset projects in the two contexts described above: in Egypt and Jordan, where these supplementary investments have gone to buttress the resources and capacities of military producers; and in two Gulf states, Saudi Arabia and the UAE, where offset dollars have gone to finance a range of commercial enterprises owned by influential private sector businessmen. Emphasis is placed on demonstrating how powerful constituencies vie for discrete benefits, and how the mutual profit afforded to both foreign defense firms and incumbent elites in the arms-procuring countries contributes to the expansion of offsets as a unique system of patronage.

Defense Offsets in Egypt and Jordan: Providing Patronage to the Military

The survival of the Hashemite dynasty in Jordan has hinged on the government's ability to maintain the support of its military and security services, whose original role was not defense against external aggression, but the suppression of internal rivals.[17] The same was true, until recently, of the Mubarak regime in Egypt. Unlike the Gulf states—where the colonial footprint was relatively light—Egypt and Jordan inherited extensive military, police, and intelligence structures established by colonial authorities: first to enforce their own rule, and later to mobilize the domestic population in support of the Allied war effort.[18] In the immediate post-independence period and during most of the Cold War era, the Egyptian and Jordanian regimes operated in an atmosphere of authoritarian politics characterized by populist and nationalist discourses focused on achieving economic independence, often by using the military as an engine for economic modernization and an avenue for social mobility. In Egypt, the leaders of the military coup that initiated the line of Nasser, Sadat, and Mubarak periodically reasserted themselves in Egyptian politics until their interests were sufficiently institutionalized that servicing them no longer required overt interference. In Jordan, the social mobility and economic privileges provided to the monarchy's traditional constituency—the Bedouin tribes of the East Bank that dominate the military and security services—have been a primary means of balancing their group interests with those of Jordan's Palestinian residents, whose socioeconomic position is more firmly rooted in the private sector.

These patterns have manifested themselves in the pursuit of offset projects that directly benefit the regimes' domestic security constituencies in a number of ways. Under licensing or co-production arrangements, the militaries of procuring countries benefit from

- the transfer of weapons technologies, capital equipment, manufacturing facilities, and related infrastructure, such as roads, power generation stations, and worker housing;

17. P. J. Vatikiotis, *Politics and the Military in Jordan: A Study of the Arab Legion, 1921–1957* (New York: Praeger, 1967).
18. For the legacy of colonial security policy, see Martin Thomas, *Empires of Intelligence: Security Services and Colonial Disorder after 1914* (Berkeley : University of California Press, 2008). For the role that war mobilization played in the shaping of regional militaries and internal security forces, see the many case-specific chapters in *War, Institutions and Social Change in the Middle East*, ed. Steven Heydemann (Berkeley: University of California Press, 2000).

- the employment provided to the engineers and trained managers who emerge from the region's military-technical colleges, as well as to the vast pool of unskilled laborers among the armed forces;
- the earnings generated by exports of co-produced weapons components;
- the ability to use the above-mentioned manufacturing facilities and trained labor in the production of other, *non*-military goods and services produced by the armed forces; and
- the prestige associated with being chosen to partner with multinational firms that build technologically sophisticated products.

The provision of these offset-generated benefits is an extension of the preferential access that the military in Egypt and Jordan have always had to scarce public goods, including industrial materials (iron, steel), energy inputs, infrastructure (roads, factories, airplane hangars, warehouses), hard currency, cheap labor, and social services (subsidized housing, commissaries, education, health care).[19]

Jordan and the King Abdullah II Design and Development Bureau

The King Abdullah II Design and Development Bureau (KADDB) is the Jordanian military's industrial production arm and the designated partner for offset ventures. Established in 1999 by royal decree, KADDB is characterized by the Jordanian government as "an independent government entity within the Jordan Armed Forces (JAF) that aims to be the globally preferred partner in designing and developing defence products and security solutions in the region."[20] The Bureau manufactures a wide range of military products, including MREs (pre-packaged field rations); boots, helmets, and clothing made with Dyneema—a patented body armor plate produced by NP Aerospace Jordan (a joint venture with NP Aerospace of the UK); several types of unmanned aerial vehicles (UAVs), as well as unmanned patrol boats and robots designed to dismantle bombs and check for improvised explosive devices (IEDs); grenade launchers; sidearms and ammunition; and numerous types of defense electronics, including imaging equipment, sensors, and radar. It also provides upgrades and modification services for infantry combat vehicles, along with security services for banks and critical infrastructure sites as well as personal escorts for VIPs.

According to KADDB's own promotional literature, these products result from joint venture partnerships with twenty-six different foreign defense companies.[21] The Bureau's subsidiary websites[22] and joint press releases issued by foreign defense firms show over twenty different

19. In Egypt, for example, the last six months of a conscript's term is spent not in physical training or military education, but working in the military's factories—thereby providing a huge source of free labor for Egypt's military industry. In the summer of 2010, eight employees of Military Factory 99 in Helwan were put on trial for "disclosing military secrets" and "illegally stopping production" after they organized a strike (broken up by the military) demanding safer working conditions in the aftermath of a boiler explosion that killed one and injured six others. They were eventually acquitted or given suspended sentences, but the trial demonstrated that the right to strike (provided for under Egyptian law) did not extend to those working in military factories. Thanassis Cambanis, "Succession Gives Army a Stiff Test in Egypt," *New York Times*, September 11, 2010.

20. KADDB website: http://www.kaddb.com/Public/Main_English.aspx?site_id=1&page_id=308.

21. Zaina Steityeh, "Out of the Dusty Labs," *Jordan Business* (corporate publication).

22. http://www.kaddbinvest.com; see also the KADDB industrial park website: http://www.kaddb-ipark.com. Also see various press releases posted on the Jordanian monarch's own public relations page, including: "King, product lines being jointly manufactured with defense firms from Australia, Austria, Belgium, Canada, Italy, Germany, the Netherlands, Russia, Saudi Arabia, South Africa, South Korea, Sweden, Switzerland, Turkey, the U.S., the UK, and the UAE, as well as a project with a commercial firm from Malaysia. KADDB's stated goal is not to develop an indigenous capacity to secure the domestic supply of defense materiel, but to export its products and services to neighboring states in order to generate revenue.

KADDB's offset policy takes the form of a quid pro quo for selling defense equipment to Jordan. That is, foreign firms must agree to shift some degree of technology and/or production to KADDB in order to qualify as a seller. Codifying this requirement in law is problematic for both Jordan and Egypt, as their defense budgets are primarily financed through U.S. aid. As a result both countries are prohibited from formally demanding offsets from American companies or from paying premiums to co-produce with foreign firms. Nonetheless, this restriction has not impeded either state's ability to expand its defense industrial base through collaborative ventures.

This tit-for-tat dynamic is evident in numerous Jordanian arms deals, where firms that sell off-the-shelf items to Jordan are simultaneously engaged in co-production activities with KADDB. In 2000, when CLS Systems (UK) signed an $8.8 million contract to supply twenty-five auxiliary power units to the Jordanian Armed Forces (JAF), it announced that the units would be built in Jordan; two years later, CLS Jordan was established.[23] The UK's Jankel Group, which has a number of joint ventures with KADDB, also supplies finished products to the JAF, including four Aigis 4X4 armored vehicles acquired by Jordan's Special Operations Command in 2000.[24] When Jordan began exploring options to acquire surplus F-16s from European fleets in early 2009, jets were ultimately purchased from Belgium and the Netherlands.[25] That same year, Strategem, a logistics firm with offices in Belgium and the Netherlands, received a contract from the Dutch Agency for Economic Development (a division of the Ministry of Economic Affairs, Agriculture and Innovation) to conduct feasibility studies for establishing an F-16 maintenance facility in Jordan.[26] The facility is currently being constructed by the Dutch company Daedalus Aviation.[27] Likewise, three years after Jordan purchased six Russian-made KA-226 helicopters in 2003, the manufacturer Oboronprom signed an agreement with KADDB to establish an in-country production and maintenance facility for the helicopters. For the foreign partners, these joint ventures yield guaranteed future sales to the JAF, geographic proximity to other regional markets, and various subsidies, such as tax exemptions and free factory space (in addition to the built-in premiums included by all firms, as mentioned above).

A decade of collaborative production has enabled KADDB to advance to higher-level production activities. In 2009, it signed a contract with the Paramount Group of South

Queen attend KADDB celebration," November 18, 2009.*

23. Steve Pain, "CLS Manoeuvres into Jordanian Battle Tank Contract," *Birmingham Post & Mail (UK)*, June 10, 2000.

24. Rupert Pengelley, "Aigis Special Operations Vehicle on Order for Jordanian Surveillance Troops," *Jane's International Defence Review*, June 21, 2000.

25. "More Belgian F-16s for Jordan?" *Defence Industry Daily*, January 26, 2009.*

26. "Jordan's KADDB Inks Five Major Deals," *Jordan Times*, November 19, 2009.*

27. The final report recommended two joint ventures: one for the maintenance, repair, and overhaul of equipment, and another for technical training.

Africa to manufacture mine-resistant armored vehicles. The contract required Paramount to construct manufacturing facilities, import the requisite machinery, and provide technology and training to KADDB employees. The Bureau also upgrades armored vehicles through a collaboration with the UK's Jankel Group; the upgraded vehicles have been exported as finished products to more than twenty countries. In February 2011, KADDB signed a contract with the U.S. defense firm Alliant TechSystems to modify two CASA-235 military transport aircraft in a factory in KADDB's industrial park.[28]

This industrial park is illustrative of the official assistance that KADDB receives from the Jordanian state, which has provided the Bureau with many of the same supplementary services and costly infrastructure accorded to the military-industrial sector in the U.S. and Europe. The industrial park is the first free zone in the region to specialize in military production, and in addition to exemptions from corporate income taxes, import fees, customs duties, and building and land taxes,[29] the park's many amenities include:

> [a] [h]igh security environment . . . [t]op quality infrastructure . . . reliable electricity and water . . . a network of . . . paved and lit highways. Storm sewer and sanitation networks and attractive landscaping . . . management services [including] cleaning, maintenance and security for the park perimeter, public areas, and roads systems. Assistance with registration and licensing of new businesses, and ongoing support for the issuance of documentation, invoice certification, transfer of ownership of goods and other paperwork required for international trade[30]

The Bureau's assets also include a commercial investment division staffed with finance experts (known as the KADDB Investment Group), which evaluates potential partnerships,[31] and the Special Operations Forces Exhibition & Conference (SOFEX), held annually in Amman, which provides KADDB with a platform for advertising its products to private sector executives and government procurement officials from around the world. KADDB has also participated in other international defense exhibitions, including the 2011 DSEi Exhibition (Defense & Security Equipment International) in London—where managers from the KADDB Investment Group took pains to note that they were the only Arab country to participate.[32]

KADDB also benefits from the services of its defense attaches, who promote the organization's products and services overseas, as well as from its links to the Jordanian government, which ensure that visiting defense officials and corporate executives get a tour of KADDB's facilities.[33] Lastly, KADDB has also been active in forming strategic partnerships with defense industry trade publications. The Bureau's most high-profile partner is the global consulting

28. "Jordan's KADDB Awards Contract to ATK to Modify Two CASA-235 Military Transport Aircraft," *Defense & Aerospace Week*, March 9, 2011.
29. Jordan Investment Board, "Free Zones."*
30. KADDB Industrial Park, "Advantages of KADDB Industrial Park."* Other assets available at the park include a ballistics missile lab, which is utilized by the KADDB operation JORAMMO (Jordanian Ammunition Manufacturing and Services).*
31. The KADDB Investment Group (KIG) was established in 2010 to facilitate financing options for co-production projects.*
32. KADDB Investment Group Newsletter, August/September 2011, See page 1.*
33. Zaina Steityeh, "Out of the Dusty Labs," *Jordan Business* (corporate publication) October 2, 2007.*

firm IHS Inc., which owns the most prominent collection of defense industry publications: *Jane's Defence Group*.[34]

Quasi-state-owned companies also provide services to KADDB, including Orange Jordan, which concluded an agreement this year to provide an integrated telecommunications infrastructure for KADDB and its affiliate companies. Although the contract is not public—and it is impossible, therefore, to know for sure if these services are being provided at a discounted rate—the JAF pension fund is a partial shareholder in Orange Jordan, and the military's long history of subsidized services would suggest that this partnership also comes with preferential terms. KADDB's operations may also be supplemented by the state-owned real estate developer MAWARED (aka the National Resources Development Company), which has some overlap in its executive structure with KADDB.[35] Like many developing world militaries, the JAF has significant holdings of very valuable land, and MAWARED generates profits for the armed forces partially through management of this land via commercial development, including by "selling land, doing master planning and managing real estate."[36]

Because military subsidies are politically sensitive issues, officials from KADDB focus more on the ostensible economic benefits of the program than on its potential strategic advantages. One executive from KADDB estimated that production in the industrial park would reach nearly $400 million a year in 2012–2013.[37] In one KADDB profile that appeared in a Jordanian promotional publication, the majority of the text deals not with the Bureau's contribution to military readiness or national security, but with KADDB's success at "providing vital linkages between Jordan's public and private sectors . . . scores of employment opportunities for Jordanian graduates . . . [and] ongoing training schemes for Jordanian engineers and technicians."[38] Although Jordan's biggest customers have been the Gulf monarchies and the U.S.-led Coalition Provisional Authority in Iraq, at the 2010 annual SOFEX exhibition, KADDB signed contracts for about $100 million worth of exports to Kenya, Oman, Saudi Arabia, and Yemen.[39] In fact, KADDB has become so successful that it is now signing its own offset agreements—including a deal inked in 2011 to transfer technology for body armor to the Ministry of Defense Industry in Azerbaijan, which will produce KADDB-licensed products in its own domestic military factories.

One of KADDB's subsidiaries was even heralded by the Geneva-based Graduate Institute of International and Development Studies as a model for achieving profitability and

34. KADDB Investment Group Newsletter, August/September 2011. Although *Jane's* does have a reputation for being exhaustive in its reports of global arms production, its coverage of KADDB activities has been quite limited compared with its coverage of other small-scale arms producers in the developing world.
35. While acting as MAWARED's managing director, Moayyad Samman was also the chairman of KADDB.
36. "KADDB Success Story," (produced by MarcoPolis, a corporate public relations agency specializing in business and tourism reports on emerging economies).*
37. Moayyad Samman, chairman of KADDB (and managing director of MAWARED), remarked in an online public relations publication that KADDB had over $100 million in annual turnover in 2011, and he expected that to reach $300 to $400 million in 2012-2013. http://www.marcopolis.net/jordan-industry-sector.htm.*
38. Steityeh, "Out of the Dusty Labs."
39. "KADDB Signs Contracts," IHS Jane's, May 12, 2010.* Documented exports to the Coalition Provisional Authority (CPA) in Iraq include one hundred modernized M113 tanks in 2004 and an unspecified number of UAVs (unmanned aerial vehicles) called SEEKERS, also in 2004. For contracts with the CPA and Iraq see *Army-Guide.com**; and "Seabird eyes further opportunities in Iraq" July 21, 2004. *FlightGlobal*.* For the SOFEX sales, see Steityeh, "Out of the Dusty Labs."

self-sufficiency in ammunition supplies based on the application of principles of "state sponsorship," and "progressive privatization," and by seeking out foreign investment and joint venture opportunities.[40] But studies conducted by economists specializing in offsets suggest that such claims of profitability are dubious. Brauer and Dunne, the most prolific development economists currently studying the economics of offsets, conclude that

> [e]xtant evidence suggests that offset arrangements do not yield net benefits for a country's economic development. . . . [a]rms trade offset deals are more costly than off-the-shelf arms purchases, create little by way of new or sustainable employment, do not appear to contribute in any substantive way to general economic development, and with very few exceptions do not result in significant technology transfers, not even within the military sector.[41]

Notwithstanding the claims of KADDB executives, the benefits that KADDB's activities have achieved for the Jordanian regime are primarily political. Because military service has traditionally been an avenue of social mobility for East Bank Jordanians, making more high-skilled technical jobs available within the military is an absolute necessity in the face of mounting demographic pressures and tensions between East Bank residents and those of Palestinian descent. A handful of KADDB ventures involve domestic private sector entrepreneurs, primarily Jordanians of Palestinian origin. Those of East Bank origin provide the manpower and engineering expertise for KADDB and its subsidiaries. The concerted effort to publicize KADDB's export-generated earnings and its partnerships with foreign firms is designed to help ameliorate public resentment over the allocation of scarce state resources to military pensions, health care, subsidized housing, and other perquisites that accrue to the regime's traditional East Bank base. KADDB's public relations efforts help promote the perception—whether valid or not—that the military is "earning its keep" by contributing to state revenues.

Defense Offsets in Egypt

Egypt's military production, like that of KADDB, has expanded with the assistance of offset arrangements that provided technology, equipment, and facilities via joint production with Western arms manufacturers. In Egypt the process began in the mid-1970s—earlier than in Jordan—and it was achieved primarily through individual agreements for a discrete number of co-production runs or licensing agreements for particular components, rather than via the joint venture model present in Jordan.[42] KADDB's joint venture model does imply a

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40. Benjamin King (ed), "Surveying Europe's Production and Procurement of Small Arms and Light Weapons Ammunition." *Small Arms Survey*, Graduate Institute of International and Development Studies, Geneva, July 2010, pp. 33-34.

41. Jurgen Brauer and J. Paul Dunne, "Arms Trade Offsets: What Do We Know?" July 2009, (Paper prepared for the *Handbook on the Political Economy of War*, Chris J. Coyne and Rachel L. Mathers (eds), (Northampton: Edward Elgar Publishing, 2011)).*

42. This difference in approach (joint ventures vs. co-production) primarily reflects changes in the global defense industry rather than strategic decisions taken by Egyptian and Jordanian military or political leaders. Co-production was the prevailing form of coordinated defense production in the 1970s and 1980s, whereas joint ventures are a relatively new model. Joint ventures generally entail a longer-term commitment than co-production agreements, which can end once a specified number of weapons have been produced. They are more common today because defense firms are more willing to enter into binding agreements in order to secure sales, longer-term collaboration (compared with a foreign firm's commitment to co-produce a pre-set number of weapons in Egypt under a single arms deal); but in fact many of Egypt's co-production projects have continued to operate for decades.

These projects have ranged from small arms and battlefield electronics to armored personnel carriers, tanks, and military jets, and collaboration agreements have been signed with Belgium, Brazil, Canada, China, France, Germany, Italy, Pakistan, Russia, Switzerland, Turkey, the UK, and the U.S. [43] Producing a comprehensive list of the Egyptian military's economic operations (in order to determine which operations have benefited directly from offsets) is virtually impossible, as both the military's budget and revenues are considered state secrets.[44] This task is also complicated by the fact that facilities and equipment supplied to the military under arms procurement contracts are also used for the production of non-military goods destined for the domestic market—a form of overlap not present in the Jordanian case.[45] Nonetheless, many of the businesses operating under the military's three main organizations—the Ministry of Military Production (MMP), the Arab Organization for Industrialization (AOI), and the National Service Products Organization (NSPO)—have an online presence, and many are recorded in region-specific business intelligence databases.[46]

I have also used professional profiles and employment histories available through services like LinkedIn to find the names of firms at which individual Egyptians have fulfilled their military service requirements—which strongly suggests that these firms fall under military jurisdiction. I also include public sector firms whose chairmen and boards are dominated by military officials, including the Holding Company for Maritime & Land Transport, whose many subsidiary operations are also managed by military officials. By investigating the joint ventures and collaborative projects in which these firms are engaged, we can begin to develop a more comprehensive picture of the offset-generated investments made in military-operated enterprises.

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and they are also much easier to execute, because global supply chains have expanded, and many firms have administrators and production sites spread throughout the globe. Because Jordan had little or no domestic production capability until quite recently, it did not have pre-existing arrangements that favored the co-production model.

43. Jim Paul, "The Egyptian Arms Industry," *MERIP Reports No. 112* (February 1983), pp. 26–28. The agreement with Pakistan, still pending, is for local assembly of approximately fifty JF-17s (a joint Chinese-Pakistani design) in one of the AOI's factories. (See later in this paragraph.) Chinese officials told a defense industry trade publication that if a customer made a commitment to purchase a "significant number of aircraft," they would be willing to set up an indigenous assembly plant. Siva Govindasamy, "Farnborough: Pakistan and China Eye Export JF-17 Customers." *Flight Daily News* (Singapore), July 19, 2010.*

44. Periodic attempts to subject the military's manufacturing operations to customary auditing procedures, including efforts by opposition politicians in 1986 to bring military accounts under the jurisdiction of Egypt's Central Auditing Organization, have failed. The Supreme Council of the Armed Forces is currently seeking to secure their budgetary immunity by enshrining it in Egypt's new constitution.

45. Some of the non-defense items produced in military facilities are passenger vehicles, fire trucks and construction vehicles, agricultural equipment, machining tools, medical equipment, consumer electronics and kitchen appliances, pharmaceuticals, and even the voting booths used in Egypt's most recent round of parliamentary elections. The military also operates large chicken and dairy farms, meat processing plants, chemical factories, and tourism companies, as well as facilities that manufacture basic commodities and simple items like cooking oil, bread, pasta, purified water, shoe polish, kitchen cutlery, and cosmetics.

46. I rely heavily on Zawya (a subsidiary of Dow Jones that specializes in corporations located in the Middle East and North Africa); it also has profiles on many of KADDB's operations.

The Triumph of Patronage in Egypt's Military-Industrial Production

The high cost and duplication of capabilities inherent in Egypt's co-production programs contradict the idea that economic development or strategic independence in arms production are central goals for Egypt's military and political leaders. The Egyptian Tank Plant (Factory 200), perhaps the largest military factory in the region, provides an excellent illustration. U.S. financing for construction of the plant was approved by the U.S. Defense Security Assistance Agency (DSAA)[47] in 1984, four years before any agreement had been reached over the actual activities that would take place in the factory. Officials from both the State Department and the Department of Defense later complained that the construction of the factory duplicated capabilities already available at other Egyptian facilities and railroaded the U.S. government into approving the co-production component of the subsequent tank sale, without which the new factory would have been useless.[48]

General Dynamics Land Systems (GDLS) was contracted to construct the tank plant, and was awarded the subsequent contract for tank co-production. As with the quid pro quo conditions cited for the Jordanian case above, these supplementary facilities and co-production elements help individual firms like GDLS secure their position as future suppliers to Egypt's military. They also demonstrate the dual nature of offset-generated patronage, which in this case bestowed benefits on both GDLS and the Egyptian army. Although Egypt now possesses more tanks than all of Latin America and Sub-Saharan Africa combined,[49] since the first co-production run began in 1991, *ten* subsequent production cycles have been added. The most recent was in 2011, when an additional sale was announced for 125 tank kits at a cost of $1.3 billion[50]—this despite the fact that cost overruns of more than 70 percent have been documented by the U.S. Government Accountability Office since as early as 1993, thus limiting the amount of technology transferred to the Egyptian military and reducing the overall number of tanks produced.[51] (Although, it should be noted, these overruns did not reduce the sums paid to GDLS).

In addition to incurring increased production costs, the tank program also failed to meet the economic goal that was purportedly the basis for pursuing co-production in the first place: namely, exporting tanks to neighboring states. This goal was cited by Egyptian military officials as a key element in the original 1988 negotiations.[52] Nearly twenty years after co-production began, the only sign of pending export of the M1A1 tanks is a possible sale of

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47. This is now the U.S. Defense Security Cooperation Agency (DSCA).
48. Because the factory construction was concluded as a commercial, rather than government-to-government (Foreign Military Sales) contract, neither the Defense nor State departments had significant input into the agreement, although the U.S. government retroactively granted approval to finance the factory construction with military aid—something very unusual for commercial contracts. If this aid financing had not been approved, there is a very real possibility that Egypt could have simply refused to pay General Dynamics for the factory construction. Financing the contract through official U.S. military aid channels ensured that the U.S. government would pay General Dynamics directly – removing the risk of an Egyptian default.
49. Keith Krause, *Arms and the State: Patterns of Military Production and Trade* (Cambridge: Cambridge University Press, 1992), p. 187.
50. "Egypt Getting Ready to Purchase M1A1 Tanks," *Reuters*, July 11, 2011.*
51. GAO, "Military Aid to Egypt: Tank Coproduction Raised Costs and May Not Meet Program Goals" (GAO-NSIAD-93-203), July 27, 1993.
52. GAO, "Military Aid to Egypt."

140 units to Iraq.[53] Other co-production runs have been similarly disappointing in terms of exports. The Egyptian Tank Plant is also engaged in the modification of Egypt's arsenal of 2,650 M113 armored personnel carriers under a contract with BAE Land Systems.[54] Although BAE markets the modifications (which include upgrades of the engine, armor, and weapons systems) as yielding a stand-alone product known as the Egyptian Infantry Fighting Vehicle, to date this project has generated no exports. [55]

In the Driver's Seat: Defense Offsets and Military Revenues

What these co-production contracts *have* succeeded in doing is expanding the Egyptian military's capacity to produce commercial goods for sale domestically, with the proceeds going to military coffers. In many cases these commercial items are produced alongside military equipment on the same factory floors and using the same capital equipment. This is the case with the M1A1 tanks, which are produced alongside construction vehicles that are also sold locally by the military.[56] It is the case with the AOI's Arab American Vehicles factory (AAV), which produces military-grade Chrysler Jeeps right alongside the commercial models (including the Jeep Liberty and Wrangler) that the military sells on the domestic market.[57] Under the U.S. Pacer Forge program, any Egyptian military facility (including factories and shipyards) housing U.S.–designed weapons would be built and maintained under supervision of the U.S. Army Corps of Engineers using official U.S. military aid. (This would include the provision of related infrastructure like road, water, and sewage treatment systems; power generation stations; and housing for military conscripts and engineers staffing the factories.[58]) Because many such facilities are producing both military equipment and commercial goods, the U.S. assistance program directly supplements both production processes—and, therefore, Egyptian military revenues as well. As Robert Springborg put it:

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53. U.S. State Department cable obtained by Wikileaks, "Country Team Support for Third-Party Transfer to Iraq," U.S. Embassy – Cairo, February 4, 2010.* Although Iraq under Saddam Hussein was Egypt's biggest arms customer, this is most likely a sale engineered by the U.S. for political reasons (much like the U.S.-engineered sale of Turkish-produced F-16s to Egypt in the run-up to the first Gulf War, despite the Egyptians' insistence that they wanted planes produced in the U.S.). It is unlikely that the U.S. could convince any other regional states to purchase advanced military equipment produced in Egypt unless the transaction was essentially a form of military aid (from the Gulf states) or was concluded with a pariah state that cannot secure supplies produced elsewhere. This is reflected in the customer base for the one significant item that Egypt has successfully exported – the Fahd-28 armored personnel carrier – which went to Algeria, Bangladesh, Kuwait, Oman, and Zaire (now the Democratic Republic of the Congo). http://www.military-today.com/apc/fahd.htm.*

54. The M113 was originally produced and sold to Egypt by the U.S. firm United Defense, which was acquired by BAE in 2005.

55. M113 Vehicles,* The Egyptian Infantry Fighting Vehicle is available either as a kit to enable other countries to upgrade their M113 fleet, or as a finished product.

56. Charles Clover and Roula Khalaf, "Egypt Military Uneasy over Business Ties," *Financial Times*, February 28, 2011.*

57. Chrysler—which was the original producer of the M1A1 tank (before that division was sold to General Dynamics in 1982) as well as of the earlier M60 model, which Egypt acquired in large supply shortly after the Camp David Accords—owns a 49 percent stake in the Arab American Vehicles Company (AAV). Other vehicles are also produced at AAV, including the AM720. The company's production history is available here: http://www.aav.com.eg/Pathtosuccess.html. AAV also produces cars under license from the Chinese firm Jianghuai Automobile Co., Ltd.

58. Robert P. Grathwol and Donita M. Moorhus, *Bricks, Sand and Marble: U.S. Army Corps of Engineers Construction in the Mediterranean and Middle East, 1947–1991* (Washington DC: Center of Military History, U.S. Army Corps of Engineers, 2009), p. 588.

> Instead of military industries emerging from the civilian manufacturing sector, as in the industrialized countries, they spring to life in Egypt as a result of bilateral agreements between the Egyptian military and foreign arms manufacturers.[59]

The military's political influence is reflected in the continued expansion of the co-production model. In 2010, Egypt signed a new Foreign Military Sales (FMS) contract with Chrysler for $33 million worth of unassembled Jeeps, tools, and spare parts destined for the AAV factory.[60] The Jeep co-production program is a crown jewel for Egypt's generals, owing to the Jeep's storied history as a rugged combat vehicle and its export potential.[61] Like their counterparts in Jordan, Egypt's army leaders have worked to publicize the advantages of the vehicle production line, and of their own association with a multinational manufacturing firm.[62]

In addition to solidifying ties with military decision-makers and securing subsequent production contracts, Chrysler may have come by other privileges in exchange for continuing its co-production efforts in Egypt. In the last two years, Chrysler's former parent company (Daimler-Benz)[63] has agreed to pay nearly $200 million to settle charges that it bribed foreign officials. Among these was Egyptian general Abdel Hamid Wasfi, the chairman of AOI's Kader Factory for Developed Industries, which builds the Mercedes Benz G320 (known locally as the Kader-320) in addition to a number of other military products. Wasfi allegedly accepted the bribes in exchange for guarantees that his factory would place orders for parts and supplies with Daimler-Benz instead of with a competitor.[64]

Egypt also has a new program to overhaul and maintain HMMWVs[65] (military-grade Humvees) at one of the AOI factories. Like the M1A1 tank facility, the $7 million HMMWV facility was financed with U.S. military aid, and American officials claimed that the new

59. Robert Springborg, "The President and the Field Marshal: Civil-Military Relations in Egypt Today" (*Middle East Report*, July–August 1987), p. 13.

60. Aram Roston and David Rohde, "Egyptian Army's Business Side Blurs Lines of U.S. Military Aid," *New York Times*, March 5, 2011. Two military models, the Jeep TJL and the Jeep J8, are produced exclusively at AAV. These have been exported to two-dozen countries—including Libya, where pro-government forces deployed the TJL during skirmishes with protesters in Tripoli. See http://www.aav.com.eg/export.html.

61. The Jeep models produced in Egypt are marketed as dual-use vehicles with both military and civilian applications. An official announcement issued jointly by Arab American Vehicles (AAV) and Chrysler LLC site the vehicle's suitability for use by humanitarian organizations, public safety agencies, and a range of industrial and agricultural applications. In the announcement, AAV Chairman General Hussein Mustafa Mohamed characterizes the launch of the Jeep production line as "an important milestone" for both Chrysler and the military's Arab Organization for Industrialization (AAV's parent company). Mohamed likewise referred to "anticipated demand for [the Jeep's] export, calling it an "economically significant event for Egypt." JEEP, "Jeep J8 Production Begins at Arab American Vehicles Company" found at *cartype.com*.

62. One interesting example is the Jeep Club (a registered trademark of Chrysler Group Egypt). (See http://www.jeepclubegypt.com/about.html.) Chrysler Group Egypt is the parent company for AAV; it is their factories that also produce Mercedes-Benz vehicles in Egypt.

63. Chrysler is now owned by the Italian car manufacturer Fiat, but the activity in question occurred between 1998 and 2007, during the time that Chrysler was merged with Daimler.

64. The Kader Factory (in Heliopolis) produces (or once produced) trainer aircraft, bombs, mortars, and armored vehicles. The bribes were delivered through a shell company that Daimler-Benz established called "Consulting Egypt."

65. The prime contractor is AM General LLC of Indiana.

facility would "help Egypt to expand its defense industry."[66] As with the overlap in military/commercial production evident in the M1A1-Chrysler case, the HMMWV facility also appears to have generated some commercial opportunities for the Egyptian military. Predator Hummer Egypt is a private domestic distributor and service provider that claims to perform service on all models of the military-grade Humvee (HMWWV) in Egypt,[67] The (now-defunct) website of Predator Hummer Egypt appeared to be modeled on the website of the American company Predator Motorsports Inc.,[68] which itself has contracts to modify HMWWVs for the U.S. military.[69] Predator Hummer Egypt may be the result of an enterprising military official supplementing institutional revenues (or his own bank account) by using military equipment and facilities to perform maintenance on civilian vehicles.[70]

Defense Offsets in Egypt and Jordan: Hiding in Plain Sight

Because Egypt and Jordan rely primarily on foreign aid, loans, preferential credit terms, and other subsidies to finance their military procurement, their offset programs have often drawn criticism for alleged "double-dipping:" that is, getting their equipment free and in turn requesting *additional* benefits from private firms. The clearest expression of this criticism was a major GAO report commissioned by the U.S. Congress in 1993–94. The report examined offset programs in Egypt, Israel, Turkey, and Greece, then the four largest recipients of U.S. military aid and also some of the largest beneficiaries of defense offsets.[71] In response to this

66. "Egypt Plans to Establish Hmmwv Facility," *Middle East Newsline*, May 4, 2004; available at. The primary U.S. contractor was Accent Controls Inc.

67. http://www.predatoregypt.com/about.asp. This site is no longer registered to Predator Hummer Egypt, but instead leads to "Predator Egypt Leisure Services," an anonymous blog with a random assortment of travel-related postings – none of which reference Egypt. Page source information for the new site indicates that it was created by Semper Fi Web Design, a firm based in North Carolina. Although the creation of the new site means that the old one is no longer available through Google's 'cache' search, the author has kept image files of the website's various pages.

68. In a personal communication with the author, Ryan Wilson (see following note) stated that his firm did not have a formal relationship with the Egyptian company—although the latter has clearly copied elements of the U.S. firm's website for their own site, and uses language that implies a formal relationship with the U.S. firm.

69. Predator Motorsports Inc. was founded in 1998 by Ryan Wilson. According to the company's website, "Weeks after 9/11 Predator was contracted to develop extended range system for HMMWV's leading the war in Baghdad. Within hours prototype systems were developed and sent out for approval resulting in thousands of units being implemented for our armed forces." See http://www.predatorinc.com/the-predator-crew/.

70. In my research, I have noted several instances where seemingly private Egyptian companies are offering to resell manufacturing equipment used by the military, as well as others where companies copy the language and images posted on AOI or National Service Projects Organization (NASPO) websites and use these in their own advertisements. This is particularly true of companies advertising on asianproducts.com, tradeegypt.com, and similar import/export sites.

71. GAO, "Military Exports: Concerns over Offsets Generated with U.S. Foreign Military Financing Program Funds" (GAO/NSIAD-94-127), June 22, 1994. Unfortunately, the years covered by the GAO study were also the years in which the U.S. government collected no comprehensive data on defense offsets, since responsibility for gathering data and compiling reports was transferred from the Office of Management and Budget (OMB) in the late 1980s, but not taken up by the Bureau of Industry and Security (BIS) until 1995. There is some anecdotal material, however, that points to Egypt's offsets history, including the transcript of a speech delivered by John H. Eisenhour to the Defense Industry Offset Association's (DIOA) annual spring meeting in 1989, in which he states that "Egypt has also been authorized to use FMS financing for directed offsets." (John H. Eisenhour, Chief, International Security Affairs Branch, Office of Management and Budget, "Offsets in Military Exports: U.S. Government Policy," extract of remarks presented to the spring meeting of the Defense Industry Offset Association in Scottsdale, Arizona, May 9, 1989, p30). Egypt is also among only 23 countries listed as

criticism, Egypt adapted its offset acquisition technique, thereby ensuring that it would never appear in the reports compiled by the U.S. Bureau of Industry and Security (BIS), even when figures were still being reported for individual countries. Despite the fact that co-production with foreign firms is still a primary feature of Egyptian defense procurement, U.S. government announcements on weapons sales to Cairo always include the disclaimer: "There are no known offsets involved in this sale." Since co-production is still included in the BIS's working definition of what qualifies as a defense offset, this disclaimer signals at best an abdication of responsibility for monitoring offsets, and at worst deliberate disinformation.[72]

More recently, Blenheim Capital—an offset consultancy firm—advised an audience at the 2009 Abu Dhabi International Offset Conference (ADIOC) that Egypt's "increasing focus on industrial participation [offsets] as a competitive discriminator requires participating contractors to identify local beneficiaries."[73] Ultimately, the political sensitivities over Egyptian offsets merely transferred responsibility for their negotiation and implementation away from the U.S. government to Egyptian military officials and executives from U.S. defense firms. The result was that official channels disappeared, while relationships between individual Egyptian officers and procurement officials and American defense executives became more important (and the Egyptian military became more economically independent). The fact that the Egyptian army ultimately withheld its support for Hosni Mubarak during the recent uprisings may have been a reflection of this independence, since Egyptian military officials perceived (rightly or wrongly) that their commercial ties with U.S. defense firms had become independent of Mubarak's presidency. Judging by the continued flow of military equipment to Egypt both during the uprising and after Mubarak's resignation, they may indeed have been correct.[74]

having active offset requirements associated with military-related export sales in a report released by the U.S. International Trade Commission in October 1985. See "Assessment of the effects of barter and countertrade transactions on U.S. industries," report on investigation no. 332-185 under section 332 of the Tariff Act of 1930, p46.

72. A lawyer for General Dynamics (one of the largest U.S. defense firms) noted the legal inconsistencies implied by this disclaimer in a 2011 article published in the *Public Contract Law Journal*, in which he states that "[t]his language ["There are no known offsets"] seems to imply that the U.S. Government, as the broker for the FMS case, has special insight into the transaction and is almost certifying that there are, in fact, no offsets. Nothing could be further from the truth. . . . [O]ffset discussions take place . . . outside of U.S. Government earshot. . . . and the U.S. Government supposedly remains blissfully ignorant of the fact of their [offsets'] existence." Mark J. Nackman, "A Critical Examination of Offsets in International Defense Procurements: Policy Options for the United States," *Public Contract Law Journal* 40, no. 2, Winter 2011, pp. 526–527.* Furthermore, Egypt was included in a list of countries whose representatives were to be consulted by the Department of Defense's Interagency Offset Steering Committee. If Egypt had no offsets with U.S. defense firms, it is unclear why they would be consulted on the issue. Announcement of talks appeared in the Federal Register, a copy of which is available at http://fedgovcontracts.com/pe00-83.htm.

73. Blenheim Capital Partners, "Offsets in North Africa: Update of Activities" (presentation prepared for 2009 Abu Dhabi International Offset Conference, February 19, 2009).*

74. See, for example, a report on Egypt produced by the U.S. Department of Commerce in the wake of the January 2011 uprising. Margaret Keshishian, "Egypt: Export Opportunities in the Security and Defense Sectors," (U.S. Dept of Commerce, presentation slides from U.S. Embassy in Cairo, Commercial Section, 2011). The presentation features slides titled "Getting Back to Business," and cites the "booming" import in security-related products in Egypt, but makes no reference to any reservations that the U.S. Government has regarding exports of lethal products to a regime engaged in violent suppression of demonstrators.

Likewise, Jordan has also never appeared in a U.S. government report on defense offsets, although this could be because the BIS stopped reporting individual country figures around the same time that Jordan instituted its requirement that foreign sellers enter into joint ventures with KADDB.[75] Although Jordanian officials claim that Jordan has no formal offset policy, they are careful to insist that they reap the benefits of the practice. In an interview with the editor of the *Countertrade and Offset Newsletter*, an industry trade publication, the CEO of KADDB observed:

> We encourage that whenever we do an important procurement part of it is manufactured in Jordan as much as possible. *Although it is not technically described as an offset* [emphasis added], it is something that we would like to do because we would like to create jobs for our people. [76]

Likewise, spokespersons for the foreign firms entering into joint venture partnerships with KADDB make it clear that access to the Jordanian market is dependent on the firms' agreement to engage in co-production. The CEO of RiverHawk (the U.S. shipbuilding company co-producing patrol vessels with KADDB) remarked that the joint partnership would enable RiverHawk, according to a press release, "to exchange . . . know-how with the Bureau" and to market the vessels both to the JAF and to other militaries in the region.[77] This strategy has proven successful for the company, which signed sales contracts with both Iraq and Lebanon after forming its partnership with KADDB.[78] His observation is echoed in a report produced by Epicos, an Athens-based business intelligence firm that caters to the offset services industry, which states that KADDB's strategy is to form "limited liability joint venture operations—often enough in the context of unofficial offset requirements." [79] So, despite the economic pitfalls inherent in adding offsets to military contracts, it appears that the coordinated response of actors on all sides has been to tailor terminology and restrict information gathering rather than to fundamentally reform the system.

Defense Offsets in the Arab Gulf: Channeling Offsets to Domestic Business Elites

In contrast to Egypt and Jordan, it is the wealthy merchant families and business elites that provide the basis of support for the Gulf monarchies, and it is the commercial ventures of these patrons that are the destinations for offset-generated investment.

The abundance of capital provided by oil and gas exports in the Gulf states curbed the enthusiasm for indigenous industrialization,[80] thereby preempting the link between the

75. Joint ventures are also defined as a form of offset by U.S. government agencies, including the BIS and the GAO.
76. Countertrade & Offset Newsletter. 28(14), July 26, 2010.
77. "KADDB Signs an Agreement of Joint Venture with RiverHawk WorldWide LLC" (press release), May 18, 2009.*
78. See press releases on the firm's website, including "LAF Navy Concludes First Underway Demonstration of New Lebanese Fast Patrol Vessel in Gulf of Mexico" dated August 18, 2012; and "RiverHawk Completes Underway Trials on 60-meter Offshore Support Vessel (OSV 401) Destined for Iraqi Navy" dated June 15, 2012.* Before the firm's Jordanian joint venture, Riverhawk's only customer was the U.S. Navy.
79. Jordan Offset Report, *Epicos*, February 2009.*
80. Many scholars also argue that the political and industrial elite in the West actively discouraged

armed forces and economic development that underpinned the political power of militaries in Egypt and elsewhere in the Arab world. The small native population also meant that the Gulf monarchs had to rely on foreign forces to staff their military and security institutions, which undercut the potential sources of popular legitimacy or regime dependency that might have given the military substantial political clout. As a result, Saudi Arabia and the UAE have primarily pursued *indirect* offsets—or those that direct resources to civilian commercial ventures.[81]

Saudi Arabia was the first Gulf state to request offsets in tandem with military procurement, beginning in 1984, followed by the UAE in 1991.[82] Early offset agreements were concluded on an ad hoc and largely informal basis, although today each state has formal agencies and sophisticated legislation pertaining to defense offsets. Official rhetoric regarding defense offsets has focused on increasing employment opportunities for Gulf nationals and reducing the Gulf economies' reliance on oil and gas exports through strategies of diversification and modernization.[83]

The participation of these merchant families (as with the military in Egypt and Jordan) is heavily subsidized by the state, through incentives like interest-free loans, below-market prices for raw materials, exemption from import duties, tariff-free access to neighboring markets (even before the introduction of the Arab Free Trade Area), removal of restrictions on the repatriation of profits, preferential treatment in government procurement decisions, bank guarantees, and a host of other benefits.

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industrialization in the oil-exporting monarchies because they feared that this would lead to a class-based social order that might generate conflict and endanger the regularity of oil supplies. The result is a contemporary social order based on direct transfers of resources from the state to its citizens in the form of subsidies for housing, education, healthcare, and consumer staples rather than on providing independent employment to these citizens through large-scale industrialization projects. Such projects would have created a working class comprised of citizens able to place demands on the state, which would ultimately find their expression in political mobilization. By contrast, the majority of laborers in the region today are migrants from Asia, whose lack of citizenship prevents them from effectively mobilizing to demand economic or political rights from the Gulf state governments, while Gulf citizens remain dependent on the state for white-collar jobs in the public sector. See Adam Hanieh. *Capitalism and Class in the Gulf Arab States*, (New York: Palgrave McMillan, 2011).

81. There is some evidence that the Gulf states are beginning to incorporate requests for direct (or military-related) offsets into their negotiation strategies, although this has taken place only within the last few years. For more on this, see Shana Marshall, "Just business? Arms Procurement, Offset Investment and Indigenous Defense Production in the Arab Gulf " (Institut d'Etudes Politiques, Sciences Po-Paris, September 2011).*

82. Kuwait also instituted a formal offset policy in 1994, but owing to space limitations and a scarcity of information, this case is not included here. Oman also has a formal offset policy, initiated in 1998, but it has not seriously pursued offsets in connection with its small defense purchases. Although Bahrain and Qatar have no formal offset policies, in practice Qatar has required offsets in the past, and it is currently drafting offset guidelines. Meanwhile, Bahrain maintains a seat on the GCC-wide offset committee, sends delegates to make presentations on offset practices at regional conferences, and is host to an office of Blenheim Capital, the largest offset broker in the business.

83. At a 2008 meeting, the chairman of Kuwait's offset committee stated that the objectives of the program were transferring and incorporating modern technology, generating job opportunities for Kuwaitis, and strengthening training and education programs. See United Arab Emirates press release "First General Assembly of [Kuwait] National Offset Committee Takes Place," April 16, 2008.* Abu Dhabi's 2030 plan also cited employment for nationals and technology transfer as the two key goals of the UAE's new offset guidelines.

"The Shield" and "The Dove": Defense Offsets in Saudi Arabia

As of 2008, the Kingdom of Saudi Arabia had signed ten offset agreements, each of which has yielded numerous individual projects. These have included Peace Shield I with Boeing and General Electric in 1984; *Al Yamamah* (The Dove) with the British government in 1988; *Al Sawari* ("The Masts"—these were primarily large naval contracts) I and II with the French government in 1990; General Dynamics, also in 1990; Peace Shield II with Hughes Aircraft Company (now Raytheon) in 1991 and McDonnell Douglas (now part of Boeing) in 1993; Lucent Technologies in 1994; United Technologies in 1995; and the *Al Salaam* (Peace) deal with the British government in 2008.[84]

Early offset initiatives in the kingdom centered on increasing state industrial capacity by requesting the provision of basic technologies, capital equipment, and training. The Peace Shield offset package resulted in the creation of six industrial firms in Saudi Arabia[85] with overall cost estimates ranging from $800 million[86] to $1.4 billion.[87] The initial struggles encountered by the Peace Shield companies may have influenced the structure of subsequent offset initiatives pursued in Saudi Arabia, where the emphasis shifted away from defense-oriented industrial projects toward soliciting non-defense firms to establish branches of their businesses in Saudi Arabia. For example, under the UK's *Al-Yamamah* offset agreement, the prime contractor BAE brought in several large non-defense-related European firms, including agribusiness giant Tate & Lyle and Glaxo Wellcome, which set up the United Sugar Co. refinery and a pharmaceutical plant, respectively. The same agreement also spawned two contracting companies to provide personnel services for domestic firms,[88] along with seven

84. *Al Salaam* was initially branded the *Al Yamamah* II deal, but because of the highly publicized allegations of corruption surrounding the previous *Al Yamamah* deal, officials renamed the project. Additional offset contracts were signed between 1995 and 2008, but a Saudi official reported that because some were "specific" while others were more "general" in nature, they were appended to previous agreements concluded with obligor firms that already had active offset contracts. Countertrade & Offset Newsletter, 26 (11), June 9, 2008. This is, obviously, confusing: Since "specific" and "general" have opposite meanings, it is hard to see why offsets of both types would be kept off the books. The official that made the comment did so to the newsletter's publisher, however, and when asked by him to elaborate, declined to do so. Integrating new offset agreements into existing ones and directing new investment to extant domestic firms has been an emerging trend among all the Gulf states, which further complicates the ability of researchers and industry observers to track regional offset activity.

85. These were the Middle East Propulsion Company (MEPC), the Middle East Battery Company (MEBC), Al Salaam Aircraft Company (Al Salaam), the Aircraft Accessories and Components Company (AACC), the Advanced Electronics Company (AEC), and International Systems Engineering (ISE).

86. See.*The Politics and Economics of Defence Industries*, ed. Efraim Inbar and Benzion Zilberfarb (London: Frank Cass, 1998), p. 191. Inbar and Zilberfarb give a figure of $600 million (in 1998) for four of the new Saudi operations; roughly $800 million in 2010 dollars. The large number of mergers and acquisitions that has taken place in the U.S. defense industry means that many of the firms originally responsible for the creation of these joint ventures in Saudi Arabia either operate under new names or no longer exist. As a result, sources written at different times list different U.S. firms as offset partners. The original U.S. partner firms included Hughes Aircraft Company (now Raytheon), McDonnell Douglas (now Boeing), General Electric, Pratt & Whitney (now part of United Technologies), General Dynamics, and Rolls Royce.

87. Ron Matthews. "Saudi Arabia: Defense Offsets and Development." In *Arming the South: The Economics of Military Expenditure, Arms Production and Arms Trade in Developing Countries*., Jurgen Brauer and J. Paul Dunne (eds), (New York: Palgrave, 2002). The $1.4 billion figure provided by Matthews represents a 37.5 percent offset of the original $3.8 billion contract – roughly in line with Saudi Arabia's stated policy of seeking offsets equivalent to 35 percent of the overall contract value.

88. Ironically, much of the business of these two firms is performed by its foreign managers or outsourced to

petrochemical ventures. Petrochemicals proved an ideal sector for offsets, since potential profits were high and restrictions on foreign investment applied only to *up*stream petroleum activities like exploration and extraction.[89] Petrochemical partners brought in by BAE and the UK government included British Petroleum, Honeywell UOP, Phenolchemie, Harlow Chemical, Flover, Bassel, Huntsman, and Davy Process Technology.[90]

Despite the shifts in sectors targeted for offset investment, the practice of subsidizing Saudi economic elites has remained consistent. The domestic partners for the British sugar refinery mentioned above included Savola—a huge Saudi conglomerate owned by some of the wealthiest families in the region, including the Alireza, Al Issa, and Khudairi families.[91] Likewise, the major shareholders of the Peace Shield companies Middle East Propulsion and Middle East Battery Company include the uber-wealthy Bulabaid, Jomaih, Al Issa, Mutlaq, and Zamil families,[92] whose histories as merchants predate the founding of the modern Saudi state. French projects under the first Sawari deal included a gold refinery, a firm specializing in the construction of equipment used in the mineral/mining sector, and two additional petrochemical companies, the Saudi French Chemical Company and Al Bilad Catalyst Company[93]—and all of these companies involved the Alireza family as primary shareholders.[94]

Two Saudi merchant families in particular—the Alireza and Al-Zamil families—provide illustrative examples of the mechanics of offset programs. The Alireza family was powerful well before Ibn Saud managed to extend his rule over the peninsula, its members held important government posts under the previous Hashemite rulers. Despite the question of their earlier loyalty, the Alirezas' economic power made them an indispensable asset to whoever would rule over the peninsula, and today their activities stretch across the entire spectrum of the Saudi economy, from distribution of foreign imports and construction and

foreign firms. One of the two companies—Saudi Development & Training Company—is managed by a cadre of British expatriates, and a recent deal outsourced SDT's procurement to Xchanging, a UK-based "procurement services provider." "Xchanging Wins a Two Year Outsourcing Contract with Saudi Development and Training Company (SDT)" (London: Marketwire, July 13, 2010).*

89. Ironically, the decades-long negotiations on establishing bilateral free trade agreements between the European Union and the Gulf Cooperation Council have stalled owing to EU insistence on protecting its own domestic petrochemical sector by blocking imports from the GCC states.

90. M.A. Ramady, *The Saudi Arabian Economy: Policies, Achievements, and Challenges,* (New York: Springer, 2005): pp. 284–86. Note, later versions of this text do no include the chapter on defense offsets.

91. Board members include Ammar Al Khudairy (a private equity magnate); Ghassan Al Sulaiman (Ghassan Ahmad Al Sulaiman Development Company); Ibrahim bin Mohammed Al Issa; Yousef Alireza; and Mosa bin Omran Mohammed Al Omran (who also sits on the board of the state-run Saudi Arabia General Investment Authority). In addition to controlling nearly two-thirds of the Saudi market for sugar and edible oils, Savola operates in three additional sectors: retail, including a large grocery store chain; plastics; and real estate. It also has a franchising unit with exclusive rights to import a number of foreign brands. See the Savola Group website: http://www.savola.com/savolae/About_The_Savola_Group.php.

92. Ramady, *The Saudi Arabian Economy.*

93. This list of French offset projects is also taken from Ramady, *The Saudi Arabian Economy*. Ramady also identifies some of the individual investors for these French projects in a 2005 article titled "Components of Technology Transfer: A Comparative Analysis of Offset and Non Offset Companies In Saudi Arabia," *World Review of Science, Technology and Sustainable Development* 2(1), pp. 8-9. Other investor information came from business intelligence publications including Hoover's, *BusinessWeek*, Zawya, and the Middle East Economic Digest.

94. This family's merchant pedigree is aptly demonstrated by the commercial license number issued to them by the Saudi state: 1.

real estate to tourism and telecommunications.[95] In addition to being a domestic partner for at least two of the eleven projects generated by the UK's *Al-Yamamah* offset in 1986 (the above-mentioned United Sugar Company and Rezayat Flover, a joint venture with the British electronics manufacturer Flover), the Alireza family was also the primary partner for a project implemented by the French under the Sawari II offset.[96] This project created the Al Bilad Catalyst Company, a petrochemical firm in which the Alireza family holds a 40 percent stake through two of its subsidiaries.[97]

The Zamil Group has also been a key recipient of offset largesse, and has been intimately involved with the offset program since its inception. Abdul Rahman Al-Zamil, the family patriarch, was labeled "one of the real architects of the [Saudi] Offset Program"[98] in a 1996 speech by Carlyle Group chairman (and former U.S. secretary of defense) Frank Carlucci while the U.S.-based private equity firm was serving as an "offset adviser" to the Saudi government.[99] The Zamil Group is the domestic partner for the Gulf Advanced Chemical Industries Company (GACIC), one of the first (and largest) offset projects initiated under the UK's *Al Yamamah* offset program,[100] and is also one of the primary shareholders in the Saudi International Petrochemical Company (SIPC or Sipchem), the product of an offset obligation incurred by the French defense firm Thales. In 2007, Sipchem became the partner for a new joint venture with Helm Arabia, also the product of a previous French offset.[101] Abdul Rahman Al-Zamil is also a former deputy minister of commerce[102] and a member of the Consultative Council, an appointed body of "notables" which either transmits public opinion to the King or provides a scapegoat for unpopular royal decrees, depending on one's viewpoint.[103] In February 2010, Al-Zamil was given a spot on the newly created Central Committee for Local Industrialization.[104] Comprised of business leaders and defense officials, the committee is part of a broader effort to encourage foreign defense firms with offset obligations to subcontract with Saudi manufacturers. Al Zamil, for his part, lauded the offset program as "not . . . only an

95. Michael Field, *The Merchants: The Big Business Families of Saudi Arabia and the Gulf States* (Woodstock, NY: Overlook Press, 1985), pp. 13–28.
96. As with the earlier Saudi-UK deals, a portion (15 percent) of the price of the weapons contract was paid in oil. "Sawari II Offsets Well Underway," *Jane's Defence Weekly*, May 6, 1995. The French offset was linked to the $3.6 billion sale, concluded in 2002, of three La Fayette F3000S frigates to the Royal Saudi Naval Forces.
97. Twenty percent through its National Contracting Company, part of Rezayat Group, and another 20 percent through its Al Bilad Trading and Economic Establishment, an engineering and construction conglomerate.
98. Frank Carlucci, Introduction, "Workshop on the Offset Program: A Launchpad for Joint Ventures" (October 1996), p 1.* The Carlyle Group made its name during the 1990s rehabilitating floundering defense companies and selling them to the largest firms. The group was also the official adviser to the Saudi Offset Committee from 1992 until 2001.
99. See company website [in Arabic] at www.zamil.com.
100. John Presley ("Economic Advisor of the Saudi British Bank [SABB]"), "The Al Yamamah Economic Offset Programme: A Guide to Business Procedures in Saudi Arabia" [Helping Business in Saudi Arabia Series] (The Saudi British Bank, date unknown), p. 4. The petrochemical company Huntsman Corporation (U.S.) was one of the major foreign partners for this venture; investment start-up costs (in 2002) were estimated at $220 million. The *Al Yamamah* arms sale was concluded in 1985; its offset program was launched in 1989.
101. Helm Arabia is jointly owned by the German Company Helm AG and the French defense firm Thales. "Sipchem and HELM ARABIA Sign Joint Venture Agreements for Acetyl Projects" (Helm AG press release, June 5, 2007).*
102. Al-Zamil held this post for sixteen years.
103. Daryl Champion, *The Paradoxical Kingdom: Saudi Arabia and the Momentum of Reform* (New York: Columbia University Press, 2003), pp. 290–91.
104. Souhail Karam, "Saudi Arabia Opens Military Supply to Local Firms" *Reuters*, February 7, 2010.*

investment instrument. . . . [but] a program that was able to sell Saudi Arabia to the largest corporations in the world."[105]

Tawazun (Balance) and *Alfia* (Goals): Defense Offsets in the United Arab Emirates

Official figures from Abu Dhabi cite forty offset projects as of 2010, valued at about $2.2 billion.[106] The UAE's early offset strategy avoided the large-scale industrial projects pursued by Saudi Arabia in favor of a broader mix of ventures, including luxury real estate development; leasing programs for aircraft, oil tankers, and other "big-ticket" items; a shipbuilding facility; waste management services; an enormous district-wide air conditioning initiative; and agreements to acquire services from Western legal and financial firms in connection with activities like establishing asset management vehicles and drafting business regulations. This sectoral diversity, however, has not been mirrored in the composition of the *recipients* of offset investment. The shareholders and executives of offset-generated operations are largely drawn from the wealthiest and most politically well connected families, including the Al Ghosaibi, Al Suweidi, Al Nowais, Al Mazrouei, and Al Jaber families.

A 2008 report released by the UAE-based investment bank The National Investor (TNI) analyzed the board membership of 582 companies to produce a list of the ten most powerful families in each of the GCC member states.[107] Eight of the ten families listed for Abu Dhabi (the Suweidi, Dhaheri, Hajeri, Qassimi [rulers of Sharjah and Ras Al-Khaimah], Nahyan [rulers of Abu Dhabi], Otaiba, Mazrouei, and Sayegh families) hold significant shares and/or seats on the boards of an average of 3.8 companies that were either established under an offset commitment or received substantial investment via such an agreement.[108] Two families with a significant presence in offset-related ventures that are not on the TNI list are the Nowais family (which has interests in six offset-related ventures) and the Al Jaber family (which has interests in four such ventures). The patriarchs of these families are both billionaires, and both earned their way onto a similar "power list" compiled by the independent UAE-based newspaper *The National*. Other families with a noticeable presence in offset-related activities in the UAE—the Khoury, Mansoori, Mubarak, and Muhairi families—are all prominent families according to other indicators of influence, be it their political connections to the royal family or their personal wealth.[109]

When the growing influence of emerging market economies put sovereign wealth funds squarely in the global economic spotlight, Abu Dhabi seized the opportunity to use the

105. "Workshop on the Offset Program: A Launchpad for Joint Ventures" (see note 86), p. 7.
106. UAE Press release, "UAE launches new offset policy," June 13, 2010.*
107. Amer Halawi and Brian Davidson, "Power Matters: A Survey of GCC Boards" [TNI Market Insight], *The National Investor*, May 13 2008. The report covers 3,493 individual board members occupying 4,254 board seats across 582 listed companies, with the board seats weighted according to the market capitalization of the company.
108. The two families that made TNI's list but held neither direct shares nor seats on the board of any offset-generated companies in the UAE were the Omran and Rostomani families.
109. The Khoury and Muhairi families just missed the TNI top 10 list (they were numbers six and ten, respectively, on the "unweighted" list,). Sultan bin Saeed Al Mansoori is the UAE's minister of the economy; Khaldoon Khalifa Mubarak is the CEO of *Mubadala* (see next paragraph) and ranks 23 on ArabianBusiness's list of the five hundred most influential Arabs.

investment income generated by offset commitments to establish three new state-owned investment vehicles. *Mubadala* ("exchange"), which is now the Emirates' third-largest state-owned fund, after the Abu Dhabi Investment Authority and the International Petroleum Investments Company; *Tawazun* ("balance"); and *Alfia* ("goals") were all originally capitalized in whole or in part with money from offset obligors. Although such investment funds were first proposed by the U.S. Department of Commerce's International Trade Administration in 1997 as "convenient vehicle[s]" to administer the large offset commitments incurred by U.S. firms,[110] the UAE appears to be the only country that has enthusiastically adopted this model.[111]

The boards of directors and senior executives of the funds are likewise drawn from the upper echelons of the Emirati elite, with significant overlapping membership. *Mubadala*'s board and senior executives include Abu Dhabi Crown Prince Sheikh Mohammed and Mohammad Ahmed Al Bowardi—the secretary general of the Abu Dhabi Executive Council—as well as members of the influential Suwaidi, Muhairi, and Mubarak families.[112] *Tawazun*'s four-member board also includes Sheikh Mohammed and Mohammad Ahmed Al Bowardi as well as members of the Sayegh and Mazrouei families—all of whom also sit on the board of the Offset Program Bureau, the UAE's official offset bureaucracy. Members of the Mazrouei family also appear on the boards and shareholder lists of a number of initiatives that have received financing through offset agreements, including Dolphin Energy; *Mubadala* Oil & Gas; the Abu Dhabi World Trade Centre; *Tabreed* (the National Central Cooling Company); Abu Dhabi Shipbuilding; German & Emirates Company Ltd.; and the *Bena/Bina* Group, which is an investor in two projects financed by the *Alfia* fund.[113]

Defense Offsets and the Structure of Gulf Economies

The structure of the private sector in the Gulf is well suited for taking advantage of offset-generated patronage. It is dominated by highly diversified family-owned conglomerates whose businesses run the gamut from importing goods like coffee and construction equipment to

110. Since then, however, the Bureau of Industry and Security has criticized this method of offset fulfillment for the same reason that offset critics in the U.S. Congress have denounced the idea: namely, that the use of investment funds to discharge offset obligations would facilitate a system of granting favors and paying bribes to procurement officials, because the financial regulatory and oversight apparatus present in many procuring countries is inadequate. See Daniel Pearl, "Arms Dealers Get Creative with 'Offsets,': Some Aid Packages Have Little to Do with the Purchaser" *Wall Street Journal*, April 20, 2000.

111. Kuwait and Saudi Arabia have launched similar offset-financed investment funds, but to date these have not been used to establish ventures engaged in the production of defense materiel.

112. These members are: Mohammed Ahmed Al Bowardi, Hamad Al Hurr Al Suwaidi, Nasser Ahmed Khalifa Al Suwaidi, Abdulhamid Mohammed Saeed, Mahmoud Ibrahim Al Mahmoud, and Khaldoon Khalifa Al Mubarak. Other *Mubadala* executives are Homaid Al Shemmari, who is also the chairman of Abu Dhabi Autonomous Systems Investments, a subsidiary of *Tawazun*; Suhail Mahmood Al Ansari, who is also chairman of the Imperial College London Diabetes Center, a wholly owned subsidiary of *Mubadala*, as well as a director of Agility Abu Dhabi, the Abu Dhabi–based operation of the Kuwaiti defense logistics company in which *Mubadala* recently purchased a large stake; Jassim Mohamed Al Zaabi, who is also the CEO of *Yahsat*, another *Mubadala* subsidiary; and Ali Eid Am Mehairi/Muhairi, who recently became chairman of the UAE's largest real estate developer, Aldar Properties, which received an enormous infusion of capital from *Mubadala* after suffering major losses during the recent financial crisis.

113. One company in which *Alfia* is invested is *Mahaleel* (the National Medical Solutions company), whose primary domestic shareholder is the *Bin Nawi* Group, chaired by Mohammed Mubarak Al Mazrouei. Mohamed Saif Al Mazrouei is CEO of the UAE's Offset Program Bureau.

running shipping lines and travel agencies, currency exchanges and financial services, and insurance brokerage firms—and extending to such enterprises as real estate development, tourism, light manufacturing, and telecommunications.[114] The extent of their operations not only ensures that defense firms have domestic business partners with easy access to infrastructure and capital but also allows these firms to solidify their relationships with elites who have access to high-level decision-makers—the same ones who will determine the recipients of future military contracts.

Harry Stonecipher, then president of McDonnell Douglas (now part of Boeing), explained the benefits to a gathering of Saudi officials and defense executives:

> Why should you think about offset if no one forces you to? Because it is the best way in the world to form a partnership. Once you get the partnership formed, then it is very difficult to be dislodged from that country.[115]

The preservation of the agency system, which requires foreign firms to sell their products through local agents,[116] means that many businessmen draw retainers to serve as local purveyors of international brands.[117] This system also comports well with existing offset practice, because the third-party companies that defense firms often approach to invest in the procuring country in fulfillment of an offset obligation can simply license the domestic sale of an existing product and receive compensation from the firm with the offset obligation. This requires little, if any, meaningful cooperation, however, between the domestic importer and the third-party company, which is neither incorporating nor restructuring a pre-existing local venture. It is unlikely, therefore, that such practices will have the effect of increasing efficiency or streamlining domestic business practices, as is frequently claimed by offset proponents.[118] It is precisely such antiquated commercial practices that regional economic leaders claim will be weakened through the sustained involvement of international firms—and specifically through the implementation of offset-sponsored joint venture agreements.[119] Defense offsets also adhere to the established practice of rewarding loyal elites indirectly, thus allowing the government to provide privileges to its chosen recipients without disclosing the origins of the benefit—namely, the public purse.

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114. Field, *The Merchants*, p. 7.
115. "Workshop on the Offset Program: A Launchpad for Joint Ventures" (see note 86), p. 9.
116. Investment laws usually require that the local partner be the majority shareholder—except in the economic free zones, where ownership and investment laws are relaxed.
117. Ithmar Capital, "The Impact of Private Equity on the GCC," June 2007, p. 11.
118. The growth in the magnitude and complexity of offset projects has led to the creation of an enormous number of intermediary or offset "broker" firms, which essentially liaise between the procuring government and the defense firm, provide legal advice, and suggest possible projects—and take a substantial cut for their trouble. One of the largest such firms is Blenheim Capital, owned by Grant Rogan, whose father was Northrop Grumman's "handler" for its dealings with the infamous arms dealer Adnan Khashoggi. Rogan Sr. spent years battling allegations of bribery in Western courts in connection with his time at Northrop.
119. The UAE has done the most to relax some of the relevant laws, such as those governing foreign ownership of companies. Jack Kalpakian, "Economic Structures," in *Saudi Arabia and the Gulf Arab States Today: An Encyclopedia of Life in the Arab States*, ed. Sebastian Maisel and John A. Shoup (Westport, CT: Greenwood Press, 2009), p. 132.

Conclusion: Defense Offsets as Innovation in Patronage Politics

Because regime authority in many states is predicated on the allocation of economic privileges, ruling elites are compelled to generate resources that can be distributed to important domestic constituencies.[120] Defense offsets are just one of these potential resources, and make up part of a broader strategy to identify new patronage sources that emerge from the transactions that characterize regional economic activity. Regional leaders have responded similarly to previous shifts in regional political and economic realities that either obstructed access to existing sources of patronage or demonstrated the potential of new ones. Switching superpower allegiances, as Jordan did in the 1950s when it turned to the U.S. for support in the face of growing reformist pressure from its British patron, is another example of this diversification strategy.[121] Similarly, President Sadat's rapprochement with the Americans likewise supplied him with the economic aid he needed to lavish the Egyptian military with new weapons,[122] provide the politically powerful officer corps with privileged access to business opportunities in the nascent private sector economy, and renew many of the domestic subsidies that had prevailed under his predecessor.[123] The Gulf states have demonstrated an analogous capability to adapt their distributional arrangements, primarily by expanding opportunities to subsidize the participation of modernizing business elites and technocratic-minded bureaucrats in the private sector economy in order to cultivate a buffer of support against anti-regime sentiment from radical Islamists.

Similar political and economic shifts continue to confront regional rulers, who realize they must innovate and update their distributive models to conform to these new demands and capitalize on their niche positions (as oil exporters, important geostrategic allies, aid recipients, and major defense customers) in the global economy. Traditional methods of privileging loyal elites, such as "sweetheart loans," no-bid government contracts, and the sale of public land or state-owned factories for nominal fees, have become the target of widespread criticism from opposition activists, small business owners, the IMF and the World Bank, and countless local NGOs.[124] Offsets, on the other hand, not only are obscure,

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120. Clement. M. Henry and Robert Springborg, *Globalization and the Politics of Development in the Middle East* (New York: Cambridge University Press, 2010), p. 11.
121. In the 1950s, growing political unrest over corruption and nepotism in Jordan's state institutions led the British to demand political reform in exchange for continued aid. But instead of dismantling these aid-financed patronage institutions—which constituted the very foundations of political support for the monarchy—King Hussein orchestrated even more unrest by firing his leftist prime minister and imposing martial law, meanwhile quickly convincing the Americans that a substantial (and unconditional) aid package was necessary to counter the growing threat of Pan-Arab socialism. Anne Mariel Peters and Pete W. Moore, "Beyond Boom and Bust: External Rents, Durable Authoritarianism, and Institutional Adaptation in the Hashemite Kingdom of Jordan," *Studies in Comparative International Development*, July 24, 2009, p. 268.
122. This new weaponry was especially significant because denials and delays in arms deliveries by the Soviets were widely blamed for Egypt's abysmal performance in the 1967 war with Israel, when the equipment did not arrive until after the fighting was over. See Keith Krause, "Military Statecraft: Power and Influence in Soviet and American Arms Transfer Relationships," *International Studies Quarterly* 35, no. 3, September 1991, pp. 318–19.
123. Marvin Weinbaum, "Egypt's 'Infitah' and the Politics of U.S. Economic Assistance," *Middle Eastern Studies* 21, no. 2, April 1985, pp. 206–22.
124. "No Paradise: Most Egyptians Put Up with a Lot," *The Economist, Special Report: Egypt*, July 15, 2010.*
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but their distribution is characterized either as apolitical private sector investment or as part of a comprehensive effort to enhance military self-reliance and increase exports. Meanwhile, the investment incentives that accompany offsets are justified on the basis that they are achieved at the expense of foreign firms.

The course of economic liberalization in the region has changed the composition of available patronage and the socioeconomic character of those groups that the regimes target for such benefits. The traditional realms of state largesse, such as large-scale government employment and generous social subsidies, are no longer compatible with the strictures of the global economy or the demands of the international institutions that shape it. By granting privileged access to the mechanisms of commerce within the context of the arms trade, these regimes can garner the economic resources necessary to maintain the vast edifices of support required to buttress their authority, while also obscuring the high cost these patronage systems impose on their countries' broader economic and political development.

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